

**Transcript Earnings Conference Call Q1/2013  
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**Participants**

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**Presentation**

**Operator:** Good morning and welcome to the Henkel conference call. With us today are Kasper Rorsted, CEO; Carsten Knobel, CFO and the Investor Relations team. For the duration of the call you will be on listen only. Today's conference call is being recorded and the webcast is available at [www.henkel.com/ir](http://www.henkel.com/ir). At this time I'd like to turn the call over to Mr. Kasper Rorsted. Please go ahead, sir.

**Kasper Rorsted:** Good morning, ladies and gentlemen, and welcome to our conference call. First I would like to focus on the key developments of the first quarter of 2013. Then Carsten will provide you with the Q1 financials in greater detail. And after that I'll close my presentation with a summary of Q1 2013 and the outlook for the fiscal year 2013. And finally, we'll take your questions.

I would like to begin by reminding everyone that the presentation, which contains the usual formal disclaimer for forward-looking statements within the meaning of relevant US legislation, can be accessed via our website at [henkel.com/ir](http://henkel.com/ir). The presentation and discussion are conducted subject to this disclaimer. We will not read the disclaimer, I propose we take it as read into the records for the proposed purpose of this conference call.

Now let's get started; key developments. We had sales of EUR4.033b for the first quarter and margin -- adjusted EBIT margin of 14.9%; earnings per share of EUR0.96 per share; net working capital of 5.8% and our net financial position of EUR114m. Overall, a very high quality of earnings on the P&L. The only disappointment or where we're not quite happy was the top line growth. All other items were very much in or above our expectation.

Now let me get to some more details. We saw strong growth in our fast-moving consumer goods business, both our Laundry & Home Care and our Beauty Care business. We saw very

strong growth in the emerging markets, despite a slowdown of the growth in the emerging markets in itself. We came back and had solid growth in Latin America and we have spoken to you about Latin America in previous quarters. Our adjusted earnings margin is at an all-time high, driven by all three businesses and our net financial position again improved. So a number of very strong -- a high number of strong points in the first quarter.

What were the area of challenges and areas where we are not happy or satisfied? It was clear the Adhesive business was negatively impacted by a weakness in the mature markets and, in this context, let me please distinguish between two different developments.

In Western Europe, we saw weakness of major industrial sectors, with Western Europe being in recession, and it will continue to be in recession. We saw a slow start in North America due to destocking of approximately 15% and the weakness in the execution. The latter we were clearly not happy with and we expect that to turn around in the second quarter. That was the one area of dissatisfaction for us in the first quarter.

The overall electronics industry continues to have a weak start. I'm sure you noticed that the PC industry was down 14% in the first quarter. That is the biggest decline that the PC industry has experienced since 1991. Despite that we continue to see very strong earnings in our Electronics business. And we had, in contrast to 2012, headwind from foreign currency, which of course has an impact on our overall EPS. That was the balance of the first quarter.

Now let me move to the business groups. In our Laundry & Home Care we saw very strong organic sales growth. We saw the emerging markets with organic sales growth being double digit and we also saw the mature markets being positive. The adjusted EBIT margin further increased and also ROCE further increased; so a stellar quarter for our Laundry & Home Care business.

We see innovations as a key driver for gross margin and we continue in both our fast-moving consumer goods businesses to invest in our brands to drive brand equity. We saw a strong increase in brand investment. On the Persil Duo-Caps, we are the first to launch multi-chamber caps across Eastern Europe and they are also in Western Europe now.

We continue to drive innovation to strengthen our position in Western Europe and, as we previously announced, we acquired the PZ Cussons' Polish and Russian Laundry & Home Care brand, predominantly "E" and we expect closure in the third quarter, pending on anti-trust clearance.

Moving to our Beauty Care business, we returned to solid organic sales growth, Retail being very strong and Hair Salon negative. So a very solid quarter when it comes to top line. Emerging markets continued its organic to double-digit sales growth and the mature markets were also positive. The adjusted EBIT margin further increased and ROCE also increased.

When it comes to innovation, in the US, with our largest brand Dial, we have now brought the coconut water trend that is very outspoken in the drinks market to our body market in the launch, under the Dial brand Coconut Water. The Oil trend in Hair continued and we made further new announcements on the Hair Care side, also including the oil part.

Now let me get to the Adhesive Technologies. OSG is below previous year and I told you what the core reason for that was Western Europe, because of the market and North

America, which is reduction in inventory but also clearly a weakness in execution, which we do not expect to reoccur. Emerging markets with solid organic sales growth; mature markets below previous year.

However, I want to make certain that we point this out, that we had the highest ever margin in a quarter. So the adjusted EBIT margin strongly increased due to our effective management of our portfolio within our Adhesive business, and ROCE further increased.

When it comes to portfolio management, we are now doing the rollout of the products and technologies that we acquired from Cytec in 2012 and, at the same time, as an ongoing portfolio optimization, we have divested our Chemofast brands, which is in the Building Adhesives business. So we continue to do brand optimization, which you also see in the strength of our P&L for our Adhesive business.

