

## **Transcript Earnings Conference Call Q2 2014 August 12, 2014**

### **Participants – Henkel representatives**

Kasper Rorsted; Henkel; CEO  
Carsten Knobel; Henkel; CFO  
& Investor Relations Team

### **Participants – Active in Q&A session**

**Fabio Fazzari**; Equita SIM, Analyst  
**Iain Simpson**; Societe Generale, Analyst  
**James Targett**; Berenberg, Analyst  
**William Houston**; Redburn Partners, Analyst  
**Christian Weiz**; Baader Bank, Analyst  
**Guillaume Delmas**; Nomura, Analyst  
**Andreas Riemann**; Commerzbank, Analyst  
**Celine Pannuti**; JPMorgan, Analyst

**Participants – Total conference call = 66 analysts & investors**

**Participants – Total webcast = 104 analysts & investors**

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### Operator:

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

## Agenda

- 1 Key developments Q2 2014
- 2 Financials Q2 2014
- 3 Summary & outlook FY 2014

### **Kasper Rorsted:**

Good morning ladies and gentlemen and welcome to our conference call. First I would like to focus on the key developments of the second quarter 2014 then Carsten will provide you with the second-quarter financials in greater details and after that I will close my presentation with a summary of Q2 and the outlook for 2014, 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 [Henkel.com.ir](http://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 the conference call.

## Q2 2014 - Good performance in a challenging environment

|                                 |                                  |                                    |
|---------------------------------|----------------------------------|------------------------------------|
| OSG<br><b>+3.3%</b>             | Adj. EBIT margin<br><b>16.3%</b> | Adj. EPS growth<br><b>+8.4%</b>    |
| Sales Share in EM<br><b>45%</b> | NWC in % of sales<br><b>6.0%</b> | Net financial pos.<br><b>156m€</b> |

Let me start with the key developments of Q2 2014. We had an organic sales growth of 3.3% and adjusted EBIT margin of 16.3% and adjusted EPS growth of 8.4%, so high single digit, along with our guidance.

Our sales share in the emerging markets has, despite a lower rate, come up to 45%, net working capital as a percentage of sales 6%, and our net financial position was EUR156m, which is impacted by a number of items that Carsten will take you through in his section.

## Continued profitable growth in all business units

- Solid organic sales growth driven by all business units
- Emerging Markets with strong OSG, Western Europe solid
- Very strong improvement in adj. EBIT margin, supported by all business units
- High single-digit adj. EPS growth
- Progress in acquisitions:
  - Western Europe: Spotless Group
  - North America: Alterna, Kenra & Sexy Hair
  - Latin America: Pert



So looking upon the overall quarter, we continued our profitable growth in all our business groups. We saw solid organic growth driven by all business groups across the board.

The emerging market remains with strong OSG and Western Europe was solid. We saw very strong improvement in the adjusted EBIT margin, again supported by all business groups, and, as I said, we delivered high single-digit adjusted EPS growth.

At the same time we also put our balance sheet to work in the second quarter. In Western Europe we acquired the Spotless Group for laundry and homecare business. In North America we acquired a number of brands that will strengthen our professional haircare business in the US and make us number three. In Latin America, more specific predominantly in Mexico, we acquired a small brand from P&G called Pert with a purchase price of EUR24m. So three different acquisitions in the second quarter to strengthen the Company moving forward.

## Increasingly challenging environment

- Continued high pressure from FX
- Concerning & negative developments in Russian / Ukrainian crisis
- Significant increase in geo-political tensions in Middle East
- Intensified promotional & pricing pressure in HPC
- North America improved, OSG still slightly negative



What were some of the challenges that we saw in the second quarter and I think we'll continue to see moving forward? We continue to see very high pressure from an FX standpoint, the highest we've seen in the last four quarters, and we've now had four quarters with negative nominal growth.

We are seeing a very concerning political development in Russia and strong negative development in the Ukraine due to the crisis. We'll come back and speak about the two countries in detail, but of course with Russia being our fourth largest country in the world and Ukraine being one of our top 10 emerging countries in the world, in particular the Ukraine business has been significantly impacted by the crisis and we don't expect any short-term recovery.

We are also seeing significant increase in the geopolitical tensions in the Middle East. You can see that also on television. And despite that we continued to have a very strong organic growth rate, but of course partially due to the crisis we are seeing a very weak currency. So despite very strong growth rates you do not see that in the nominal growth.

We have seen also in the second quarter an intensified promotional and pricing pressure in the HPC, which you can see in different line items on our P&L.

North America did improve but OSG is still slightly negative. So it is not satisfactory yet but it's less dissatisfactory. We are moving in the right direction following a weak first quarter for North America.

## Laundry & Home Care

Solid OSG & excellent margin improvement in Q2 2014



### Sales

- Solid OSG
- Laundry solid, Home Care strong
- Emerging Markets OSG double-digit
- Mature Markets OSG negative

### Return

- Adj. EBIT margin showing excellent increase
- ROCE below level of previous year

When we come to our laundry and homecare business, we saw solid organic sales growth in the second quarter. Our laundry care business was solid, our homecare business was very strong -- was strong. The emerging markets was double digit, but the mature markets declined mostly due to negative markets. And the returns, the adjusted EBIT margin showing excellent increase and ROCE was below the previous year's level.

## Laundry & Home Care

Strengthening innovation leadership across categories

| Perwoll Re-New +  | Somat Gold   | Bref Blue Aktiv   |
|---|--|---|
|    |   |   |
| <ul style="list-style-type: none"><li>• Smoothens roughened fibers and refreshes faded colors</li><li>• Improved anti-greying performance</li></ul> | <ul style="list-style-type: none"><li>• Extra-power against starch crusts without pre-washing</li><li>• New enriched formula with an innovative enzyme combination</li></ul> | <ul style="list-style-type: none"><li>• Hygienic blue water for active cleaning, even between flushes</li><li>• New formula with four active agents</li></ul> |

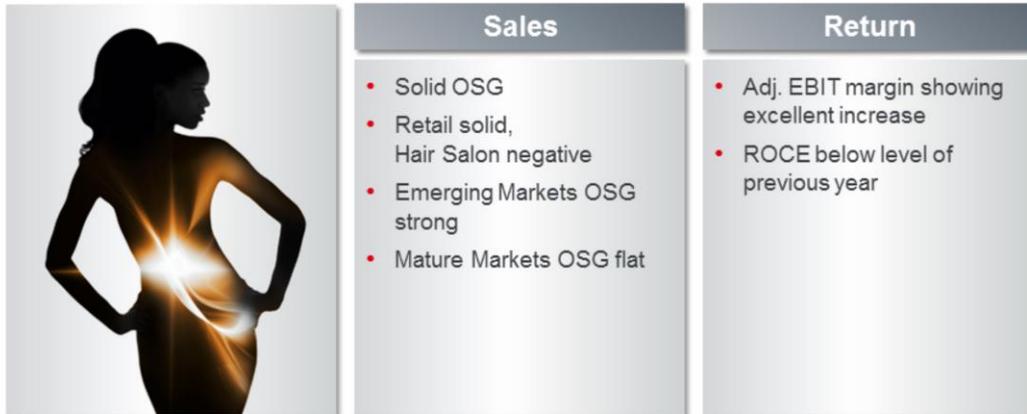
We are driving our differentiation in the marketplace through strong innovations, whether it's Perwoll that we have relaunched and launched into approximately 30 countries, Somat for dishwashing machines or one of my favorite products, the Bref product, into the toilet so to speak, which has been one of the best innovations we've had in the last three years and we are heavily focusing on making certain that we push that into every country that we can.

