Excellence is our Passion

Transcript Conference Call
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Presentation

Renata Casaro: Ladies and gentlemen, welcome to Henkel's investor and analyst conference in London St. Pancras. Kasper Rorsted and Carsten Knobel will give you an overview on the Q3 results and then we'll take you through the Henkel new strategy. Before I hand over to Kasper Rorsted I would like to make some general remarks. Please note that the conference is live broadcast via Internet. Therefore, I will kindly ask you to switch off your phones or put them on mute. And last but not least, I would like to draw your attention to some emergency instructions. Please be aware that this room has five emergency exits marked in green on this plan. Thank you for your attention and I now will hand over to Kasper Rorsted.

Kasper Rorsted: Thank you very much Renata. Good morning and welcome everybody here to London again to our third-quarter press conference, but of course also speaking about what probably will interest you most, what is the outlook for Henkel for the first --- no, for the next four years. But first we'll go very briefly through the third quarter.

The disclaimer I will not go through but I will take it as read for the entire conference. So I put it here. I assume it's taken as read and then we'll take it into the records.

So I will briefly be speaking about the key developments. Carsten will take us through the third quarter more in detail and then we'll do a summary and outlook, and a Q&A. And following the Q&A we'll switch into the outlook for the next four years.

So overall the quarter came in slightly below our expectations on the top line. We saw continued solid growth on our fast-moving consumer goods side. On our Adhesive side it was slightly below, but I want to be very clear on the following statement. As I've said continuously over the last three years, we're actively managing our portfolio and in order not to sacrifice quality business and high-margin business we refrain from the temptation of taking low-margin business in to boost the top line. You can see that following on the margin so it was a very deliberate part. We're managing our portfolio on Adhesives very actively towards higher-margin businesses driven by our technology differentiation.

We saw further increase in our gross margin. Our adjusted EBIT margin at an all-time high. We saw a strong Asia Pacific and we saw China in double-digit growth, with our free cash flow significantly improved.

On the weakness side I spoke on the somewhat disappointing top line. We continue to see weakness in Southern Europe, especially impacting our Adhesive business. That is an ongoing and not surprising trend in the market. And we saw sales growth in Latin America further slowing, with a strong Mexico and a weaker Brazil.

How did it translate into numbers? We came in at EUR4,294m, up organically 2.5%, reported at 6.6%. The adjusted EBIT margin went up at 150 basis points from 45.7% to 47.2%. The adjusted EBIT up 16.7% year over year at EUR631m and our adjusted EBIT margin at 14.7%, an all-time high, up 130 basis points year over year. Earnings per share up at 16.5% to EUR0.99 per preferred share.

Net working capital, great improvement. You can remember last year in this quarter I articulated my dissatisfaction with the 8% and you promptly also wrote it in your papers. We're now down 140 basis points at 6.6%. And a significant increase in our free cash flow. So we believe we showed very high earnings quality despite the reduced growth dynamics.

Now I'll ask Carsten to take you further through the details of our third quarter. Carsten?

Carsten Knobel: Thank you very much Kasper. Good morning also from my side. I will guide you now through the financials of Q3.

First of all looking at Henkel and the reported sales growth came in with 6.6%. We have FX adjustments by 4.4% related to all our businesses, and that leads at the final thing to an organic net sales growth for Henkel of 2.5% for Q3. This growth is composed of a price component of 2.6% and a flat volume of minus 0.1%. To the organic growth, all businesses supported this development.

And let me now go through the individual divisions and starting with Laundry & Home Care. Laundry & Home Care came in with a solid organic net sales growth of 4.6%, and this is composed of a price increase of 3.4% and a volume increase of 1.2%. All the regions were contributing to this strong performance, especially the emerging markets showed a high single-digit growth development and in particular Latin America and also Eastern Europe came in very strong. To comment on some important markets, Russia and Turkey even came in with a double-digit development. Regarding our segments, Laundry showed a strong growth whilst Home Care showed a solid performance in Q3.

Let me move now to the Beauty Care business. The Beauty Care business increased the organic net sales growth by 3.3%. And combined with that was a very balanced growth of price and volume, price being up 1.5% and volume 1.8%. Our emerging markets showed another impressive development and this was developed especially by Middle East/Africa and

Asia Pacific. In our mature markets North America showed a strong development whereas Western Europe showed a solid growth but also impacted by the weaknesses of the Southern European markets. Regarding the segments, Retail with a solid growth whereas the Hair Salon business was slightly below the previous year quarter.

Coming now to our Adhesives Technology business, we saw a positive growth of 1%, but definitely below the quarters of Q1 and Q2 what we experienced. And the composition was a price increase of 2.7% and the volume effect of minus 1.7%. But as I have already mentioned it, in quarter two we have continuously undergone a portfolio optimization, which leads to selective business exits in high-volume low-margin businesses. And the effects, which are already announced in Q2, is around 100 basis points, which is 100% dedicated to the volume development.

Having a look on the regions, the regional growth was supported by a solid development, especially of our emerging markets. Here Eastern Europe came in very strong. Concerning our mature markets, also here North America showed again a solid performance whereas our Western European business was impacted by the slowdown of the Southern European markets and by that have been slightly negative. Reporting on the segments, Electronics, Transport/Metal as well as General Industry came in with a solid growth whereas our consumer business in Consumer Adhesives was slightly below the quarter.

Let me now go to our regional performance of Henkel in total when it comes to top line. We saw an all-time high in the development of our emerging markets, and by that reaching 44% of our sales. Major positive developments in that respect have been our Middle East/Africa business as well as Eastern Europe. Furthermore, Asia showed a very strong development and in particular our products in China were very positively up and by that we showed a double-digit growth also in China.

However, in Latin America we have seen a mixed development. Kasper already alluded to that. We have a double-digit positive development of sales in Mexico, whereas our Brazilian business, as already mentioned in Q2, based on two factors, the slowdown in the markets and also internal developments showed a weak development.

In our mature markets, Western Europe in total slightly below the previous year figures, impacted by the Southern European development, whereas North America showed a solid development for Henkel.

Coming now to the adjusted EBIT by business sector, and starting with Laundry & Home Care, we have seen an increase of 50 basis points now to a margin of 14.5%. And this is the same margin which you also have seen in Q1 and Q2, so a very continuous positive development. Beauty Care business, again an increase in the adjusted EBIT margin by 40 basis points, now to a level of 14.7%. And our Adhesives Technology business, a significant improvement of 160 basis points to a level of 16%, an all-time high in adjusted EBIT margin for this business sector.

And taking into account the 1% top line growth and combining that with the bottom-line development, you see that we are able, even if this top-line growth is not strong, being able to continuously improve our ongoing margin improvement. For Henkel this means an increase of 130 basis points now to a level of 14.7% and this is now the second time in a row that we are above 14%. The adjusted EBIT in absolute terms, EUR631m for the quarter three, being up by 16.7%.

We had restructuring charges of EUR45m in the quarter three. And due to the fact that we are continuously updating/adapting our structures to the market I would like to give you an update on our guidance for the restructuring for the total year. We will have EUR125m for the total year of 2012 compared to the guidance until now of EUR100m.

Looking now on to our income statement adjusted here, sales to gross profit, another increase of 150 basis points now to a level of 47.2% for the Company. And this significant increase in gross margin was achieved despite the fact that we had a negative impact of an increase of 150 basis points by cost of goods. The implementation of countermeasures and the disciplined execution of that brought us into the situation to overachieve and driving our margin also on that business.

