Henkel Excellence is our Passion

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Participants
Kasper Rorsted; Henkel; CEO
Carsten Knobel; Henkel; CFO

Gael Colcombet, MainFirst – Analyst
Iain Simpson, Barclays - Analyst
Harold Thompson, Deutsche Bank - Analyst
Andreas Riemann, Commerzbank - Analyst
Toby McCullagh, Citigroup - Analyst
Chas Manso, Societe Generale - Analyst

Presentation

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

Kasper Rorsted: Good morning ladies and gentlemen and welcome to our conference call. First I'd like to focus on the key developments of the third quarter 2013 then Carsten will provide you with the Q3 financials in greater detail. After that I'll close my presentation with a summary for Q3 2013 and the outlook for the full year, 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. 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.

As I said, I'll now speak about the key developments in the third quarter of 2013. Revenue came in at EUR4,184m. We saw a very strong EBIT margin of 16.1%, adjusted EPS at EUR1.10, net working capital at 4.5% of sales and we saw a net financial position of EUR485m.

On the achievement side, for the third quarter of 2013 we saw solid organic sales growth driven by all businesses and also, which is very important this year, all regions. We continue to see very strong organic sales growth in the emerging markets, the strongest growth since 2011. Latin America, with double-digit organic growth rate. I'm certain you can remember that last year we had issues in Latin America. We're now at a point where we can certainly say that we've sorted out those issues and are very happy with the current performance of our Latin America business.

The adjusted EBIT margin was very strong and the growth in the margin was driven by all businesses. Carsten will, as I said, take you through the details.

On the challenges, the mature markets, Europe in this context are affected by a weak Southern Europe, which has been consistent throughout the year, and a decline in Japan. The promotional pressures remain high in our fast-moving consumer goods businesses and our electronics business' organic sales growth remained weak in a weak market.

We saw, as you can see, in our numbers compared to organic and reported, a very strong headwind from the currency and we continue to see geopolitical and social unrest in the Africa and Middle East region which of course, despite the good numbers, had an impact on our overall business.

What are the key developments by business group? In our laundry and homecare business we saw a strong organic sales growth. Our laundry business was solid. Our homecare business was double-digit. The emerging market was double-digit in the quarter. The mature markets were slightly below previous quarter. On the returns, our adjusted EBIT margin showed an excellent increase and we also saw further increase in our ROCE.

When it comes to innovations we have a very strong innovation pipeline which is one of the fundamental drivers for market expansion. We continue to push innovation into the marketplace to drive growth but also to drive profitability. And our Gel Caps, this is a new launch we did in Italy this year and we plan to roll this out across Europe throughout 2014.

Our beauty care business, we saw solid organic sales growth. The retail business remained solid whilst the hair salon business continued to be below previous year, so strong or solid growth in our retail, hair salon slightly below previous year. The emerging market organic sales growth was double-digit and we saw mature market slightly below previous year, heavily impacted by our business in Southern Europe that has historically been very strong for us in our beauty care business.

On the returns side, our adjusted EBIT margin is showing solid increase and our ROCE further increased.

Again in this business we have a very strong innovation pipeline around different brands and we continue to bring strength around our Syoss brand not only in the expansion of our portfolio but also the quality of our innovation pipeline. That has also helped drive the top line and the bottom line.

On the adhesives side, we saw solid organic sales growth. The emerging market was strong with organic sales growth and the mature markets with solid organic sales growth. Adjusted EBIT margin showed an excellent increase and our ROCE also further increased in this area of our business.

The most important activity in the quarter that just went was the opening of the largest adhesive plant in the world in China where the management board and supervisory board went in September. The plant is divided up in three phases. Phase one is up and running. Phase two is in the process of being built. And this plant that will deliver more than 430,000 tonnes of adhesive at full capacity around 2015/2016 will predominantly serve our Chinese market and further increase our competitive position in our Asian business.

Overall we've seen three quarters with accelerating growth in 2013, ending the third quarter with 4.2% growth, the highest growth rate we've had this year. Emerging market grew 9.1%, the highest growth we've had since 2011; Carsten will take you through the details. And EPS at 11.1%. A good quarter and a strong quarter in a difficult market environment.