And we are currently expanding not only the depth of the distribution, but also the width, how broad the product is put out. So we now have new products and the latest we announced in the Blue Aktiv, which we're in the process of rolling out across the board. Right now we have the newest product in more than 25 countries and the remaining of the product in more than 50 countries.



## Beauty Care

Solid OSG & excellent margin improvement in Q2 2014



On the beauty care side we saw solid organic sales growth. Retail remained or strengthened its position as solid and hair salon became negative in the second quarter. The emerging markets remained strong and the mature markets was flat. Our adjusted EBIT margin showed excellent increase and ROCE was below previous year's level.

## Beauty Care

Strengthening innovation leadership across categories

| Fa Floral Protect   | Syoss Keratin  | BC Bonacure   |
|---|--|---|
|    |   |   |
| <ul style="list-style-type: none"><li>• 1<sup>st</sup> deodorant from Fa with Scent Release Technology</li><li>• Effective protection against sweat &amp; body odor</li></ul> | <ul style="list-style-type: none"><li>• 1<sup>st</sup> Keratin Care from Syoss for salon-like hair perfection</li><li>• 80% more Keratin for 100% structure repair, suppleness &amp; shine</li></ul> | <ul style="list-style-type: none"><li>• 1<sup>st</sup> Professional Hair Care with patented Cell Perfector Technology</li><li>• Replenishes damaged hair cells for 100% strength &amp; resilience</li></ul> |

Again here we made a number of launches and relaunches, whether it's Fa, a brand that has more than EUR250m turnover which continue its way forward, and with a very successful innovation around Keratin or the relaunch of Bonacure for our professional line. So overall we continue to be happy with the innovations that we bring into the marketplace to ensure that we can help drive top line and bottom line performance.



## Adhesive Technologies

Solid OSG & very strong margin improvement in Q2 2014



| Sales  | Return   |
|--|--|
| <ul style="list-style-type: none"><li>• Solid OSG</li><li>• Emerging Markets OSG solid</li><li>• Mature Markets OSG solid</li><li>• General industry very strong</li></ul> | <ul style="list-style-type: none"><li>• Adj. EBIT margin showing very strong increase</li><li>• ROCE further increased</li></ul> |

In Adhesive technologies, we saw solid OSG. The emerging markets were solid and mature markets were also solid, so a very even performance. Our general industry was very strong. General industry business is pretty much built around the brand Schwarz -- no, excuse me, Loctite, a very high-end engineering-focused brand. Our returns, our adjusted EBIT margin is showing very strong increase and ROCE further increase.

## Adhesive Technologies

Fostering technology leadership with strong innovations

### Sprayable Sound Damping



- Sprayable damping technology based on renewable material
- Weight reduction up to 30% and higher acoustical performance

### Foils for Flexible Displays



- Start-up investment for first cost competitive flexible displays
- Meets the future need of flexible mobile devices for mass-market

### Hybrid Adhesive



- 1<sup>st</sup> technology combining structural & instant bonding
- New industrial applications incl. metal, plastics and rubber

And again here we continue to push very hard innovations. At the same time we also have done a lot of brand consolidation which will bring about by the end of the year of building power brands around Teroson and Loctite and at the same time also making start-up investments to ensure that we get access to new technologies that will benefit us in the future.



## Agenda

- 1 Key developments Q2 2014
- 2 **Financials Q2 2014**
- 3 Summary & outlook FY 2014

Now I'd like to hand over to Carsten who'll speak about the financials in detail and then I'll go through the summary and the outlook. Carsten, please.

### **Carsten Knobel**

Thank you very much Kasper. Good morning to everybody and after having had the overall look at the results of the quarter two let me now guide you through the financial details.

## Continuous commitment to profitable growth



In the second quarter we once more delivered a solid top line growth of 3.3%, growing organically our sales. The relatively strength of the euro again had a significant impact on our currency, being precise minus 6.7% of negative impact, which led to a nominal sales number of EUR4,137m.

Our adjusted gross margin decreased by 70 basis points to a level of 47.6% and I will give you some more details on that later in the presentation.

Nevertheless, our adjusted EBIT margin increased an excellent number, by 90 basis points now to 16.3%.

And finally our adjusted EPS preferred number increased by 8.4% to a level of EUR1.16.

## Strong financial position despite higher dividend & acquisitions

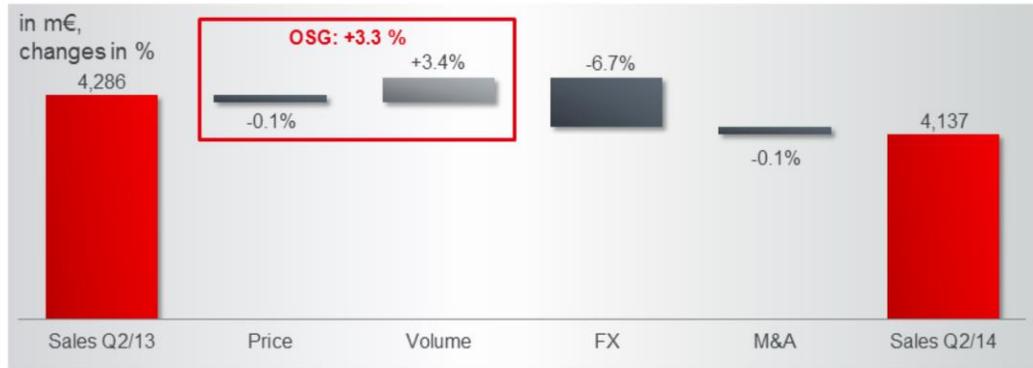


Looking now at our cash KPIs, starting with net working capital, the ratio increased by 80 basis points to a level of 6% including special effects of roughly 40 basis points, which mainly are related to the acquisitions Kasper mentioned in the US related to our Haircare professional business. Furthermore, let me remind you that when we ended the year 2013 we had a record level of net working capital of 2.3% and going forward we deem a year-end number of roughly 3%. If you take these two facts into consideration then definitely also the net working capital performance in the quarter two has to be evaluated with a strong development in that respect.

The free cash flow came in with EUR89m and by that below the previous year where we recorded EUR203m. There are two factors behind for this development. Firstly, this was caused by higher CapEx investments and secondly by a lower operating cash flow. The lower operating cash flow was influenced on the one side by a higher outflow for the income taxes paid and, secondly, by the already mentioned slightly increase in our net working capital development.

Finally, we have further strengthened our financial net position which came in with EUR156m and which improved by EUR286m, and this on top of the recently concluded acquisition and an increase in our dividend payout.

## Solid organic sales growth in a challenging environment



- Strong FX headwind mainly from Emerging Market currencies and US Dollar

With that, I would like to go to the details and now starting with our top line development.

