Henkel Q1 2017

Hans Van Bylen, Carsten Knobel
Düsseldorf, May 11, 2017

Commented Slides / Earnings Conference Call Q1 2017
May 11, 2017

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Hans Van Bylen:

Dear investors and analysts,

good morning from Düsseldorf and welcome to our earnings call for the first quarter in the fiscal year 2017.

Today I'm going to lead you firstly through our achievements in Q1 '17 and highlight the key developments. Carsten will then comment on the detailed financials and give you some highlights on our first quarter development. After that, I will close my presentation with a brief summary and the guidance for the fiscal 2017. And finally, Carsten and I, we will take your questions.

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

Let's start with the key developments in the first quarter.

Q1 2017: Strong performance in a challenging environment

Sales	Organic Growth	Adjusted EBIT
€ 5 bn	**+4.0%**	**€ 854 m**

Adj. EBIT margin	Adj. EPS growth	NWC in % of sales
16.9%	**+11.0%**	**4.9%**

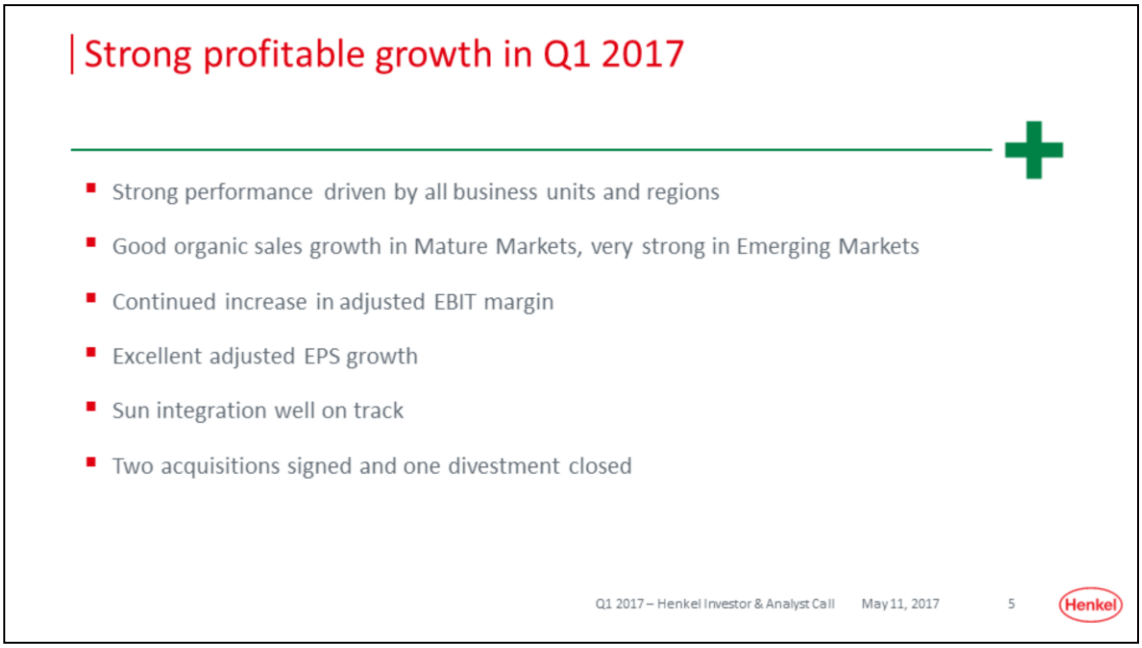
In the first quarter of 2017, Henkel delivered strong performance in spite of a challenging environment. All business units and regions contributed to this result.

For the first time, quarterly sales exceeded EUR 5 billion, increasing by 13.6% to EUR 5,064 million.

We delivered a strong organic sales growth of 4.0%, with both Mature and Emerging Markets contributing.

We increased the adjusted operating profit double-digit by 13.8% to new all-time high of EUR 854 million and we continued to increase the adjusted EBIT margin to the level of 16.9%.

We delivered an excellent adjusted EPS growth of 11.0% and also net working capital improved and came in at 4.9%.



Our profitable growth in the quarter was driven by the strong performance of all business units and all regions.

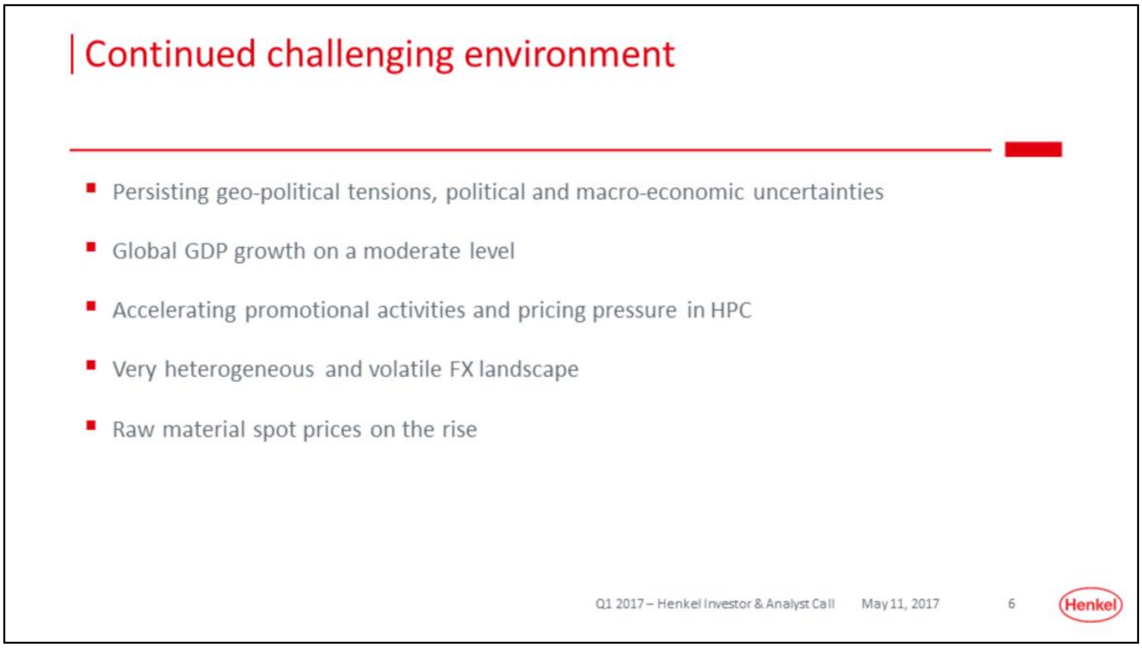
Mature Markets showed a good organic growth of 2.1%, with North America and Western Europe growing. Emerging Markets continued with a very strong organic sales growth of 6.7%, driven by the development in Asia and Latin America.

Our profitable growth path continued in Q1 with an all-time high adjusted EBIT and an increase of the margin.

Adjusted earnings per preferred share grew 11.0%.

We are also progressing well on the integration of The Sun Products Corporation and Carsten will give you some more insights later on.

Moreover, since the beginning of the year, we announced 2 acquisitions and closed 1 divestment.



We delivered this strong set of results in a continued, challenging and uncertain environment, characterized by persisting geopolitical tensions and political and macroeconomic uncertainties in some countries.

Global GDP growth remained on a moderate level.

In our consumer businesses, promotional activities and pricing pressures further intensified.

The FX landscape is very heterogeneous and volatile with the appreciation of the U.S. dollar and the Russian ruble but at the same time, devaluation of some emerging market currencies such as the Egyptian pound, the Turkish lira and the Mexican peso.

On the raw material markets, spot prices in Q1 were on the rise.

Adhesive Technologies
Driving profitable growth

Sales	Organic Growth
€ 2.3 bn	+5.5%

Adj. EBIT	Adj. EBIT margin
€ 415 m	18.1%

LOCTITE

TECHNOMELT

BONDERITE

Let me now give you some color on the performance of our business units, starting with Adhesive Technologies.

The business unit posted EUR 2.3 billion in sales, a nominal increase of 7.1%, driven by a very strong organic sales growth of 5.5% and all business areas contributing.

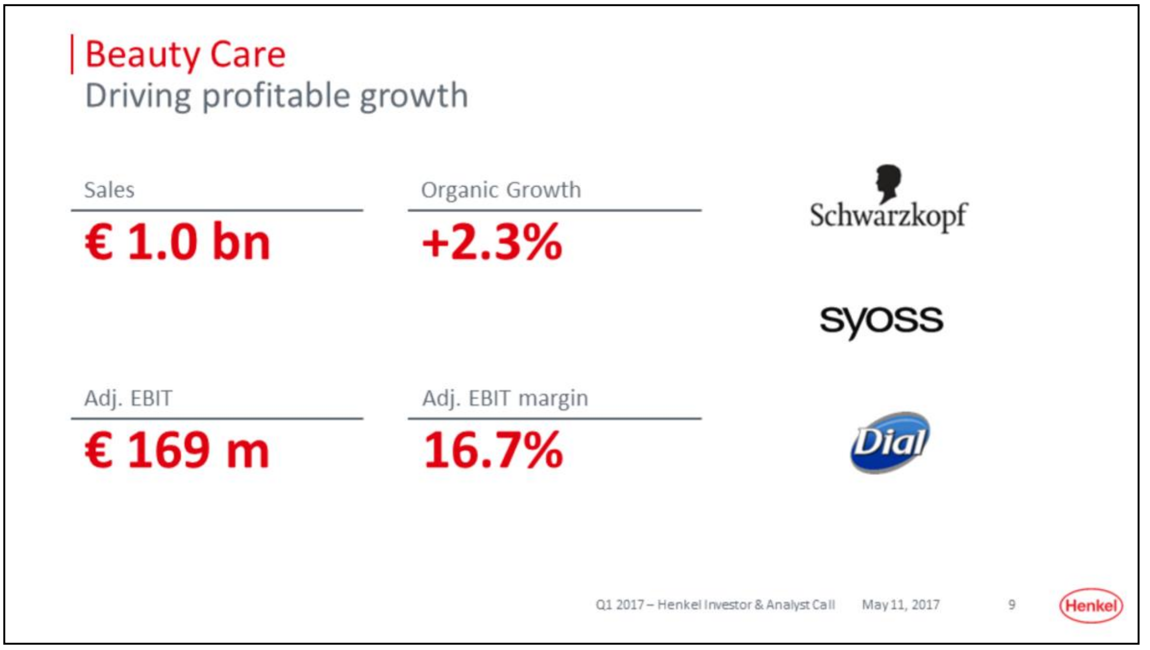
The adjusted EBIT grew by 10.5% to EUR 415 million and the adjusted EBIT margin reached 18.1%, 60 basis points higher than the previous year quarter.

