

# Henkel Strategy

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London  
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# Disclaimer

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# Agenda

**1 Achievements 2008 - 2012**

**2 Henkel Strategy**

**3 Financial Targets 2016**

**4 Summary**

# We set a clear strategic direction with 3 priorities...



# ...and ambitious financial targets for 2012



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Org. Sales Growth (average)	3-5%
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EBIT Margin (2012)*	14%
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EPS-Growth (CAGR)*	> 10%
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\* adjusted

# All strategic priorities were pursued consistently



# We faced severe headwinds and volatility

## Headwinds

- Financial crisis
- Political turmoils
- Material price increases
- Euro crisis

## Volatility

	<u>Assumptions</u>	<u>Reality</u>
GDP Growth	3-4% CAGR	1.8% CAGR (-2.1% – +4.1%)
EUR/USD	1.40 – 1.55	1.19 – 1.51
Crude Oil	100 – 120 USD	37 – 127 USD

# Despite all odds, we are underway to reach our targets

	Targets 2012	Achievement until 2011	Actuals 1-9 2012
Org. Sales Growth (Ø)	3-5%	+3.1%**	+3.7%
Adj. EBIT Margin	14%	13.0%	14.3%
Adj. EPS-Growth (CAGR)*	>10%	+12.8%***	+19.4%
Sales Share EM	45%	42%	43%

\* per preferred share

\*\* Arithmetic mean 2009 through 2011

\*\*\* 2008 through 2011



# Our progress is built on various drivers...



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# Core questions of our strategic review

- 1 Which megatrends will shape our markets in the years to come?
- 2 How well is our portfolio positioned against these trends?
- 3 What actions are necessary to capitalize on these trends?



# Overview of megatrends and their implications

## Trend Description

## Trend Implication



- Consolidation of suppliers, manufacturers and buyers

- Increasing importance of competitive **size**



- Shift of market growth to Emerging Markets

- Increasing importance of **Emerging Market presence**



- Rapidly changing markets & faster transfer of information

- Increasing importance of **operational excellence** in processes and structures

# Overview of megatrends and their implications

## Trend Implication

## Performance Dimensions 2016



- Increasing importance of competitive **size**



**Total sales**



- Increasing importance of **Emerging Market presence**



**EM sales**



- Increasing importance of **operational excellence** in processes and structures



**EPS growth**

# Long-term market assessment

- Active in markets of significant size
- Markets are attractive in terms of profitability and offer long-term growth potential
- Strong potential to expand our businesses



Strong ability to win in attractive markets

# Leverage full potential in all businesses

## Consumer Business

### Laundry & Home Care



### Beauty Care



## Industrial Business

### Adhesive Technologies



# Our strategy is based on our vision & values

**A global leader in brands and technologies**

**Customers**

**People**

**Financials**

**Sustainability**

**Family**



# Key success factors to achieve our vision

## A global leader in brands and technologies

- Leading position
  - Global footprint
  - Leading processes
  - Strong & diverse team
  - Leading financial performance
- #1 choice for customers & consumers
  - Innovation leader
  - Powerful brands
  - Balanced portfolio

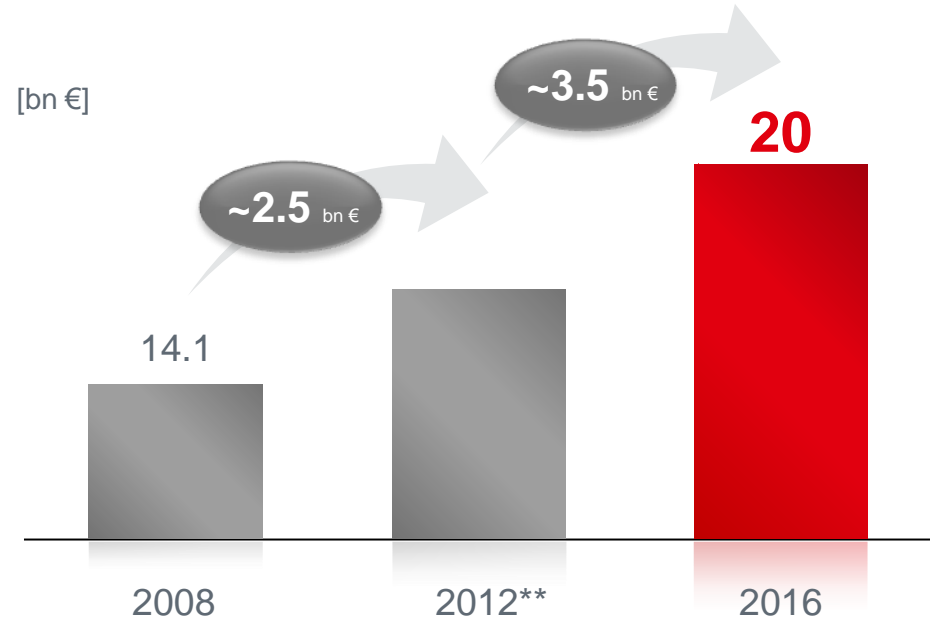
# Henkel strategy

We will **outperform** our competition  
as a **globalized** company  
with **simplified** operations  
and a highly **inspired** team!