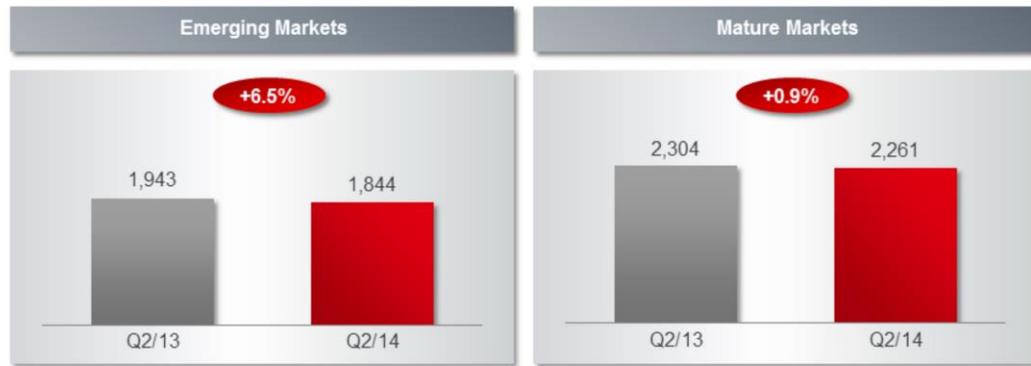
On a Henkel Group level sales increased organically by 3.3%, as already mentioned, and this was driven by a volume increase by 340 basis points and a flat price component. And this flat price component was impacted due to high promotional and competitive intensity in our HPC businesses.

As expected, the FX headwind continued and recorded minus 6.7% in percent, and this driving force behind was the US dollar but also most of the emerging market currencies.

The M&A impact was minus 0.1% and that led in total to the sales in Q2 of EUR4,137m.

## Emerging Markets strong, Mature Markets positive

in m€, OSG in %



- Emerging Market sales share of 45%

Looking on the emerging market and the mature market development, starting first with the emerging market and, as already mentioned by Kasper, we recorded a strong organic performance in the emerging market with a growth of 6.5%. This in absolute terms related to EUR1,844m, slightly below the previous year of roughly EUR1,943m, and this accounted to 45% of the Group sales, and this is on the level of the prior year quarter.

Our mature market showed an organic growth of 0.9% leading to an absolute number of EUR2,261m.

## Balanced growth across regions

in m€, OSG in %



- BRIC with very strong OSG, driven by double-digit China & strong Russia
- North America with negative OSG in HPC, Adhesive Technologies positive

With that, I would like to turn now through the details by region, starting with Western Europe. In Western Europe we pursued a solid organic net sales growth of the last quarter and recorded an increase of 2.2% in organic terms, and this was supported by all three business divisions. Especially in the light of the difficult market environment we face, especially in Southern Europe, this is definitely a great performance in that respect.

Turning now to Eastern Europe, despite the very negative development in the Ukraine, Eastern Europe recorded a solid sales development organically of plus 2.8%. The main contributors behind of that development have been Turkey and Russia and for the latter we recorded strong sales in the second quarter despite the geopolitical tensions. However, we could already see that the momentum was slowing down. And we have also to say that we are worried about the recent developments in the political and country development and we, as already heard, foresee that this could also impact the second half of the year.

In the Middle East -- in the Africa/Middle East region we recorded once again a double-digit development organically, being precise plus 17.5%.

North America showed a negative development of minus 0.7%, nevertheless improved significantly from the start of the year where we recorded minus 3.1%. While our HPC businesses, affected by the highly competitive market environment, were still negative, our adhesives business turned back to positive organic net sales growth. So overall we improved but we are not there where we want to be.

Latin America has seen a solid organic net sales growth of 3.8%, especially contributed by the Mexican business. In the environment of a weaker industrial growth, Brazil was on a previous year level in terms of organic net sales growth.

Lastly now turning to Asia Pacific, here we have seen a strong development of 5.5% in organic net sales growth with a double-digit performance of China and partly offset by a decline in Japan.

## Laundry & Home Care

Fostering profitable growth path in Q2 2014



- OSG driven by 5.9% in volume, price -1.7%

With that, moving now to our three divisions and starting with our Laundry and Home Care business. Also in the Q2 we had another quarter of profitable growth in Laundry and Home Care. We showed a solid organic net sales performance with 4.2% and this was driven by 5.9% volume and a price component of minus 170 basis points, and this negative price was due to the high promotional and competitive intensity we have faced during that quarter.

The sales growth was supported by a solid development in our Laundry and the strong development in our Home Care business.

Regionally speaking, again the emerging markets showed double digit performance in organic net sales growth, especially driven or mostly contributed by Africa Middle East but also by Eastern Europe. Due to the intensified promotional environment and declining markets in North America, and the difficult situation in Southern Europe, the mature market development in laundry was below the prior year quarter.

But you also see that on the back of that our adjusted EBIT margin showed an excellent improvement by 130 basis points, now to a level of 16.6% in terms of adjusted EBIT margin. And the net working capital remained on a very low level with minus 3.6%, even though slightly higher than the Q1 -- Q2 of last year, but I already mentioned the net working capital in total and this is valid for all our three business divisions in that respect.

## Beauty Care

Fostering profitable growth path in Q2 2014



Moving now to our Beauty Care division, we were able again also here to deliver profitable growth in quarter two. We came in with a solid organic net sales growth of 2.1%, volume in that respect contributing 270 basis points and, similar to Laundry and Home Care, we have a price component slightly negative, minus 0.6%. The reason is the same as in laundry and homecare, very competitive and promotional intensity affecting here the price component.

Our Retail business continued a growth path and showed a solid development, while our Hair Professional business was below the previous year quarter, especially also due to declining markets.

The sales in the emerging markets developed strongly with a double-digit contribution from emerging Asia and also a strong growth in Africa Middle East, and the mature markets were on the prior year level. While Western Europe could continue its positive development in Q2, we had also in North America we fell below the previous year quarter due to the fierce price competition.

Like in Laundry and Home Care, an excellent development in the adjusted EBIT margin, 130 basis points improvement to a level of 16.2% for quarter two. And also the net working capital remained on a low level of 4%. This increase compared to prior year was partly also, already mentioned, to including the acquisitions of the three Hair Care professional businesses in North America which we for the first time closed at the end of June 2014.

## Adhesive Technologies

Fostering profitable growth path in Q2 2014



With that, I would like to move to our Adhesive Technologies division. We had here a solid organic net sales development of 3.7% with a balanced contribution of price and volume. The volume part was 270 basis points up while the price component increased 100 basis points.

Looking at the businesses, you have already heard that General Industry business showed the strongest contribution in the quarter two, but also the other segments like Packaging, like the Metal and Transport business and the Consumer Adhesives were positive. Only the Electronics business was below the prior year quarter, and this was partly due to the unfavorable silver development, silver price development in that respective period.

Regionally speaking, the mature markets and the emerging markets showed a solid performance in the top line while the emerging markets were driven mainly by emerging Asia and Africa Middle East. We had a double-digit development in China. The mature markets were also, as I said, on a solid development because of a very good development in Western Europe, showing a solid organic net sales performance and, as already mentioned, North America being positive for quarter two.

The adjusted EBIT margin also showed a strong improvement by 60 basis points now to a level of 17.5% and the net working capital development, with 12.5%, more or less remained on the level of the prior year.

## Gross margin impacted by challenging environment

Income statement adjusted



- Gross margin affected by FX, slight increase of direct material prices and intensified promotional pressure

With that, I would like to go now to the income statement adjustment and I'm starting with the development from sales to gross margin. Sales, as mentioned, in nominal terms decreased by 3.5% to EUR4,137m and our gross profit came in with EUR1,969m, showing a decrease of minus 5%.

This led overall to the already mentioned decrease in our gross margin of 70 basis points to a level of 47.6%.

Now let me explain to you the reasons behind for this 70 basis points decrease. First of all, there is a negative transactional impact of the currencies. Secondly, we had a slight increase of our direct material prices seen in this quarter while in the first quarter we had been flat. And thirdly, for sure also the pressure from higher promotions could only partly be compensated by our savings we realized via efficiency gains in our supply chain and cost reduction measures in that respect.