I would like to highlight some examples among the initiatives that contributed to the Q1 performance of Adhesive Technologies.

In the Consumer Electronics business, we achieved double-digit growth by applications for smartphones and tablets. Within our megabrand, Loctite, we offered innovative solutions enabling our customers to develop new functionalities and designs for these products.

In General Industry, we achieved significant growth with our high-performance Loctite products. Growth was driven by Asia with customer wins across the various segments.

In the Automotive Industry we continued to successfully develop our business with OEMs. The very strong growth was driven by our high-impact solutions for light weight and process efficiency under our leading brands, for instance Teroson.



Let's now move on to Beauty Care.

Beauty Care delivered EUR 1 billion in sales, growing nominally by 6.4% and showing a good organic growth of 2.3%. Retail showed a good organic growth and Professional contributed with strong organic sales growth.

The adjusted EBIT posted a strong growth of 7.4% to EUR 169 million. Beauty Care delivered a 20 basis points adjusted EBIT margin increase to a level of 16.7%.

With this, Beauty Care continued on its path of profitable growth.

Beauty Care
Highlights Q1 2017

USA

Very strong development in the US driven by innovations

Further expansion of Schwarzkopf with nationwide launch of Gliss

Body Care

Ongoing successful sales development across regions

Strong contribution from new Fa and Dial innovations

Professional

Good start into 2017, continued growth momentum

Successful Schwarzkopf Professional BlondMe innovation as strong driver

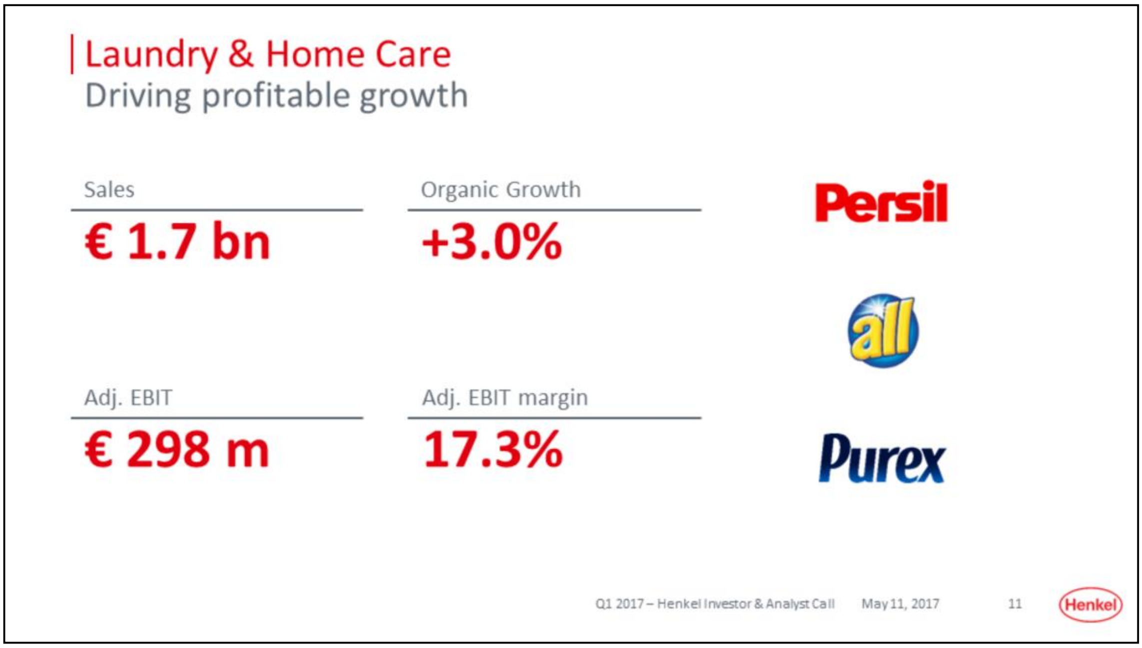
Henkel

Let me give you some highlights on our initiatives in Beauty Care.

The business unit showed a very strong development in the U.S. with the nationwide launch of Gliss, the global expert in hair repair. We further expanded our megabrand Schwarzkopf into new categories in the U.S. retail market.

In Body Care, we continued the successful sales development and achieved very strong growth in Q1 2017. The performance was driven by our powerful innovations under Fa in Europe and Dial in the U.S.

Also the Hair Salon business showed a good start into 2017 and continued its growth momentum for the eighth consecutive quarter, powerful innovations that Schwarzkopf launched such as Schwarzkopf BlondMe contributed to this performance.



Let me finalize the business unit overview with Laundry & Home Care.

The business unit achieved EUR 1.7 billion in sales, growing nominally by 29.5%, driven by our acquisitions and a strong organic sales performance of 3.0%. Organic growth in Laundry was good and Home Care very strong.

In Laundry & Home Care, the adjusted EBIT grew by 22.8% to EUR 298 million, an all-time high in a quarter.

Due to the impact of acquisitions, the adjusted EBIT margin came in at 17.3%, below the level of prior year. Carsten will give you the details here.

Overall, the strong set of numbers is driven by focused execution on our existing business and the fast integration of our big acquisition.

Laundry & Home Care
Highlights Q1 2017

USA
Sun integration well on track, step-change in scale

Strong momentum of Persil ProClean

Toilet Care
Excellent development in the rim block segment

Power Activ driving strong growth, innovations launched in more than 60 countries

Fabric Finisher
Strong start in 2017 driven by innovations

Premium fabric finisher Vernel Sûpreme launched in more than 20 countries

Let me share with you the highlights of Laundry & Home Care for this quarter.

In the U.S. the integration of the Sun Products Corporation is well on track, and in the biggest detergents market worldwide, the acquisition is a step-change in scale for our Laundry business. Also Persil ProClean continues its strong momentum further boosted by our successful Super Bowl campaign.

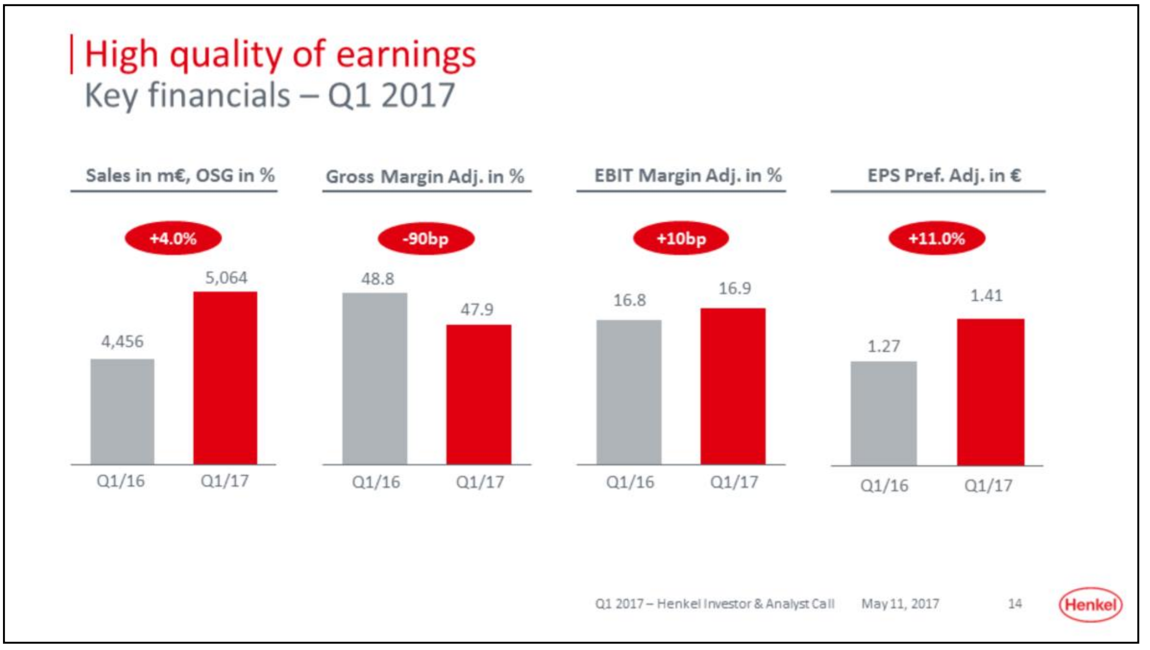
In the Toilet Care segment we delivered an excellent performance in the rim block segment. The success of Bref Power Aktiv, the global #1 toilet rim block is driven by the launch of new variants in more than 60 countries worldwide.

And fabric finishers had a strong start into 2017, the ongoing growth of our fabric finishers is driven by the international premium innovation Vernel Sûpreme, which was already launched in 20 countries.

And with this, I'll now hand over to Carsten.

Carsten Knobel:

Thank you very much, Hans and good morning to everyone. Let us now have a look at the financials for the first quarter 2017 in more detail.



Let's start and have a look on our key KPI.