When we look towards our financial targets, sales was up 2.5% organic; emerging market sales up 8.2% and earnings per share up 10.3%. So a solid start in the year; strong quality of earnings; not satisfied with the top line.

Now let me hand over to Carsten, which will give you the details.

**Carsten Knobel:** Good morning to everybody. After Kasper has given you the overall picture, let me now go a little bit more into the financial details. And first of all, let me give you the overview about our key financials for the Q1 2013.

Regarding sales, we came in with EUR4.033b, being up related to organic net sales growth of plus 2.5%. Regarding gross margin, we took a bump start up, being 150 basis points now to a level of 48.6% when it comes to gross margin. And regarding our adjusted EBIT margin, also here a significant improvement by 120 basis points, to a level of 14.9% compared to the 13.7% we had in Q1 2012.

Our EPS adjusted came in with EUR0.96, being up 10.3% versus the EUR0.87. This is prior or before adapting to IAS 19. The comparable EPS figure for Q1 2012 would be 85 cents and with that, that would translate into an EPS growth of 12.9%.

Moving to the cash side and the related KPIs to that, net working capital in percent of sales came in with 5.8%, and this is a significant improvement also here compared to the prior-year quarter of 170 basis points. I will comment on that a little bit later when I come to the three divisions in detail.

On top, please note that this quarter we have adapted our definition of net working capital and here now also including other customer and supplier-related payables and receivables. And we have implemented this change in order to enhance our transparency on our customers and suppliers. Our Investor Relations department will communicate the revised figures for 2012 on the individual quarters in the course of the day.

Our free cash flow came in with EUR209m, being below the previous-year quarter by 9.1% and, finally, our net financial position in million euro came in with a plus EUR114m and, by that, being up EUR1.3b compared to the Q1 2012.

Let me now go a little bit more into the details and starting with our sales growth. Sales came in at EUR4.033b and being reported up in that respect by 0.6%. Our organic net sales growth was plus 2.5%, price contributing by 160 basis points, while volume was up by 90 basis points. FX, you have heard it, a headwind in that respect, minus 2% negative impact, especially by currencies like the Japanese yen, Brazilian real, Egyptian pound and also the US dollar. And M&A more or less neutral, a washing-out effect about divestments and smaller acquisitions we took during the Q1.

Moving now further to the regional performance to sales and first starting with the emerging markets. Emerging markets came in with a very strong number of 8.2%, reaching a level of EUR1.728b, and this led to an emerging market sales share at 43%, being up 200 basis points compared to the Q1 2012. Now in mature markets we had a decline, reaching EUR2.267b in precise, minus 1.5% in organic net sales growth.

Let me now look, or share with you, the details of our individual regions, starting with Western Europe. Western Europe remained strongly impacted by the negative economic environment, especially impacted by our Southern European development, coming out with a minus 1% in organic net sales growth. Here our HPC businesses, so Laundry & Home Care and Beauty Care, were positive; Adhesive, in that respect, was negative.

Moving to Eastern Europe, Eastern Europe being up strongly by plus 7.3% to a level of EUR718m, strongly driven by our performances in Turkey and Russia.

Middle East/Africa showed a double-digit organic sales growth of plus 18.2%, despite the political and social unrest we are facing.

North America, you have already heard it in that respect, minus 0.4%, not satisfying development. But also here our HPC businesses, Laundry & Home Care and Beauty Care showed, or recorded, the ninth consecutive quarter of positive OSG growth while our Adhesives business was below the previous year.

Latin America, a solid growth of plus 4.5%, especially driven by Mexico and Brazil, being here the main contributors. And you have heard us reporting in the last year, especially Brazil, we were not satisfied with our development in our Consumer Adhesives business. And here, as I pointed out, a solid development. We see here first signs of recovery after the not satisfying development in 2012.

Finally, Asia-Pacific, being up 1.3% to a level of EUR580m. Here a solid development in China; Japan below the previous-year level.

With that, I would like to move now to the income statement adjusted and first report on sales to gross profit. Sales reported were up by 0.6% to the level of EUR4.033b. Our cost of goods amounted to around EUR2.1b and, by that, leading to a gross profit in absolute terms of EUR1.961b, being up over-proportionately compared to the sales, by 3.8%. And that led to a margin, a gross margin in percent of sales of 48.6%, being up 150 basis points.

This is -- we even reached that with the negative effect of our cost of goods of around 50 basis points and especially due to our strong countermeasures and the disciplined execution of our measures.

With that, continuing in our income statement adjusted, now looking gross profit to EBIT, and starting with our marketing, selling and distribution expenses. You see an increase of 60 basis points to a level of 26.9% related to sales. Our selling and distribution expenses have been flat, so the increase of 60 basis points is completely related to higher marketing expenses. And you heard it -- Kasper already explained that, to support our top brands, our innovation, and Laundry & Home Care, as well as Beauty Care, significantly increased the marketing expenses in Q1.

