Henkel Excellence is our Passion

Transcript Q4 & FY 2011 Earnings Conference Call
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Presentation

Operator: Good morning and welcome to the Henkel conference call. With us today are Kasper Rorsted, CEO, Lothar Steinebach, CFO and the investor relations team. For the duration of the call you will be on listen-only. (Operator Instructions)

Today's conference call is being recorded and the webcast is available at www.henkel.com/ir. At this time I would like to turn the call over to Mr. Kasper Rorsted. Please go ahead sir.

Kasper Rorsted: Ladies and gentlemen, good morning and welcome to FY2011 conference call. First I'd like to focus on the highlights of 2011 and then Lothar Steinebach, our CFO, will provide you with the financials in greater detail. After that I'll give you the outlook for 2012 and finally we'll take your questions.

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

Now let me move to the presentation. I'll start with the highlights of 2011. We achieved the guidance we put into the marketplace. The latest guidance on organic growth was 5% to 6% and we came out with 5.9%. Just to remind everybody, we started out the year by guiding revenue growth of 3% to 5% and took it up at the end of the year. Adjusted EBIT margin we have guided throughout the entire year 13% and we ended at 13%, and adjusted EPS we've guided throughout the year at approximately 10% plus and we came out at 11.3%, meaning we hit all the targets that we have set ourselves.

What does it mean? All key financial targets achieved or exceeded. We saw a good mix between all business groups continued with profitable growth, meaning gaining market share and improving on the P&L on all lines. We continue to see double-digit growth in the emerging markets, despite the very difficult conditions, particularly in the Middle East at the beginning of the year and in Thailand by the end of the year. We have a strong financial discipline which you see on the balance sheet. We announced our new sustainability strategy that we'll execute upon throughout 2012 and beyond. Overall we laid the foundations for the performance we will be expecting in 2012.

On the challenges, we continue to see high volatility within the market due to crises, natural disasters and of course also the financial unrest within Europe. Raw material prices came to an all-time high, higher than on certain products than what we saw in 2008 and subsequently the gross margin became under pressure throughout the year, which was offset by pricing. We continue to see intense competition and a lot of strong promotional pressure, however overall we see a successful year in a challenging environment, hitting the targets that we put out in the marketplace.

For laundry and home care we saw solid organic sales growth. Adjusted EBIT margin increased to new record high levels. We saw across the board all regions growing, despite declining markets in certain regions, and the emerging markets grew mid single-digits. We saw across the board further market share gains, high level of promotional pressures, despite those we were able to make progress on our EBIT line and a high innovation rate of 41%, meaning that 41% of the business in laundry and home care are generated by products which have been less than three years in the marketplace. Overall enhanced performance in a highly competitive environment.

On cosmetics and toiletries, strong organic sales growth for the sixth year in a row, adjusted EBIT margin further increased to record high levels. All regions growing and the emerging markets grew double-digit. We did see market share gains across the board and a similar picture on promotional pressure; despite promotional pressure we were able to substantially increase our EBIT line. Innovation rate of 43%, overall a strong performance in a highly competitive environment.

On adhesive technologies, very strong organic sales growth, adjusted EBIT margin further increased to record high levels. All regions growing, emerging markets double-digit. We did see market share gains and we substantially took up the innovation rate to around 30%. So as you can see, across the board all business groups have contributed to the 70 basis points of progress on the bottom line.

Which brings me to the next slide, organic sales growth of 5.9%, so at the very high end of our range, 3.4% reported. Adjusted gross margin down 130 basis points. Lothar will take you through the breakdown of the details on this. Adjusted EBIT grew and surpassed EUR2 billion for the first time with 9%. Margin grew by 70 basis points, EPS grew by 11.3%, above the 10% that we put out, and net working capital, the number I was critical about in the third quarter running around 7.8%, 7.9%, down to 7.3%, so we did make the progress that we aimed to make throughout the year. A bit higher than last year but nothing worrying -- 7.3% is a very satisfactory number. And net debt further down to EUR1.7 billion, so a strong performance in a challenging environment.

We also announce the succession in our CFO. Carsten Knobel, who has been with the Company for many years, will succeed Lothar when Lothar retires end of June. Carsten is currently Corporate Senior Vice President in our cosmetics division and also responsible for corporate controlling. And Lothar will retire, as I said, after more than 30 years at Henkel.

This is now the fourth promotion into the management team in the last 16 months and I do believe - internal promotion - and I do believe it's a testament to the strength of the bench that we have. The reason why we are capable of increasing the numbers in a very difficult environment is that the bench strength has significantly increased over the last four years in Henkel and as you can see, four promotions from within the Management Board in the last 16 months is good proof of this.