# Henkel strategy



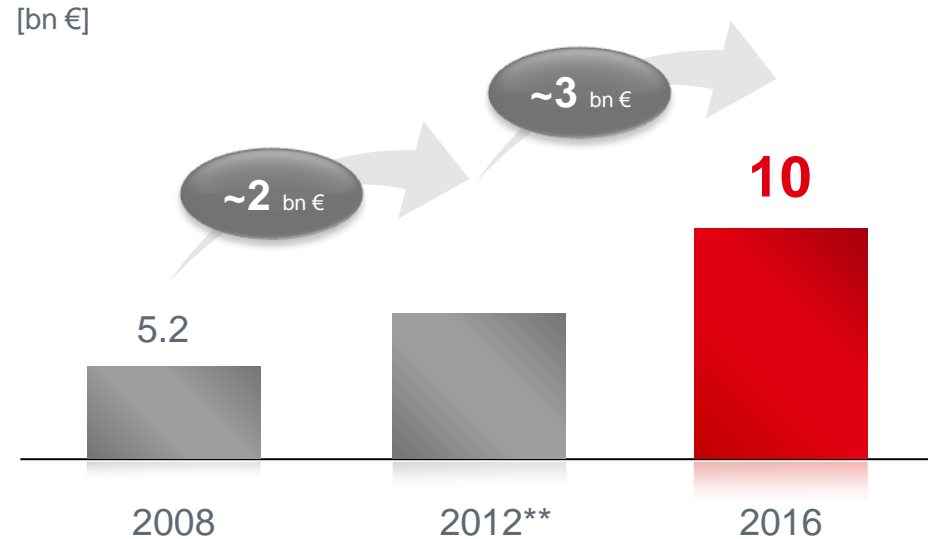
# Henkel's financial targets 2016



\* incl. continuous portfolio optimization (without major acquisitions & divestments)

\*\* based on consensus

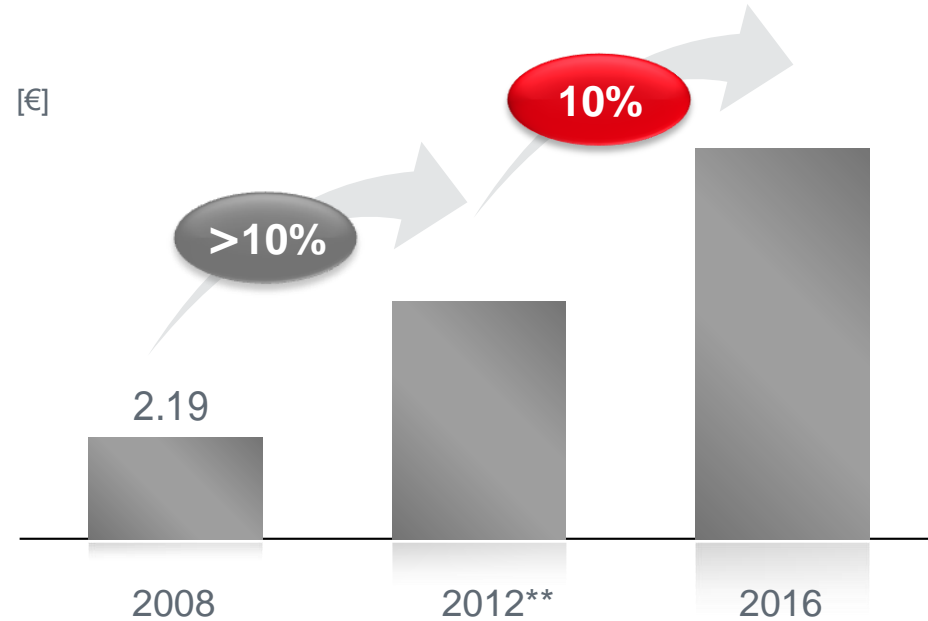
# Henkel's financial targets 2016



\* incl. continuous portfolio optimization (without major acquisitions & divestments)

\*\* based on consensus; sales share EM as of 1-9 2012

# Henkel's financial targets 2016



\* incl. continuous portfolio optimization (without major acquisitions & divestments); adjusted per preferred share

\*\* based on consensus

# Henkel's financial targets 2016



\* incl. continuous portfolio optimization (without major acquisitions & divestments); EPS: adjusted per preferred share

# Henkel strategy

- Active portfolio mgmt
- Leverage top brands
- Powerful innovations
- Focus on customers

**Outperform**

Globalize

**A global leader  
in brands  
and technologies**

Simplify

Inspire



# Outperform – Leverage potential in categories



## Core Categories



- Continuous investment in top positions

## Growth Categories



- Investments in category and new segment expansion

## Value Categories



- Leverage profit potential with adequate investment
- Divest/exit businesses (~500 m€)

## Active Portfolio Management



# Outperform – Build on strong base

## Brands

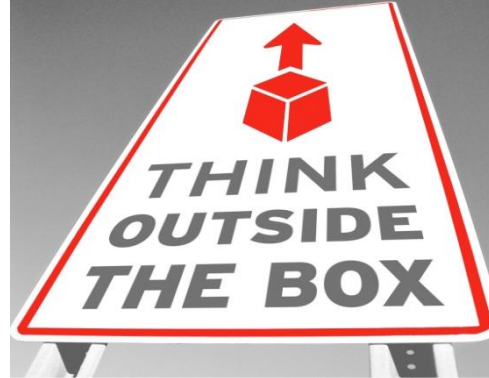
**Persil**

Schwarzkopf | 

**LOCTITE**

- Focused & balanced brand portfolio
- Strong growth of top brands
- Brand consolidation