So three reasons behind, FX in terms of transaction, increase in direct materials and the high promotional pressure in the HPC sectors were impacting the gross profit margin in that respect.

## Very strong adj. EBIT margin increase, plus 90bp

Income statement adjusted



- Marketing, selling & distribution expenses affected by FX
- Efficiency gains in Selling & Distribution, Marketing affected by shift to promotions

Moving further in the income statement adjusted now from gross profit to the EBIT, starting with our marketing, selling and distribution expenses.

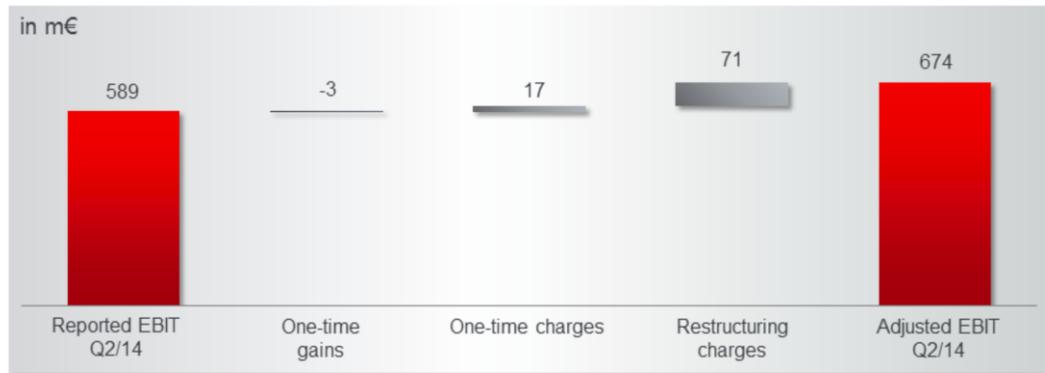
Overall the reduction in absolute terms is attributable to more than 50% to the persisting FX headwind.

In relative terms our ratio benefited significantly by an improved efficiency gain in selling and distribution expenses. Furthermore, you have already heard it, we shifted marketing budget more to promotions due to the response to the intensified promotion and price pressure in the HPC sector. But also let me remind you that over the last four years we have significantly worked on our brand portfolio, reducing our brand portfolio from more than 1,000 brands now in quarter two to a level below 300, and with that we definitely spend more efficiently while supporting our key brands in that respect.

R&D expenses remained slightly above the prior year level at 2.5% while we reduced our admin expenses by 20 basis points now to a level of 4.3%.

In summary, all that led to a development of our EBIT in absolute terms of EUR674m or an increase, as mentioned before, of 90 basis points to a level of 16.3%.

## Continuous adaptation of our structures to the market



Having now a look on the bridge from reported EBIT to adjusted EBIT, so reported EBIT in Q2 came in with EUR589m.

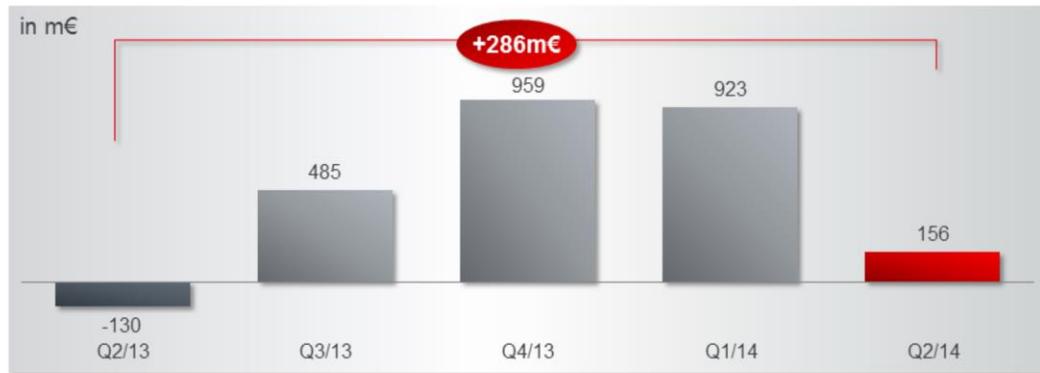
We recorded one-time gains of a very low level of EUR3m.

We had one-time charges of EUR17m and these EUR17m were related to investments necessary for setting up our scalable business platforms.

You see restructuring charges of EUR71m. In order to continuously adapt our structures to the market we have accelerated the pace in restructuring compared to quarter one where we recorded EUR28m in that respect.

With that, it brings us to the adjusted EBIT in absolute terms of EUR674m.

## Improvement of net financial position



- Significant increase despite acquisitions, higher dividend payout & CAPEX

Finally now let me comment on the improvement of our net financial position. We came in with EUR156m in terms of net financial position, which is an improvement of EUR286m compared to the comparable quarter of 2013. From the last couple of quarters you have been used of a higher rate of improvement of EUR700m-plus in that respect, but I would like to give you some more details on that, how we have spent the respective cash in that respect.

There are three reasons behind.

First of all, you have heard it, we spent roughly EUR300m more for acquisitions.

Secondly, we had, due to the increase of our dividend payout ratio, paid more dividends, which has roughly an impact of more than EUR100m.

And, as already mentioned at the beginning of the presentation when we were talking about the operating cash flow, we have also significantly spent more in terms of CapEx.

All these three components led to an overall impact of roughly EUR500m. And if you would add that to the EUR286m improvement, you are right back into the ballpark what we have been used, so EUR700m-plus. So once again this shows our financial strength in that respect.

You know that acquisitions remain an integral part of our strategy and in that respect we continue to have a financial headroom of roughly EUR4b to EUR5b.

With that, I'm at the end. I would like to hand back to Kasper.

## Agenda

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### Kasper Rorsted

Thank you very much Carsten.

Let me take you through the summary and the outlook.

## Q2 2014 - Good performance in a challenging environment

- Solid organic sales growth, driven by all business units
- Emerging Markets with strong OSG, Western Europe solid
- Very strong increase in adj. EBIT margin
- High single-digit adj. EPS growth
- Increased dividend payout & compelling acquisitions in HPC

Overall the second quarter was a good performance in what we call a challenging environment.

We saw solid organic sales growth driven by all our business units.

The emerging markets remained with strong OSG and Western Europe was solid.

We saw very strong increase in our adjusted EBIT margin.

We saw high single-digit adjusted EPS growth along the lines with our guidance for the year.

And we increased our dividend payout, at the same time put our balance sheet to work in acquiring three businesses in the second quarter.

## Challenging quarters ahead

- Increased geo-political tensions expected to impact business
- Persisting FX headwind, at least until end of Q3 2014
- Strong focus on cost optimization
- Focused and balanced investment in growth initiatives
- Strong innovation pipeline across all business units
- Slower EPS growth in second half vs. first half year

But we also see challenging quarters ahead of us. We do not see any stability in the geopolitical environment and it is expected to impact our business. Eastern Europe remains very volatile and so does Middle East with ongoing war in the region. We have seen persistent FX headwind and this will last at least until the end of the third quarter 2014 and with the current situation -- I say current and I stress current -- we expect that to change in the fourth quarter. But I'm saying with the current consensus.

We have a very strong focus on cost optimization to ensure that we make the appropriate decisions in a business environment that has remained extremely challenging in the last four quarters. And we have a focus on balanced investment and growth initiatives to ensure that we continue to build our organic sales growth.