Our admin expenses are on the level of 4.8% related to sales and, by that, being up 20 basis points compared to the prior-year quarter. And this is half due to one-time effect and half due to investments in our infrastructure in our emerging markets and by that, strengthening our regional hubs.

With that, we reached an EBIT of -- adjusted EBIT of EUR600m and that led to an adjusted EBIT margin, as already pointed out, of 14.9% and with that being up 120 basis points, supported by all three business divisions.

Let me now move to our development regarding our net financial position. And here also a very strong and positive development, reaching now not a net debt position anymore, but a net cash investment of EUR114m and compared to the Q1 2012, being an improvement of around EUR1.3b in that respect.

Let me now move to the three business divisions and here into the financials of the three, and starting with Laundry & Home Care. Regarding sales, we had a very strong quarter in Laundry & Home Care, being up 8% in organic net sales growth, reaching a level of EUR1.177b. And the OSG was set up by price contributing of 2.7% points] and volume of 5.3%. All regions were contributing to this development. Our emerging markets showed a double-digit improvement and also regarding our business segments, Laundry & Home Care both showed a strong development.

Moving to our adjusted EBIT margin, also here a strong improvement. 15% at the adjusted EBIT margin in Q1 2013, being up 50 basis points, impacted -- positively impacted by the improvement of our gross margin and, as you heard it before, despite the fact that we increased our marketing expenses significantly.

Final KPI I would like to comment is also here, the net working capital. As I said it before on Henkel, also here you see a very positive development to a level of minus 3.8% related to sales, being improved by 70 basis points and reaching here also a low level for Q1 we have ever seen.

So, overall, a very financial -- healthy financial KPIs in all dimensions.

Moving now to our Beauty Care business, also here we showed a strong overall quarter in total. Let me start first commenting on the organic net sales growth. Also here an improvement by 4% compared to the previous year quarter, now to a level of EUR873m. Pricing contributed 0.8%, while volume was up 3.2%. Like in Laundry & Home Care, all regions are contributing to this development. Also here emerging markets with a double-digit improvement.

Let me comment to the businesses a little bit differentiated. Our Retail business showed a strong development in that respect. Our Professional business was negative compared to the previous-year quarter. But also here I think to be highlighted also in the Professional business our emerging markets showed a double-digit improvement and, despite the fact that we had a very declining Professional market, we were able to overall increase our global market share.

Moving now to the adjusted EBIT margin, also here a significant increase by 50 basis points, now to a level of 14.9% adjusted EBIT margin in relation to sales. And our net working capital, as you have seen it with Laundry & Home Care, also here improved 80 basis points, also to a record low level of 3.4% for Q1.

Moving to our last business division, Adhesive Technologies, and here you have heard it, a differentiated picture. Overall we were not happy with our top line. However, all other KPIs and especially adjusted EBIT margin and net working capital, we are very happy with the development.

But let me start with the unhappy part with the sales development. OSG came in with minus 1.2%; pricing contribution positive, 1.3%, while the volume was down by minus 2.5%. Here our businesses, as Kasper has already explained it had been negatively impacted by the weakness of major industrial sector, especially in Western Europe, but also the slow start in North America, as already commented on. So, destocking on the one side, but also weakness in execution on the other side. Regionally speaking, our emerging markets showed a solid growth, while mature markets remained below the previous year.

To the happy part now; adjusted EBIT margin and a significant improvement, impressive, by 210 basis points, up to a level of 16.5% related to sales from the 14.4% of the previous year. Here this improvement regarding gross margin, strong execution of cost discipline and also our portfolio shift helped us in order to get to this development. And finally also our net working capital development; minus 160 basis points, also here to a record low level when it comes to net working capital in a first quarter, with 13.6%.

With that, I would like to hand over back to Kasper.

**Kasper Rorsted:** Thank you very much, Carsten. Let me now summarize and come also to the outlook.

The summary for the first quarter; mixed growth dynamics, but we see strong growth in HPC and Adhesives negatively impacted by a weakness in mature markets and the slow start in North America that we have mentioned on several occasions during the call. We saw increased efficiency, driven by supply chain and also a very strong focus on cost. The adjusted EBIT margin at an all-time high, driven by all three businesses. Adjusted EPS with growth above 10% and net financial position significantly improved.

Overall, a strong quarter in a challenging environment, with the comments that we already mentioned.

How do we look upon the outlook? We believe that the global economic outlook will continue to remain difficult. We see improving development for major industrial sectors expected during the second half of the year, predominantly outside Europe. We see strong innovation pipeline

to continually outperform the challenging market environment in our fast-moving consumer goods business. And we also expect consistent headwinds as it relates to currency.

However, despite the difficult market environment, we are confirming our guidance for 2013. That means organic sales growth between 3% and 5%, and adjusted EBIT margin around 14.5% and adjusted earnings per share of 10%. That also means, as we've done in the past, we will continue to adapt our structures to the market, to ensure that we continue to drive the improvements in our earnings in a sustainable way moving forward.