## Innovations



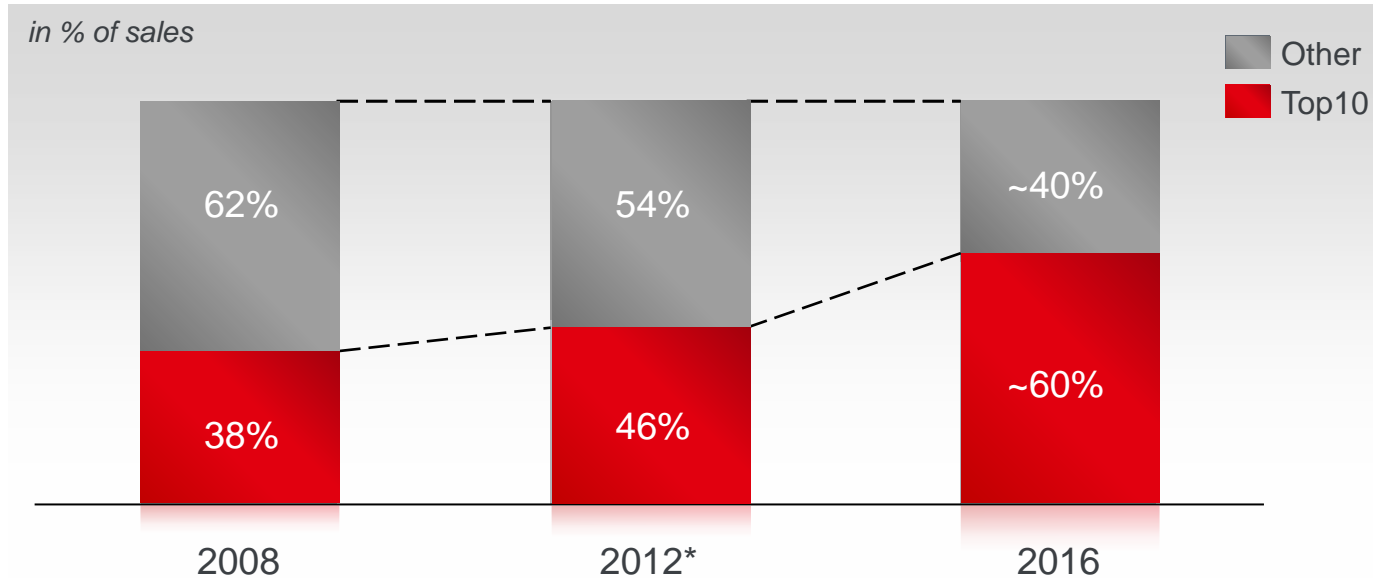
- Consistent innovation process
- Trend-based innovations

## Customers



- Customer relationship management
- Consumer proximity

# Accelerate sales growth with top brands



**Persil**

  
**Schwarzkopf**

**LOCTITE®**

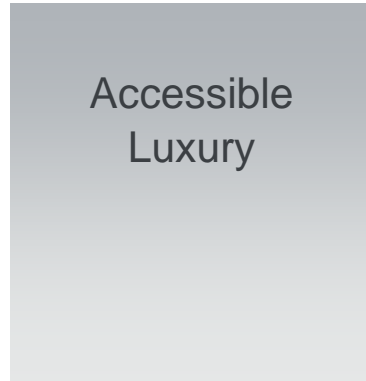
- Strong growth driven by innovations & further roll-out of global brands
- Further portfolio alignment towards umbrella brands

\* estimate

# Consistently drive trend-based innovations



Performance &  
Sustainability



Accessible  
Luxury



Convenience &  
Superior Quality



# New R&D sites fostering consumer proximity



- Significant expansion of R&D centers in all emerging regions
- Further leverage local competence