Now let me hand over to Carsten who will take you through the details of our third quarter. Carsten, please?

Carsten Knobel: Thank you very much Kasper. Good morning everyone also from my side. After having a look on the overall picture of our third quarter let me give you now some more details on our financials.

And let me start with our key financials of the Q3. Our sales came in with EUR4,184m and by that showing an organic growth rate of 4.2%, as already indicated by Kasper, the highest growth rate of organic within the year 2013. But you also see that we are down in nominal terms by EUR110m and this is especially due to a strengthened FX headwind of 670 basis points only in the quarter three.

Our gross margin came in with plus 100 basis points to a level now of 48.2% and in line with that our adjusted EBIT margin for the first time surpassed the 16%, being precise 16.1%, and by that an excellent improvement by 140 basis points supported by all our three business units.

Our adjusted EPS preferred shares came in with EUR1.10 and by that being up 11.1% before adapting to IAS19 revised. The comparable figure for Q3 2012 would be EUR0.97 and by that the comparable growth rate would be 13.4%.

Moving now to the cash side and by that on our key financials, first having a look on our net working capital. Net working capital in percent of sales again has been improved in the third quarter now to a level of 4.5% and by that being improved by 140 basis points.

Our free cash flow came in with a very high number of EUR636m, compared to the previous year down because the previous year was EUR778m but this EUR778m was an exceptionally high number which was driven by the operating cash flow and this was caused by two reasons. The one reason is a higher improvement on a quarter-to-quarter net working capital of last year and, secondly, a higher inflow of other provisions and liabilities and this was caused by a higher increase of the provisions for bonuses to employees.

And finally, our net financial position came in as a net asset position of EUR485m and by that an improvement of EUR1.1b compared to Q3 2012.

Let me now give you some more details and starting with our sales growth. As indicated before, we have a nominal number of EUR4,184m, being down minus 2.6% nominally, and the organic net sales growth up by 4.2% divided by 40 basis points of price increase and a volume component of 380 points.

The FX impact mentioned by Kasper and myself, 670 basis points, strengthened FX headwind in the quarter, and an M&A more or less flat with minus 0.1%, delivering the EUR4,184m what I just mentioned before. And the FX, forgot to say that it is mainly driven by the US dollar but also by several emerging market currencies.

Now having a look on our regional performance and starting with the emerging markets. The sales growth of our Company was over-proportionately boosted by the development in the emerging market and we could show an improvement of 9.1% organically. This is the highest growth since Q3 2011 in the emerging market, reaching a level of EUR1,865m. You also see that this is slightly down in nominal terms compared to Q3 2012, which is due to the fact that I mentioned before, also we have FX headwinds in several emerging market countries.

With that we have an emerging market share in total of 45%, being up 1 percent point compared to Q3 2012.

Looking on the mature markets, also here an improvement in organic net sales growth of 0.6%. Similar situation regarding the nominal figures, EUR2,283b, being down compared to the last year, here by the depreciation of the US dollar.

Moving now to the regional set-up and you have heard it already before. All our regions are growing in organic net sales terms. Our BRIC countries overall showing a very strong development.

Going into the regional details now. Western Europe plus 0.7%, over-compensating the recessionary development within Southern Europe. Eastern Europe came in with plus 6.2% organic net sales growth, strongly supported by Russia and Turkey. Our Africa, Middle East region showing double-digit growth as experienced in quarter one and two with plus 23.1%. North America, a solid growth of plus 2.2%. Latin America being up plus 12.5% and also here Kasper indicated that's especially driven or particularly driven by our development in Brazil showing a double-digit growth rate.

Finally Asia Pacific, plus 1.8%, here to be divided in our emerging part of Asia showing a strong development while Asia Pacific mature being below the previous year, here driven by Japan and this I will allude to when I come to the business divisions in that respect.