What are the upcoming events? On June 18, we have our Investor & Analyst Day, which this year is focusing on our Adhesive Technologies. This will take place in Dusseldorf. On August 8 we will disclose our second-quarter financials and November 12 it will be time for the third-quarter financials.

This brings me to the end of the conversation --- of the presentation. And I'd like now, along with Carsten to take the questions you might have. So let's please go over to the question and answer session.

## **Q & A Session**

**Operator:** Thank you Mr. Rorsted. The first question comes from the line of Harold Thompson from Deutsche Bank. Please go ahead

**Harold Thompson:** Yes, good morning, everyone. I've got two questions. The first one is on Household. I think 8% like-for-like growth is your best quarter in Household since first quarter 2007. And I think, as you note in your statement, this is happening despite still a weaker market environment. And I think if I look around the competitive landscape, unless your name is P&G, everyone is having a fantastic run in terms of Household growth. Can you maybe just help explain why we are seeing such high absolute growth in this segment, even if overall market growth rate is relatively subdued and, therefore, how can that help us understand where the growth dynamics here goes next?

Secondly, in Adhesives, as you say, a disappointing start in terms of growth but not margins. You are flagging that Q2 will be better, but I also note that your outlook is guiding for 3% to 5% like-for-like, not just for the Group, but actually for all of your divisions, therefore Adhesives. Are you therefore flagging that you still believe that the Adhesives unit will have a very strong like-for-like turnaround Q2, and for H2, in order to reach that goal? Thank you.

**Kasper Rorsted:** Good morning, Harold. Thank you for your questions. Let's ask -- let me start with the second one and then go to the first one. I am confirming the guidance and, as I said, we are confirming the guidance on a Company level and on a divisional level. So that's our current expectation as I said.

If you look around and look upon the development, I was very clear in articulating we are actually quite happy with the Adhesives divisions, in all regions but one. And the one we flagged was North America, which we do believe that the current performance out of North America was not 100% related to the market.

There was a destocking taking place, of approximately 15% of our inventories went down. That was one and, as I said, we are not happy with the execution in North America and we

have been -- and you've covered us for a long time Harold, you know that we are trying to be very transparent at what we are happy about and not happy about.

We were not happy about the performance of our own team in North America in the first quarter. And that means that we are confident that we'll get back into the range that we have spoken about before and also get back into a plus, and that will then start in the second quarter.

What I do want to stress, though, is that you should also look upon the quality of earnings. And we have consistently also stressed that we are managing our portfolio very diligently, to ensure that the quality of earnings continues to improve.

That's not an excuse by any means, but that is what you are seeing in the earnings that are coming out. So we are foregoing some revenue on the top line, because we want to make certain that we compete where technology matters the most. That does not mean that we are walking away from the guidance, so the guidance is still 3% to 5%. The predominant driver of it was North America.

One overall impact on a global basis was the electronics industry. That is expected to come back, but you can follow the overall guidance for the electronics also.

So yes, we are expecting it. That's the short answer.

On Laundry & Home Care, the market is growing. We are seeing a market growth, but a lot of our growth is coming out of the emerging markets. So we are seeing very, very strong growth in emerging markets, with also in the mature. And that is coming, on the emerging markets, from market and market share. Mature is growing much less, it's in decline, but we are growing our market share. And a lot of our growth in -- from the Laundry Care is coming from Eastern Europe and Middle East with very, very strong numbers. So it's a market share gain in a market that mature is declining and emerging is growing. So we're quite happy.

I will, however, say is I think the 8% is on the very upper range. I would not expect 8% to continue throughout the year just to set expectations. But we continue to expect a strong year for our Laundry & Home Care, but not at the 8% range. I think that was a very strong quarter.

**Harold Thompson:** Yes, thank you. Just a final follow-up. What you're effectively saying is the delta on the growth in Household is essentially share gains, rather than a change in market dynamics, is that right, just the quantum of the change?

**Kasper Rorsted:** Confirmed.

**Harold Thompson:** Thank you very much. Have a good day.

**Operator:** The next question comes from the line of Celine Pannuti from JPMorgan. Please go ahead.

**Celine Pannuti:** Yes, good morning. My first question is on your outlook for the year. I notice that you are saying that the outlook will depend on pricing realization. So could you give us -- which I think it was in February when you gave the outlook? So can you explain why you added that? And also can you remind us what is your expectation from raw material inflation,



as I understand that overall we have quite a stable raw material environment? So I'm a bit surprised by those price increments.

And then my second question is on China. Can you share with us maybe a qualitative or quantitative comment on performance? And how was your Consumer performance versus your Adhesive performance in this market? Thank you.

**Kasper Rorsted:** Carsten will do the raw materials. Let me just be very clear, our guidance is 3% to 5%. There's no change in that, that doesn't depend on anything. So I don't know where you have that coming from. If it's come from us, it is not appropriate, but I don't think it's come from us. So let me just reiterate what I believe we've said all the time. Top line, 3% to 5%, EPS 10% and margin 14.5%, that's the guidance, period and no comments to it. That is the guidance as it stands and that's not depending on anything, that's the guidance. On China --

**Celine Pannuti:** Sorry, it's on the release it says the guidance is based on anticipated increases in Henkel's selling prices and ongoing adaptation of the structure. That's on the release, that's clear.