# Actively deploy customer focus



Laundry & Home Care  
Shopper  
Marketing



Beauty Care  
Meet-your-Consumer  
Center



Adhesive Technologies  
Technology &  
Design Partnerships

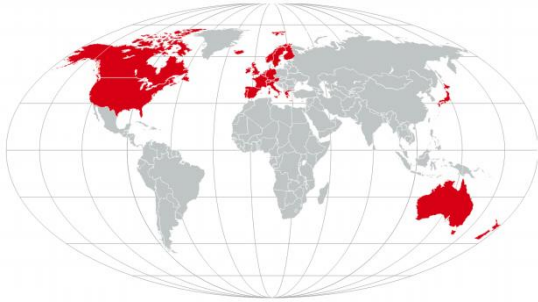
# Henkel strategy





# Globalize – Focus on regions with high potential

## Mature Markets: Leverage Strengths



- Continuation of profitable growth with strong cost focus

## Emerging Markets: Go Deep



- Acceleration of growth in existing Emerging Markets

## Emerging Markets: Enter White Spots

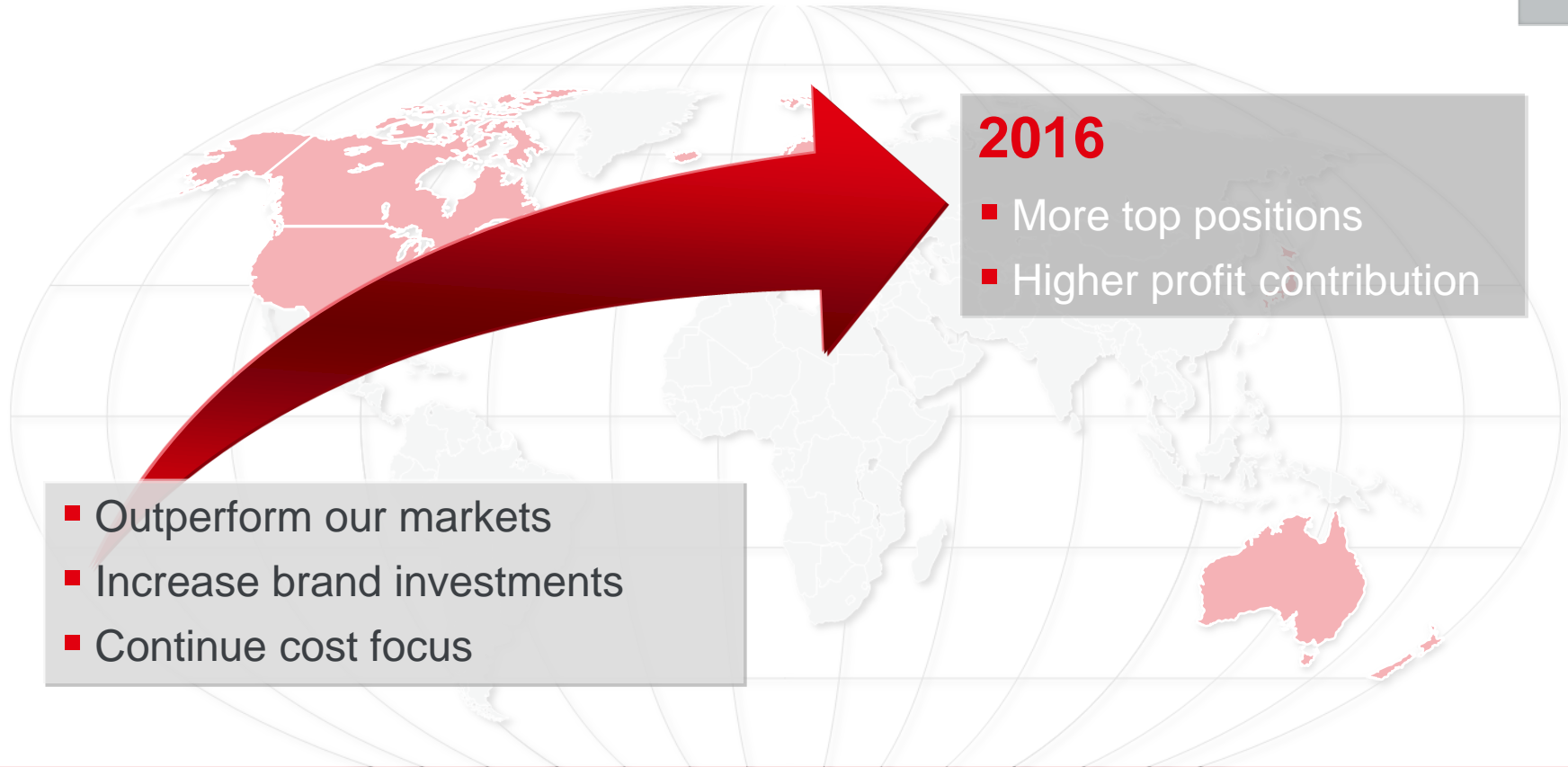


- Enter country white spots in selective Emerging Markets





# Mature Markets – Further leverage strengths



**2016**

- More top positions
- Higher profit contribution

- Outperform our markets
- Increase brand investments
- Continue cost focus

# Emerging Markets – Accelerate growth



2016: Balanced EM footprint with 12 EM countries in Henkel Top 20

# Henkel strategy



# Acquisitions



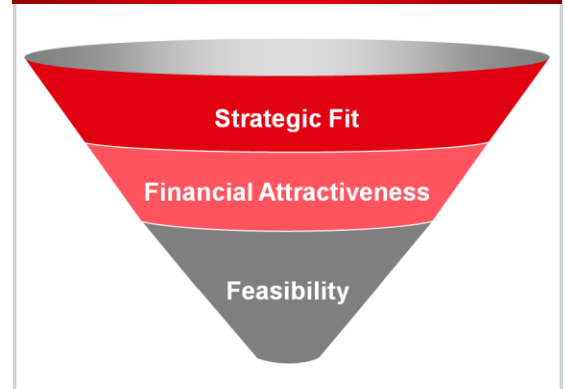
## In Line with Strategy



## Boosting Growth

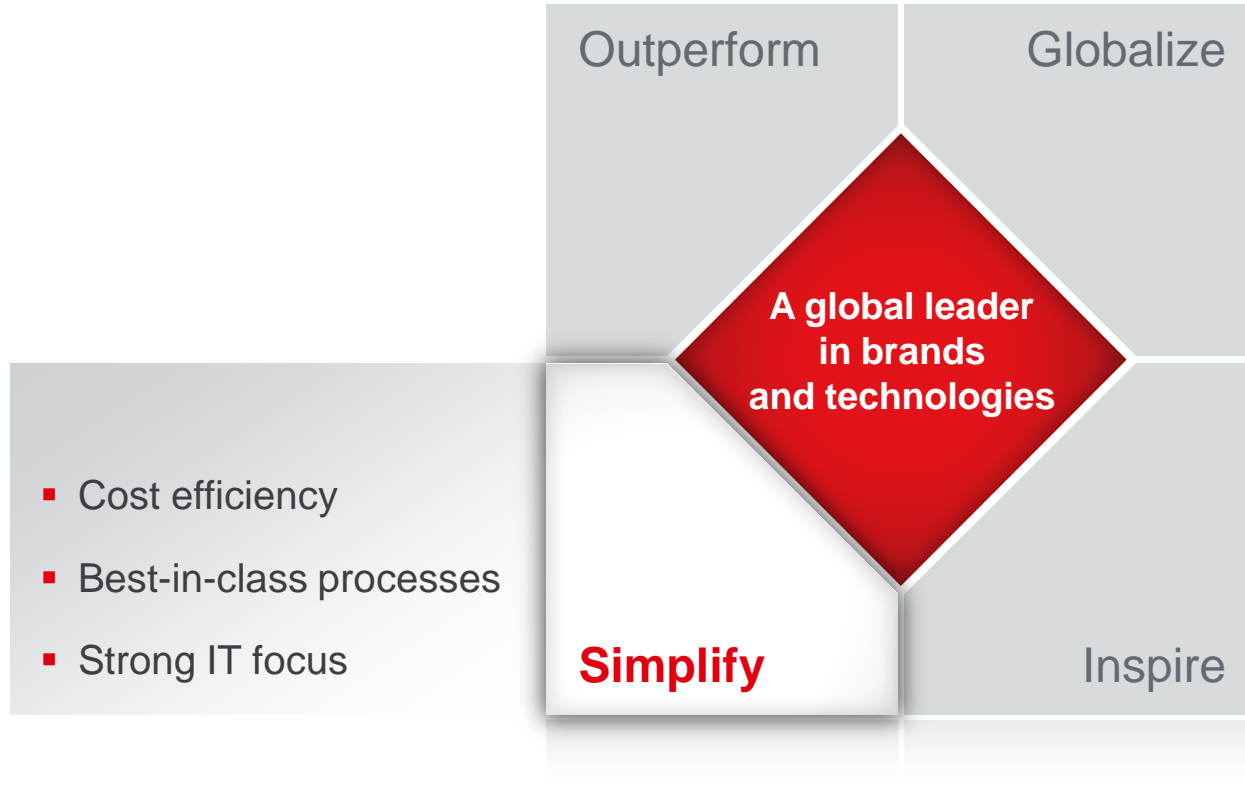