All in all, we see a deceleration concerning our input cost inflation, as already told to you in quarter two, and here the guidance, as stated in Q2, is an increase on a low single digit for our material prices for the year 2012. And another look to the income statement, here to marketing, selling and distribution expenses. They have been up by 20 basis points in the quarter three and this is mainly due to the fact that we increased our marketing investments to continuously support our top brands and our innovations in order to secure our top line. Looking on the administrative expenses, we are down again by 10 basis points here due to the fact on our projects to drive further move our shared service activities.

Kasper already highlighted this net working capital development, but I would like to emphasize again on that. Net working capital was 6.6% of sales, came in with the lowest number ever for a Q3, and by that being 140 basis points below the previous year quarter's of 8%. And all three business divisions are supporting this development. Laundry & Home Care by minus 2.5%, Beauty Care 3% and also in Adhesives we have seen a significant improvement of more than 180 basis points to 13.3%.

Our ability to drive cash orientation helps us also in another activity, in our net debt development. We reduced the net debt by EUR958m to a level now of EUR612m at the end of quarter three. And finally our cash flow generation. We have seen an increase of more than 50% of our free cash flow now to a level of EUR778m in the quarter three and this was mainly driven by our cash flow from operating activities. And by that I would like to hand over again and back to Kasper. Thank you.

Kasper Rorsted: Thank you very much Carsten. Let me try to summarize the way we see the quarter. Despite what we call a challenging market environment we had in all line items the best quarter in the history of our Company, the highest top line, the highest EBIT, the highest EBIT margin and also the lowest net working capital. So overall we are very satisfied with the way the quarter evolved despite the challenging market environment.

We're fully committed to hit our 14% adjusted EBIT margin for the year and we're also fully convinced that we'll hit it. All our KPIs are on track to reach our fiscal year guidance. We are seeing solid organic growth and, as I said before, we restricted from the temptation of driving top line through poor quality of business. Our adjusted EBIT margin is at an all-time high. The emerging markets are strong and the mature markets, and mature markets in this context is predominantly Europe, are flat to declining. North America continues to grow. Our net working capital further reduced and, as Carsten said, we significantly increased or improved our free cash flow throughout the quarter.

So overall a good quarter for Henkel on our way to hit our full-year FY'12 guidance and targets. What do we guide for the year? We guide an organic sales growth of 3% to 5%, an adjusted EBIT margin of 14%. And let me reiterate here, our target has been for the past four years 14% for 2012 and it is to hit 14% for 2012, remains unchanged. Adjusted EPS growth, we upped it from the second quarter. Will remain so. We assume that we'll have an adjusted EPS growth of 15% for the year.

When I look upon the upcoming events, here is next year's calendar. You know the quarterly dates. We have our Investor Day in June, and that will this year be targeted at our Adhesive Technologies division, and that will take place in Duesseldorf in 2013.

With this I'd like to thank you for listening in. And then come to the Q&A. And we'll do, just for a guidance here, we'll do a 10-minute Q&A because we want to make certain that we have enough time for the strategy. Should all your questions not be answered during the Q&A, our team will be fully available following this session to ask any other questions you might have. Let's please move to the Q&A. Who is the first?

Q & A Session – no questions

Kasper Rorsted: I welcome you again. It's four years ago since we were last here in London, and the mood back then was a little different. It was following Lehman, the world was going down overall, and the credibility that was in our capability to deliver was also reduced. I hope that we have improved our credibility within you, within this community over the last four years with respect to delivery.

We are very excited about speaking about the new strategy for the next four years. But let me just briefly reflect on some of the things we have changed in the company without going into a great level of depth because it is underlying for what we are going to do in the future.

The way we will do it is I will speak briefly about what's from eight to 12 and then I will take you into the details of our strategy. Carsten will then take you through the numbers by taking the strategy and translating it into what we'll measure against held accountable for. Then we will do a summary and hopefully we'll have a bit more question on the strategy than we did on the quarter.

Four years ago we set a very clear direction with three priorities; achieving our full business potential, focusing on our customers, and strengthening our global team. And along with that we really wanted to build what we described as a winning culture. We also set a number, what was by many people including you, characterized as very ambitious targets. Organic sales growth throughout that period of time of 3% to 5%, reaching adjusted EBIT margin in the end of this year of 14% and an EPS growth CAGR over that period of time of 10%. So the three strategic priorities and our three main KPIs.

We believe we've come a long way and the reason has been, among other things, a very disciplined focus on our strategic priorities throughout the four years that were also characterized by a lot of volatility. And when I look back I would say the most fundamental change in our Company has probably been within the culture. I'm not by any means saying that we are where we want to be, but the change to the culture has been very fundamental and has been a key driver to delivering the numbers that we're having today.

As I said before, I'm not by any means saying we are where we want to be, but we have changed it. We are spending a lot of time driving the focus into building a very highly competitive culture in our organization. That was part of our focus from '08 to '12 and will continue to be the focus moving forward.

So despite the environment, and looking back sometimes things look more rosy or less rosy, but it was a very volatile environment. We had the financial crisis with Lehman starting up about four years ago. We've had material prices going up and down and high volatility is not always to our advantage. We have had and continue to have political turmoil, not only within Europe but right now what you're seeing the falling of Arab Spring and we've had the euro crisis that seems to be ongoing and not letting go. So when we look upon the volatility and look upon the assumptions we said in 2008 and what actually came out, it was two very different matters.

We've also been very conscious during the four years not to look for excuses throughout our assumptions. At times the assumptions have been very different to what actually came out. We've not used that as an excuse and it's our utmost intention also to stay predictable in the future. And when we state assumptions, it is assumptions, but, however, we will try, despite differences to the assumptions, to continue to deliver what we are promising the investor community.

So where are we? After the first three years we have had organic sales growth of 3.1%, in the first nine months of this year 3.7%. So it's fair to assume that we' ll be smack in the middle of the 3% to 5%. Our adjusted EBIT margin is at one to nine running at 14.3%. You saw 14.7% in the fourth -- third quarter. I cannot believe that we'll not hit our targets. The world has to go under, so if we don't hit it, it's not going to be the only company that will miss it. We're very convinced and committed to hitting the 14% for this year. And let me reiterate, it is the 14% we're working for. That's what we're working on for four years. So your assumption for the fourth quarter is we're aiming for landing around the 14%.

EPS growth in the first three years 12.8%, in the first nine months of this year 19.4%, which is why we changed our guidance in the second quarter to be a 15% instead of 10%. So the three main KPIs on track.

Hopefully we've shown you that we are self critical also. One of the tasks we also set ourselves for our position in the emerging regions were to reach a position of 45% in our total business in emerging regions by the end of 2012. We are right now trailing at 43%. For the quarter isolated it was 44%. I think we will slightly miss the 45% or unfortunately I am convinced we will slightly miss the 45%. There are many good excuses; don't count. We had 45%; we'll not hit 45%. Three mains hit, we did not make the fourth one.

This is a slide that I do want to spend just a bit of time on because it is very fundamental, where we are taking the Company and where we're taking the Company. We have built our infrastructure out in emerging countries, meaning that today we have 45% of all our employees in the emerging countries. So we're moving our infrastructure to where the future growth is going to come from. At the same time, we have, through very stringent cost measures, strengthened our competitive position in the mature markets. A couple of years ago we hardly had any people in shared services. Today we see shared services as being a competitive advantage for Henkel, not only in terms of cost but also in terms of speed.

We've optimized our manufacturing footprint. We've closed 60 plants net, but the gross number is much bigger, i.e. we have taken closed plants in the western part of the world and moved them into the emerging countries and by net reduced them by 60. That was over a period of time, closing two plants -- no, a plant every two weeks.

We have substantially strengthened our top brands. At the same time we retired approximately 600 brands over the last four years. We'll continue on this journey.