**Kasper Rorsted:** Yes, but of course what we do is we always adapt our structures. We always do pricing.

**Celine Pannuti:** Yes, I just think that this was not put -- was not there when you put the guidance two -- two months back, so I just --

**Kasper Rorsted:** Okay, so let me be clear Celine. The guidance is 3% to 5% and 10% EPS period. So if there's anything that's misleading I'm now not misleading. It is the way we're saying it; 3% to 5%, 10% and 14.5 period.

On China, what we are seeing is that overall the Chinese market continues to be very strong. On the consumer side we are seeing no slowdown for sales, it's very, very strong for us. So on the Beauty Care business we continue to report double digits in China. On our Adhesives division, overall strong, the only negative is right now the Electronics division, or the Electronics business which is a global market, if anything else. So we're still very bullish on China. Electronics is the one we are flagging but that's really a global business which is being manufactured in China. So it's not really related to the China market in itself, it's in isolation.

Carsten, on the raws?

**Carsten Knobel:** Yes, on the raw materials we have no change in our guidance, which means we see a moderate increase for the full-year 2013. I reported on the Q1 with cost of goods being impacted negatively by 50 basis points, for sure over-compensated by related counter-measures and improvements. But nothing changed regarding to that.

**Celine Pannuti:** All right. And just then therefore regarding to that, because raw material inflation was quite -- much higher in the previous years than you had put prices up, what do you think is the outlook for pricing in general for your three divisions for the year?

**Carsten Knobel:** We do not guide specifically on the pricing. What we do is always a combination of pricing and volume to drive our business. And this is valid for Beauty Care, for Laundry and Adhesive. And for sure with our innovations you know that we have changed our

definition last year what we put in our fast-moving consumer businesses. Innovations would have an improvement on average in the GP1 compared to the normal portfolio and that is the part which is related also to pricing and, as I said before a combination of pricing and volume for the -- for three divisions for the full year.

**Celine Pannuti:** Thank you.

**Operator:** The next question comes from the line of Gael Colcombet from MainFirst. Please go ahead.

**Gael Colcombet:** Yes, good morning. My first question will be back again on Laundry. You seem to comment that you think the 8% you had in Q1 is not sustainable in coming quarters. However, it seems to me that your -- from a comparison standpoint in the coming quarters, the base is not that much different. So I'm just wondering why are you -- you seem to be a bit conservative on that side. Is it because the rollout of your innovation was more skewed towards Q1 this year? Or is it because you think that competition might heat up a bit more in the coming quarters?

And secondly, on the cash flow, cash flow development, your free cash flow development was 9% down on the quarter. Could you elaborate a bit more on what happened there? Is it mainly driven by a lower than expected sales? And how do you feel about your inventory situation? Thank you very much.

**Kasper Rorsted:** I'll take the first question, Carsten will take the second. 8% is an extremely high number in the markets that we are in when it comes to Laundry & Home Care growth. And of course we launched products throughout the year, but we've had a bigger launch activity in the first quarter, so that's why we expect a somewhat slower growth.

What you have however seen throughout 2012 has been very strong growth rates in Laundry & Home Care. We continue to expect strong growth rates in Laundry & Home Care. I'm just saying that the expectation, I think the 8% is on the high side. That does not mean that we are going to go dramatically down, but it will be lower. The overall aim is to continue to gain market share, which we have done. But from a -- we think it's launch driven, it will be a tad lower in the following quarters.

**Carsten Knobel:** Regarding your cash flow question, the decrease, the EUR209m versus the EUR230m in comparison of the quarters was due to the decrease in our operating cash flow. We could increase the -- well, there was an increase related to the operating profit, but this was offset by higher outflows for trade account receivables and also inventories.

**Gael Colcombet:** And in particular in inventories, was there any special development in any of your three divisions, or --? Thank you.

**Carsten Knobel:** No, not a special development.

**Gael Colcombet:** Thank you.

**Operator:** The next question comes from the line of Hermine de Bentzmann from Raymond James. Please go ahead.

**Hermine de Bentzmann:** Hi, good morning. Two questions for me, please. The first one is on Asia Pacific. I was surprised by the weak growth that you had in Q1 despite the solid growth in China. Can you just remind us the split by division in the whole region? And remind us also the weight of Japan and China in Asia Pacific sales?

And my second question will be on Adhesives. You mention North America as a region that is expected to recover in the coming quarter. But do you expect other regions to recover also in the rest of the year? Thank you.

**Kasper Rorsted:** In Asia Pacific, the split is pretty much 80%, 20% or 85%, 15% where Adhesive is the vast majority part. The negative drivers for our growth in Asia Pacific are the mature countries, being Japan, Australia and New Zealand. And that is the predominantly the driver for the lower growth rate that we're seeing in Asia Pacific.