We believe we have a strong innovation pipeline across all business groups, but in the context of the above we are confirming the guidance.

And I want to make certain that everybody understands clearly what I'm saying. We are confirming the guidance that we started the year with. At the same time we are also dealing with reality, with war in the Middle East and the worst political situation in Eastern Europe that we've seen in the last 10 years.

And that leads for us to a slower EPS growth in the second half versus the first half. That is dealing with reality.

So let me just go to page 32 and say guidance 2014 confirmed despite challenges.

## Guidance FY 2014 confirmed despite challenges

|   | Guidance FY 2014                                 |
|---|--|
| <b>Organic Sales Growth</b> <ul style="list-style-type: none"><li>- Laundry &amp; Home Care</li><li>- Beauty Care</li><li>- Adhesive Technologies</li></ul> | <b>3 - 5%</b><br>All Business Units 3 - 5%       |
| <b>Emerging Markets sales share</b>   | <b>Slight increase</b>                           |
| <b>Adjusted EBIT Margin</b> <ul style="list-style-type: none"><li>- Laundry &amp; Home Care</li><li>- Beauty Care</li><li>- Adhesive Technologies</li></ul> | <b>~15.5%</b><br>All Business Units contributing |
| <b>Adjusted EPS Growth</b>  | <b>High single-digit</b>                         |



We will continue to adapt our structures to the market

That means an organic sales growth of 3% to 5%, emerging market sales increase, slight increase, adjusted EBIT margin around 15.5%, and adjusted EPS growth in the high single digits.

So that means right now we are in the mid of that range; we'll be at the low end of the range because we're coming in with lower EPS growth in the second half versus the first half.

Carsten has already spoken about we're working as quickly as we can to adapt our structures to the market to ensure that we make the right decisions.

## Full commitment to execute on our strategy & achieve 2016 targets



We are fully committed to execute our strategy we have for 2016 around 20, 10, 10, and we want to make sure that we make the right decisions now, one and a half years into the four-year period, that will allow us in two and a half years' time from now to make sure that we hit the targets that we've set out.

And, as I said on many occasions, the primary target we have of the 20, 10, 10 is the 10% EPS growth. We're very focused to ensure that we continue to deliver long-term competitive returns to our shareholders.

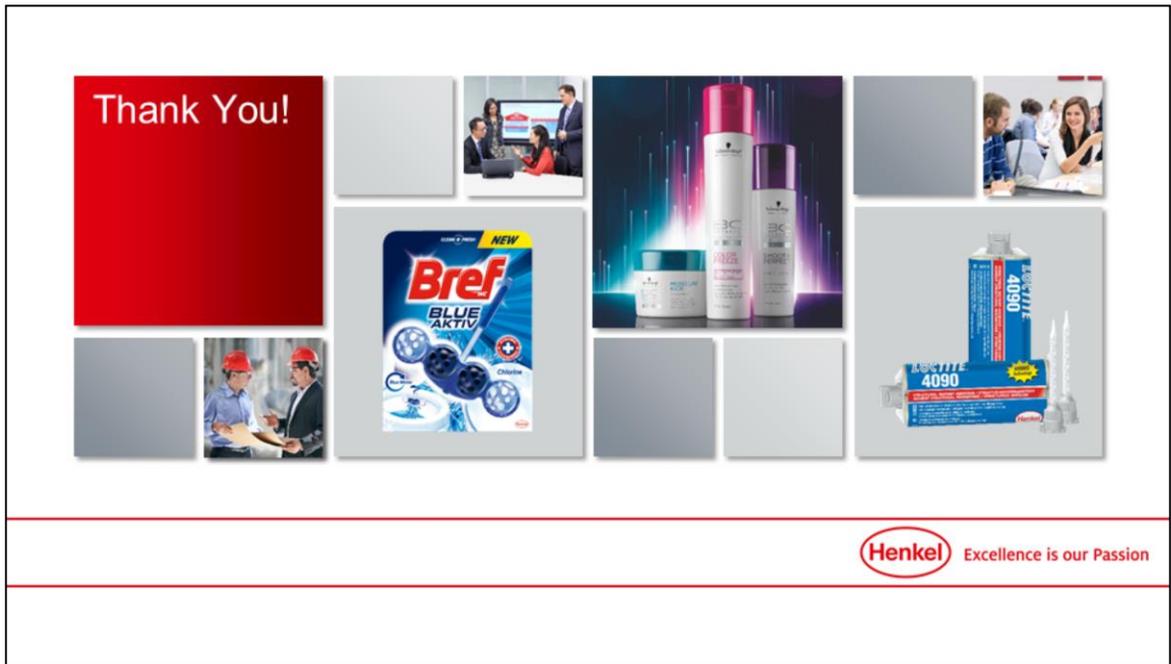
## Upcoming events

- November 11th, 2014  
Q3 2014 Financials
- March 4th, 2015  
FY 2014 Financials
- April 13th, 2015  
Annual General Meeting



With this I'd like to thank you for listening to us this morning.

The upcoming events, November 11 we're reporting on Q3, March 4 we are reporting on the year and April 13 we have the AGM.



We're now coming to the question and answer session and we'll be happy to answer any questions you might have.

So thank you very much.

## Q&A Session

**Operator:** *Fabio Fazzari, Equita*

**Fabio Fazzari:** Yes, good morning. The first question is about the pricing environment in US. I would like to ask what is your strategy and if we have to expect further deterioration of the pricing picture due to the competition and the challenging environment.

The second one is on Russia. If you could give more color of about your approach. We saw another company also limited the export just to control the credit risk. So just to understand how you are changing your approach to that market. Thank you.

**Kasper Rorsted:** I will start with Russia and Carsten will do the pricing. We have seen surprisingly strong growth in Russia for the first six months. And the growth accelerated in the second quarter over the first quarter. We are predominantly a local manufacturer, so we don't export. Of course we do the appropriate things that we need to do on inter-company, but right now our biggest risk when it comes to Russia is an overall slowdown in the economy, and that's what you're seeing. You're seeing the Russian economy, pending on different statements, going into close to recession or recession. And that will of course over time have an impact on our overall business in Russia.

So, so far, we do not believe that the Russian has -- Russian crisis has substantially impacted Russia in the first quarter -- in the first half. It has a substantial impact on the overall business environment in Eastern Europe. It has a very negative impact on our Ukraine business. And of course there is a cross-border business between Russia and Ukraine that is and will be further impacted.

We don't know what the current sanctions will do to us. They will directly not impact us, but they could indirectly, so customers of customers of customers could be impacted. That will overall impact us. And there is no doubt that the macroeconomic confidence in the region is going down. And that's why we're doing what we're doing right now, that it is simply naive to believe that Russia will not go into a more recessionary-like environment. And we've grown our market shares -- no, we've grown our business in the first six months. In the first quarter and the second quarter we've grown our market share. So isolated, we are confident.

But there's no doubt that Russia will have a significant negative impact on the overall business environment now, speaking (inaudible) now, on the overall business environment in Eastern Europe, more evolving moving forward. And we have so far not seen anything politically that leads us to believe that there is an imminent resolution right in front of us.

**Fabio Fazzari:** Thank you.

**Carsten Knobel:** To your pricing question in the US, as mentioned during the call, we see a very high intensity of promotions in the US, in both HPC businesses. And we have seen this now for several quarters and we don't see a short-term change related to that. From our point of view, the right answer -- for sure you always have to do promotions -- is to strengthen the brand equity with innovations to the market. And if you look on our market shares, in the HPC sector in US they are stable in that respect. So from our point of view, the slightest promotional intensity we're finding the right answers to compete in that environment.