## Restrictive Selection

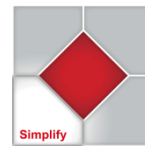


Active use of strong balance sheet

# Henkel strategy



# Simplify – Drive operational excellence



## Cost Efficiency



- Further improve admin costs
- Location footprint optimization
- Further reduce NWC

## Best-in-Class Processes



- Foster leading sourcing
- Continued expansion of shared services

## IT Focus



- IT as an enabler to drive performance
- Simplified & standardized global IT structure

# Further improve manufacturing footprint



From ~**175** in 2012



To ~**155** in 2016



Further consolidation both in Emerging & Mature Markets

# Foster leading sourcing

Simplify



## Value creation

- Strengthen strategic relationships
- Focus on innovation leadership



## Leverage global sourcing

- Source via global hubs, focus on Emerging Markets
- Integrated worldwide network of suppliers



## Improve efficiency & effectiveness

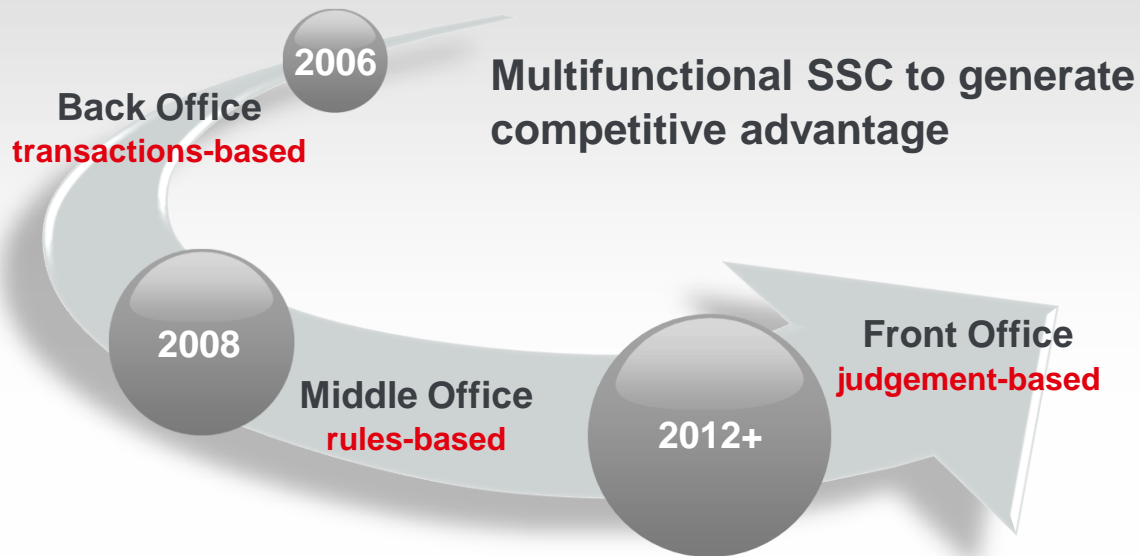
- Expand e-sourcing to >10% of spend
- Reduce number of suppliers by ~40%