Now I'd like to hand over to Lothar, who will take you through briefly Q4 and more in-depth the fiscal year. Lothar.

Lothar Steinebach: Let me briefly start with perspective on Q4 and then move onto fiscal year '11. Q4/2011 we have seen the key financials for the total quarter sales growth of 3.8% organic. Adjusted gross margin down by 70 basis points. Adjusted EBIT up 12% or 120 basis points. Adjusted earnings per share up almost 12%. Net working capital to sales and net debt I will address in my presentation a little bit later.

Sales growth by business sector, first of all laundry and home care, with organic sales growth of 2.4%, which is composed of a pretty strong almost 5% price increase component in our sales growth and negative 2.5% on volume. We've communicated on many occasions that volume obviously includes new product launches, so therefore the impact of product launches is reflected in our volume sector of pricing volume, the distribution of organic sales growth.

And we've also communicated on various occasions that with the strong pricing that we have undertaken in Q4 we obviously expect to be able to benefit from that in year '12, and also that it is likely that we get an initial setback on volume. So from that perspective, price volume is strong and as expected. In particular we've seen North America continuing with its strong contribution after the recovery. We've seen an overall slowdown in the laundry and home care sector in Q4 in Western Europe. We've not lost market share so that's nothing particularly negative.

Cosmetics/toiletries has continued with its strong 5% organic sales growth, with compositional price 1.4% / 3.6%. Volume here again comment is appropriate it includes new product launches and therefore there's a slight overstatement of volume over the pricing component.

Adhesive technologies organic sales growth 4.2% which again is composed of very strong pricing component 7.4% and the negative volume, same comment applies to adhesive technologies that I've made with respect to laundry and home care. Strong pricing usually results in short-term negative on volume and therefore we've taken the risk of increasing again our prices in Q4 with expectation that we're getting the benefit of it in fiscal year '12.

We've seen a slowdown in China in adhesive technologies due to inventory reduction and we expect that to reverse in year '12 or in Q1, year '12 already, resuming pretty strong growth in China.

With respect to overall total Henkel, the negative impact on sales is very much from currencies and that's mainly from Turkish lira, Polish zloty and Mexican peso, which has been a negative impact on total sales.

Looking at adjusted EBIT margin by business sector, we have progressed again in Q4 with a pretty good margin increase, 60 basis points both in laundry and home care and in cosmetics/toiletries, and an even much stronger progress of 210 basis points in adhesive technologies. And that obviously is a result already of pricing actions that we've taken earlier in the year, and we expect that we will be able to have a pretty good contribution from that on our margin progression that we expect for fiscal year '12.

With that I move onto a total look at fiscal year 2011 versus 2010. First of all look at organic sales growth. Laundry and home care almost made it to 3% organic sales growth with a pretty good distribution of price and volume. Solid performance based on balanced price and volume mix and North America progressing over the course of the year. Again we've communicated on various occasions that we've been struggling to regain our solid growth momentum in North America in our laundry and home care and we basically have improved our sales performance during the year, and we're sure that we're on the right path with the proof that we've been able to deliver in three quarters of last year.

In laundry and home care the strongest contribution to growth was from laundry, in particular heavy-duty detergents with the greatest growth momentum, and major drivers behind this were the launching activities, in particular with Persil in Mexico and in South Korea. Home care was weaker, although we've been pretty successful with a significant revenue increase in our toilet care products in Europe.

Let's look at cosmetics and toiletries. We've seen and experienced strong promotional activities of our peers and strong competitive pressure, and that has increased as a result of particular activities which we have experienced in the markets. Pricing with a slight negative on 0.3% for the full year at a strong volume 5.7%. Here again, I made the comment earlier, pricing would have been reflected higher if we were to count new product launches in pricing and we'll put some perspective on that in the future.

We've seen double-digit growth again in emerging markets and a solid performance in our mature markets. Overall a very balanced portfolio in terms of regional growth and also in terms of price volume growth.

Next, looking at adhesive technologies, organic sales growth exceedingly strong with 8.3% and here again a strong pricing component, more than 5%, and still pretty good volume despite the strong pricing activities. Very strong growth driven by both price and volume with the general industry, with the strongest organic sales performance. As a matter of fact, all subdivisions of adhesives, except electronics, have experienced strong growth, almost double-digit in every sub-segment. Adhesives has experienced a decline pretty much because of what happened in Asia Pacific, part of which was influenced by the natural disaster in Japan, which we were able to, I guess, compensate during most of the year but not completely. From that perspective, expectation for 2012 is obviously significantly better, also in our electronic adhesives sub-segment.