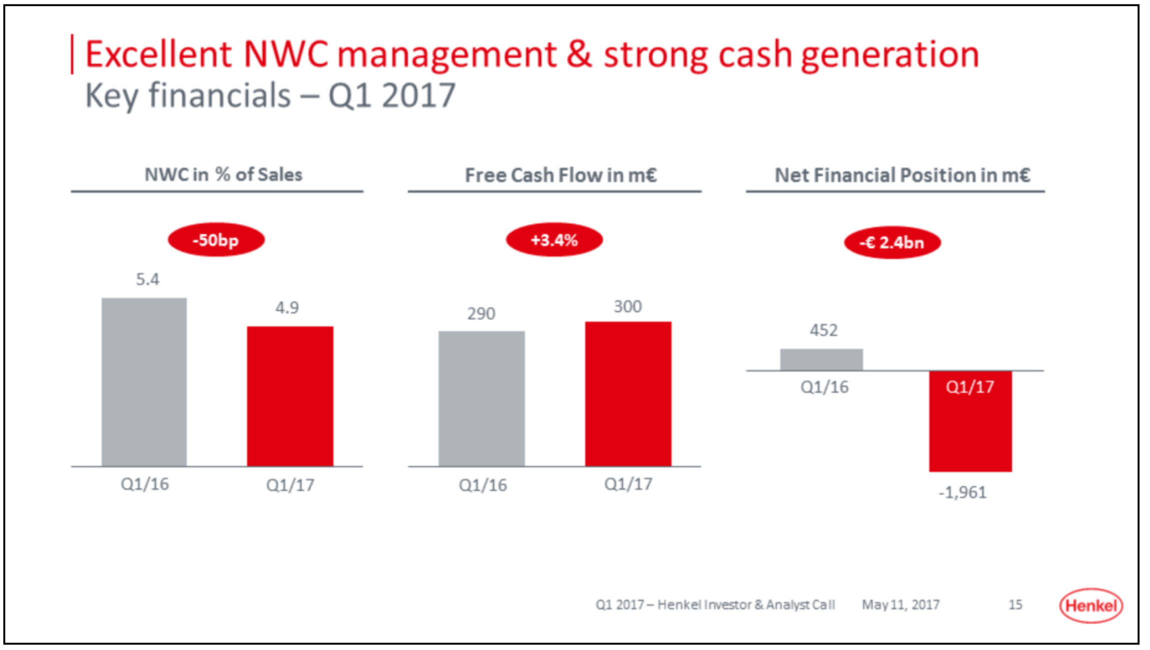
In the first quarter of 2017, our sales amounted to EUR 5,064 million, in nominal terms, this represented an increase of plus 13.6%. Organically, we delivered a strong sales growth of 4.0%, the Sun Products acquisition contributed with EUR 353 million of additional sales.

The adjusted gross margin reached 47.9%, which compares to 48.8% in the prior year, so in this respect, 90 basis points below, excluding the impact of the acquisitions we did in 2016 and the effect is 130 basis points, the adjusted gross margin would have been 40 basis points higher. And I will give you also here some more details as you are used to on the gross margin development later on.

The adjusted EBIT margin showed a continued increase of 10 basis points compared to the prior year level. Excluding also here the effect of the acquisitions, mainly Sun, was roughly 30 basis points, profitability would have increased to a level of 17.2%, which means 40 basis points more than the prior year.

Looking at our adjusted earnings per preferred share, the double-digit performance was largely driven by our organic and inorganic performance. The FX impact was slightly favorable while the tax rate was slightly unfavorable by the same magnitude. The adjusted tax rate was above the level of 25% that we normally encourage you to use as a rule of thumb for the full year. But also here, there's no change compared to that what I said before, so we will remain on the annual level at about 25%. In total, by that, adjusted EPS increased by 11% to EUR 1.41.

So overall, a high-quality P&L in the ongoing difficult market environment that Hans has already alluded to.



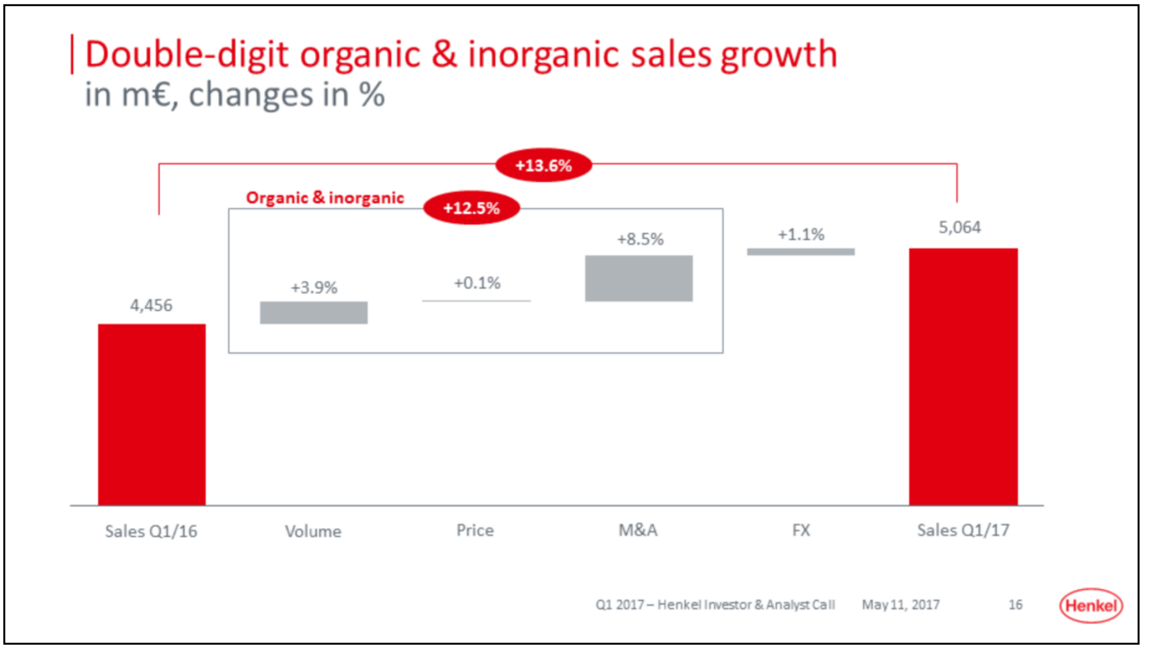
Now let’s have a look on our cash KPIs, starting with net working capital.

So once again, we delivered a quarter of a disciplined net working capital management and by that as a consequence of a strong cash generation.

The ratio of net working capital to sales improved to 4.9%. This is an improvement of 50 basis points compared to the prior year quarter and this was driven by operating improvements. Moreover in that context, excluding also here the acquisitions, the ratio would have been an additional 20 basis points better and would have improved to 4.7%.

Our net working capital management contributed in this respect to the strong free cash flow, which reached EUR 300 million in the first quarter of 2017. Free cash flow was up 3.4% compared to the already good level of the prior year quarter.

And finally, our net financial position came in at minus EUR 1,961 million, also here, I will provide you with some more details on the development later on.



With that, let us have a closer look to our sales development.

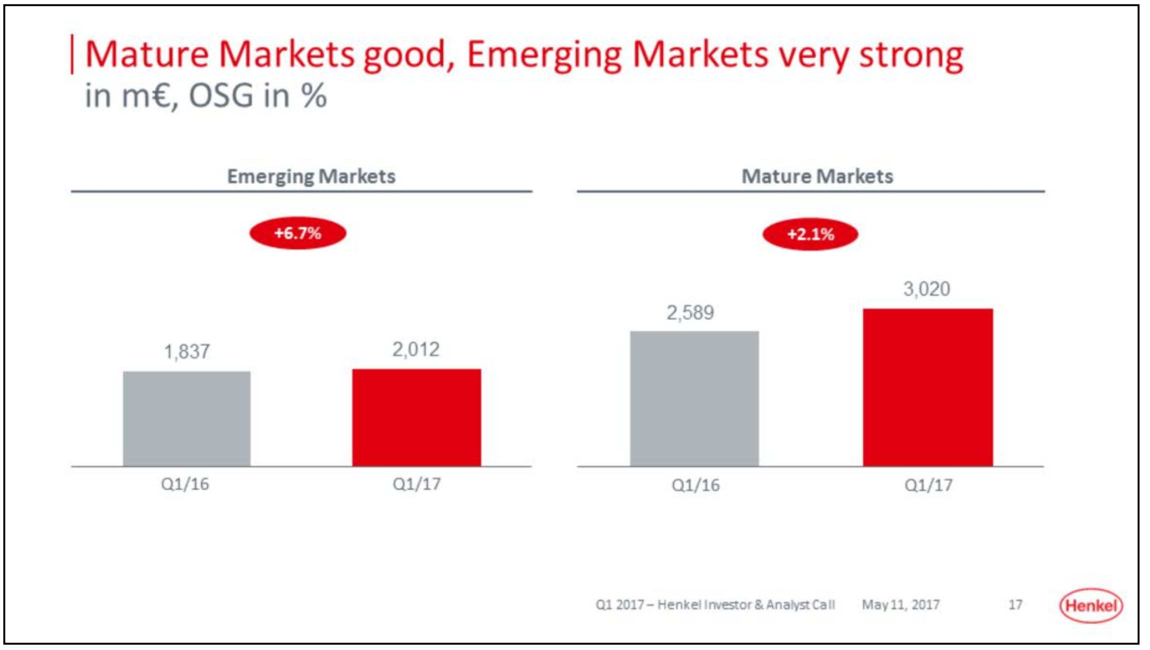
And here, the sales bridge on Group level. Organic plus inorganic growth amounted to 12.5%, a double-digit increase.

Organically, as already pointed out, we delivered a strong growth of 4.0% with all business units contributing to this result. Growth was driven by 3.9% in volume and 0.1% in price.