# Expand shared services: >3,000 employees

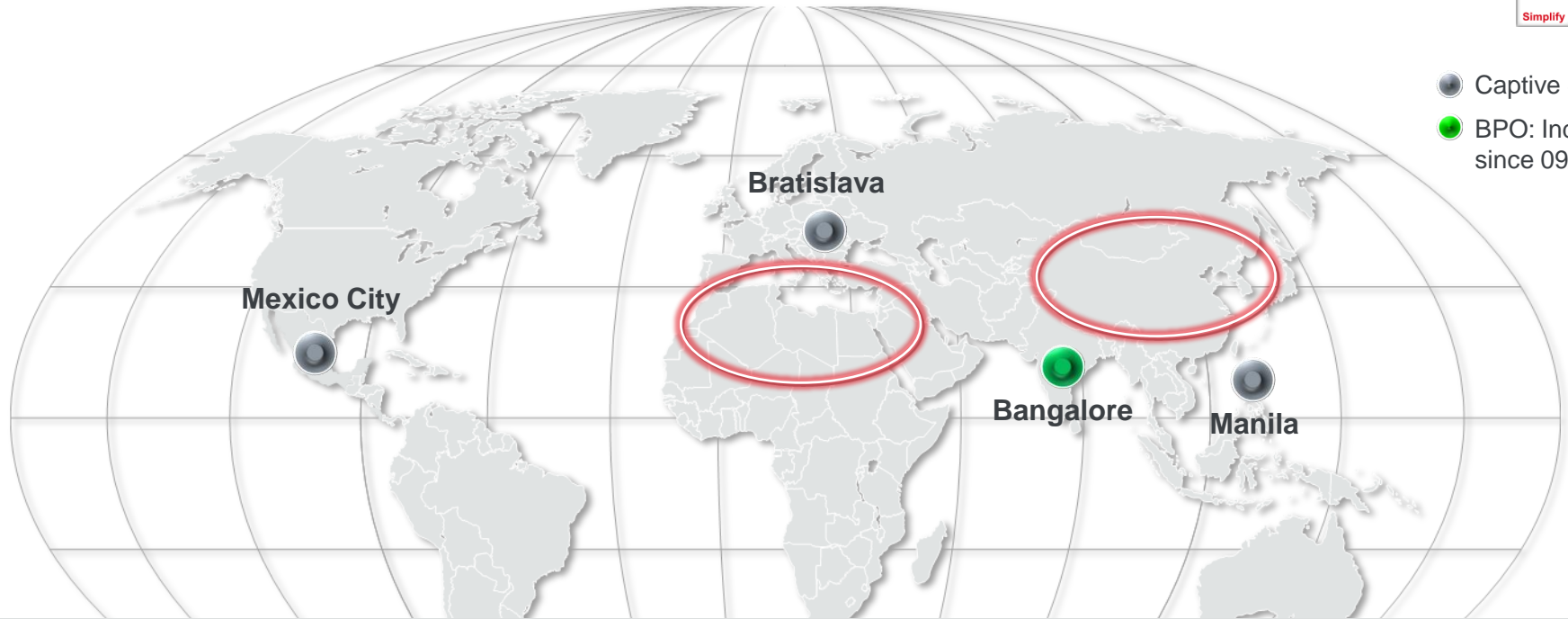


## Enhance and expand SSC capabilities



September 30, 2012: 1,300 employees in SSCs

# Shared services expansion

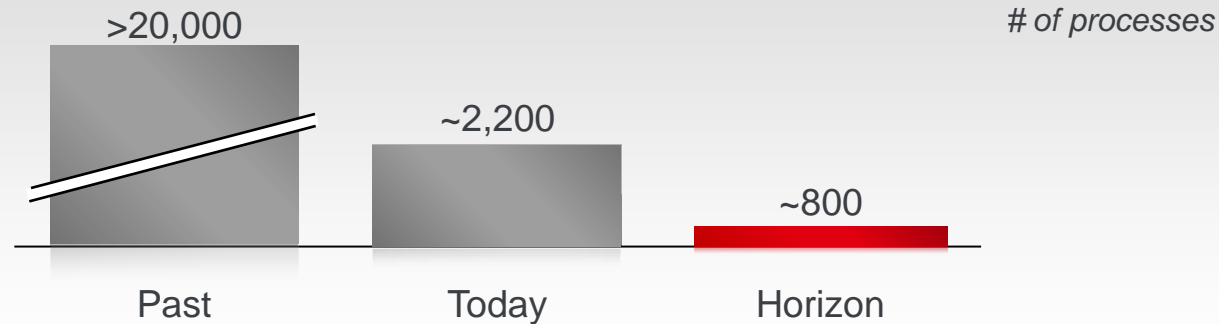


- Newly established Business Process Outsourcing hub in Bangalore/India
- Hubs for Arabic speaking region & Greater China/N-E Asia

# Invest ~140m€ in IT until 2016



Reduce complexity & leverage one IT platform



**Supply Chain Mgmt.**  
APO

**SSC IT Solutions**  
Global integration

**Promotion Spend**  
Planning & management

**Global Henkel IT Platform: Horizon (SAP)**

# Henkel strategy



# Inspire – Strengthen our global team



## Leadership



- Set clear expectations
- Develop strong leaders

## Talent & Performance



- Attract the best talents
- Reward performance

## Diversity



- Leverage diversity as key success factor

# Executive Resource Program

- Virtual pool of ~100 talents on top mgmt. level
- Annual nomination by defined criteria
- Personal development plan, high-level training, selective initiatives, etc.
- Successful record of promotions and job rotations