Moving now to our income statement adjusted and here sales to gross profit. On the sales development I already commented. Our gross profit is down by minus 0.3% to a level of EUR2,018m but, as you see, our gross margin could be lifted up by 100 basis points to a level of 48.2%.

What are the reasons behind for this very good development? First of all cost reduction measures which we continued, optimization of our efficiency in supply chain and production, continuous portfolio optimization, especially in our adhesive sector, and finally also slightly lower prices for our total direct materials.

Continuing now in our income statement adjustment, now moving from gross profit to EBIT. First of all there is a good quality of earnings which we see in quarter three. As you will see from the comparison to the previous year quarters, the sum of our cost lines between gross profit and EBIT in percent of sales remains flat compared to the previous year.

Going a little bit more into the details, marketing, selling and distribution expenses are reduced slightly compared to the previous year which is due to a shift from marketing investments to promotions. As a consequence all our market shares could have been increased. If you would look on a one to nine comparison you will see a slight increase in absolute numbers and the same relative comparison but we are investing at the level on a total nine months as we did in the year before.

R&D investment in percent of sales are slightly up. The same for administrative expenses, slightly increased. This is the same reason as we already announced in Q1 and Q2; that's the shift of our infrastructure investment into the emerging markets in order to strengthen our regional hubs like Dubai, like Shanghai.

The balance of other operating income, other operating expenses remains flat on a very low level of EUR2m. With that we reach an adjusted EBIT of EUR672m and by that reaching the 16.1% as already indicated for the Company.

Moving now to the bridge of reported to adjusted EBIT, overall no significant impact to be alluded to. No one-time gains, one-time charges of an amount of EUR4m. And, as you know, we are continuously continuing to adapt our structures to the market needs and by that we have reported restructuring charges of EUR19m for the Q3, and by that reaching the already announced adjusted EBIT of EUR672m.

The development of our net financial position, we reached a net asset position in the quarter Q3 of EUR485m and by that significantly improved that compared to Q3 2012 by plus EUR1.1b.

With that I would like to move now to the details of our three business divisions and starting with laundry and homecare. In the third quarter laundry and homecare showed a very good performance overall with a strong organic net sales growth development of plus 5.5%, solely driven by volume. This development was supported business-wise with a solid growth in laundry and a double-digit growth in our homecare sector.

Looking into the regional set-up, the emerging markets could grow by a double-digit improvement, especially contributed by Africa, Middle East and a strong development in Eastern Europe but also in Latin America. The growth in the mature markets slightly below the previous year quarter. Here these markets are characterized by declining markets and by a fierce promotional and price competition.

In addition to our very good top line growth, we recorded adjusted EBIT margin of 15.9% and by that an excellent improvement of 140 basis points by continuous cost measures, by improvements in supply chain and production and also, as I mentioned before, by slightly lower prices for raw materials and packaging.

Finally, our net working capital came in again with an improvement, a significant improvement of 170 basis points now to a record level for quarter three of minus 5.5% in relation to the top line.

Moving now to our beauty care business. The beauty care business overall showed another quarter of profitable growth -- this is now the 31st quarter in a row of profitable growth --

coming in with a solid organic nets sales growth of 3.1% and this 3.1% is supported by 50 basis points in price and 260 basis points in volume growth.

Looking here on the regional perspective, also here we experienced a double-digit growth in the emerging markets supported by a strong development in Latin America and Asia, being precise double-digit in that respect, but also strong developments in Eastern Europe and Middle East, Africa.

Also here the mature markets are slightly below the previous year quarter, also here characterized by increasingly promotional and price pressures. Nevertheless, in North America we showed a solid organic net sales growth, Western Europe was flat on the previous year level and Japan fell short of Q3 2012 in that respect.

From a business perspective our retail business showed solid growth while the hair salon business was slightly negative. And the slightly negative is related to our footprint with an over-proportional set-up in Western Europe, being precise in Southern Europe, and by that affected by negative market development impacting also the growth of our salon business.

Our adjusted EBIT margin showed another improvement of 20 basis points, now reaching a level of 14.9% for quarter three, and the net working capital development reached a level of 1.9%, being flat compared to the previous year but the 1.9% of previous year was already a very good development.