When it comes to North America, as I indicated or Carsten also, we actually believe that the overall economy in North America is solid and will continue to evolve positive throughout the entire year. And as we also stated the two main drivers for the dissatisfactory development of our Adhesive business in North America was inventory build-off and weak execution. We don't believe that those two are sustainable, so to speak, and we're very confident that we can turn that around and get in and have a development that is aligned with the overall development of the economy in the US. So we are not by any means concerned about the economic outlook of the US.

**Hermine de Bentzmann:** But do you expect other regions in the world to recover for Adhesive technologies?

**Kasper Rorsted:** I don't think there's any of those from an emerging standpoint that are not recovering at this stage. The only region that has a negative impact is China through electronics, but electronics is globally driven. That is not particular -- it's manufactured in Asia but it's driven by the rest of the world. I don't see any of the other regions being impacted. We have a very strong business in Eastern Europe and Middle East. As Carsten indicated, Latin America is on a good run. The predominant problems or challenges we had was Western Europe which is recession driven, and North America which is Henkel driven.

**Hermine de Bentzmann:** Okay, thank you.

**Operator:** The next question comes from the line of Iain Simpson from Barclays. Please go ahead.

**Iain Simpson:** Thank you very much. Good morning gentlemen. A couple from me, if I may. Firstly, the impact of de-stocking on US Adhesives, could you quantify what the impact of that was on Adhesives division as a whole in the quarter? I know it's difficult to get it precisely, but any attempt at quantifying that would be very welcome.

And secondly, just going through your P&L business there seems to be a EUR25m increase in other operating income that accounts for pretty much all of your margin beat versus consensus. Now, I'm assuming that's nothing to get too worried about because the gross margin did very well, but any color you could give on the components of that would be extremely helpful. Thank you.

**Kasper Rorsted:** I cannot give you a lot more detail on the North American situation. What we said is that the inventory was reduced with approximately 15% and the other part was execution. Whether that's 50/50 or 60/40, when you look upon the overall impact of the two, I can't tell you. So I can't give you -- shed you much light on that, but as I said 15% inventory reduction happened in North America in the first quarter, but also execution was not still up. That's really the only thing we can say at this stage. Carsten, please?

**Carsten Knobel:** Yes, regarding operating -- other operating income, other operating expenses, I have -- you have seen it on the chart. The impact is 0.6% or the increase size EUR23m in the balance and this is related to an impact of EUR13m more in operating income. But there are several minor topics which are related to that. And regarding operating -- other operating expenses, we have EUR10m less than in the previous year and that together is the balance of the EUR23m.

But as you also pointed out, we have strong improvement in our gross margin and a strong cost discipline which brought us to the adjusted EBIT margin, which we commented on for all three businesses being -- being very high.

**Iain Simpson:** Thank you very much. Just to seek clarification, when you say 15% inventory reduction in North America, do you mean 15% of your North American Adhesive sales was the quantum of the Adhesive production or 15% of what? Thank you very much.

**Kasper Rorsted:** 15% of the inventory that the channel holds in North America. So we don't quantify which level of inventory they hold, but we've seen a lot of our business -- a lot of our business in America is running through distribution and distribution and large customers have reduced their inventory with approximately 15% in the quarter.

**Iain Simpson:** Thank you very much.

**Operator:** The next question comes from the line of Markus Mayer from Kepler. Please go ahead.

**Markus Mayer:** Yes, good morning. Two questions are remaining. First of all, on the gross profit improvement in particular then in combination with the EBIT margin improvement at Adhesives, am I right that here the raw material costs have declined? So when I look at the epoxy resins or all kind of raw materials for Adhesives I see a decline in costs and therefore there should be an effect for you as well? And can you quantify how big this effect was then on the EBIT margin improvement?

And then secondly, you said in Electronics that so far that they're still very weak. When do you expect the recovery? Should we expect this in the first quarter already or more in the second half? That's all from my side, thanks.

**Carsten Knobel:** So, regarding the gross profit, yes for sure you have seen that we have an increase in all three divisions regarding our raw materials. I think I already commented on that. We had an impact of 50 basis points overall. On Henkel we do not split that regarding our divisions, so there is no decline in -- at this point in our development of our raw materials. And this is also in line with our guidance with a moderate development over the year.

And we are improving that, by, as I said before, by counter-measures, by disciplined execution, by innovations, which is bringing this up. And for sure also when it comes to the EBIT margin it's also regarding portfolio optimization and also cost discipline which brought us to the level where we are in the three divisions.

**Kasper Rorsted:** When it comes to the electronics market we expect that to more be a second half year instead of second quarter. What we are seeing as you saw there or as you can see there also, the significant slowdown in the PC market with 14%. Basically what you're seeing is, you're seeing a change from PC going to tablets. And that slowdown is taking place because the tablet uptake has not occurred to the extent that it should.

If you follow the Windows 8 debate and already the now proposed changes to Windows 8 that has had an impact on the slowdown of the overall PC market. So we saw vendors like Hewlett Packard decline 25%. I believe vendors like Dell declined 12% to 14% and that's simply because the PC market is slowing down and you're not seeing the corresponding uptake on the tablet, predominantly due to the mixed reception of Windows 8. So that's one side of the coin.