Total Company 5.9% as Kasper reported earlier, which is almost 3% -- 2.9% so almost equal between the two components price and volume. We've seen the negative foreign exchange impact mainly from the US dollar which has strengthened, Turkish lira, Egyptian pound and Russian ruble. We've seen a strong sales performance based on a balanced mix of both price and volume.

Looking at our performance in terms of regional performance, we have experienced double-digit growth in our emerging markets. I'll get to that in a moment. Western Europe and North America with solid sales performance, despite a very challenging business environment. We see Western Europe with more than 2% organic sales growth, North America with more than 4% organic sales growth. From that perspective, taking the mature markets together, we're quite happy with organic sales growth performance.

Taking a comprehensive look at our emerging markets performance, sales performance was driven by double-digit organic sales growth in adhesive technologies and cosmetics/toiletries, and we're happy to report that we've regained high single-digit growth in our detergent, laundry and home care division. Sales share of emerging markets increased to 42%, which was obviously negatively impacted, it would have been higher except for the currency fluctuations that we have experienced, in particular in emerging markets currencies.

Looking at operating performance by business unit, laundry and home care, cosmetics/toiletries and adhesive technologies. Starting with laundry and home care, 20 basis points, efficiency gains and cost control together with our price increases have over-compensated. Impact from high increases in raw material prices, obviously this was a very challenging year in terms of implementing price increases in a very challenging environment, despite the fact that price increases -- we had to lead the way in many countries, but basically implemented the price increases with some negative impact on volumes. But as we have experienced that on earlier occasions, we're going to come back in order to increase our volume and therefore, again, optimistic about our outlook for '12 also on laundry and home care.

Next, cosmetics and toiletries plus 90 basis points with the strong efficiency gains and cost control together with some price increases overcompensated again here the impact from high increases in material prices. This was a year where even cosmetics and toiletries, which otherwise is less of an impact from raw material price increases in the past, has experienced pretty strong impact and therefore combined with the strong sales performance that we have displayed has resulted in our ability to eventually increase our margin to a significantly higher level than what we had before.

Adhesive technologies, here again a strong margin progression, 110 basis points over 2010, with price increases in all business, in all sub-segments, in all regions, as well as ongoing efficiency gains and cost control which finally has overcompensated substantial rises in raw material prices. And it's important for us to point out and emphasize that cost control has been, and will be in the future, a very important element of our margin progression.

Look at gross margin which has been negative by 130 basis points in the full year. I reported earlier that the negative in Q4 was less, only 70 basis points, so eventually we see light at the end of the tunnel, suggesting that we're getting through with our price increases, eventually recovering and turning around the negative evolution in gross margins.

Higher cost of goods obviously negatively impacted during the year, our gross margin by approximately 600 basis points with 80% during the year that we've been able to offset our own price increases and savings and we've also experience and impact on gross margin from the negative growth in electronic and adhesives which results in a negative mixed effect on our gross margin.

Total look at income statement, adjusted with particular emphasis on marketing, selling and distribution expenses and admin expenses, marketing, selling and distribution have been down by 190 basis points. That is, in large part, due to cost benefits that we have gained from restructuring synergies, restructuring that we have undertaken in the years before, but also which we have accelerated throughout year 2011.

We've also experienced, in our fast moving consumer goods divisions, a market shift towards higher promotional spend. We've not changed our ratio of share of voice, share of market, but marketing spend has been down in the market and that also resulted in relief on this line, but with higher expenses in rebates and customer spend. So, from that perspective, we've maintained our position in the markets, increased market share in our divisions and benefited from lower market expenses on advertising.

Admin expenses down by 20 basis points. We have, on many occasions, talked about our shared service effort, which will continue over the next years, which we have continued and delivered quite some savings already, throughout the past three years. Shared service will be the most important element of improving our cost structure and shifting our cost structure into the growth regions and the regions where we experience our strongest performance in terms of revenue growth and also in terms of margin progression.

Brief look at reported to adjusted EBIT; with the restructuring charges EUR227 million. There's a brief perspective on what we spend in order to continue our shared services effort with EUR60 million out of EUR227 million, with almost EUR100 million on optimizing our manufacturing footprint, in particular in adhesives. We've communicated on various occasions about the necessity to improve our manufacturing footprint and, obviously, also follow the shift of industrial activity into the emerging markets. So we have invested significantly and we have achieved a significantly better manufacturing footprint than what we started out three years ago.