Moving now to our last business sector, our adhesive technologies business, here we have seen a solid growth of 4.2%. This is the highest growth in the year 2013, accelerating the growth quarter by quarter. The 4.2% are composed of 60 basis points in price improvement and 360 points in volume.

The emerging markets showed a strong organic net sales development, with Latin America, particular Brazil, continuing the recovery path, as Kasper already mentioned, here showing a double-digit growth number and here we are back to the path we wanted to reach where we had some issues in last year which we reported during the quarters.

Eastern Europe showed a strong development while Asia came in with a solid growth, also here Japan below the previous year quarter so overall in beauty care and adhesives the Japan business was below the previous year.

Mature markets other than in the HPC regained a solid organic net sales growth development in the mature markets, being in North America and in Western Europe showing a solid organic growth. And as I mentioned before, the only negative effect was the Japan development in adhesives being negative.

Our adjusted EBIT margin showed a level of 17.8% adjusted margin and by that an excellent increase of 180 basis points to a record level for a Q3 in that respect. And also the net working capital showed a significant improvement in the quarter three, reaching now a level of 11.7% being down 140 basis points in the quarter.

With that I'm at the end of the details of the financials and I would like to hand back to Kasper.

Kasper Rorsted: Thanks very much Carsten. Now let me get to the summary and the outlook, and then we'll start doing the questions. Overall the third quarter summary, we saw overall a solid organic sales growth driven by all businesses and, as Carsten has just taken you through, also driven by all regions despite a declining global economy, declining in terms of growth rates.

We saw emerging markets with very strong organic sales growth, as we said, the strongest growth we've seen since 2011, almost 10%. Adjusted EBIT margin very strong and the growth in the increase was driven by all our businesses. And adjusted EPS growth was above 10% again this year. So a strong quarter in what we see as a continuing challenging market environment with a slowing GDP growth throughout 2013.

And maybe just one point here. When we came into the year our assumption was that we would see a recovery in the second half versus the first half. We have seen the reverse. Compared to February we've seen a decline in the growth of the global economy throughout the year. However, we've also been able to see a consistent growth of our Company, going from 2.5% growth in the first quarter, 3.6% in the second and now 4.2% in the third.

As I said, we see a global economy that remains very difficult. We have seen very strong FX headwinds -- and Carsten took you through that; the strongest we've experienced for many years -- a continued tough competitive environment that stayed stable at a high level and what we are also seeing is we are seeing sustainable savings from ongoing efficiency gains initiatives. So that means we continue to adjust our structures to the changes in the market.

At the bottom we're confirming our guidance for 2013 despite our headwinds and now let me just speak you through that in detail. We're seeing organic sales growth between 3% and 5%, as originally also guided in February. We're seeing each of our divisions landing between 3% and 5%, one coming from below and one coming from above. We are taking our margin guidance up from 14.5% for the full year to approximately 15% for the full year. And the adjusted EPS growth at 10%.

And let me just be clear on the guidance. Similar to what I said in the second quarter, our primary guidance KPI is our EPS. So in order to make sure that we give the appropriate guidance for the full year our target is 10% EPS and we're committed to hit 10% EPS.

Carsten slightly mentioned it also; with the changes in the global economy we will continue to adapt our structures to the market. Very important that we get a better balance of our cost position relative to our revenue position. So, as we've done in the previous years, we will continue to adapt our structures to the market.

What are the upcoming events? We have on February 20 our full-year 2013 financial results. In May we have our first quarter results. In June we have our Investor and Analyst Day, which this year will be our beauty care business. In August we have our second quarter and November 11 we have our third quarter results. Now of course we have our AGM which takes place on April 4 and we hope that you will either come or, quote-unquote, be participating online when we announce our results throughout the next year.

With this Carsten and I would now like to take your questions. Thank you.