HARVARD | BUSINESS | SCHOOL  
EXECUTIVE EDUCATION



# Diverse teams as key success factor



## Nationality/Culture



Foster internationality in our teams

## Gender



Increase female share by systematic career development

## Age/Seniority



Leverage experience of senior colleagues

# Highly competitive reward system



**Short-term incentive implemented as of 2011:**

- Coherence of success & incentive
- Target KPIs: OSG, Adj. EBIT %, NWC
- Linked to individual performance

**Aligned long-term incentive as of 2013:**

- Linked to long-term financial targets
- Target KPI: EPS
- Ensures sustainable success & talent retention

**20** bn € Sales  
**10** bn € EM Sales  
**10** % EPS CAGR



# Henkel strategy



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# Henkel's financial targets 2016

Sales [bn €]\*

**20**

EM sales [bn €]\*

**10**

EPS CAGR [%]\*

**10**

\* incl. continuous portfolio optimization (without major acquisitions & divestments); EPS: adjusted per preferred share

# Key assumptions for 2016 targets

## External

- Avg. GDP growth:
  - Global: 3.3% p.a.
  - Western Europe: 1.8% p.a.
- USD at 1.30 USD/€
- Material price development: mid-single digit p.a.

## Internal

- Ongoing adaptation of our structures to the market
- Continuous portfolio management, including small & mid-sized acquisitions and divestments (divestment/exit: ~500 m€)

# Henkel's financial targets 2016

## Step-change in scale

Sales [bn €]\*

20

- Mid-single digit CAGR until 2016
- Outperform – Strong investments in categories
- Globalize – Focus on regions with high potential

\* incl. continuous portfolio optimization (without major acquisitions & divestments)

# Henkel's financial targets 2016

## Improved footprint

EM sales [bn €]\*

10

- High single-digit CAGR until 2016
- Go deep in existing countries
- Selectively enter country white spots

\* incl. continuous portfolio optimization (without major acquisitions & divestments)

# Henkel's financial targets 2016

## Excellence in value creation

EPS CAGR [%]\*

10

- Balanced value creation through top & bottom line growth
- Standardization & complexity reduction along entire value chain to drive profitability
- Continue strong cash orientation & financial discipline to maintain “A flat/A2”-rating

\* incl. continuous portfolio optimization (without major acquisitions & divestments); adjusted per preferred share

# Excellence in value creation

**Organic Performance**



**Acquisitions**



**Cash-Return Options**





# Excellence in value creation

## Organic Performance



- Invest in our businesses
- Enhance profitability
- Further reduce NWC

## Acquisitions



## Cash-Return Options



# Invest in our businesses

- Increase capex spend by >40%\* to ~2 bn €
- Strong focus on IT with investment of ~140 m€
- Structural shift to Emerging Markets
- Strengthen top brands & innovations via higher marketing investments