We spent a lot of time on driving talent management to our organization and developing talent. If you look upon our management team today, in the last 18 months four of the six managers in our top management team are coming from within. I think it gives credibility to how much time we're spending on talent management.

In 2010 we launched our new vision and values. It's the last time I'll call them new, but they articulate the culture we're trying to drive into our Company. And that is important for us, to build a very competitive culture.

We launched our new sustainability strategy a year ago because the target we set ourselves for sustainability for 2012, we hit in '10. That's why we launched a new strategy. That means today I will not be speaking about our sustainability strategy. We did that earlier on this year.

But today, and that's why most of you here will be speaking about what are the targets in our strategy beyond 2012. But I wanted to show this chart because a lot of the activities will accompany us also into 2016. So let me now speak about where we're going to take the Company over the next four years.

In doing this work over the last 18 months, let me just briefly describe the process and give you an insight how we work this. We looked into a number of core questions that has an impact on our business. First one, which megatrends will shape our markets in the years to come to be very clear how's the market going to evolve over time. And secondly, position our brands and portfolio against these megatrends. So how well is our portfolio positioned against these trends? Are we are the end of the strategic opportunity or where are we on the curve? And thirdly, what actions are necessary to take to capitalize on these trends, and making the strength and asset for us and not a liability for us.

And with that in mind we subsequently defined the three most relevant global megatrends for Henkel. And the first one is the continued consolidation of supply, manufacturers, buyers and of course also our competitors. And the implication is size matters, absolute size matters.

The second megatrend is the shift of market growth to the emerging market. And the implication of that is that the increasing importance of the emerging markets will continue. So the size of the emerging markets also matters.

And the third is what is -- what we all have experienced over the last four years and also what is our expectation to the future, and that is all about volatility and change and speed, that we continue to expect rapidly changing markets and faster transfer of information. We believe the consequence of that is that operational excellence and process and structures is fundamental to capitalize on volatility. Those that can react fast in volatile markets have upsides. Those that cannot have downsides.

And then we've taken the trend implication and translated them into what we call performance dimension and that then defines how we're looking upon the business. So the performance dimensions moving forward is all around total sales, emerging market sales and consistent EPS growth, so consistently improving our business over the period of time.

We also looked in and looked upon which markets are we active in. And we are of the conviction that we are active in markets of significant size that are highly attractive in terms of profitability and growth, also on the long term. And we've shown that we believe that we have a strong potential to expand our current business in the current markets. The reason why we believe that is that we've consistently been able to win over the last four years in terms of market share and profitability.

And with this in mind, when we look upon our business in organic terms we are very clear that we believe that we are by no means at the end of the road. We believe there's substantial organic upside in our three businesses, in our Laundry & Home Care business, in our Beauty Care business and in our Adhesive business. So strategically for us we're convinced that there's much more to be gotten. I've also said that repeatedly during a number of calls that we don't believe by any means that we are at the end of the journey with our organic set-up.

When we then look upon our strategy we've taken and derived our strategy from the vision we defined two years ago. Our vision is we want to become a global leader in brands and technologies, and we've taken that vision and translated it into our strategy. But let me first translate the vision into what it actually means in very concrete terms.

To be a global leader means having a leading position, having a global footprint, having leading processes, having strong and diverse teams and, of course, leading financial performance. You cannot do the three or four first things without being articulated in the numbers. So global leader we have defined in those dimensions. And in brands and technologies means being number one choice for customers and consumers, being an innovation leader, having powerful brands and a balanced portfolio. That is how we translate our vision into action.

And let me now define what our strategy is. Our strategy is that we will outperform our competition as a globalized company, with simplified operations and highly inspired team. That is the new strategy for Henkel. So what we're going to do now is we'll take and translate the four strategic priorities -- outperform, globalize, simplify and inspire -- and give you generic direction where we're going to take the Company, but also be very, very specific in items where we're already taking the decisions.

But before I do that, let me now translate the strategic intent into numbers. What does that mean? We want to be a EUR20b organization by year 2016. In the past four years we added EUR2.5b to the top line. In the next four years we want to add EUR3.5b to the top line. The first one is, referring to our megatrends, we want to be a EUR20b organization by year 2016.

In the same way of thinking in our presence in the emerging markets, we want to drive our position and size in the emerging markets to a EUR10b size. In the last two years we added EUR2b on the top line to our position in the emerging markets. In the next three, four years we want to add EUR3b, meaning over an eight-year period of time we'd double our position in the emerging markets, becoming a 50/50 company when it comes to revenue. I've already spoken to you about that we already today have 55% of our infrastructure based in the emerging markets.

And the third one is, because it's not only about growth, it's also about driving profitability through the system, we want to deliver an EPS CAGR over that period of time of 10%. In the past years we've been close to 15%. And now let me make the translation from the 15% to the 10%. The delta between the 10% and the 15% is almost exclusively down to the major acquisition of National Starch we did. Since we cannot plan major acquisitions we cannot build that into the planning.

So what you're looking upon, you're looking upon a consistent profitability improvement over the next four years, very similar to the previous four years. Should we go out and do a major acquisition, and I'll call it a National Starch size, we will of course adjust our earnings targets and absolute targets as long as we go. But since this is not a plan-able item we cannot build that into the plan. I'm just being very clear here is we're continuing the current run rate we have. The delta was very much down to National Starch. Should National Starch Two occur, we will of course also go out and readjust it back into our targets.

So our targets in essence are 20-10-10. And these are targets that should be easy to remember. We know them already. EUR20b sales as a Company, EUR10b in the emerging markets and an EPS CAGR over the next four years of 10%.

Now let me go back and articulate how we're going to take the strategy into our four strategic priorities and execute in order to ensure that we'll hit those targets. And I'll start with our portfolio.

We've taken our portfolio and divided it into three categories, core, growth and value. With our core categories we'll continue investments in our top positions. In our growth we want to invest in order to grow category and new segments above market. And in the third category, value, we want to leverage the profit portfolio and bring that back into core or growth, and at the same time separate ourselves from businesses to the tune of EUR0.5b over the next four years. So to be clear, in the 20-10-10, the EUR0.5b we pulled out of that. So our expectation is that we'll separate ourselves of EUR0.5b business over the next four years. We'll continue our active portfolio management.

So what it means is on the brand side we'll have a focused and balanced brand portfolio. We'll continue a very, very strong growth of our top brands, and I'll show that specifically, and I told you before, we've taken 600 brands out in the last four years. We'll continue that journey and we'll take a three-number or probably 100-plus brands more out in the next four years. On innovation, we're very focused on having a consistent innovation process and bringing innovation close to the market. And on the customer side, we'll build our customer relationship management through top to tops and we're driving consumer proximity. Now let me be very specific what we're doing.

We've taken our top 10 brands that we moved as a percentage of revenue from 38% in 2008 to 46% in 2012, and we'll consolidate that around 60% in '16. So substantial consolidation of our top brands and that would allow us to over-proportionately invest in the brand building in these brands. We will further do portfolio alignment and manage towards umbrella brands, but substantial ongoing consolidation around our top brands.

On innovation, we have dramatically improved the quality of our innovation in the past. We are completely convinced that a primary driver for revenue growth and margin improvement is coming through successful innovation. So innovation is right at the core of what we're doing. And in order to further strengthen our innovation set-up what we're planning to do is to open seven new R&D centers, all in the emerging markets. So in the near coming future we'll have new centers in Toluca, Mexico; Sao Paulo, Brazil; Moscow; Dubai; Johannesburg; Pune, India; and Seoul. And that shows the immense focus we have on customer proximity and innovation to ensure that we get the progress on the top line and also on the bottom line.