The net effect of our acquisitions and divestments had a positive impact on sales of 8.5% and here, Sun, being the main component, representing 7.6 percentage points out of the 8.5, I just mentioned.

In Q1, we saw a very heterogeneous development of FX. Overall, we have a positive impact from FX of 1.1%. Due to the positive development, especially from the Russian ruble and the U.S. dollar. Still, we're observing FX headwinds in other key emerging market currencies and Hans has already pointed out the major ones, which are the Egyptian pound, the Turkish lira and the Mexican peso.

So summing-up, we closed the quarter with EUR 5,064 million in nominal terms, this represents a 13.6% increase compared to last year.

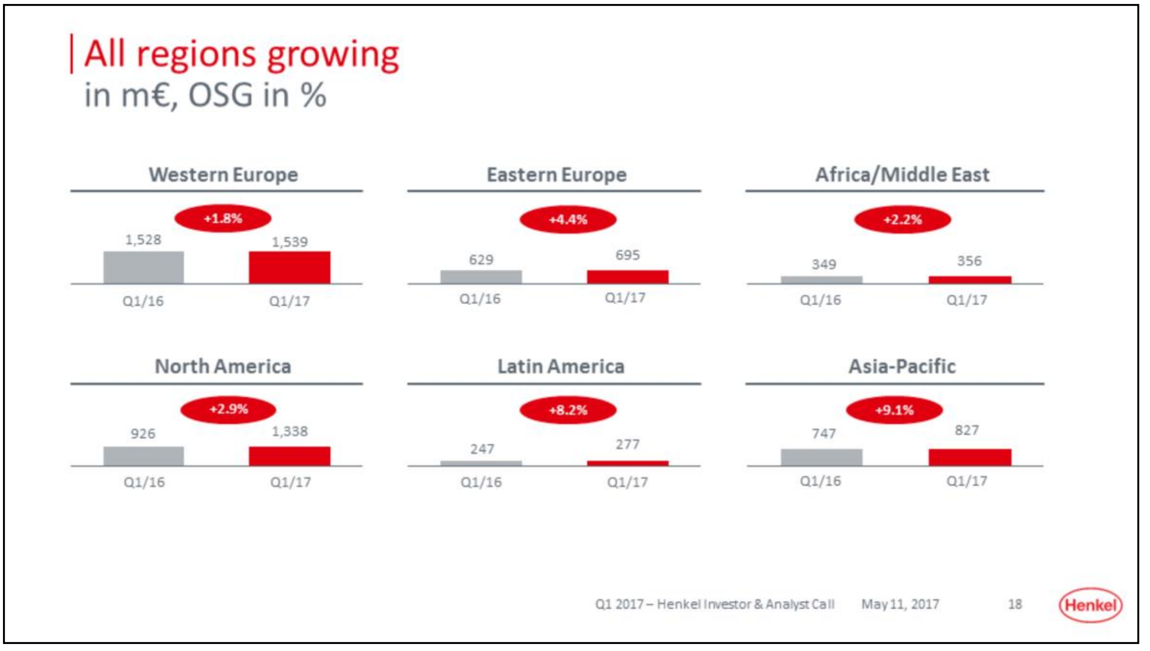


Let's have a look now on the region. First starting with a look on the Mature and the Emerging Markets.

So our sales development in the Emerging Markets showed a nominal growth of 9.5% to a level of EUR 2,012 million. Organically, the Emerging Markets contributed with a very strong organic sales growth of 6.7%. Acquisitions contributed 2.4%, FX, 0.4%.

Looking at the sales development in the Mature Markets, we've seen a nominal growth of 16.6% to an absolute number of EUR 3,020. The good organic growth of 2.1% accelerated compared to previous year quarters, in addition here, acquisitions contributed with 12.8% to the growth and the currency effect were positive and added 1.7% to the growth, thanks, especially, to the U.S. dollar.

So overall, an organic growth, which was broad based across all regions.



And I will lead you now through the individual regions.

Starting with Western Europe, here we saw an organic growth of 1.8% and this development was driven especially by Germany, Spain and Benelux, while in France, we've seen a negative development.

Moving to Eastern Europe, here we recorded a very strong organic sales growth of 4.4%, especially driven by Turkey. Russia remains slightly below the level of the prior year.

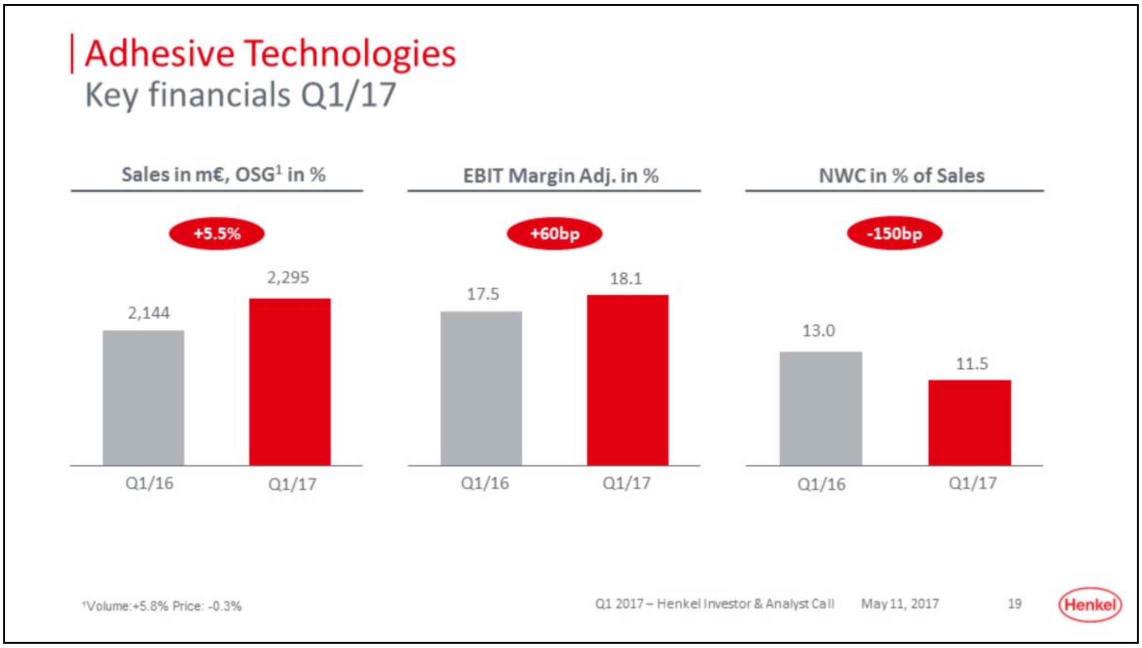
Africa and Middle East showed a good organic sales growth of 2.2%, despite the ongoing difficult market environment.

In North America, we recorded a good increase of 2.9% organically and this was supported by a very strong growth in Beauty Care and Laundry and Home Care, while in the Adhesives division, we've seen a positive development of organic growth.

Latin America recorded a significant organic sales growth of 8.2%. Here again, driven by a double-digit growth in Mexico.

Asia Pacific showed also a significant increase in organic terms of 9.1%. China, South Korea with a double-digit development, India contributed with a significant growth.

With that, let me now move to our three divisions.



Starting with our Adhesive Technology business.

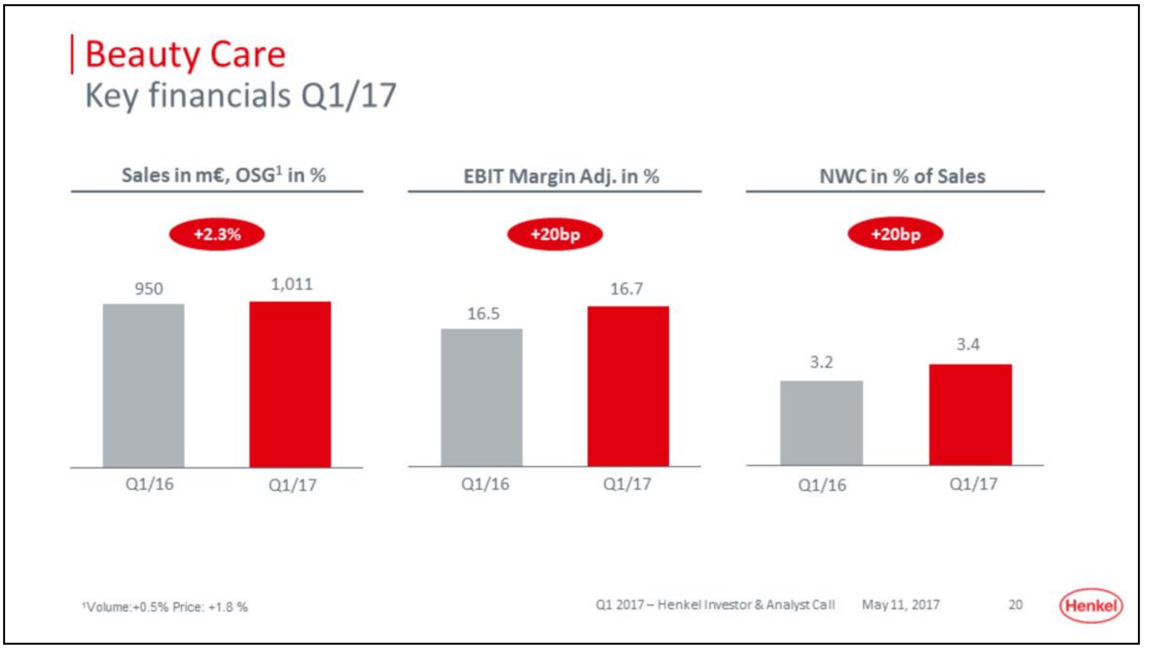
The business unit posted a very strong organic sales growth of 5.5%, driven by 5.8% in volume, prices remained with minus 0.3%, slightly below the prior year level. Divestments had a negative effect of minus 0.6% on the growth. Here, we closed the divestment of our professional Western European Building Material business, which we have signed in Q3 last year. Adhesive Technologies was positively impacted by currency effects. They amounted to 2.2% of sales, while the nominal sales increased by 7.1%.