Delayering in laundry and home care, almost EUR40million, that's been an important element in adapting our structures to the changes in the market environment, and that, obviously, is also an important element in delivering our margin progression in our laundry and home care division.

Net working capital, Kasper has alluded to that briefly already, that's a more detailed perspective on performance of our units. Here, again, laundry and home care has improved the strong level which they had achieved in 2010, with negative 2.4%. Again, cosmetics/toiletries is almost on the same level, a little bit better than the year before on 3.2%. That's very strong compared to our peers.

Adhesive technologies with a slight negative 15.1% versus 14% the year before; much of that is due to changes in the manufacturing set up that we have experienced during 2011, where it wasn't possible or necessary in preparation for shifting production from one country to another to increase inventories in order for us to be able to continue to supply our customers. And we've also built some more inventory in order to be able to deal with shortages -- raw material shortages which we have experienced. We have communicated about that on various occasions, once again we're prepared. We've basically not been forced to cut off any supplies to our customers, even though that has remained a challenge throughout the year.

Net debt, again strong improvement over the same period of last year, almost EUR700 million and, compared to 2008, the highest level following our national starch acquisition. We have deleveraged our Company significantly over that period of time; only three years, we're down to the lowest level for a period of -- since 2008, reduced net debt by more than 50% in the last three years. And obviously that's an important element to regain our financial flexibility which permits us to invest into our businesses, in particular also into external growth. Although -- and we've been extremely disciplined over the past three years and we've, therefore, reduced significantly our ability to participate in any consolidation, should those opportunities arise.

Our dividend proposal, EUR0.80 on the preferred share, which is a significant increase over the period since 2004. We've been able to apply consistent -- very consistent dividend policy over the years. Obviously, payout ratio is lower than others, but we've been able to pay out every year, not decrease our dividend over that period of time. And, as we regain our strength in terms of earnings per share, we're increasing our dividend payout. That, obviously, is a proposal to the annual general meeting, due on 16 April of this year, and therefore that's subject to confirmation from the AGM.

With that, I hand over to Kasper again to continue with progress on our strategic priorities.

Kasper Rorsted: Thank you very much, Lothar.

Before going into 2012, let me just spend a couple of minutes on where we are on our strategic priorities. This chart, you know, this is the guiding chart that we've been using for the past four years and this is what sets our priorities. Lothar said a very important part that I'd like to reiterate -- over the last three years, we've continued to adapt the structures to the marketplace. We will continue to do so in the future. We believe there is plenty of opportunities for better performance within the organization. We don't believe, at any point in time, that we are at the end of the road, so we will continue to adapt our structures to the market.

Our emerging market share is up to 42% at this stage, we've dramatically consolidated our brands -- our top three brands are now a quarter of our business. We continue to drive innovation into the marketplace because that is the key driver for GP1 improvement. And, as Lothar alluded to, Company-wide use of shared services is a strategic move for Henkel that will accompany us over the next three to four years, where we do expect substantial and continued improvement of our cost line.

We have announced a new sustainability strategy last year and we are in the process of implementing that internally and externally. We have moved the majority of our infrastructure to the emerging markets, with 54% of all employees by now employed in the emerging markets, with a sales share of 42%. So we have practically moved our employees to the emerging markets, which has a very positive impact also on our cost structure, and with 30% of females in management in positions.

We continue to have business potential customers and global team at the focus and we still believe there's substantial room for improvement. On the emerging markets, since the end of 2007, starting with 34%, we're up at 42% -- we lost approximately 60 basis points of progress this year due to currency, but overall, we're looking upon the organic side and we are seeing the emerging markets not only being driver for the top line, but as you can see on the lower side, we have made substantial progress on the margin contribution from the emerging markets. And that is also the expectation that we have for the future that they will continue to not only help drive the top line but also the bottom line.

We have, as announced last year, started the building of the largest adhesives, which will be the newest, state of the art manufacturing plant in the world, which will come online by the end of this year and at full capacity, it will manufacture 428,000 tons, predominantly for the Chinese market. It creates 600 new jobs and is another indication for how we are moving our infrastructure and capabilities to the emerging markets.

On our top brands; our top three brands for -- in our detergents division account for 58%, our top 10 is 81%. For our cosmetics division, 73% and 90% respectively and for our adhesives business, 27% and 54%. Throughout the last four years, we've taken the number of brands from 1000 plus to 400 and we're aiming to take another 100 out.

So what you can see is, we're dramatically reducing the amount of brands, subsequent, also, the complexity which allows us to relatively invest more with the same amount of money because we have fewer brands. So we are making the progress on the consolidation of the brands and expect, also, complexity advances through this reduction.