When we look upon customer focus, within our Laundry & Home Care division we have conducted a global what we call Shopper Marketing Study that very clearly defines how shoppers are behaving. And we're bringing that now into retail. And we've already done it now and that helps us drive over-proportional growth by helping the retailers arranging the shelf space better. So we -- not only from a product standpoint are we bringing innovation, but also how you actually position brands and our portfolio on the shelves.

On our Beauty Care, as an example, we've just opened a global Beauty Care center in Duesseldorf where we're showing current portfolio, we're showing what's coming, we're showing everything what you can do about digital. And we're able to take all the new innovation and get them virtually into shelves and showing our retailers how it looks. We've already brought a number of our global retailers to a new global set-up in Dusseldorf.

And in our Adhesive division we'll continue to what we call our Design Partnership Model. That means, whether it's automotive, aerospace or electronics, we design unique solutions for our customers in one location in the world and execute that in a different location.

Let me give you an example I experienced three weeks ago when I was out in California meeting with our electronics division. All of you are working with pads, whether it's iPads or Nexus. What you feel is when you put it in the lab is actually that heat is too big. We've now developed a shelter that basically you put inside and it absorbs and also distributes the heat. That was developed in California. Right now we're working with all the manufacturers in Asia to get that deployed. That is what we mean about partnership design. We go in and design specific solutions in one location and deploy them globally. This solution I just mentioned is of course also IP protected.

When it comes to globalize, let me speak about our regional strategy. We have defined our regions in two categories. We want to leverage our position in our mature categories. And in the emerging markets, we have two directions. Where we are present, we want to go deep and accelerate growth and we'll be looking, where it's relevant, for selective entries in what we call white spot markets.

So more specific on the mature markets. We'll outperform our markets by driving high investments into the fewer number of brands on one side and drive down cost. So cost will continue to be right at the center of what we do in order to ensure that we can over-proportionally drive investments in. That will, in 2016, lead to the result that we'll have more top positions with higher profit contribution that we can reallocate elsewhere in the Company, or to our shareholders.

When it comes to the emerging markets, by 2016, of the top 20 markets for Henkel, 12 will be coming from the emerging markets. All four BRIC countries are included in those. So by 2016 we'll have substantially improved our position in the emerging markets, not only in terms of having single markets becoming bigger but overall getting a wider position. And that of course will help us also when we deal with the volatile environment. So substantial improvements in our overall position in the emerging markets. 12 of our top 20 countries in the globe by 2016 will be coming from the emerging markets.

In order to accompany organic growth in our core categories and also in our regions we will of course also taking acquisitions into account. Carsten will be speaking about this later in detail but let me be very clear on this. We have a very strong balance sheet today in contrast to 2008. Our plan is to actively deploy our balance sheet back into our business. On the other hand we're not going to spend money because they're burning in the pocket. We will do it in a wise way but our plan is to have an active use of our balance sheet in terms of acquisition. And Carsten, as I said, will speak to you more in detail about the process we've set out and how we'll go about this. But this is part of our strategy.

Now let me move to simplify. It's about cost, process and IT focus. When it comes to cost we believe that we need to continue to drive down our admin costs in our Company. We need to continue to optimize our location footprint and further reduce net working capital. On the processes it's all about sourcing and shared services and the enabler to do this effectively is to create the best IT platform possible. And I'll speak about that because that is a very fundamental assumption to be able to do this.

On manufacturing footprint, I spoke to you before about the net 60 plants we reduced in the last four years. We see another 20 coming in net in the next four years. Whether that's 20, 18 or 25 we don't know, but this is the ballpark. We're very focused on ensuring that we have an optimal localization footprint as it relates to manufacturing. That will further also drive a decrease in our manufacturing cost.

When it comes to leading sourcing there are three elements we're focusing on. It's value creation, meaning getting more innovation in. We're doing this very, very specifically. Earlier on this week the top management of Henkel met with the top management of Novozymes, which are the leading enzyme manufacturer. So we're very focused on our core top suppliers to ensure that we don't only get quality products, we get key innovation from our suppliers into the pipe.

Secondly, with the increased globalization of our Company we're moving our global purchasing organization to be much more globally spread, so moving a lot of our sourcing into the emerging regions.

And thirdly, it's good about quality and innovation and positioning but we want the right pricing. So what we're doing is we're putting a lot of emphasis on e-auctioning and we believe we can move approximately a EUR1b spend into e-auctioning, which will drive pricing down, and at the same time we're reducing the number of active suppliers we have with 40%. So further consolidating spend with fewer with a clear assumption to get better pricing.

Shared services has been a dear child of mine at least as long as I've been here and we've made a lot of progress. We see by 2016 that at least 3,000 people within our organization will be in shared services. That will make us a leader in this area. We see this as a competitive advantage for us and we're extremely focused on moving as much as we can into shared services. It started with the back-end of transactional. We're now moving it very much to the front end to judgmental part of work.

And how does that look in the operational part? That means that from the four centers we have today in Mexico, Manila and Bratislava that are Henkel centers, the outsourced center we have today in Bangalore with Accenture, we're adding two new centers, one in the Arab-speaking part of the world because Middle East is a very attractive and growing market for us and we need to make sure that we not only capture the Arab-speaking capability but we continue to stand around process and systems in all regions. So we're opening one in the Arab-speaking part of the world and we're opening one in Greater China to serve the Greater China and potentially North East Asia. These are decisions we're taking and we're executing those. That will allow us to expand up to 3,000 people.

And when it comes to IT, let me just spend a second of this because it is and it will be a strategic advantage for us. We're coming today from an IT platform where we have consolidated most of our systems. We are running our systems with 2,200 business processes and every business process of course creates complexity, lower speed and increased cost.

We are convinced by implementing one new global platform we can get the number of business processes down to 800. The reason why we're convinced we can do that is that we have already piloted that in Switzerland today and we have implemented what we call the Horizon platform in six countries in Asia. And right now we're running at 500 business processes. It's a substantial simplification of how we run our business and a dramatic increase in the speed and of course decrease in cost.

So we're completely standardizing our global platforms when it comes to SAP, when it comes to supply chain, when it comes to shared services and when it comes to promotional spend. So over the next four years we'll invest an additional EUR140m on top of what we're doing today in a global IT platform that will dramatically increase the speed upon which we can execute and make volatility an upside and opportunity for us instead of being a risk.

Now let me move to probably the most important part, how do we ensure that we have the right team on board that can execute the challenging plan we've put up? And it's about leadership, getting the right leaders on board, developing to the task that they need to conduct and set clear expectations. What was good yesterday is not good tomorrow. The 12% that we hit in '10 that we were supposed to hit in '08 was great in '10 but it's bad in '12. And that's how we think about it. The numbers we have today will not be satisfactory in the future. So it's very important that the leadership team we have we develop and we set very clear and build clear expectations.

On talent and performance, meaning building the pipe, that we get enough raw material into our system and develop them to help us build the competence and organization. And when it comes to diversity, building teams that reflect the global platform that we have.

When it comes to leadership development, we've over the last couple of years built a very close relationship with Harvard Business School where we are taking our top 100 people over, training, educating and preparing them for the future. It is not a static process so because you're in the top 100 in 2012 does not mean you're in the top 100 in 2013. It depends on how you perform. So we're putting a lot of performance pressure into our system to ensure that our top performers continue to evolve over time and they don't stagnate. We're using Harvard Business School as one of the development platforms to ensure that we continue to develop our leaders.

Secondly, when we look upon diversity we're looking upon that in more dimensions. Nationality and culture is an immensely important part. When you look upon that 12 of our top 20 countries are coming from the emerging countries. That means that we cannot be a white European male-dominated company in our management structure. We will need to ensure that we have the right capability to be competitive in the countries and regions where we conduct business in.