Looking at the individual business units within Adhesive Technologies, this was driven by a double-digit increase of our Electronics business, a significant growth in General Industry, Transport & Metal delivered a very strong growth, Packaging Adhesives and the Consumer and Craftsmen business showed a good growth in Q1 of 2017.

From a regional perspective, Adhesive Technologies recorded a significant organic sales growth in the Emerging Markets. Latin America contributed double-digit, especially driven by Mexico, Eastern Europe posted significant organic sales growth driven by a double-digit development in Turkey. Asia, excluding Japan, showed a double-digit performance within China and South Korea. India delivered a significant growth. Looking at the Mature Markets within Adhesive Technologies, the organic sales performance was good. The Mature Markets of Asia remained on the level of prior year. Western Europe showed a very strong increase and especially here driven by Germany. And North America showed a positive development. So overall, a strong performance thanks to our differentiated portfolio covering all regions and the wide range of different market segments.

Moving to the profit situation in Adhesives, the adjusted EBIT margin progressed once again, now to 18.1% and this represents a very strong improvement of 60 basis points over the prior year.

Also net working capital in percentage of sales, another good quarter. We improved the net working capital by 150 basis points, now reaching the level of 11.5%.



Let's move now to Beauty Care.

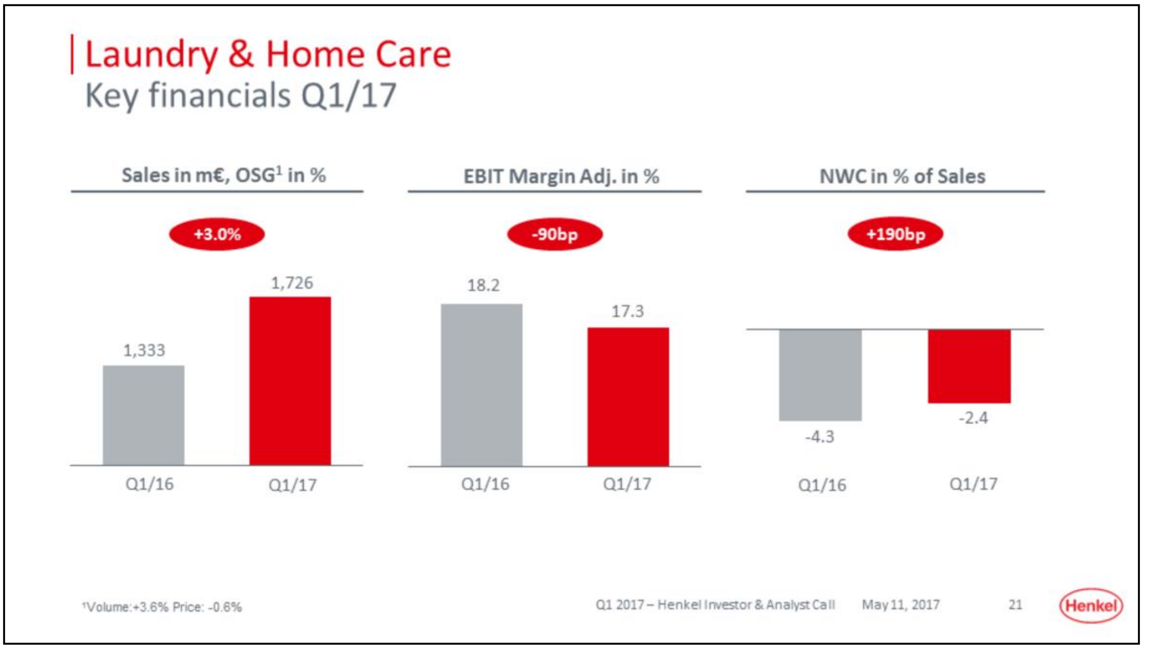
Also Beauty Care delivered another quarter of profitable growth. Sales grew organically by 2.3%, driven by 0.5% in volume and 180 basis points in price. In addition, 2% of the growth was coming from acquisitions, currency effects for the division was 2.1%. Here, as I alluded already on the group level, thanks to the positive development of the Russian ruble and the U.S. dollar, so therefore, in nominal terms sales increased by 6.4%.

Looking at the two segments, Retail and Professional, the growth in Retail was good while in Hair Salon, we've seen strong organic net sales growth in Q1.

Regional wise, Emerging Markets posted a strong growth, driven by a significant increase in Middle East/Africa. Eastern Europe was good with Turkey growing also here double-digit. Latin America came in positive. China was positive, driven especially by the online sales segment. Mature Markets posted a positive development. While the organic sales in Western Europe remained flat due to an ongoing high-competitive intensity and pricing pressure, North America recorded very strong organic sales in quarter 1.

Looking also here on the adjusted EBIT margin development, here, we are posting in Beauty Care a good increase in the adjusted EBIT margin with an improvement of 20 basis points, now to a level of 16.7%.

Net working capital was also a good number with 3.4% of sales slightly above the prior year where we recorded 3.2%.



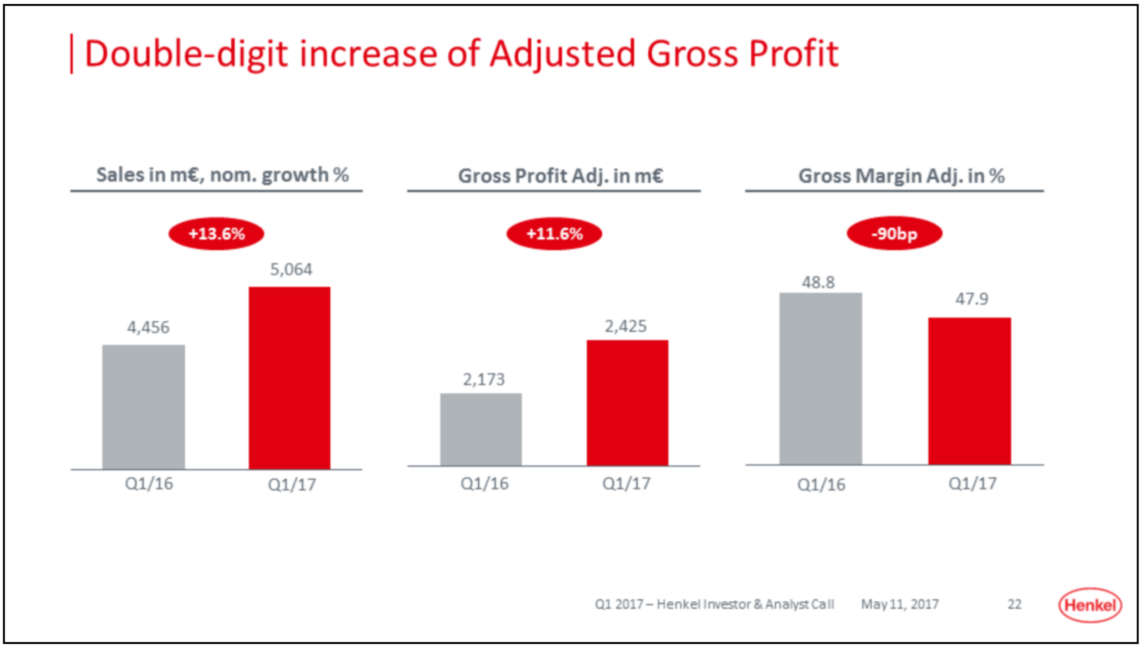
With that, let me finally move to our Laundry & Home Care division.

The business unit delivered again a strong organic sales growth development of 3.0%. Here, driven by 3.6% in volume while price was at minus 0.6%. In addition, 27.5% of the growth came from acquisitions, especially from Sun. I already told you, EUR 353 million of sales was the number in Q1 besides some smaller acquisitions, which we also did in Africa, Middle East of last year. Negative currency effects for the division amounted to minus 1% due to the FX headwinds, especially in the countries of Egypt and Turkey. So that in total, the nominal growth came in at plus 29.5%. The two segments in Laundry & Home Care showed in Laundry a good increase in organic terms, while Home Care delivered a very strong growth.

Emerging Markets reported a strong organic sales growth in more detail here, Asia delivered a double-digit organic growth, Latin America showed a very strong growth. Africa & Middle East and Eastern Europe contributed in organic terms with a good development. Mature Markets overall were good in terms of OSG. The main driver was the very strong performance of North America. Western Europe reported a positive organic growth. In the Mature Markets of Asia, which we entered with the acquisition in Australia and New Zealand in '15, we achieved a double-digit performance in terms of OSG.

Coming also here, now to the profitability and looking at the adjusted EBIT margin in percent, we've reported the number of 17.3%, which compared to the 18.2% in the prior year. This is, as I have alluded to also in the last two quarters in Q3 and Q4, a temporary dilutive effect, excluding the Sun impact of 130 basis points, the profitability would've increased to 18.6%, which means plus 40 basis points compared to the Q1 of 2016.

From a cash perspective, the net working capital ratio was again at a very low level of minus 2.4%. And also here again, excluding the acquisition, especially Sun, it would have improved to a level of minus 5.2%, so 90 basis points improvement compared to the prior year.