I mentioned innovation is a key driver for market enhancement, I've taken three examples here; Persil Black improved our GP1 margin by 16 points, Gliss improved our GP1 margin by 7 points and Pattex improved our margin by 7 points. This is very key to the improvement and our overall profitability on a Company level that will continue to bring customer relevant innovation into the marketplace that are accretive to the GP1 line.

Shared services; one of the most strategic initiatives, and it is adapted Company-wide. We believe that we have substantial opportunities ahead of us over the next three to four years on moving not only essential functions like finance or HR purchasing into shared services, but also a number of functions from what we call our business groups like customer support, master data, controlling work, analytics and this will help us, not only in terms of speed, but should also give us significant cost ventures in the future. It's not something we started yesterday, it does take time to standardize processes but we're very, very focused on driving this forward into the Company.

I also mentioned our new sustainability strategy which, in essence, is becoming three times more efficient with the same footprint -- Factor 3, announced last year is in implementation.

Now, let me get to the outlook of 2012 -- this is the chart that we announced in November 2008 and we've not changed direction, so far, and we've no indication or intention of changing direction. In 2008, we guided an average growth rate for the years until '12 between 3% and 5%, adjusted EBIT margin of 14% and adjusted EPS of above 10% and we are right on track. We are guiding for fiscal year 2012 an organic sales growth of 3% to 5%, we expect our laundry and cosmetics division to deliver low single-digit growth and we expect our adhesives technologies division to deliver mid single-digit growth. We are aiming at a margin of 14% and adjusted EBIT growth of above 10%.

So we are, as we've done now for four years in a row, confirming the guidance for financial targets for 2012. And I believe that with the work that we have done and -- I want to stress the following -- that we're concentrating on doing also for the future, we are well positioned. We have moved a big part of our business to the emerging markets, along with our footprint.

Shared services has been optimizing the functions, there are huge opportunities in the business groups. We continue to see substantial opportunities in optimizing our manufacturing footprint, we have strengthened our top brands and we have approximately another 100 brands to go, which means that we're taking the total number of brands from above 1000 to approximately 300.

We have a great bench across the board and have spent a lot of time developing our people to ensure that we can deliver the numbers. We have a very clear vision and a set of values that we're building our business around, we have a new sustainability strategy and we've been working now, diligently, for nine months on our strategy beyond 2012.

But I also want to use a sentence that my predecessor, Mr. Lehner once used, there is no long term without the short term, and that's why we're very confident to hit and reach our target in 2012.

Just let me reflect for about five seconds on 2011 -- we came out and hit or overachieved all the targets we set ourselves. Q4 -- and I know some of you are concerned about 3.8% growth -- that is not a number that I'm gravely concerned about. Lothar was very clear on the two reason -- slowdown in Western Europe for the detergents business, but at the same time we offset it further down the P&L and deleveraging stock in China. We do expect China to come back to a normal scenario in 2012 and the 7.5% growth rate that the Chinese Government have put out is fully in line with our expectations. We are very happy with the numbers we hit, we hit the targets. I'm not concerned about the top line in Q4.

Events for '12 -- AGM, 16 April where the dividend will be voted upon; Q1 9 May; Q2 1 August; we have the investor day -- our annual investor day, this year with a focus of laundry and home care 4 September; and our third quarter numbers, we moved to 16 November, so on the third quarter numbers on 16 November we will also announce our long term strategy and guidance beyond 2012. So, just to reiterate, on 16 November, third quarter numbers for '12 and the new long term strategy for Henkel and the guidance beyond 2012.

With this, Lothar and I would like to thank you for listening in and we would now be happy to take your questions.

Q & A Session

Operator: Thank you, ladies and gentlemen, the q-and--a session will be conducted electronically. (Operator Instructions)

Our first question today comes from the line of Harold Thompson from Deutsche Bank. Please go ahead.

Harold Thompson: Yeah, good morning, Harold Thompson from Deutsche Bank. I've got three questions, if I may. The first one is on promotional intensity, as something which you mentioned in your HPC divisions. I also note that pricing in the cosmetics business is -- continues to be slightly negative. What would you say is the outlook on promotional intensity through 2012, given what peers, I guess, have mentioned in recent times, and I guess what's happening in the overall input costs environment which, surely, must be impacting margins and, therefore, the desire to keep promoting.

The second one is on net working capital. You mentioned at Q3 that you weren't very happy and you've tried to turn that 'round in Q4. Could that, in a way, also be explaining why, maybe, your growth is not as good in the fourth quarter as you've worked harder on the net working capital, or is that just the wrong way to look at it?