The same goes around gender. We're completely against the quota. We have 30% female managers in this Company. We increase that level by one to two points per year, not because they're female but because they're the appropriate and the best managers that we can promote in our Company.

And then frankly we don't care whether young or old, we just want the best. And best goes in youth and also in age and we're very focused on not making certain that we push people out because of any different dimensions. We have great people that are young and we have great people that are getting older. I have to say that because I'm the oldest in the management team.

And let me now come to a very important part of how we change the Company. Good performers or strong performers need over-proportional rewards. In 2011 we changed our short-term system, our short-term incentive system. The way we manage our annual business, and this is important, is around three dimensions. It was and it will continue also for the next four years to be so. So our short-term performance annually we manage around OSG, organic sales growth, EBIT margin -- some of you were asking me this morning where's the EBIT margin -- that's where the EBIT margin is, and net working capital.

Our long-term incentive we have revised from a three to a four-year program and it's completely aligned to one KPI, and that is EPS. And we're making it very attractive.

So what we're doing is, like we did in the past, we are saying if you deliver you get, if you don't, you don't. We've built it in now. So, STI, we believe we have a great model and that model is aligned to the left part of the chart here which is our forced distribution. So we want to overly reward the good ones by overly rewarding -- or under-rewarding the not so good ones. That is unchanged, measuring on OSG, EBIT and net working capital. Our long-term incentive is completely aligned to the task we've put ourselves out here today, 10% EPS.

That means, what I've done now is I've taken our four strategic priorities, outperform, globalize, simplify and inspire, I've given you the general direction where we're taking the Company, I've tried to give you very specific examples of what we're delivering below outperform, globalize, simplify and inspire.

But I want to repeat a sentence I've said three, four -- no, two, three and four years ago. Do we know all the things we're going to do over the next four years? Of course not because that would mean that we would be the end of our thinking. We believe we have a good plan but of course we'll do our utmost to become better every day and every time we get a new idea we'll implement that new idea, but in this framework. And I'm convinced that we'll continue to get good new ideas within this framework and then we just need to select which ones are worth pursuing. And when you have something worth pursuing you need to do it correctly.

I have spoken about the strategy. I will now ask Carsten to take you through what are the financial targets for the next four years. Carsten?

Carsten Knobel: Thank you. Thank you very much Kasper. Let me start with the financial targets of 2016. 20-10-10 is our new ambition. We will strive for EUR20b in sales for the total Company. We will aim to achieve EUR10b in the emerging markets. And regarding the adjusted earnings per share we are planning to reach 10% on a CAGR until 2016. All in all, a well-balanced combination of top and bottom line focus.

In determining the quantification of our targets we based our calculations on a set of external and internal assumptions. The most important ones I would like to highlight. The average GDP growth on a worldwide basis, we have been assumed with a 3.3% per annum over the years until 2016. We also assume for Western Europe a growth of 1.8% per annum. As you see we assume with that that the euro crisis will not get worse and that we will not see a break-up of the economy. Additionally to that, regarding the US dollar/euro exchange we have set a number of 1.30. And for the material price development we foresee a mid-single-digit growth per annum for these material prices.

Internally we will ongoingly adapt our structures to the markets. Among others this requires also restructuring. And as you are used to it from our side, we will guide you regarding restructuring on an annual basis and we will do that on March 6 2013 for the year. We will also as an assumption have included the ongoing portfolio management of our business, which is including small- and mid-sized acquisitions and divestments, and by that we have also included that in our financial targets. Kasper alluded to that we have identified in the magnitude of EUR500m businesses which are either strategically or financially not relevant any more going for the future.

But now let's have a look on the individual targets and I will start with the sales number of EUR20b sales for the horizon. This number implies a single-digit, mid-single-digit growth as a CAGR from 2013 to 2016. And by that we have two levers behind where we would like to grow our businesses. It's outperforming competition, and by that also increasing market shares, and it's globalizing our businesses.

Outperforming means among portfolio management, particular strong investments in our categories. And there are three drivers behind, which are our top brands, our innovations, but also our customers. And when we talk about globalizing our business it's focusing on regions and countries with high potential. And this is relevant for the emerging markets for sure but also for the mature markets. All in all we would like to reach a step change in scale by reaching the EUR20b until 2016.

Second target, EUR10b in sales in the emerging markets. This implies a high single-digit CAGR until the period of 2016. And also here two levers which we would like to focus on, which is going deep in existing countries in the emerging markets where we already have proven to be strong, so these are countries like Mexico, Russia or China, but also selectively entering country white spots. In the case when there is a strategic fit to our business and to our Company while either there is a highly attractive market or when there is an offer of a high ability to win for us.

Let me come now to the third financial target which is related in achieving excellence in value creation. As you see, it's a balanced value creation, and I pointed it already out before, through top and bottom line growth. Earnings per share captures operational excellence and we believe that this is the right KPI also to create value for our shareholders. And by doing so, as we said, it's a combination of top and bottom line.

To the top, I already commented on, so let me now go to the bottom line. We will drive the further profitability of our business by focusing on even further standardization and reducing of complexity along the entire value chain and thereby also simplifying even more our businesses. Moreover, we will also maintain our strong cash flow orientation. I will come to that later when I will also give you a key performance indicator on that, but we will also continue our financial discipline to maintain our A flat/A2 rating.

After I have gone now through the financial targets a little bit more in detail let me now emphasize more on creation of excellence in value. There are three drivers which we think are important for the future. It's about organic performance. It's about acquisitions. It's also about cash return options.

Growing our business is an integral part of our strategy and by that I would like to focus now on the organic performance going forward. Organic performance at the end of the day means delivering cash. And to deliver cash we see three pillars to do so, investing significantly in our businesses, enhancing profitability and also further reducing net working capital.

Let me first allude to investing in our businesses. We have foreseen for the next four years to spend around EUR2b in capital expenditures in our businesses, which is an upside compared to more than 40% compared to the period of 2008 to 2012. With that we will further drive automation and also productivity and we also combine that with stronger investments in IT. Why IT? Because we think that IT is a key enabler for us to support our growth and by that we have decided to also invest more than 25% more when compared to the last year's, which are as an amount of around EUR140m which we will spend into systems, into processes in order to drive our business to the next level.

Secondly, we also have to reflect our ongoing necessity to drive our emerging markets and to over-proportionally grow in that by structurally shifting our investments also to the emerging markets.

And thirdly, for sure we will strengthen our brands, our top brands and our innovations by further driving marketing investments into these brands and innovations.

Let me now come to the second pillar of cash generation which is we will enhance profitability as a key driver going forward. And four points to be mentioned here. First, as you have seen it in the quarters of this year, we will drive our gross margin by pricing power but also by our successful innovations. We will further optimize our production landscape; Kasper alluded to that. We are currently having a forecast of around 175 locations until the end of the year and we are planning to reach 155 at the end of 2016, being a net reduction of 20 locations.

Thirdly, we will also expand our shared services. We have successfully over the last years driven that project but we think that, we're still thinking that there is enough potential also for the future. By that we have defined an ambition that we would like to reach more than 3,000 people working in shared services in the landscapes Kasper already showed to you. So our captured and the outsourced service centers. We will further bring our businesses into that by contributing to shared services but we will also close our geographical gap which is related to the Arabic-speaking countries but also to Greater China.

And the last point, continuing focus on leaner structures. We will continue to optimize our cost base to be more cost efficient and by that supporting the top line but also supporting the bottom line in order to drive the value for the shareholders.