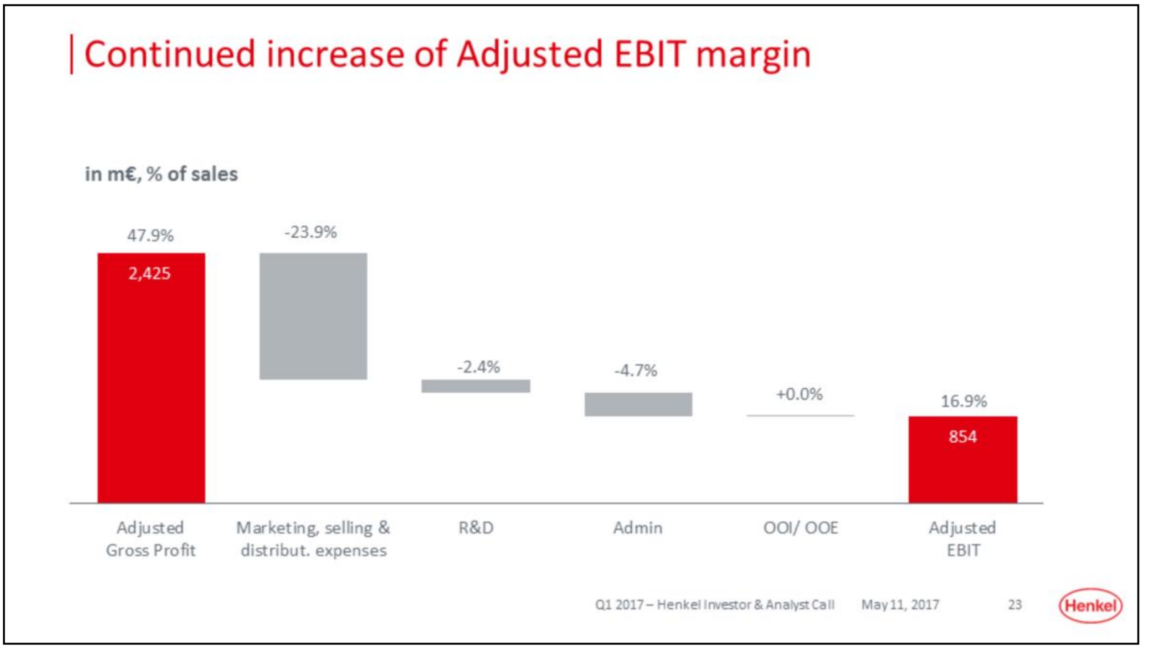
With that now, let me come back to the Henkel Group and in particular to our adjusted income statement.

You are already aware that our nominal sales increased by 13.6% to an absolute level of EUR 5,064 million. The gross profit came in at EUR 2,425 million, which is up 11.6% compared to the prior year quarter. The adjusted gross margin was 47.9% compared to the 48.8% in the prior year quarter.

As mentioned before, without the M&A effect, the gross margins would have been 40 basis points higher compared to the prior year quarter.

As per our indication, in February of '17, we see input cost increasing compared to the prior year. Due to the time delay of the raw material price increases on our P&L, impact in Q1 remained on a low level or as I've mentioned before as we exclude the acquisitions, we have an increasing gross margin of 40 basis points.

Nevertheless, you see the development of spot prices, which will lead to headwinds in the coming quarters, therefore, we reiterate our guidance for a moderate increase of our direct materials, which we have already disclosed to you in February of '17, when we were disclosing the guidance for the year.



If we now look at the bridge of adjusted gross profit to adjusted EBIT.

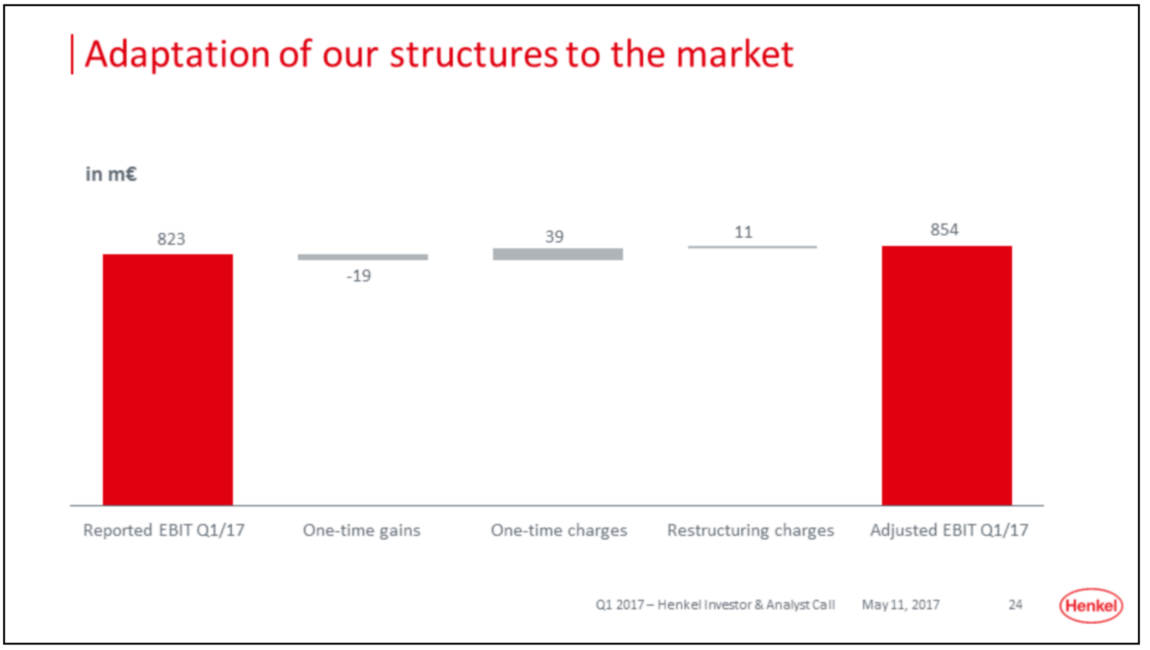
Our marketing, selling and distributing expenses decreased by 50 basis points to a level of 23.9% of sales compared to the prior year. The impact is related to the Sun integration.

The absolute marketing expenses and the absolute R&D expenses increased compared to the level of the prior year.

Looking at our administration expenses in percentage of sales, they remained with 4.7% on the level of the prior year.

At plus EUR 1 million, the balance of our operating income and expenses remained as you have seen that also in the prior year quarters, at a very low level.

Overall, our adjusted EBIT came in at EUR 854 million and the adjusted EBIT margin continued to increase by 10 basis points, now to the level of 16.9%.

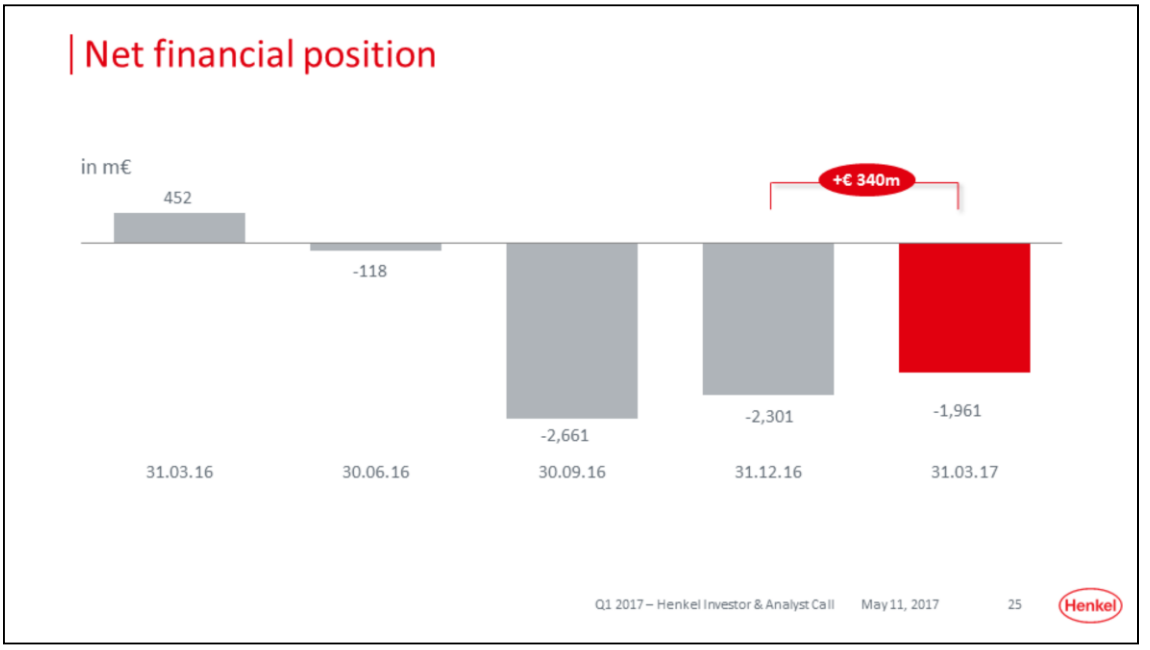


Let me now share the detailed bridge from reported to adjusted EBIT, as you are used to.

The reported EBIT came in at EUR 823 million. We had one-time gains in this quarter of EUR 19 million and they are related to the divestment of our professional Western European Building Material business, which I alluded to when I was describing the performance in Adhesives. This is a part of our active portfolio management, we're undergoing now since a couple of years.

We incurred EUR 39 million in onetime charges which mainly relate to our one global supply chain project and the integration costs of the Sun acquisition.

Moving to the restructuring charges, they amounted in the quarter to EUR 11 million and they're mostly related to the adaptation of our structured to the market environment.



Last but not least, let's have a look on our net financial position in Q1.

It came in with a number of minus EUR 1,961 million comparing that to the end of 2016 this is a substantial improvement of EUR 340 million and this is mainly driven by our strong free cash flow generation in the first quarter of EUR 300 million, which I reported already.

With that, I thank you for your attention and hand over back to Hans.

Hans Van Bylen:

Thank you very much, Carsten. Let me now summarize before we look at our guidance for the full year and then move on to the Q&A.

In a challenging environment, we delivered a strong set of results in Q1 2017. This successful performance across all business units and regions was driven by our highly committed global team.