**Fabio Fazzari:** Thank you.

**Operator:** *Iain Simpson, Societe Generale*

**Iain Simpson:** Thank you very much gentlemen. A couple of questions from me, if I may. Firstly, when it comes to margin, you clearly bring very strong improvements despite the weak top line. Do you see that the rate of margin improvement as sustainable for the second half of the year? I understand your caution around overall EPS on the top line, but any thoughts on that would be very welcome.

And then secondly just on Beauty, clearly Laundry's been wonderful for a while now, but beauty has been problematic. Are you happy that you're investing enough in that business? Do you perhaps need to increase A&P slightly or do you just need to wait for the market cycle to turn? Thank you very much.

**Carsten Knobel:** Iain, whatever we do is always sustainable in that respect. So for sure, the margins what we have seen in the first half are sustainable. On the other side, you have also seen that we have not changed our guidance, and our guidance is 15.5% for the full year and therefore nothing else to be commented on despite the fact what Kasper already said before, that we expect the second half a little bit weaker than the first half, and that's all.

**Kasper Rorsted:** Let me just go to the question you have around Beauty. We're not concerned about our A&P spend. I'm actually long term much more concerned about the overall development when it comes to promotional spend in the industry. That's what you see in the GP1 margin. If 70% to 80% of our market is promotional-driven, you can spend whatever you want on A&P; A&P will have no impact.

We spend what we believe is appropriate. We're in for the long haul in this business. And right now, the markets, the footprint we're in, and I think that's the important part, which we're working very, very diligently on changing is unfortunately very much Southern European. It is in professional haircare, which long term is a very attractive business. And that's why, with the footprint we have, we have a growth rate at the low end of the overall Group. And with that, we are working very diligently.

We continue to see very strong progress in China, with consistent high-end double-digit growth rates. And over time we will get a more global footprint in our beauty care business, but it does take time. So it will take a while before the growth will get up.

But of course also pending on what the macro environment is. Russia is one of our biggest countries when it comes to our Beauty Care and of course the current development in Russia is not really helping us out. So there's a number of factors that we're working hard on that won't change in the short term.

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

**Operator:** *James Targett, Berenberg*

**James Targett:** Good morning. Two questions for me. Firstly, just on restructuring, you have obviously accelerated your restructuring charges in the second quarter but you're keeping your guidance at a similar level of last year for the full year. I just wondered if you do think there's a need to increase the restructuring charges on a full-year basis.

And then secondly, just coming back on the margin point. If you look at the second half of the year, could you give any color of if the perhaps more modest development you're expecting is due to the risk factors you've mentioned or whether there's potential for further pressure in gross margins due to the promotional environment in HPC? Thank you.

**Carsten Knobel:** James, regarding your first question regarding restructuring, we have not changed our guidance. And the guidance for this year regarding restructuring expenses is that it will, more or less, be on the previous year level, which was roughly EUR160m.

The acceleration is only due to the fact that we would like to change if we see changes in the market in order to continuously adapt ourselves as fast as possible to that. And the earlier you do that in the year, the better it is in order to get then also the consequences, the positive consequences out of doing restructuring. That was the reason why we accelerated in Q2 of this year with the EUR71m. But as I stated before, the overall number will remain on the level of prior year.

**Kasper Rorsted:** So on margin development, if you remember back in 2012, where we guided in a derived margin around 16% for 2016. We're right now at 16.3%. We've seen a business environment that has dramatically deteriorated over the last two years, which we've not used as an excuse because we've consistently delivered on our guidance. At the same time we also don't see any significant change in the business environment.

So we are not expecting any improvement when it comes to the promotional environment and that means that we believe that we don't see any significant up-tick in the margin from where we are today, potentially more the other way around because of some of the impacts that we're seeing in the political markets. So we believe that the current margin guidance is fairly realistic in the current outlook.

**James Targett:** Okay. Thanks a lot.

**Operator:** *Iain Simpson, Societe Generale*

**Iain Simpson:** Thank you very much. Changing tack slightly, if I may, and thank you for allowing me the follow-up, those recent acquisitions that you've made, you've had a chance to look under the hood a bit now. Are you happy with the performance there? Any nasty surprises or nice surprises, and perhaps any color as to the timeframe for the likely integration of those would be extremely helpful.

And then secondly, I think you called out Japan as a source of weakness. Could you just remind me where you are in terms of restructuring your business in Japan? I think you were exiting some lines or something, but any color there would be useful. Thank you very much.

**Carsten Knobel:** Iain, we are definitely very fast, but we integrated the acquisitions in Hair Professional at the end of June and so far we're working accordingly to plan, but at this point of time we cannot say more than that we are working accordingly to plan.

The smaller one in Mexico, Pert, we have also integrated and consolidated and closed within quarter two and also here everything is according to plan.

And Spotless we have signed but not closed due to the fact that we are still in antitrust regulations in that respect. So, so far, everything is accordingly to our plans and what we would like to achieve in that respect.

**Kasper Rorsted:** On the Japanese question, question one, are we pretty much done with restructuring? The answer is yes. Point two is, as I'm sure you know, the VAT changed after the first quarter so we did see a certain amount of consumer loading in the first quarter due to VAT. I also said that following our first-quarter number that I believed that we need to see the VAT impact would have a positive impact in the first quarter and then a negative impact in a couple of quarters to come.

So overall we are not completely where we need to be on the portfolio. We're getting there close, but we're not completely. So still some smaller changes. Restructuring pretty much done. And right now I think that the Japanese market in itself is trying to find consumer market itself, based on the new VAT environment.

**Iain Simpson:** Thank you very much. That's very clear.

**Operator:** *William Houston, Redburn*

**William Houston:** Hello there. Two questions from me please. The first would be on your Russian growth. Would you be able to give more color on what exactly your growth was in the first half of the year please?

And secondly, on brand spend, if you amalgamate your -- the promotional spend as well as your A&P spend, how has that changed year on year please? So a total brand spend, how has that evolved please?

**Kasper Rorsted:** Yes. I will do Russia. Carsten will do brand. Russia first-half growth was approximately 6% so a bit higher in the second quarter than the first quarter. So, as I said, surprising you didn't see anything that could also be potential consumer loading, but you don't know that people actually start stocking up because of anticipation of a crisis. So, as I said, we didn't see it in the first quarter. We are now starting to see signs of significant slowdown. So in the first quarter -- first half, as I said, we didn't see it in Russia.

We saw it very clearly in the business environment in Eastern Europe. We saw it very clearly going to a three-day week for manufacturing plants in Ukraine, where we have six plants, so going to three-day weeks. So Russia in itself was not the first one you saw. You saw the surrounding states to Russia being impacted negative and now we expect Russia also to be impacted by the sanctions that are now coming up. And also, as I said before, Russian GDP moving very close, if not into recession territory.

**Carsten Knobel:** Regarding your question of brand spending, we have -- in general we see this promotional change, that means the shifting or rebalancing from advertising to promotion. On the other side, I think what is always an indicator, if you're spending rightly or wrongly, is we had a solid organic net sales growth in our HPC businesses and we have increasing market shares overall in that respect. And on top, we have a share of voice / share of market relation which is also an indicator, which has a fair share what we are spending in that respect. So in that respect, as mentioned before, there is this change, but overall we do not see a significant change in that.