Q & A Session

Gael Colcombet: Yes, good morning gentlemen. Congratulations on the strong quarter. My first question is on beauty. I was accustomed to a similar margin progression in the HPC business between beauty and laundry yet in Q3 the margin increase was more substantial for laundry and lower for beauty. Is there any reason for that? Are you intensifying your advertising communication expenses more in beauty than you do in laundry? That's my first question.

My second question is on your overall margin, EBIT margin for the whole Group. According to your 2016 guidance, the implied EBIT margin was, I think, around 16%. Now given your strong run rate since last November, when you announced your mid-term targets and the ongoing adaptation of your structures, that's coming in probably faster than you initially expected. So my question is do you think you planned that mid-term margin potential too conservatively?

And, if so, is that something that you could be -- that could be updated, say, sometime next year? And I mean the like-for-like EBIT margin excluding the impact of M&A. Thank you.

Kasper Rorsted: Okay. Carsten will take the first question on the beauty care side and I will take the 2016 question regarding implied margin.

Carsten Knobel: In general there is not a difference between our laundry and homecare and our beauty care business when it comes to supporting the investments into the markets. We are always looking on our own brands and our own development and we're comparing that also for sure with competitors' activities.

Both sectors are characterized, as I mentioned, by tough competition in terms of price and promotion. And the only difference is that the laundry and homecare business is a little bit more positive, affected by less direct material prices. And that is the only difference and nothing more to add on that.

Kasper Rorsted: On the question regarding 2016 guidance, let me just try to set it in perspective. Our guidance for 2016 is 20/10/10, so it's 10% EPS. We were subsequently asked the question, what is the implied margin? And of course if you do the mathematics you will get to approximately 16% position. What you have seen this year has been very, very heavy currency headwind on one side and we've also seen slight, effects of slight decreasing in raw materials.

Our most important KPI is the 10% EPS. That's why we're actually less concerned about the margin. What we are doing though is that we believe that there is no long term without the short term, and we believe it's important that we hit our guidance as often as we can. And you've seen that in the first three quarters and we confirm that for the fourth quarter also this year and for the full year we want to do the 10% EPS.

So I wouldn't get overly focused on the implied margin. The implied margin was simply just a mathematic of how you get to 20/10/10. What we want to get is we want to get bigger. We want to get bigger in the emerging markets and we want to deliver consistent competitive return to our shareholders, which is particularly the full EPS side. And then the margin side will be what the margin will be in order to get us there. So that's how we'd look upon it. So it's not whether we're there to quickly simply go and deliver 10% EPS.

Gael Colcombet: Thank you very much.

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

Iain Simpson: Thank you very much, and congratulations, gentleman. On Africa/Middle East, that's clearly a region that's doing exceptionally strongly at the moment despite the political unrest. I just wondered if you could talk us through a little bit what you're most pleased with out there and how you see its trajectory.

On innovation, just wondered on a three- to six-month view how you see the phasing of innovation developing and whether there's anything on the horizon in laundry or in beauty that you're particularly excited about. I understand you might not be able to give specifics, but just in broad category terms.

And then lastly, on EPS growth, you say that's your core metric. If I were to strip out FX and IAS 19, your earnings growth would have been in the region of about 20% this quarter, I think. I was just wondering, on 10%, you've clearly built a bit of flex into that. I was just wondering whether that flex got used up this quarter to offset FX or if you're still happy that you've got a bit of resilience left should you get hit by unforeseen events maybe next year or in 2015 or whenever? Thank you very much.

Kasper Rorsted: Maybe starting with the latter, we think, and if you look upon our competition, 10% EPS growth without share buyback is actually a very, very competitive metric. There's a note that if we don't have any top-line growth in the long term, i.e. then we'll start getting a problem, but what you've seen is we've been able to offset a lot of the headwinds we've had across the board through efficiency gains, through portfolio, and we're quite confident, as I said, on our 2013 guidance.

We're also very committed to our 2016 guidance. Our 2014 guidance, we'll give you an update on that. But there's no doubt that if you look upon the overall economic environment, the economic environment was a lot less friendly this year than anticipated. We anticipated higher growth overall in the global GDP. We anticipated higher growth in the second half. Frankly I don't think any of us have seen the level of currency headwind that we've seen this year. That was not part of the anticipation.