We achieved record sales and for the first time passed EUR 5 billion, driven by the strong organic growth and acquisitions. Both the Mature Markets as well as the Emerging Markets contributed.

Also, we continued our path of adjusted EBIT margin increase. Adjusted earnings per preferred share grew double-digit.

Moreover, since the beginning of the year, we announced two acquisitions and closed one divestment and we are well on track with the integration of Sun.

Continued challenging environment in 2017

- Moderate GDP growth, geo-political tensions, political and macro-economic uncertainties
- Accelerating promotional activities and pricing pressure in HPC
- Very heterogeneous and volatile FX landscape

- Further drive growth with strong innovations, leading brands and intensified customer focus
- Increase the agility of our organization by constantly adapting structures to the market
- Fund growth with continued and rigorous cost focus

Looking at the full year 2017, we expect that the environment will continue to be challenging.

GDP growth will remain on a moderate level and geopolitical tensions and political and macroeconomic uncertainties persist.

Consumer markets are characterized by an acceleration of promotional activities and pricing pressure.

FX developments will remain unpredictable and heterogeneous.

Despite these challenges, our priorities are very clear. We focus on growth with strong innovations, leading brands and an intensified customer focus. We increase the agility of our organization by constantly adapting structures to the market. We strengthen our growth with a continuous and rigorous cost focus.

Guidance FY 2017 – confirmed

	FY 2017
Organic Sales Growth	2 - 4% All Business Units within this range
Adjusted EBIT Margin	Improvement to a level above 17.0%
Adjusted EPS Growth	7 - 9%

Looking at the full year 2017, we have a strong first quarter but the environment will be increasingly challenging. We have a clear strategy and our strong team is fully focused on execution.

Therefore we are confident to confirm our guidance for 2017.

We expect the Henkel Group to generate organic sales growth of 2% to 4%, with all business units within this range.

We expect an improvement of the adjusted EBIT margin to a level above 17%.

And finally, we expect our adjusted earnings per preferred share to grow between 7% and 9%.

I would like to come to the close and the upcoming events.

At our next event, Carsten Knobel and Pascal Houdayer will be pleased to meet you at the Investor and Analyst Day for Beauty Care in Hamburg on June 1. Please contact Investor Relations in case you've not registered yet.

And I'm looking forward to the next earnings call for Q2 in August and Q3 in November. Let's now open the Q&A.

Q&A Session (p.1/7)

Operator: The first question comes from the line of Marion Bucheron from Raymond James.

Marion Bucheron: Two questions from me. The first one is on the Laundry & Home Care division, which is decelerated compared to the strong growth seen in previous years. I was wondering what has changed by region regarding the trends, which region (inaudible) and also if there is more negative pricing and then on the Adhesive Technologies, the churn acceleration you're not the only player, but the true balance. So what has changed the underlying trends of the market and what are we going to expect in the full year?

Carsten Knobel: Can you repeat your second question? It was very difficult to acoustically understand you?

Marion Boucheron: On Adhesive Technologies so you've sharply accelerated in Q1 the organic sales growth. And you were not the only player if I am not mistaken. So I was wondering what has changed in the underlying market for Adhesives to drive that acceleration?

Q&A Session (p.2/7)

Hans Van Bylen: So let me take the second question on Adhesive Technologies. As we indicated, so all business have contributed, but of course as commented by Carsten, different by the segments. I mean our Electronic business has quite a good start as indicated, double-digit. General Industry did well, also Automotive. So it's a mixed picture. And what we have indicated also, what we do see is still quite a volatile environment. So I think it would be too early to talk about any trend change and we do see within the different business fields still a high volatility in how markets are developing. The Laundry question?

Carsten Knobel: Yes, the question regarding the Laundry, we are very satisfied with our development of the OSG in Laundry in Q1. If you also reflect the market environment and I think you have also seen the peers reporting on OSG in this if you would relate that, I think nothing to add then that we have satisfied across the regions as I pointed out, the very strong developments in the emerging market regions but also a very good development in the Mature. So we don't see that yet for sure. The growth is a little bit lower than what you've seen in the past. But as I've said before, look at the market environment, look at peers and in this respect, that's a strong performance.

Operator: The next question comes from the line of Christian Faitz from Kepler Cheuvreux

Christian Faitz: Thanks for taking my two questions. First of all, coming back to Laundry. It looks like the Sun Products acquisition is diluting your margins quite a bit. From your elucidation during the call, I would conclude that Sun, at present, is running around with its round about 12.5% EBIT margin. Correct me if I'm wrong, if my math is wrong, which would be some 230 basis points below the Laundry would have been without Sun. Would you see any upside potential in terms of margin development for the Sun Product range, i.e. via better pricing points? And then second of all, how is PersilPro developing in the U.S? Can you give us any indication there.

Hans Van Bylen: Christian, thank you for your 2 questions. I suggest that Carsten goes into a little bit of detail on Sun and I will take your Persil ProClean question.

Carsten Knobel: So let me start with your question on Sun. First of all, your mathematics and your brain is very good, because you are well in terms of how you calculated current margin in terms of what you say on Sun. On the other side, you know that more and more, we've also reported on that we are moving the businesses together. We decided to put that all together in one headquarter of consumer goods in Stamford and for sure the later, the more we go in to the year, the more difficult it will be to differentiate the performance.

On the other side, if you look back on the full year but also related to Q4, what I told you, to all of you, is that we see the synergies will come in at more than 10% of sales related to the Sun sales and we also said this will take roughly 24 months until we see the full swing. And already, when you look back and recall the numbers, we had high single-digit margin of Sun. Now we're already, based on your calculations, are on the level of above 12% that's an ongoing development, what we're doing. We are exactly on plan, delivering on the synergies what we have incorporated in our business plan, so therefore we are well on track and for sure the dilution, and I said I think also during my call, it's a temporary dilution, will go away, quarter-by-quarter. And as I've said, we're expecting after 2 years that this is gone.

Q&A Session (p.3/7)

Hans Van Bylen: Let me continue in U.S. on Sun. As we indicated also in our comments on the quarter, I mean we're happy that also our organic development in U.S. is very strong in the first quarter. And this is very much supported by Persil ProClean, which is developing quite well and we see two aspects of supporting growth, the one is the further distribution built-up. We now will be, if you see the latest numbers, at the 75% distribution, which after an exclusive launch in Walmart, makes now the product nationally available and we're happy we can convince retailers indeed to list the product. And why do they list the product because indeed they'd see the sell-out is quite encouraging. And so there where we are, we're now getting to market shares surpassing 3.5%, also supported by good campaigns. So quite happy that we are establishing indeed, in the premium price segment Persil in a consistent and also quite encouraging way.

Operator: The next question comes from the line of Celine Pannuti from JPMorgan.

Celine Pannuti: I would like to follow up on what you just said. So my first question is on the North American market. In your comments you mentioned that both the Beauty and Laundry did very well. So presume one part of the equation is what you said about the distribution in Sun. But could you flash if there's any other reason behind that growth, especially, at a time where some of your U.S. peers have mentioned a very, very tough market. And also when I look at Nielsen Market share, the numbers seem to be quite different. So if you could comment on that. And my second question would be, understanding your outlook – it seems that the environment will only increase in terms of competitive pressure, price and promos. Could you explain where you see that happening and whether we should then legitimately expect pricing components to decrease further?

Hans Van Bylen: Thank you, Celine for both questions. I suggest I continue also on the U.S. as I was commenting on that. So indeed what we see is having a good quarter. But as you say, I mean the market in U.S. is quite challenging. But we do see in our share development overall, if we take Beauty and Laundry, our shares are stable, slightly up, but as always I mean mix for category. But in general I mean slightly positive. And of course, what helps is as we say distribution enlargement of Persil. We also in Beauty, are strongly supported by the launch of Gliss as I commented also when I talked on Beauty. And also here, we get quite strong distribution also here, we get into distribution levels of above 60%. What's also working very well for us is our Hair Professional business. We did, as you know some acquisitions two years ago. We bought different brands and we're now a strong #3 in the U.S. in Professional. And anyway what you would also see in U.S. challenges are getting mixed, like Ulta, where you see Professional also getting more to consumer exposure. And in this field, we're doing very well. So Professional in U.S. is one also of our growth drivers there. I hope this helps on the U.S. to get some more insights.

Coming to the outlook, I mean starting with the U.S. already as you described, you also have been analyzing most probably even more in depth than we do with our competitors. As you see the results in our consumer goods, markets are indeed extremely challenging. But we do see at the moment, as I also commented, that promotional intensity is increasing as is price pressure. And this is across all regions. Starting from, if you look at Asia, if you look at the China market, where it's brick-and-mortar, and e-commerce business are in a huge transformation. If you see Western Europe, where I mean take country like France, Germany, promotional intensity is on quite significant high levels. Russia. And then U.S. as we commented, so it's a global phenomenon.

Q&A Session (p.4/7)

Celine Pannuti: All right. So does it mean that it will be difficult to recover some of these raw material price increases that you are flagging?

Carsten Knobel: No Celine, that's definitely not the case. Hans was referring to the pricing and promo pressure. And I think if you look back on our guidance for the year, we clearly pointed out that already when we were planning for 2017, we anticipated that raw material prices would increase, and that was the reason maybe at that point for some people not 100% clear why we reiterated or why we disclosed a moderate increase in raw materials.
And we have a very clear understanding of the raw material development and we, in this respect, are ahead of the curve, and that's the reason why we are confirming the direct material guidance for the full year.

And on our cost structure, the other items are perfectly under control and on top, we can assure you that in Adhesives, we will benefit also, like in the fast moving consumer goods division, also from our fund growth initiatives, which we are implementing now, especially our project, which we call “One View”, which is the value-creating resource allocation. We already here, finished our value targeting phase and we are going already now into an execution phase on tackling also cost categories and in this respect, we are well-prepared, and that's relevant for all three divisions but for sure, especially when it comes to the raw materials for our Adhesives part.