And on top, as I mentioned, if you have less brands, and we have significantly less brands, where we have to put marketing budget behind, this is definitely increasing the efficiency in that respect and partly then also compensating lesser spendings in absolute terms.

**William Houston:** Okay. Thanks.

**Operator:** *Christian Weiz, Baader Bank*

**Christian Weiz:** Yes, good morning gentlemen. I know you don't comment on competitors, but regarding Haircare, L'Oreal claims to have won market share in Europe. And Unilever also said that they saw an improvement in Western European haircare business. Could you please, with that regard, elaborate a little bit on your Haircare business and the evolution in Haircare?

And the second question would be on raw materials. These probably also already had an impact on gross margins in the second quarter. You state in your report that Adhesive Technologies already experienced rising raw material cost and you mentioned silver in your presentation. And maybe you can also add some more color on the situation in your Home and Personal care divisions regarding the raw materials.

**Carsten Knobel:** Regarding your raw material question, as said during the call, we have seen in the quarter two raw material price increases or direct material price increases in all our three divisions, and this is differently compared what we have seen in quarter one, where we have been more or less flat in that respect. Or to be more precise, over the last two or three quarters we have been flat in raw material prices. This is the first quarter where we did see an increase. And this is, for example, driven by higher feedstock prices for palm kernel oil, for polypropylene, copolymers and for also for crude oil. And this is the main changes.

But we have guided for the total year a moderate increase. And this is definitely what we're currently seeing after the last two, three quarters seeing flat, that we now see what we anticipated already at the beginning of the year, that the total year will be impacted by a moderate increase in that respect.

**Kasper Rorsted:** So you're correct that we don't comment on competitors' market shares. But it's also true that mathematically you can have more companies than one gain market share in a market if there's more companies in the market. We've been -- we've had many challenges this year. Market share is not one of them. We've been very happy with the market share development that we have for haircare business in Europe, driven by some of our core brands, like Syoss, but also with our newest brand in the portfolio, Essence Ultime, that is much more on the high-end side. So we've seen a market share gain from us, and that does not preclude that others can't gain, but some will have to lose.

I think what you've also seen is that you're seeing hardly any growth on the private labels any more because of the consequence that Carsten has spoken about, the very high promotional pressure. So the more promotional pressure you get, the more the markets are moving downstream. So I can't comment on the two you just mentioned. What I can comment on is that we've been quite heavy with our market share development in Western Europe. That's not one of the headaches that we have.

**Christian Weiz:** Thank you.

**Operator:** *Guillaume Delmas, Nomura*

**Guillaume Delmas:** Good morning. It's Guillaume Delmas from Nomura here. A couple of questions from me. The first one on the Beauty Care division. You reported another strong margin performance in Q2. I was just wondering if you could shed a bit more light on the main drivers behind this performance because such a margin improvement almost seems counterintuitive given the muted organic sales growth, surely less operational leverage than before. And the Essence Ultime launch, which you must have backed with substantial A&P spend, so is it that you further accelerate your savings in that division?

And then my second question, sorry to go back on this, but on US Laundry, I think one of your largest competitors in the value segment said recently that they finally stepped up their promotional activities in early June. And since then they've seen strong market share gains, which have continued into July. So my question would be have you seen a deceleration in terms of your volume growth in Laundry and Home Care in the US through the course of the quarter? Thank you.

**Kasper Rorsted:** On the -- I'll start with the Beauty Care side. Beauty Care is very much, margin is very much driven by the mix that you have. So if you come into an area where you have more color than, for instance, shampoo, then by default you have a higher margin. So what we're seeing is it's predominantly margin-driven. We of course -- no, excuse me, portfolio-driven. Of course we look upon costs, but cost is not the primary driver. It's much more driven by the portfolio.

Essence Ultime was predominantly introduced first quarter. We've had some introductions also in the second quarter, but it was predominantly portfolio, as I said. And there's a slight cost reduction in there, but predominantly portfolio.

Carsten?

**Carsten Knobel:** So regarding your question, Guillaume, again regarding the US. The only thing what I comment here on this is that we have to differentiate in Laundry and we said we have stable market share development. We are competing in this part. We have a volume growth in that respect and a significant price effect in that respect, negative of the promotions. You know that we reported already in Q1. The headache we have is related to our Haircare business due to, especially due to supply. And this is what I can give you more on information. Volume, as I said, is strongly up in that respect there.

**Guillaume Delmas:** Thank you.

**Operator:** *Andreas Riemann, Commerzbank*

**Andreas Riemann:** Yes. Good morning. Two questions from my side. First one on M&A. Seems that the consumer environment is becoming more challenging globally. So would you say you're now more cautious with regards to M&A because of all these uncertainties or is it now even a better time to go for M&A? Maybe they are cheaper.

And a second one coming back to Carsten's statement, whatever you do is sustainable. Does it also apply to your tax rate, i.e. is the current level of 23% sustainable? That's it from my side.

**Kasper Rorsted:** I'll start with the M&A side. We don't -- the current political environment plays very little role in our M&A considerations because if you look, we've been in the countries where we've conducted M&A in for many years. Russia, we've been there for almost 25 years. The pricing has not changed or changed yet. I don't know whether pricing will change. But, frankly, the consideration because of the political environment hardly plays any role, unless there are conditions that so substantially deteriorate where we would say we don't really want to be there or we couldn't imagine to go there.

Of course if you take a country like Argentina today you will probably not do M&A in Argentina because it's very difficult to see the way forward. Reversely, we would not hesitate to do M&A in some of the Eastern European countries because of the political environment. So on a fundamental level it has not changed and we're looking up on it with the same eye as before. Unfortunately there's no more assets and the pricing has not changed dramatically in the last month either on assets, but no real change from our view.

**Carsten Knobel:** So coming to my sustainability statement, as you know, sustainability is a part of our DNA and therefore we are -- everything what we do is sustainable. This is also related to tax, but give you now some more details on that. So we have an adjusted tax rate of 24% in quarter two, as we had in quarter one. You know that we have not guided the tax. But for your models we have given you an indication that we for the period of 2013 to 2016 calculating with a roughly tax rate of 25% and I think 24% is roughly in that range.

But to give you even more precise information, if you look at the reported tax rate, then for sure you see a little bit different or even a lower tax rate. And this is related to the impairment of our Iranian business. With other words, the decrease in the reported income taxes in 2014 is due to the tax-free income resulting from the adjustment of the impact on the Iranian business.

As you know, and as you remind you, additionally in the previous year in quarter two we had impairment of the Iranian business and this was not tax-deductible at that point of view. So therefore we recorded a reported tax rate in last year a little bit higher. And due to the fact that we reversed this action in this year we have a lower tax rate in the reported area. That's I think the more glance on that, but definitely everything here is sustainable.

**Andreas Riemann:** Okay. Thanks.

**Kasper Rorsted:** And we're now coming to the final question. Who has the final question?

**Operator:** *Celine Pannuti, JPMorgan*

**Celine Pannuti:** Yes, good morning. Two questions. My first question is on your raw material guidance. Can you say which raw mats are picking up and whether you see that pick-up in all divisions, so both HPC and Adhesives?

And my second question is on pricing outlook. We've seen that pricing has deteriorated in both Home Care and Personal Care. You've already flagged the high level of promo in the US. Can you give us a bit of background of what to expect in the second half of the year and as well what's the environment like in Europe?