The third pillar, cash is key for us in the future. Reducing of net working capital. We have shown to you over that we have done here significant efforts. We reduced it. Here are the Q3 figures or end of Q3 figures with 6.6% of net sales. With that we are already best in class in all our industries when we look at our businesses. Nevertheless, we have set an ambition going forward and we would like to reach at the end of 2016 a level of around 5% for the Company supported by all three business divisions.

Let me summarize. And I think this picture expresses in a good way how our holistic view of value creation is set up. We will invest significantly more in our capital expenditure over the next years, I've mentioned the EUR2b. We will drive profitability by gross margin improvements but also leaner cost structures. We will drive cash by further reducing our net working capital and we will also maintain our high competitive tax rate, and by that further improving our free cash flow.

And the improvement of free cash flow offers to us various strategic options and one of the options is to invest this cash into acquisitions. And this is what I would like to explain to you now. We would like to accelerate the growth via acquisitions and therefore acquisitions will be an integral part of our strategy going forward. There are two kinds of acquisitions. There are the small- and mid-sized acquisitions which I already alluded to in the assumptions. And they are an integral part of our portfolio management and, as I said, they have been also integrated in our financial targets.

To give you some examples of what is a mid-sized or a small acquisition, if we look back recently the acquisition of Cytec in our Adhesives Technologies business is a good example of what we call a small- or mid-sized acquisition. In terms of divestments, you remember we divested seven non-core brands in our Beauty Care business in North America, also this we would include in our continuous way of optimizing our portfolio and call it in that respect a divestment.

Major acquisitions are apart from that the ones which occur when opportunity arises. The major acquisitions are the ones which will create a game-changing picture and they call for sure the necessity to adapt our targets, which we will do if we would acquire a major acquisition in that respect.

Independent of major or mid-sized, we have set up a process for all our acquisitions. As I said before, it's an integral part of our overall strategy. We have done an intensive screening of possible options and we have done a clear prioritization of categories and regions, which leads to a detailed action plan and which also determines the resource allocation on that.

But we will not do acquisitions for the sake of acquisitions. The acquisition has to boost growth. And for our Adhesives business that means we will support with that the technology leadership and we will use here our global scale. We have global businesses and by acquiring this leadership, technology leadership positions we will roll out them and by that significantly use the potential which is related to that. For our Laundry & Home Care and our Beauty Care business it's more that we will strengthen our regions and our categories. And again here is a country category positioning which we will also further drive by that.

Behind that we established a very restrictive evaluation and selection process where we have a centralized decision and an execution process and by that we will ensure that the transaction we will execute will be successful.

In addition to that there is always the possibility to return cash to our shareholders by either doing a share buyback or by also increasing our dividend payout. I have shown you the three options which will and can create excellence in value creation but our clear priority going forward is to invest into the growth of our businesses and investing in the growth of our businesses means two points, which is organic performance and which is acquisitions. These are both integral parts of our planning.

And we think that this, at this point of time this is the right way to create substantial sustainable value for our shareholders. Should we not have the opportunity to adequately invest into our businesses we will for sure consider other options like the cash return options, but so far no plan on that because we are clearly persuaded that we have a basket which is full in terms of organic and possible acquisition opportunities.

In summary, we are committed that we will create excellence in value over the next years despite a very volatile and difficult environment like the euro crisis, like first signs of slowing down in the emerging markets, like competitive pressure or FX volatility. Nevertheless, we are on the clear opinion that our performance drivers which we have set up, organic focus, operational excellence and acquisitions and divestments, will drive us further and create substantial value for the shareholders. And with that achieving our next level of targets, so with that 20-10-10, the numbers that count for the future.

And by that I would like to give back to Kasper.

Kasper Rorsted: Thank you Carsten. Let me now just very briefly summarize. What is our strategy? The strategy of Henkel is we'll outperform our competition as a globalized company with simplified operations and a highly inspired team. What we've done is we've taken you through the four strategic priorities and shown you a number of the plans that underline our execution model to get to the 20-10-10. We've a very clear plan on how we're going to get there and as I said, of course the plan will evolve over years, but we're one of the few companies that go out and guide over a four-year period of time because we believe long-term planning is very good for the Company because that way you can make the appropriate investments to get where you want to get.

When we think about how we execute we think about it as always striving to do better. We're very committed to transform our plans into very concrete action. So we just don't have it on PowerPoint; we actually make it happen.

And I can tell you we are extremely happy and passionate about achieving our targets. Everybody in the Company knew the targets from '08 to '12 and by Christmas everybody will know these targets. We have a comprehensive global roadshow that will start next week where the management board will go to 22 countries and 26 locations and within three weeks 90% of all employees in Henkel knows about the new targets. We believe that in order to reach targets you need to get everybody on board and you do that by comprehensive communication and getting people on board and understanding what it means and what actions they need to take.

We have a management team that is young and passionate about achieving this. From 2008 when I did the last announcement of targets the only one that are left from that part is Hans and I. So we have a new young management team on board and achieving one target is interesting but achieving targets twice is much better. We are deeply committed to hitting our targets in 2016. I'm also certain that we'll have bumps in the road over a four-year period of time like we had in '08 to '12, but I can tell you we are deeply committed about reaching the targets.

When we look upon our strategic framework we want to execute our vision to become a global leader in brands and technologies. We are very clear in our culture around performance that we are focusing on customers, people, financials, sustainability and family. Our strategic priorities are all around outperform, globalize, simplify and inspire. And we have three hard targets, 20-10-10, that we operationalize in annual plans. And the annual plans are around organic sales growth, EBIT target, margin and net working capital.

With this, I'd like to thank you for listening and look forward to an interesting Q&A round.

Q & A Session

Renata Casaro: Ladies, gentlemen, we will now start the Q&A session. Please raise your hand if you want to ask a question and please just ask a maximum of two questions at a time. Thank you.

Question: I just wondered are you saying that going forward what we should expect is more investment in gross margin but then that EPS improvement will mainly come from the improvement in cash flow rather -- whereas in the previous period what there was, there was a focus on getting the operating margin up and that was really what was driving the growth?

Kasper Rorsted: To clarify, what we're saying is we need to increase our efficiency by building more effective plants and infrastructures, but at the same time the 20-10-10 can only get there if you do the math of having a balance between the top line and the bottom line. So if you do the mathematics, then depending on whether you hit 20 or 19, 18 or 22, the corresponding margin will come out at 15.7, 15.8 or 16.2, depending what you have in the financial items.

Harold Thompson: Yes, good morning. Harold Thompson, Deutsche Bank. Just really one/two questions. It looks like acquisitions is quite a major plank of the next four years on top of organic growth. But when you look at your two big businesses, Adhesives and HPC, in Adhesives, if I understand correctly, you are already a major player in all of the key segments you would want to be in and in many ways what's left to buy is more technology-type deals. So it's hard to see how a big deal could happen there. Whereas if you look at HPC, in absolute term there are some big deals out there, but it'd be surprising if it was ever you who could get them. So in many ways only small deals look likely. So if you are you going to do a major deal I don't really see how you can do one.

And the second question, Kasper, is you mentioned that in the last four years you did about 15% EPS growth, but without National Starch it would've been about 10%. Did I understand you correctly in saying that? Thank you.

Kasper Rorsted: If we just start on the first one, the 20-10-10, as Carsten very clearly said, is predominantly organically. There's a separation from smaller assets and there's an acquisition of smaller assets. So that's how we come into the 20-10-10. What we are saying is that we have today a balance sheet that we'll actively put in to get assets. What is available is going to be guesswork. And I think that it would be, had we looked back and said is National Starch going to be available, everybody would have said you can't buy ICI, which was appropriate. We couldn't buy ICI. So I think that putting the adjustment on that too early would be wrong.