Operator: The next question comes from the line of Fulvio Cazzol from Goldman Sachs.

Fulvio Cazzol: My first one is just to clarify that I understood this correctly, that the gross margin impact from the Sun acquisition was roughly 130 basis points in Q1, which if I did understand correctly, compares to 80 basis points in the fourth quarter. So I was just wondering what are some of the moving parts there that made it more dilutive in Q1 versus Q4? And my second question is a follow-on from some of the previous ones on input cost. When do you expect to see the impact from rising raw materials starting to impact on your gross margins?

Hans Van Bylen: Fulvio, thanks for the questions. I think both questions, Carsten would be delighted to answer.

Carsten Knobel: Hans, I am delighted, yes. So Fulvio, thanks. Maybe I was not clear enough and therefore, thanks for your question in terms of clarification. So when I mentioned the gross margin impact on 130 basis points, that was related to all acquisitions. We did not only Sun in the last year, but as we mentioned also before, we did an acquisition in Nigeria, in Iran. So that is all impacting the gross margin in Q1 by 130 basis points. Out of that 130 basis points, 90 basis points are related to the Sun acquisition. And so that's roughly at the same level as we have pointed out in the quarter before. I hope that clarifies and helps.

Fulvio Cazzol: No, it does, thank you.

Carsten Knobel: And to your other question related to the input cost. In general, as I mentioned before when Celine was asking, we remain very confident in that what we have planned for the year and as I said, we were anticipating raw material increases for the year 2017 because we saw first signs already in Q4 2016. And you know, it takes roughly 3 to 6 months until that brings effects into our P&L. And that's the reason why you don't see in Q1 of this year the big effect. As I said, if you deduct the 130 basis points or make a like-for-like comparison, our gross margin would have increased 40 basis points without the acquisitions. So for sure, there is an impact, which we will start to see more in Q2, but we planned for that and we have anticipated that and that's a part of our guidance which we have disclosed in February and Hans confirmed just some minutes ago.

Q&A Session (p.5/7)

Operator: The next question comes from the line of James Targett from Berenberg.

James Targett: Two questions from me. Firstly, just coming back on the Professional, the Salon business. You flagged a strong growth which seems sort of at odds to what your peers had been reporting in the quarter. You mentioned that U.S. was strong in Professional. I just wondered if that was really the driver of the growth in that unit or whether there was strong growth across your Hair Salon portfolio? And then secondly, just on the Darex acquisition, if you could give any color on opportunities there and what sort of level of accretion you expect from that?

Hans Van Bylen: Thank you James. So first, your question on Professional. Indeed, I mean, we're quite happy with this performance. And as I said, it's now the eighth consecutive quarter that we see this business coming back to good growth. And Q1, in fact, was very good. So if you see where growth comes from, U.S. is one driver, but also we are establishing Schwarzkopf quite strongly in Latin America, which supports us. And also Eastern Europe is also at the moment doing very well. So it's in fact, I mean, U.S. of course is a big business for us in absolute numbers, but LatAm, as we are building up there, but also getting to quite some good size at Eastern Europe, these are the growth drivers in the last quarter.

Concerning Darex, so there, I think as you know, when we announced that we were signing, we still had to go through some procedures, especially in France, which now is being closed. So that's why now we have a signing also for Darex. Darex as we commented also when we announced the deal, is quite an exceptional opportunity to strengthen our Metal Packaging business because it's an extremely complementary business. So it's all about sealants and coatings for metal packaging in the business in which we are, but this is also technology-wise extremely complementary, and will help us in serving our global customers even better. And now, we now have to come through all the procedures about antitrust. So let's see that in the coming months. We come to sign and then to close the deal -- signing has been done -- to close the deal. That's also we indicated that I mean, and it's really important for you to know, what's also attractive about this business is that it's a high-margin business. So also for us in this segment, we know the margins. I mean, some attractive business to be in and also this Darex business has a quite attractive profit margin. Hope this gives some more light on this acquisition.

Operator: The next question comes from the line of Guillaume Delmas from Merrill Lynch.

Guillaume Delmas: A couple of questions from me. The first one the calendar effects. Because some of your Adhesive competitors have flagged that their Q1 performance was boosted by additional trading days in Q1 this year compared to the same period last year. So just wondering if you also benefited from this, and whether you would see any potential reversal impact in Q2 this year? My second question is on pricing. You're clearly calling out intensifying promotional and pricing pressures in consumer goods. But paradoxically, we've seen a sequential improvement in both Laundry & Home Care and Beauty Care from a price standpoint. I mean, in particular in Beauty Care you've got a plus 1.8% pricing contribution. Wondering what's driving this sequential improvement in price in Beauty Care or whether it's more down to mix? And conversely in Adhesives, we have a negative pricing in the quarter. Many of your competitors have announced some pricing actions in the first quarter. I appreciate there's always a delay in some negotiations happening before we see the impact from pricing. But is it fair to think that pricing has kind of bottomed out in Adhesives in Q1?

Hans Van Bylen: Carsten, I suggest you take the calendar one.

Q&A Session (p.6/7)

Carsten Knobel: I start with the calendar. Guillaume, good morning. Thanks for the question. For sure, the number of working days has a mechanical impact on a single quarter, which is even more especially relevant in the Adhesives Technologies. But you know that we never emphasize on this respect, but coming to your question, yes, there are different factors which influence the number of the working days every year. On the one hand in Q1 '17, we had one more working day in Q1, especially because of Easter, on the other then, you know, as a consequence we will have 2 working days less in Q2 because of the different shift. But I think that's something which we always have to handle and we're doing that since we are existing.

And then pricing. You have to differentiate for sure in terms of the pricing effect, you especially mentioned in Q1 the Beauty pricing effect which was quite positive. That's different sectors. One you mentioned, it is also related to mix. Then for sure also to what Hans alluded to the strong Professional business and the performance we have seen. And third, you know that in the FMCG businesses we are counting the innovation part in the price component which is also playing into that part. So that's related to this area when it comes to the Adhesives part, which was your third part. The negative impacts from the increase of the direct materials, for sure, we continue to review the prices to ensure the right balance between volume and the margin development. And first price increases were already communicated, but as I've said already before, we anticipated that by planning the year 2017, but I cannot approach customers before I see the prices really in my P&L/in the market. So that will be on the one side, as I said, you will see from a gross margin point for sure, effects when the price increases go into the P&L. But on the other side, you can be ensured that, and I think here we have shown in the last couple of years in Adhesives especially, that we are able also to bring that prices also to our customers which we will do. Hope that helps.

Operator: The next question comes from the line of the Iain Simpson from Societe Generale.

Iain Simpson: A couple of questions, if I may. Firstly within Laundry, it looks like share gain has accelerated in North America but slowed in Western Europe. Could you just give a bit of color on what market share Persil ProClean is at now. I think last we heard it was about a 4% share. Just wonder what that number was now. And secondly how the big countries in Western Europe are doing, if there are any sort of changes on last quarter 2016.
And finally, just a housekeeping question, that EUR 13 million net financial charge for the first quarter, is that the sort of run rate we should think about for the rest of the year?

Hans Van Bylen: Thanks Ian for both questions. The hygiene question, Carsten stands for our hygiene and that will be answered by Carsten.
Let me comment on the Laundry because it's important indeed to see that -- I mean if you also see market development numbers, you also see a lot of competitors perform. So with our 3% organic sales, means that we are doing quite well in a quite challenging market. But that's always, if you look on the market shifts per period, of course, some were up, some were stable. I mean, so it's a mixed picture. But in general, I mean positive. And coming to U.S., I mentioned the number before when I commented on Persil ProClean, we're now getting to a 3.5% share, which makes us quite happy. But that's only Persil ProClean, of course. Other brands also are doing quite well. If you look at the market share around Europe, I mean it's in most countries we are on the win, in some countries we see some short-term promotional attacks and then some periods, you lose some slight points. But in general, if we look year-to-date numbers, I mean on Laundry, we are doing quite well. We also see that on our innovations, hit quite strongly in the market. Carsten, on the hygiene?

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Carsten Knobel: Yes, Iain, hygiene. I understand that you would like to have a guidance on that, but you know, we are not guiding on the financial result. But you can be assured that – and I think the results are showing that – we're doing a very good job in having that, not only under control, but proactively steering and developing that. But if you see, for example, the minus 13, what we reported in Q1, is not incorporating, for example, the acquisitions we just have been announcing. And that's not small, the Darex acquisition is roughly EUR 1 billion and also the Beauty Care acquisition, it's a couple of hundred million. What we have, so roughly EUR 1.5 billion will come as additional financing part in the course of the year. So therefore, you cannot multiply that by 4. And for sure, you will see that we will do a great job also on here to have that number developing quite well.

Operator: There are no further questions.

Hans Van Bylen: Then if there are no more questions, so let me come to closing.

Before closing, let me also thank you for your feedback which we already got from some of you on our new format on the quarterly report. Many thanks for that. And let me also close by saying that we are happy here to see a strong set of results for Q1 and to be able to confirm our guidance for the full year 2017.

And together with Carsten for sure, I look forward to our Q2 earnings call on August 10.
Thank you for listening in, and goodbye.

FY 2017: Additional input for selected KPIs – confirmed

	FY 2017
Prices for Total Direct Materials	Moderate increase vs. the level of the prior year
Restructuring Charges	€ 200 - 250m
CapEx	€ 750 - 850m

Financial Reporting as of 2017

Please note, that in line with an amendment to the EU Transparency Directive, from 2017 Henkel is switching to a Quarterly Statement for publishing its results for the first and third quarters of each fiscal year. The Quarterly Statement will contain, in condensed form, the material information relating to our business performance. After the second quarter we will as before be issuing a half-year financial report, for the fiscal year we continue to publish an Annual Report.

Thank you!

Henkel