So what we've done is we've, I would say, flexed the muscle that we had. But it's very clear that in the long term, if you want to get to 20/10/10, we can't get there with the current currency headwind.

At the same time, if I go back and look up on the last four years, we've had years for currency headwind and currency tailwind. And I think you have to look upon it over the longer period of time and say -- we try and do the 20/10/10, there are some years that we might be ahead of plan, there might be years we'll be behind the plan, but the overall is 20/10/10/.

Carsten, do you want to take the two other ones?

Carsten Knobel: Yes, I will. Iain, regarding Middle East, Africa, I think there is no specific countries or business to be mentioned. All our businesses and all our countries are supporting this double-digit growth what we have reported on. And, as I also said, we are investing also into the infrastructure of Middle East in terms of the regional hub strengthening, and I mentioned Dubai on that. That's to Middle East.

To your question of innovation, I think we have strong innovation rates in both businesses, in HPC, in laundry, homecare and in beauty care, having above 40% as innovation rates. And we have heard Kasper talking about the Q3, where we had the Somat Gel Caps or the Syoss Oleo Intensive colorations as examples for our innovations.

We are clearly committed that we have a full pipeline, not only for this year but also everything is ready for the next year. And this is, as always, prepared by the divisions in this respect. And this is what we are reporting since years, a strong innovation power on that.

And it's a little bit more specific for laundry and home care. It's about further launching liquid detergent capsules in the value-for-money segment, for example, also in Eastern Europe. And when it comes to our beauty care it's about further boosting the hairstyling business and the body care business. And, as you know, we are always in a way to take consumer-relevant innovations and bring that to the market.

Iain Simpson: Thank you very much. That's very clear. And I just have to ask, can you tell us anything at all about M&A or not?

Kasper Rorsted: No.

Carsten Knobel: You know I even have not to answer. Kasper said no.

Iain Simpson: Worth a try. Thank you very much gentlemen.

Operator: Harold Thompson, Deutsche Bank.

Harold Thompson: Yes, good morning everyone. Two questions please. Kasper, I think you said in your intro speech that your large Chinese adhesive plant would be basically full by 2015, maybe 2016. It is your largest adhesive plant, I think the largest in the world also. I guess is the capacity of that plant, is that generally new demand which is filling up the area or is that just being drawn from other plants? And the reason I say that is you have alluded that you might have to continue to adapt your structures and I guess by implication may have to do a little bit more restructuring or plant closures. So maybe can you just talk about that subject?

The second point is you've been fairly open and say sometimes FX goes your way, sometimes it goes against you. Same I guess for input costs. Could you try and give us how much input cost relief in the third quarter helped your gross margins by? I guess if input costs were to rise again we would see the reversal of that or do you think you can sustain the margin increases which you have achieved in the very near term? Thank you.

Kasper Rorsted: Thank you very much Harold. I'll take the first one and Carsten will take the second one. If you look upon the Chinese side, we have been and we continue to be bullish in China. Let me be very clear on this. I know there's been a lot of ups and downs in China this year. We've been very consistent in our outlook, the economic outlook for China, 7.5%. I spent a long time out there this summer also and then went to the World Economic Forum and met some of the Chinese leaders. They're very committed to a sustainable growth run rate at 7.5%, just to put it in that perspective. So we're still bullish on China, point one.

Point two is the adhesive plant we're building in China is predominantly for new demand. It is a consolidation of two older plants. But it's predominantly for new demand, new domestic demand. And we are still confident that that is what we expect what will occur, so taking two small plants and putting them there, but predominantly for new demand.

What we are doing is, and that's why we speak about restructuring, we're looking at costs based on the global economy and see what can we accelerate. Are there things that we can do to make our structure as a company more competitive? As you know, we have -- go through the numbers -- we have 56% of our people in the emerging countries so it's the highest position ever. It is very important that we get a better correlation between our revenue growth and our cost position, and that's what we're working very hard on.