What we are saying is the 20-10-10 is predominantly organically. Should some larger assets be available we will be looking for those assets. Making the adjustment I think the day will tell. What I did say is that if you do the guerilla mathematics, as we call it, and do the comparison between the 15% and the 10%, we did a bit above 10% operationally in '08 to '12 so approximately 400 basis points came from National. And that's when you then do the apples-to-apples comparison you are very similar in operational improvement from '16 -- from '12 to '16 as from '08 to '12.

Since, as you said before, we can't plan major acquisitions, then we can't build into the EPS assumption. But as Carsten said, should a National occur, with which ever probability of course we'll go back and readjust that back into our EPS scheme.

Harold Thompson: Sorry. You talked about the split of geographies, but what about HPC versus Adhesives, where do you see that moving to in 2016?

Kasper Rorsted: There's two way of looking upon it. There is the organic and the inorganic. The organic, one would assume under normal circumstances that you have a higher growth rate in Adhesives than you do in fast-moving consumer goods; that's simply the nature of the business. So in that context, and we will, you'll probably see, as you've seen in the past, that's also the trajectory. But of course when it comes down to acquisition you can't plan it. The acquisition is done by the strategic filter that Carsten alluded to, but of course it's also availability. So it's great we want to buy company X, but it is not for sale. So organically it will lead to a higher share of the Adhesive business, but inorganically, it depends on what's on the market.

Eva Quiroga: Yes, two questions please. Firstly, you've talked about stepping up your marketing investment to drive innovation. Can you maybe talk a little bit where you see that spend going directionally as a percentage of sales, but also inside the spend how you think about A versus P and traditional versus things like digital?

And I think a second question is on the production platform. You've talked about going from 170 to 155 factories. Can you maybe remind us what the current footprint is like and whether these 20 are mainly an Adhesives opportunity or more widespread?

Carsten Knobel: Regarding the footprint, we do not have at this point of time exactly plans, what also Kasper already said, which exactly plant is within this 20. This is an ongoing activity as we did it also over the last years. We have set this ambition in order to drive. And this will include all businesses and this will include also all regions in terms of emerging markets and mature markets because we are on the one side shifting partly our businesses to the emerging markets by over-proportional growth and this will have for sure also the consequence that the production setup will accordingly move, and others are regarding efficiency gains.

So at this point of time we will continuously see that over the time, but we have set the ambition in order to drive also here efficiency gains over the period of time.

Kasper Rorsted: And just on that you'll see within the next couple of weeks the first of the 20 being executed, plants.

When you speak to how we allocate our marketing spend, Eva, you know that we're not very keen on that, but I'll give you a bit in that direction. Of course by consolidating our brand structure and getting our top 10 brands from 46 to 60, but just by default you get a much more consolidated spend on that. That's why the brand consolidation's very vital for us.

We're seeing high growth rates in digital, but digital still remain a single-digit overall spend in the global market, not only for Henkel but overall. That will continue to increase. But I think many of you have probably also followed the debate, General Motors/Facebook, how do you actually measure digital spend within the digital community. We are very committed to increase our digital spend and we expect that also to dramatically improve, but we don't think that market has completely matured yet. But over time, in 2016, one would assume a dramatically higher spend on the digital.

Joerg Philipp Frey: Philipp Frey of Warburg Research. Just quickly on your capacity -- or your CapEx plans actually, could you give us an idea on how much your capacity will change over this period and how much of your investments are rationalization CapEx?

And on the long-term incentive plans, does this plan actually penalize this dividend payment or will it -- are your targets basically adjusted for that one?

Kasper Rorsted: On dividend payment our employees don't have the vote, so to speak. So I don't think that's relevant in that context and that will not prevent us from making any decisions. Let me be very clear on that. So it has actually no implication. If we believed it would have a negative implication for our leaders of course we would be sensibly enough to adjust that because the only thing we're interested in, we're trying to align external shareholder interest, i.e. EPS, with internal management and if that were to be contradictory, of course we wouldn't do that.

I'll speak on the utilization and Carsten will speak a bit more about the plans.

As I alluded to in the third quarter, we are very actually managing our Adhesive business upwards in lower quantities because that's where the competitive advantage lies. So you can assume that the growth rate in quantity will slow down, quote/unquote, over time. So we will not have the same growth rate in Adhesive quantity as you will in quality, i.e. revenue, because that is the strategy we're driving right now. We want to drive highly differentiated technology-driven products into the market that allows us to capture high margins and thereby -- on the top and bottom line, thereby increasing our pricing power. So on the volume side you should expect much lesser growth rate than the Adhesives.

Carsten Knobel: Concerning your question regarding the capital expenditures, there are three major parts where we invest, which is in innovation, which is in rationalization and which is also in maintenance. There is a clear priority to shift -- not to shift, to have the major investments in innovation and in rationalization. And when it comes to rationalization, by the nature of the markets, there will be a significant part more in the mature markets than in the emerging markets. But more details at that point I can't give you.

Iain Simpson: Thank you. It's Iain Simpson from Barclays. Just a couple of questions, if I may, for you, Kasper. Firstly, you talk about the importance of being of competitive size. If we just take the EUR20b and assume that roughly half of it is HPC, a EUR10b HPC business is still quite small by the standards of your global peers. So is the solution to that the continued tight focus on few geographies or is it just executing better at the innovation? How do you see yourself as surmounting that challenge?

And secondly, when you talk about the assumptions that you make in terms of macro backdrop, depending on what happens some would argue that perhaps 1.8% economic growth out of Western Europe over the next few years looks slightly aggressive. Clearly with the 2012 targets we can now see in hindsight there was a significant amount of flex built in there as the macro picture quite widely missed your assumptions and you're still delivering that 2012 target. To save us asking the question a couple of years from now, could you perhaps give us a sense as to what flex is built into those 2016 targets with regards to the macro assumptions? Thank you very much.

Kasper Rorsted: Back with the macro assumptions. I don't think that we built flex in, but what we do is, and that's really the key word, is that we're adapting the structures to the changing market conditions. If you remember, back in 2008 we announced global excellence with a reduction of 3,000 people and, along with National Starch, we said that we would take some people out. We've taken between 10,000 and 12,000 people out in the last four years. So the flex was we went in and dramatically reengineered our cost structure. That was the flex in the model and that is what we'll continue to do.

So I'm not saying that we built in flex or buffer into our plan. What we are saying is we'll adjust our cost structures accordingly upward and downwardly. Upward of course if the opportunity arises we will proactively invest. Reversely, if the market goes down we will proactively take action. And that was the short sentence I made before. The first of the 20 plants you will see being announced in the next two weeks based on some of the macro changes in the market that we're addressing. So we don't build flex into the plan, but what we do do is we are now very pragmatic about the structure. If we believe we need to change the structure we will change the structure.

When it comes to absolute size, that is correct that you were saying, compared to some of our competitors we have significant size disadvantages. That's why we've been very focused on building what we call country-category positions. We will continue to do so also. That does not mean that it will prevent us from expanding. We have from a no position in China, as an example, in 2008 built a very strong, very focused cosmetic division in China today, by 2012. But we've got to do it in a different way. We don't have the size of one or two of our competitors. So you've got to hedge your bets and that's what we're doing by a very clear country-category strategy, where we hedge our bets and we're not trying to be everything to everybody.

Wolfgang Beynio: Any more questions, please raise your hands. Yes, please.

Alicia Forry: Yes. Thank you. It's Alicia Forry with Canaccord Genuity. I was just wondering if we could talk about the EPS growth target that you've put out. Should we expect that that is likely to be an even delivery over the next four years or is there a phasing impact that we should be aware of?