**Carsten Knobel:** Regarding the raw materials, we have given you the guidance that we see a moderate increase and the moderate increase is for both; it's for HPC and Adhesives. And I've mentioned some of the raw materials which are impacted, like the palm kernel oil and the polypropylene, copolymers or the crude oils, but this is not the only ones. It's across the portfolio. But, as I said, both sectors, HPC and Adhesives, are impacted by that.

**Kasper Rorsted:** From a pricing standpoint, we don't expect any significant changes to the market environment in the short to medium term, which means that pricing on the HPC side will remain very difficult and we continue to expect a very high promotionally-driven market. So it is highly unlikely that a lot of pricing will take place in the HPC environment moving forward, which is also why we're guiding the way we are guiding when it comes to market expansion or lack of market expansion. So that's the current market environment.

With this, we have come to the end of the call. I'd like to thank you very much for participating in our conference call today. Within a difficult market environment, characterized by strong FX headwinds and further intensified competition intensity, we've delivered another quarter of good performance. Looking ahead, the challenges in the market environment, especially of the geopolitical nature, seem to be persisting, as can be seen by the recent development in Israel, the Middle East, Russia and Ukraine. This means we will continue to drive our operational excellence to perform in this difficult market environment. And therefore we confirm our guidance for 2014.

I wish you all the best and look forward to talk to you about our third-quarter earnings release on November 11. Thank you very much.

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

## Additional Information

## Excellence in value creation

Recent acquisitions with strong country / category positions

### Laundry & Home Care



- Leading brands (Spotless Group) with high margins in attractive laundry & home care segments
- Leverage strength in Western Europe while closing white spots

### Beauty Care

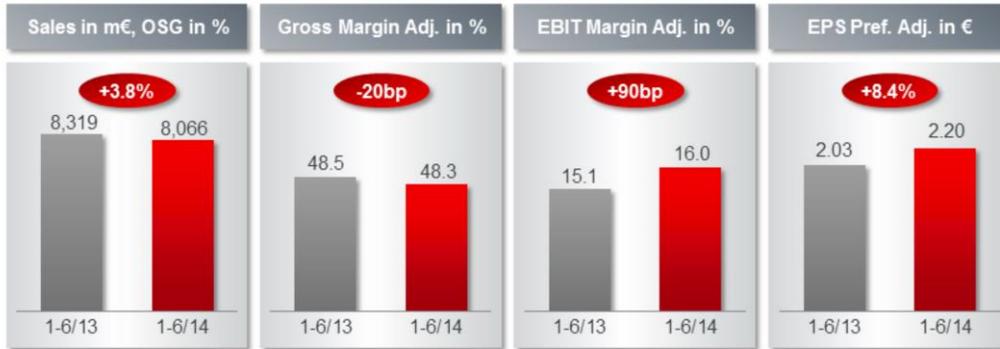


- Professional: High-performance and high-quality brands complementing current color portfolio in US
- Retail: Brand with local heritage strengthening core Hair business in Latin America, especially Mexico

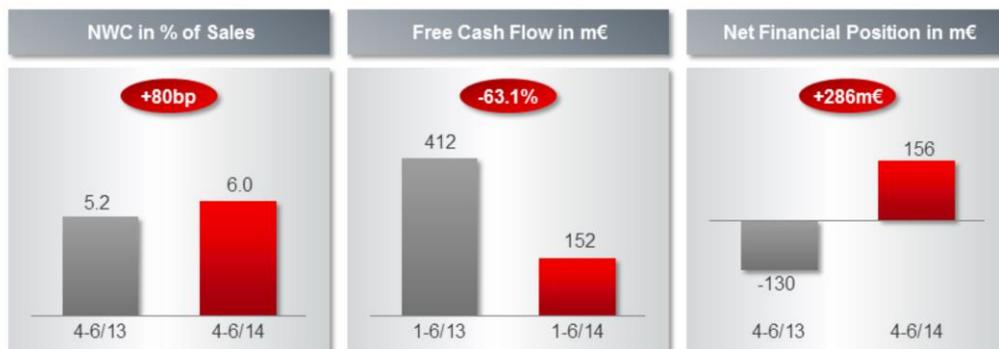
## Guidance FY 2014 for selected KPIs

|                                       | Guidance FY 2014        |
|---------------------------------------|-------------------------|
| Price increase total direct materials | Moderate price increase |
| Restructuring charges                 | At prior-year level     |
| CAPEX                                 | ~500-550 m€             |

## Key financials YTD 1-6 2014 (1/2)

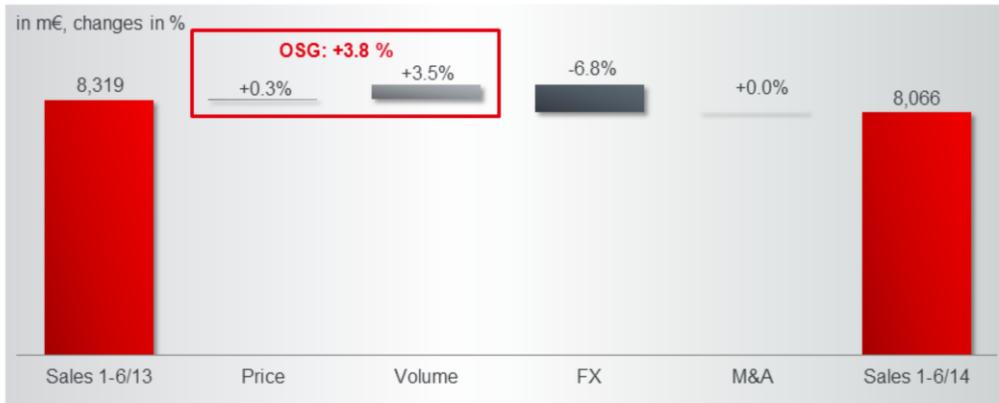


## Key financials YTD 1-6 2014 (2/2)

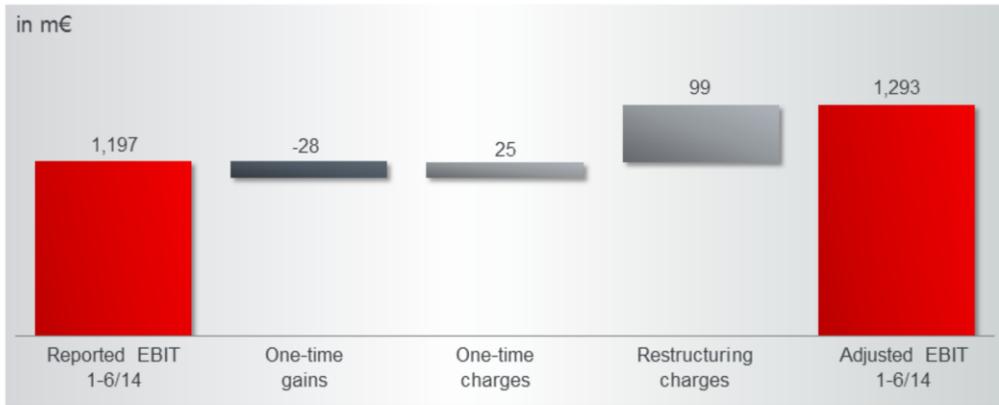


## Sales growth

Henkel



## Reported to Adjusted EBIT



## Laundry & Home Care

Key figures YTD 1-6 2014



- OSG driven by 6.1% in volume, price -1.0%

## Beauty Care

Key figures YTD 1-6 2014



- OSG driven by 2.1% in volume and 0.5% in price

## Adhesive Technologies

Key figures YTD 1-6 2014



- OSG driven by 3.0% in volume and 0.9% in price