And I guess, thirdly, this is more on utilization rates. You've mentioned in the past that you've significantly improved your capacity utilization rates of your plants, maybe give us an update on that, where we are today? And the reason I ask that is essentially your CapEx has been running for quite a while below depreciation, as you've basically improved your rates, and I just wondered how long that can realistically go on? If you essentially want to grow, you're going to have to invest to grow and when should we expect that investment to go back in? Maybe explain your views on that.

Thank you very much.

Kasper Rorsted: Thank you, Harold. I will take the two first ones and Lothar will take the third one. On the overall market, we don't expect any recovery when it comes to promotion activity, so we think the market will stabilize around what we have right now.

Pricing will be delivered -- and I'm speaking now of cosmetics business -- through one is less pricing increases but, of course, what we do is through new innovation. And you see that even in a market where you indicated that pricing is difficult, in our cosmetics business, we did increase our EBIT margin by 90 basis points in a year with dramatic increases in raw materials.

So the underlying planning is assuming a similar competitive environment as in 2011, pricing will be taken on a one-off basis on existing products, but pricing is predominantly driven in cosmetics through new products and that's why you don't see there the volume on price. That's why you actually do see it in the volume side, but it doesn't appear on the price because new products is only recorded on the volume side.

On the second one, on net working capital, my point was on the, you know, third quarter, I think we need to look upon all elements and I found that 8% was unnecessarily high. We've also said that we're not going to forego top line based on net working capital. So we brought the number down to what we felt was the appropriate number which was 7% plus, 7.3%.

As I said, the top line was influenced by a negative development in our detergents business in Western Europe and the Chinese and I've been very clear on what I feel about that. I'm not overly concerned -- it probably could have been a one point higher, but it's not something that I'm concerned about. If you go through the different elements of the P&L, we came out at 13.2% margin on a lower top line, and I think it does show the capability to absorb changes on the top line. So no correlation between net working capital and top line -- the top line, were the two reasons I mentioned.

Lothar?

Lothar Steinebach: On the CapEx question versus depreciation, let me just briefly explain how we look at it. First of all, usually we manage our investments by looking at investment, which is different from CapEx. I will explain that in a second.

Now, investment is the budget that we set up per year in order to reflect the investment activities. And in the past 10 years, there is only one year where investment was below depreciation -- that was 2009. So always, this year '11, any other year except '09, investment budget was always above depreciation.

Now, CapEx follows with a time-delay investment. In other words, if we are high on investment in '11, CapEx will follow with a certain delay, because CapEx is the cash out. The cash out on investment budget is, in our experience, stretched out by 55% in the year -- 55% in the year of decision, 35% in the year after and another 15% or 20%, which is obviously then adding up to 100%. So we have a sequential expense or investment or balance sheet impact over three years from investment budget decisions. And therefore, looking at investment budget decisions is the more important aspect because you always have this delay and obviously CapEx just follows the investment budget decision.

So from that perspective, we decided in '09 to reduce our investment in response to what was happening in the markets and we have regained -- recovered to the normal level of investment above depreciation in '11 and that will continue unless, you know, we have another crisis. But for the time being, that is the way we will look at it.

Harold Thompson: Okay, is there anything you could maybe add on the utilization rates of your plant? I mean, you did mention it at your last analyst meeting, where you thought you were. Now, I guess given -- it's you, Lothar, maybe you could give us an idea of the tax rate for 2012. I see it's coming in a bit below what you had guided for in 2011.

Lothar Steinebach: Yes, 2011 was positively impacted, if I may start with that, by the one-off gain from the disposition of our Indian business. The adjusted rate would have been 26% so basically we don't look at the one-offs. Tax rates would have been as guided. For '12, our expectation is in the range of 25% and that is therefore an improvement over the run-rate that we have experienced in '11 and failing one-offs from disposition, that's the expected value for '12.

In terms of capacity utilization, you know that we are hesitant to talk about it because there is a strong impact on capacity utilization from what the segments or sub-segments in our adhesive technologies division experienced and a change in a stronger performance in electronic adhesives. There is no impact on capacity utilization because it's small volumes, while a strong performance in packaging adhesives has an impact -- or building adhesives for that matter, although that is obviously not particularly helpful in terms of margin progression. So from that perspective one needs to look at it.

Nevertheless, overall end of Q4 we were at around 50%, taking out building adhesives because, you know, we've set big volumes and small margins that would distort the picture even worse. That is a little bit down from what we had throughout the year. Throughout the year we were in the low 50s, 53%, 54% and as usual, industrial activities somewhat dies down towards the end of the year. So the 49% is basically what we have expected. Similar, by the way, to the evolution in 2010.