And secondly, related to that, are there incentives built in that support a smoothing of that EPS growth or not?

Kasper Rorsted: I didn't hear the last part of it. That what?

Alicia Forry: Sorry. Are there incentives built in that support a smoothing of EPS growth over the four years? And in addition to that, with the long-term incentive KPI being EPS growth is that -- does that then imply that employees will benefit if you decide to do a buyback instead of a dividend increase or are those employee targets unaffected by a reduced share count?

Kasper Rorsted: So let me start with the first one. Whether it's going to be smooth or whether it's going to be rough, you're right, it pretty much depends on what the external world is. Of course we would rather have a smooth ride than a rocky ride. But looking back we didn't have a smooth ride in 2008 to '12, so that's a big assumption, depending on where the market is. That's why we're saying CAGR, so if we were to deliver 7% one year we need to deliver the 14% the other year.

If we can over-deliver of course we'll always try to do that, but right now the world is the way it is. We will guide on an annual basis as we always do. We would prefer to have a smooth ride, but that's wishful thinking. It is not really up to us to determine how the global economy look like. There is no smoothing built into a plan so that means the more you deliver the more money you get. So if you stand back you're actually not really rewarded by it. So the more liquidity you deliver into the plan the more money it is because that's into the STI.

On the third one, right now we have not a position on share buyback because we're not doing share buyback. And if that were to come we'll go out and speak about it. Right now that's not part of the plan.

Carl Short: Yes, Carl Short from S&P Capital IQ. You've talked about losing a net 20 factories over the next four years. What sort of restructuring should we expect to see on a normal ongoing annualized basis and will there be any unusual one-off write-downs associated with that restructuring?

Carsten Knobel: No. As we said, we will -- we have an ongoing adaptation of our structures to the markets and by that we have not foreseen any programs at this point of time. And, as I said, we will guide as always regarding restructuring on a yearly basis, which is March 6 for 2013, which we will do so. But, as I said, no programs foreseen and therefore normal business as we have done it also in the last years.

Carl Short: So as we try and model this, should we assume that the restructuring will be even over, roughly even over the next four years and that it might be a similar sort of level to what we're seeing this year?

Carsten Knobel: Good assumption, yes.

Carl Short: Okay. Thank you.

Kasper Rorsted: Yes, please. Over there.

Matthias Eifert: Hello. Yes, Matthias Eifert from MainFirst. I've a question about the white spots in emerging markets you mentioned before. Can you go a bit more into detail how you are exactly trying to fill it as, for example, in HPC you got out of some of the emerging markets over the last several years. Are you trying to reenter these markets again organically or are you more looking at acquisitions to enter these white spots?

And can you maybe name your top three white spots you're seeing at the moment which you would like to have covered by 2016?

Kasper Rorsted: On naming the top three white spot, the answer is no.

When it comes to entering into white spots from our Adhesive business, we are globally, pretty much globally positioned in our Adhesive business. White spot in Adhesive would mean that a large customer of ours would be in whichever country where we're not in and they will then subsequently pull us into that country because we have a very global position.

On the fast-moving consumer goods, it is, as we said before, a fast -- no, it's a country-category decision. And we will on an ongoing basis evaluate opportunities to go into markets where we believe that we, quote/unquote, have ability to win. That's how we look upon it. So we are doing it very diligently and say where do we believe the market is attractive and in the end, this is the important part, that we have the ability to win.

Yes, please.

Robin Asquith: Yes, Robin Asquith, JP Morgan. Three questions. First, you've got an EPS target. How much capital discipline is there behind that? Obviously you can throw a lot of capital to get EPS growth, but is there capital discipline behind that?

Secondly, you've got three divisions. Do you think those three divisions can equally add value to 2016?

And finally, just a question on Adhesives. You've got this pruning exercise of exiting low-margin areas. How longer has that process got to go? Does it go over the next year or does it complete by this year end etc?

Kasper Rorsted: On EPS, it's very basic. The management team is measured 50/50 on EPS and ROCE. So there is a fairly high inherent cost discipline because that's our comp scheme. So we're only driving increase investments if we believe that you can find it again on the EPS side because if not, of course strategically, it needs to be aligned, but it would have punitive impacts on it.

On the three divisions, I was, maybe I was not clear enough. Let me restate. We believe there is substantial opportunity, improvement opportunity in all three divisions. So we do not believe that any of the three divisions will by any means have a standstill over the next four years.

And then when it comes to Adhesives, do you want to give a take on that?

Carsten Knobel: No, I don't. Can you repeat the question, please?

Carl Short: It was regarding the weak volume growth in Adhesives because you are exiting low-margin areas. How long does that process continue for?

Carsten Knobel: Yes. As we have said, we have said for over the next four years we have defined businesses in the magnitude of EUR500m where we think they're not attractive financially or strategically. This is not only related to Adhesives; this is related to the total Company. But for sure we have still -- regarding the high volume, low-margin business, this is only a starting point, which we started in '12 and this will still an ongoing part also within this period of '13 to '16.

How long this exactly will last I cannot tell you at this point of time. It's always depending how fast we will in a certain way execute or in a certain way how certain businesses will be developing also over the time, because we have clear milestone plans in order to develop certain businesses and if they don't match that then we will execute accordingly.

Kasper Rorsted: Maybe just strategically, there's not only an offensive strategy; there's also defensive. So we might maintain a position defensively simply to prevent a competitor to move up the scale. So you might say in the short term P&L-wise it is punitive, so to speak, but if it prevents somebody to get in and you can hurt somebody in that space we will of course also do so. So with the size that we have we need to make certain that we actually use the size aggressively in the marketplace.

Maybe last question.

Wolfgang Beynio: Please go ahead.

Question: You say on one of the slides that you're seeing an EM growth slowdown or at least that's part of the context in which this is happening. Could you expand a little bit more about where you think you are seeing that in terms of categories, geographies? Is it in the consumer businesses or in Adhesives?

Carsten Knobel: Was a general statement because compared to the last years we have seen in this year in certain areas the slowdown in certain markets, like in Asia, compared to the previous periods. And this is only to be mentioned that it is difficult to predict as an assumption and by that difficult to relate that to our targets of 20-10-10. And nevertheless, what I said is that we are committed despite these facts to reach our targets which we have defined.

Renata Casaro: So thank you very much and now I would like to hand over to Kasper for his closing remarks.

Kasper Rorsted: First of all, thank you for coming here today and taking part in us sharing with you what the new strategy is about, how we're going to take the Company forward over the next four years. We believe we have made the Company a much more competitive company in the last four years. Having long-term targets has been a tremendous asset for us in driving this branch of the organization and we are very committed to hit the targets also for the next four years. We have the upside that I believe very strongly that our organization is much better today, our portfolio's more robust, and also that we have a better focus on our cost situation. We'll continue to adapt, as Carsten said, our structures to the market to ensure that we hit the targets we have set ourselves.

And the target we have set ourselves, the 20-10-10, is of course the consequence of a number of internal targets. In closing, the way we run our Company is OSG , margin and net working capital on an annualized basis, but you've got to have the long-term view in there and that's why we have the four-year plan. We hope you will be part of the four-year plan. We'll see many of you over the next four years and having interesting discussions.

Should you have any questions additional to our strategy or the third quarter our Investor Relations team is available here for the rest of the day, and Carsten and I will see many of you over the future also. So don't hesitate to contact. We hope you stay in. If not, we'll see you later.

Renata Casaro: So thank you for those who joined the conference also from the webcast. And for those who are here, you can follow the IR team upstairs to the exchange room where also breakfast will be served.