\* total 2013-2016 vs. 2009-2012

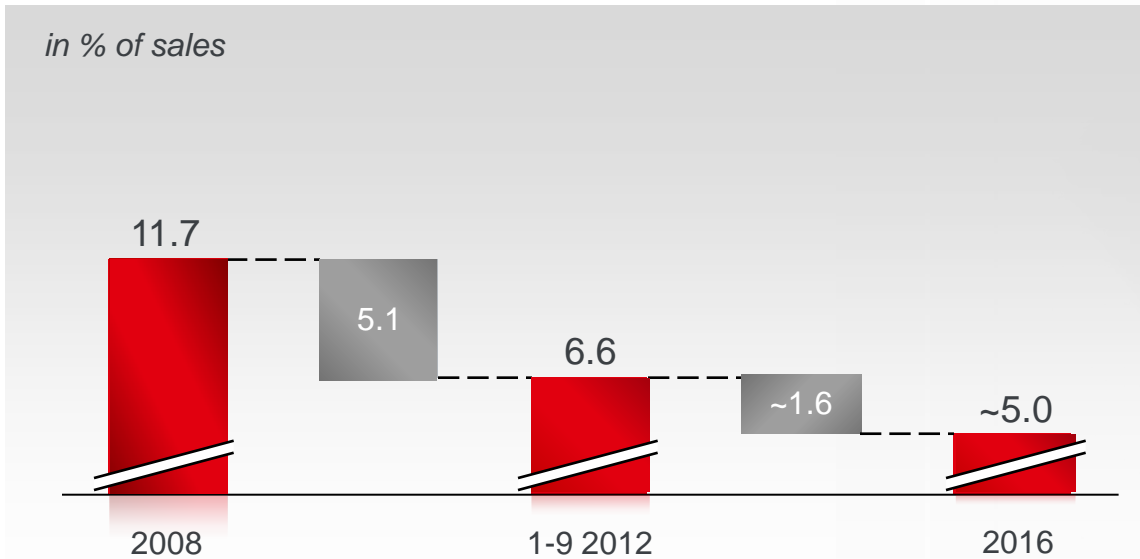


# Enhance profitability

## Future Levers

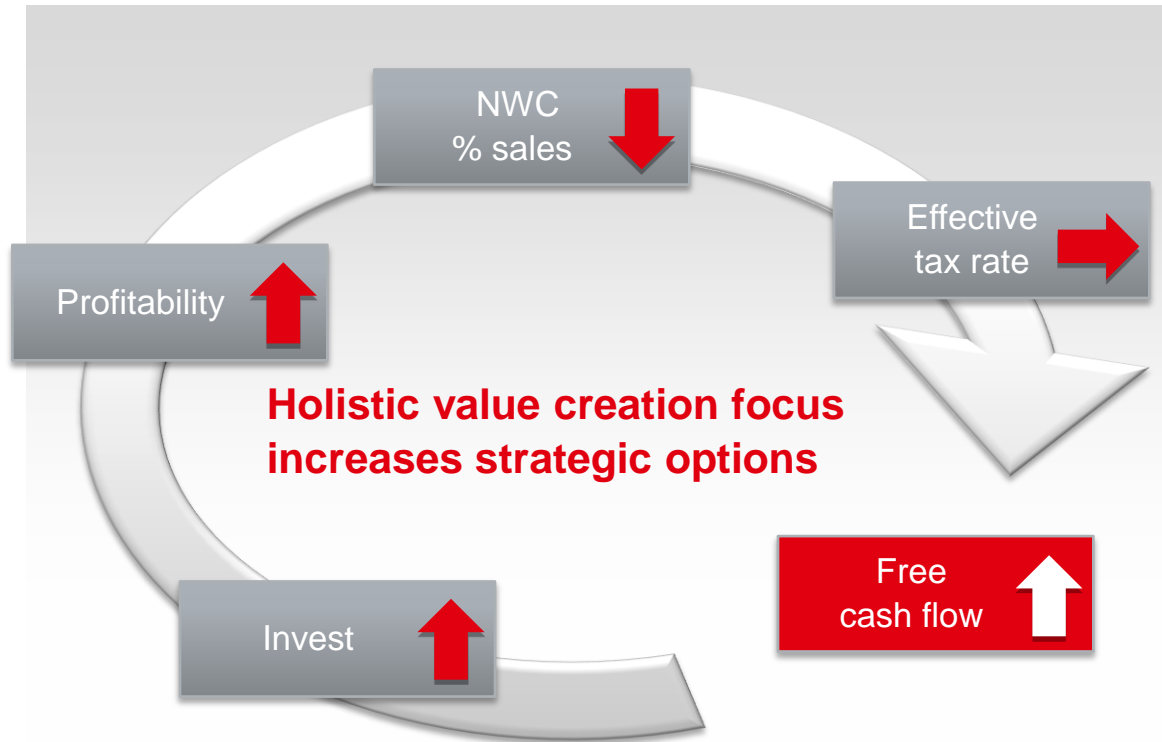
- Drive gross margin via innovation & pricing power
- Further optimize production footprint by ~20 locations
- Expand shared services to >3,000 employees
- Continue focus on leaner structures

# Further reduce NWC



- Regional cross-divisional initiatives

# Organic performance resulting in higher cash flow



# Excellence in value creation

## Organic Performance



## Acquisitions



- Accelerate growth potential

## Cash-Return Options



# Acquisitions

## In Line with Strategy



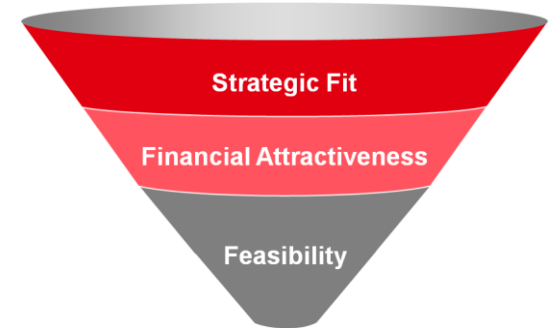
- **Integrated part** of our overall strategy
- **Clear prioritization** of categories and regions

## Boosting Growth



- Adhesives: **Technology leadership**
- Laundry & Home Care/Beauty Care: **Regions & categories**

## Restrictive Selection



- Restrictive **evaluation and selection process**
- **Centralized** decision and execution

# Excellence in value creation

## Organic Performance



## Acquisitions



## Cash-Return Options



- Share buy-back
- Dividend payout



# Excellence in value creation

## Organic Performance



Priority: Grow our business

## Acquisitions



## Cash-Return Options



No change so far

# Excellence in volatile environment

## Volatile Environment

- Euro crisis
- EM growth slowdown
- Market cyclicality
- FX volatility
- Competitive pressure

Excellence  
in value  
creation

## Performance Drivers

- Organic focus
- Operational excellence
- Acquisitions/divestments



Henkel well prepared to achieve next level of targets

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# Henkel strategy

We will **outperform** our competition  
as a **globalized** company  
with **simplified** operations  
and a highly **inspired** team!

# Strategy & financial targets 2016



**20** bn € Sales

**10** bn € EM Sales

**10** % EPS CAGR



Excellence is our Passion

- Excellence is the result of always **striving to do better**
- We transform our plans into **concrete actions**
- We are **passionate** about achieving our targets



# Passionate to achieve our targets



**Kasper Rorsted**  
CEO



**Carsten Knobel**  
CFO



**Kathrin Menges**  
Human Resources



**Jan-Dirk Auris**  
Adhesive  
Technologies



**Bruno Piacenza**  
Laundry &  
Home Care



**Hans Van Bylen**  
Beauty Care



# Henkel – Strategic framework

<b>Vision</b>	A global leader in brands and technologies				
<b>Values</b>	Customers	People	Financials	Sustainability	Family
<b>Strategy</b>	Outperform	Globalize	Simplify	Inspire	
<b>Targets</b>	<b>20</b> bn € SALES	<b>10</b> bn € EM SALES	<b>10</b> % EPS CAGR		



Thank You!