Harold Thompson: Thank you very much for your answers.

Operator: Thank you. Our next question today comes from the line of Eva Quiroga from UBS. Please go ahead.

Eva Quiroga: Yes, good morning. Can I just please go back to the personal care business? Over the last five to six years you had averaged organic top line growth of about 5% and you are guiding to low single-digits in 2012. I was trying to understand what makes you more cautious, apart from the year promotional pressure.

And maybe also on the personal care business, can you remind me how much of that is in emerging markets and maybe give a little comment on how you have done in Eastern Europe?

My second question is on input costs -- can you maybe tell us how much of those are now budgeted for, for 2012? Thank you.

Kasper Rorsted: Eva, starting out we're going 3% to 5%, we've been running this year at 5% plus, so we believe that this year -- or this year, which was last year -- was very strong for our cosmetics business. We have seen a slight slowdown in Eastern Europe, driven by Russia, which we believe we should be turning around in the latter part of the year. We have seen a slowdown in the overall growth rate in Eastern Europe, driven by Russia. The overall opposition we have of the emerging market for the Company is 42% and I believe roughly that it is around 33% for our cosmetics business at this stage, within the US also -- sorry Eva.

Lothar Steinebach: Yes, 33% is our emerging market in input costs for expectation for '12 it's mid single-digits. That's lower obviously than what we have experienced in 2011 and the difficulty in, I guess, being precise or being right on the expectation is our initial expectation was higher, then it was lower and now we are in single-digits. It's vacillating with what is happening in the Mid-East on the oil price situation, which is already impacted, I guess, actually, by the political situation surrounding Iran. So that is a big unknown, what is going to happen there and the impact, you know, if something really material happens with the negative, certainly on the oil price and that obviously transcends then into our material price situation.

So for the time being, that is our best estimate without war or significant crisis and it could be better but it could be worse.

Eva Quiroga: Thank you very much.

Operator: Thank you. Our next question today comes from the line of Celine Pannuti from JP Morgan. Please go ahead.

Celine Pannuti: Yes, good morning. I would like to come back on the comment you made on the pricing momentum and the volume impact it has had. So am I clear to say that pricing has been increasing in the fourth quarter, so we should continue to see volume decline, at least in the beginning of the year? Is that what you were guiding to? That is my first question.

And then my second question, given that we could have a lower volume in the first half, would there be a difference in your performance on H1 versus H2? I think it is as well as to be tied up with the inflation in raw material, which some of your competitors have said will continue to impair their gross margin in the first half? Thank you.

Kasper Rorsted: Celine, obviously we did not guide to negative volume for H1 or Q1, what I was saying is that immediately on implementing price increases, you get pushback and that is particularly true in laundry and home care. Seeing that pushback in Q4, we do not expect that to continue through Q1 and first-half year. So we don't expect negative volume in H1 on fast moving consumer goods. It's also important that one recognizes the experience that we had in the previous years is on implementing or finally pushing through price increases, usually the market follows and therefore, you know, the negative impact -- the immediate negative impact on price dissipates.

With respect to H1 and H2, our expectation is that we will see some relief on the raw material on the input cost side in H1. And, as I mentioned earlier, H2 is particularly volatile in terms of, what are we going to see in the political situation surrounding the oil-supplying countries? If that remains stable, our expectation or our hope would be that H2 would be less negative than what we expect today. But that is something that we have no control over and therefore we are trying to be cautious. For H2, it should have a more negative impact on raws again, but with an upside potential.

Celine Pannuti: Sorry, just to come back on the volume, you answered on the laundry segment, the FMCG, but what about adhesives?

Kasper Rorsted: Same comment, no difference there.

Celine Pannuti: Okay, thank you.

Operator: Thank you. Our next question today comes from the line of Mark Josefson from Silvia Quandt. Please go ahead.

Mark Josefson: Yes, good morning. Can I just actually go back to your answer to the last two questions, in terms of the gross margin there? And at the moment you are looking for those mid single-digit input costs. My impression through most of the second half of last year is that you were running hard trying to offset the pressure on GP1 from raw material costs. And as we went through the period, the negative influence of raw materials always seemed to be push-on over and above the price increases accepted by your customers.

Now, as you say, we are not quite sure of political events but in the absence of escalation from where we stand today, given your answers from the last two questions, is it right to presume that through the year we should still anticipate raw material price increases being the larger of the influence, mainly that your gross margin profit will be slightly down for the year despite the price increases accepted by customers? That's a follow up to that.