The other one is also new product launches in the smartphone market. You saw the two companies that are really dominating that market have different announcement dates. Samsung came out with their Galaxy here in the first half and right now, Apple is normally expected to do a lot of their launches in the second half. And that's pretty much why we believe that according to what market -- the market expectation is that the market will pick up in the second half, but it will be more second half than second quarter.

**Markus Mayer:** Okay.

**Kasper Rorsted:** What I do want to say though is, it has very -- no, nothing. That's fine, thank you.

**Operator:** The next question comes from the line of Rosie Edwards from Goldman Sachs. Please go ahead.

**Rosie Edwards:** Good morning. Just one question from me on your margin guidance. For the full year the run-rate implies half the margin expansion that you've achieved in the first quarter. I'm just wondering what dynamics are different over subsequent quarters to result in that?

**Carsten Knobel:** The reason is the different product portfolios drive different margins. What we are guiding is we are guiding a higher level of sales as you can see. We are right now running at 2.5% and our guidance is to be within 3% to 5%. So we expect certain of our product categories to grow quicker in the second half in countries where you are seeing a lower margin. So we expect -- the predominant guidance we're focusing on is the EPS of 10% and that's really the overall focus to give credibility. And also a kind of very clear expectation that the 10% EPS is the predominant driver for our guidance and that's what we manage our business around. Whether it's 14.4% or 14.6% or whatever it is, it is too early to say, because we are outlining our predominant way of managing the business is on the 10% EPS.

**Rosie Edwards:** That's very helpful, thank you.

**Operator:** The next question comes from the line of Robert Waldschmidt from Merrill Lynch. Please go ahead.

**Robert Waldschmidt:** Good morning, gentlemen. Just wanted to come back on what is clearly a lot of noise around the Adhesives division. We've got continued pruning going on as well. I know last year that that contributed as much as 100 basis points at times to drag on organic sales growth. Is it possible to give us some color on the quantification of that in this quarter?

And then in addition, on some comment I saw scroll by on the newswires this morning, there was some comments being made about acquisitions in mature markets. And I was just wondering if you could -- you could give some color on what types of acquisitions you'd be seeking and in what particular mature markets? Thank you.

**Kasper Rorsted:** So the overall impact on the portfolio is approximately 40 to 50 basis point. So that's not the magnitude, it's an irritation level, but it doesn't make it much better. That's why we've been very clear on what we believe is the predominant impact on the overall market.

Of course, Europe, I've been very clear on, is not an expectation to us. There is a substantial decline in the overall European industry, but that's not a surprise and we don't expect that to turn around either. So it is really -- the 40 basis points is what the portfolio has, so that gets it down to minus 1. And then it's pretty much a North America scenario right now and in Electronics. These are the two overall reasons for it.

When it comes to Adhesives -- no, acquisitions excuse me, basically the point I made to the press was, one, we have a very solid balance sheet that Carsten has talked about. We're debt free. Secondly is that if you look upon the areas where we are acquiring, it is in technology areas when it comes to Adhesives, and it's in country category positions when it comes to fast-moving consumer goods.

The predominant firms that are active in the Adhesives markets are headquartered in the mature markets. So I'm speaking about the origin of the headquarters. That's where most of the Adhesive companies are headquartered. So by default if we were to acquire an Adhesive asset it would, 'be headquartered' or the headquarters of that company would be in the mature markets.

When it comes to fast moving consumer goods, it's simply the -- the quality of the assets. And the quality of the assets, the further you move into the 'immature markets', the more volatile those assets are becoming. However you just saw that we acquired two assets in fast-moving consumer goods in the emerging markets. One was in Latin America or Middle America and the other one was in Poland and in Russia.

**Robert Waldschmidt:** Okay, thank you very much.

**Operator:** The next question comes from the line of Guillaume Delmas from Nomura. Please go ahead.

**Guillaume Delmas:** Good morning, a couple of questions from me. Firstly, on the US laundry detergent, one of your competitors that actually dominate the value segment in the US has

talked about substantial distribution gains. And it seems that these gains have come through at the end of March, early April. So my question is, given that Purex is essentially a value brand, I was just wondering whether you've seen any impact from that on your numbers, which could explain why you haven't raised your full-year guidance for your laundry and home care division.

And secondly, on Eastern Europe, one of the key moving parts here in Q1 is usually the weather, because of your Construction Adhesive business. Now, I know it's always a difficult exercise, but we know the weather was quite poor in Q1, so could you quantify the negative impact from that on your numbers?

And still on Eastern Europe, some of your Beauty peers have mentioned a slowdown in the cosmetics market in Eastern Europe in general, but Russia in particular. Just wondering whether you've seen the same trends. Thanks.