My first question, however, is with respect to your guidance or lack of guidance on restructuring charges. I think this time last year you guided for restructuring charges and given the many projects still underway to support operational efficiency, what should we factor in today in terms of one-off or exceptional items in 2012? Thank you.

Lothar Steinebach: Mark, for clarity, we expect gross margin to increase throughout the year. Will there be bumps in the road? I'm certain there will be because of the volatility in the raw materials. But for the full year we do see GP1 margin to increase which is going to be one of the contributors to the bottom line, from the 13% bridge to the 14%. We expect restructuring to the tune of EUR100 million.

Mark Josefson: Great, thanks very much indeed.

Operator: Thank you. Our next question today comes from the line of Robert Waldschmidt from Merrill Lynch. Please go ahead.

Robert Waldschmidt: Good morning gentleman, a couple of questions if I may. In terms of electronics, clearly there was a negative impact in terms of sales and margin in 2011. Can you put a little bit more color around the actual impact that we saw? And then (2) in terms of outlook for that sector in 2012, how do you see that trending and what recovery rate can we expect?

Then secondly, in terms of adhesives, other end markets, in terms of demand, how do you see developing markets trending overall? You've mentioned China. You expect to get better. What about the other markets, Brazil, Latin America, for example? And then also in terms of the mature markets, Western Europe and the impacts that we are seeing from the euro crisis in North America, how do you see that trending? Thank you.

Lothar Steinebach: With respect to electronics, I mentioned in terms of sales impact that we were slightly negative in 2011. We expect that to recover to positive. We don't obviously try to give guidance on every segment in our portfolio otherwise life would be extremely volatile. So from that perspective, we do expect a clear recovery and positive sales performance of our electronic segment in '12. And that will have an impact on the margin. Now we have not estimated, let's say, the negative margin impact from electronics on our overall margins, which is obviously difficult to estimate. But that, again, will reverse in '12. That is our expectation and therefore electronics will be part -- is part of our positive expectation outlook for '12.

In terms of other adhesive markets, developing markets -- Brazil, Latin America and all the rest of it -- again, we do expect that to be positive in terms of, particularly, China. We see that basically growing at the rate that we have experienced in the past several years actually. We do expect good, positive growth from Brazil, overall in Latin America.

Developing markets -- that's a more difficult thing to estimate in particular. We have been positive of -- in mature markets, I should say, sorry. In mature markets we have seen positive sales growth in '11. We have seen some of that already negatively impacted by, for example, automotive in Europe, although automotive in North America continued pretty well. So we are going to see a mixed picture. And our thesis is obviously that, you know, some negatives that we've experienced or have experienced in the past, again, we are going to be able to compensate or overcompensate through stronger growth in other regions. That's basically the strong thesis that we have with respect to our adhesive division.

We are not depending on the automotive industry in Europe alone. We are not depending on automotive in the US alone and therefore we are making up for weaknesses in parts. You saw that with our strong organic sales growth of 8% -- more than 8% in '11, despite negative electronics. So from that perspective, we have a broad portfolio. We are involved in many different segments and countries and regions and our expectation for adhesives for '12 overall is a stronger contribution to total growth.

Again, as we have seen that in '11, stronger than other divisions and, you know, that is composed of certain expectations for countries and segments. But from our perspective, it serves no purpose to be specific on that because the overall results for our adhesive division is what counts. And therefore that is in line with the expectation and the guidance that we have provided.

Robert Waldschmidt: Thank you.

Kasper Rorsted: Before we come to close, let me just make one remark before I close the call as an extension to Lothar -- 47% of our business in adhesives comes from the emerging markets. We grow the overall Company more than -- you know, the top line for the emerging markets is more than 10% and adhesives was above that. So we actually have a very broad position in emerging markets. And if you look upon some of the countries that were impacted -- or one country that was significantly impacted in the fourth quarter in the emerging market, was the underwater situation that was big in Thailand that had significant impact on automotive and electronics.

As we speak today, 30% of the automotive plants in Thailand are not running and 50% of the electronic plants, not all of them -- I'm speaking markets -- are not running. That, of course, did have an impact. That will normalize over time.

With this, I would like to thank everybody for participating in today's call. Despite the challenging environment, we achieved and even exceeded our financial targets for 2011. Also, for 2012, we will maintain our rigid approach to cost management and further adapt our structures to the changing environment. We are very confident to achieve our 2012 financial targets of 14% EBIT margin. I wish you all the best and I look forward to speaking to you all at the end of Q1 in our conference call on 9 May 2012. Good bye and thank you.