**Kasper Rorsted:** I will start with the second part of the questions and Carsten will take the first part of the question. Actually, just the week before last I was in Eastern Europe and I was in Poland, Russia and Ukraine. We simply don't use the weather as a reason for numbers. Some winters are cold, some winters are warm, and the weather is the weather, the way it is. So that's why we just don't use it and you won't find it in our comments and we're not going to use it. The weather will vary over time, but over a number of years, the weather is the weather. So that's pretty much the way we see it, so no comments to the weather.

We are seeing a slight slowing down in the Russian market at this stage, because of the overall slowdown of the Eastern European economy. But Russia, as Carsten said, remained a double-digit growth market for us. Overall it's an extremely strong market and continues to have a -- and we're very bullish on Russia. I think we've been clear on this for a long, long period of time and that is not changing. Whether there are slight changes in the market we can't rule out, but overall we're very bullish on the overall Russian market.

**Carsten Knobel:** Regarding Laundry & Home Care in North America I can only comment on the quarter one and not on topics which are happening in April. And as I said before both businesses, Laundry & Home Care and Beauty Care showed organic -- positive organic net sales growth in Q1 and this is also related to our brands behind. And we do not guide or explicitly give information on the development of single brands in that respect. As I said, we're satisfied with our top line growth and nothing else to comment on that.

**Guillaume Delmas:** And just a quick follow-up on US laundry detergent. There is a big shift happening towards more unit dose. Just wondering if you managed to capture a good market share in that fast growing segment?

**Carsten Knobel:** In that respect, our situation is not significantly changing, being flat.

**Guillaume Delmas:** Thank you.

**Operator:** We have a follow-up question from the line of Iain Simpson from Barclays. Please go ahead.

**Iain Simpson:** Thank you very much and thank you for allowing me a follow-up question. Just on Laundry, if I may, with your new Duo-Cap product. What we've seen from you previously is

that when you have a big innovation in Laundry it can really change the performance of that division for a good few quarters. So I just wondered if you were able to give any indication as to how excited you were about Duo-Cap as an innovation, the sort of multi-chamber system.

And secondly, sorry to come back to it, but that EUR38m of other operating income that you had in the first quarter '13, that is quite a high number. It would be great if you could just give us a little bit of an indication of the sort of things that went into that and what its component parts were. Thank you very much.

**Kasper Rorsted:** On the Laundry side, let me just try to answer the question a bit broader first. First is that right now we have a number of innovations that are very successful in the market, the Duo-Caps is one. We also have a very successful set of innovations related to the bathroom or the toilet to be more specific. So it's not just one innovation. We have right now a set of innovations that are helping to drive the growth.

We believe that the Duo-Caps category will be a sustainable category. It's not one that comes and goes. And we're consistently expanding our manufacturing capacity for this. This is a category that started in Europe approximately four years ago, in France, and is pretty much across all Eastern Europe and Western Europe at this stage with a number of different variations in the product that we offer to market.

We are quite excited about it. We are investing heavily not only investment into the brand, but we are building -- as we speak we are building an expansion -- and expanding our manufacturing capacity in this category in Western Europe, Eastern Europe and also in the US. So we are quite excited about it. It is a category that we believe are there to stay. And the interesting part is it is really a global category. It's one that's taken off in Western Europe, a very strong take-off in Eastern Europe. If you go to Eastern Europe and you go to the major retailers you will see it across all the shelves in the large retailers and the same in the US. I was in Brazil last week also and you see it also there. So it's a very strong category and we're quite excited about it.

When it comes to other income expense, I will have Carsten comment on that.

**Carsten Knobel:** Yes, again to the point operating income, operating expenses. As I pointed it out before, regarding the operating income there are many minor topics which I will not comment on. But to give you some more flavor in the operating other expenses, there is one bigger item in that respect who's making half of that, which is the currency losses in Venezuela which we experienced last year, which did not repeat or did not occur in 2013. And this is what I would like to comment on that.

**Iain Simpson:** Thank you very much, that's very clear. Just very, very quickly was there any impact from pipeline fill with Duo-Caps, or has it always been quite big? You haven't filled up a pipeline that's helped explain the Laundry top line? Thank you.

**Kasper Rorsted:** No, that is not the case because Duo-Caps has been in the market for a long period of time for us. It's not a 'new innovation'. It's an innovation that we continue to expand upon so there is no pipeline filling of this. This is run-rate business as we go.

**Iain Simpson:** Perfect. Thank you so much.



**Operator:** This was our last question. Thank you, ladies and gentlemen. I will now hand over to Mr. Rorsted for his closing remarks.

**Kasper Rorsted:** So, thank you from me and Carsten for participating in our conference call today. Overall, the first quarter (even if mixed) was a strong quarter on the background of the difficult market environment. I hope that we've given you enough substance to explain the one big question you had and we're very confident that we'll hit our guidance for 2013, meaning that we're confident for the remainder of the year.

I wish you all the best and we look forward to meeting you at our Investor and Analyst Day for the Adhesive Technologies on June 18 here in Dusseldorf. And with this, thank you very much and bye.

**Operator:** Thank you for joining today's conference call. You may now replace the handsets.