We announced at the beginning of the year or last year that we would open seven new R&D centers in the emerging market. We'll give you an update later on, on that, but we are actually moving structures in. So that's a bit -- we need to make sure that we drive costs out of the system continuously and you can see that on our overall, what do you call, people footprint.

And Carsten can probably allude to it; we've also taken the number of allocations down. Carsten, maybe you want to speak about input costs and output costs.

Maybe one point before Carsten. Very often it is believed that declining input cost is goodness. You can see on our pricing this year that it's actually very difficult to do pricing in a market when you have declining input cost. For us, and I've said that consistently over the last five years, it's actually more to our advantage to have a slight increase in raw materials throughout the year because that allows more aggressive pricing. So declining input cost is for a one- or two-quarter period attractive, but in the long term it actually is negative on our pricing.

Harold Thompson: I could not agree more. Kasper, sorry to interrupt, on your restructuring, therefore you're saying keeping adjusting your measures to EMs where the growth is. So you, I think you've said in the past about EUR100m, maybe EUR150m of restructuring, that's the right number going forward or are you seeing maybe there's a bit more to go on that front?

Kasper Rorsted: It's probably in the range that you're speaking about right now, EUR100m to EUR150m. That's the range we're speaking about because we believe it's important that we try to, on one side, have as little disruption as possible in the system, at the same time continue not to fall asleep and not do what's right because there is -- it is very clear that in every single quarter there's things that we can do better, every single time.

Harold Thompson: Thank you.

Carsten Knobel: Harold, maybe on your first question in terms of input cost to being a little bit more precise on that what was just discussed before, it's around 30 to 40 basis points, which helped us or contributed in our -- in this year or in this quarter, the gross margin improvement.

And on the restructuring, you know that we have a guidance which is unchanged on that, with EUR125m, which is on the previous-year level. But you also know and you have experienced that that we are adapting our structures, and this is depending how the market and our businesses are doing in that respect.

And finally to the overall footprint of our Company, you know that we reached around 175 manufacturing plants at the end of 2012. And our mid-term goal until 2016 is to reduce that to 155. And you also have heard that this also includes the opening of new things. So the net number is 20 but the gross number will be, over the next years, for sure a little bit higher on that. And this is also here in that respect and ongoing adaptation to the internal structures but also to the external environment.

Harold Thompson: Brilliant. Thank you very much to both of you.

Operator: Andreas Riemann, Commerzbank.

Andreas Riemann: Yes. Good morning. Andreas Riemann, Commerzbank. Two questions from my side. First one on cosmetics. Two competitors talked about destocking in the personal care distribution partners. So is this something you also observed in the third quarter in mature markets or is sales in also a sell-out for you at present?

And the second one on the marketing, you mentioned more promotion, less marketing. And given that digital marketing is becoming more relevant, I guess, does this allow you to reduce the pure marketing cost as a percentage of sales in the coming quarters or years. And maybe you can shed some light on this trend within marketing. Thanks.

Kasper Rorsted: On the sales in and sales out, that's consistent. I think that over time you will have the consistency of sales in and sales out because of maybe building inventory so on our numbers there is no impact of relevance in sales in and sales out.

If you take our fast-moving consumer goods businesses, in percentage of sales it's pretty much consistent compared to last year. So in percentage of sales it's consistent. What Carsten said is that we're seeing an increase on top of that on promotional part. So despite the increase in our GP1 margin, which is where you normally would find the promotional spend, that went up. But we are seeing an increase in that. And we're also seeing an increase in digital spend.

It is to our advantage if you have more A&P spend and less promotional spend. So it is not helping us that promotional spend is going up. At the same time we've got to be -- take reality into account. And if overall promotion is going up, we have to follow that. And that's what we're doing. But in percentage of sales, we've maintained our spending this year in our fast-moving consumer goods businesses compared to last year.

Andreas Riemann: Okay. So also in the coming quarters you will do savings from marketing to push promotion. That's probably the answer.

Kasper Rorsted: No, as I said, our R&D -- our A&P spend has been consistent compared to last year. So that has not been the case. We've had consistent A&P spend where we're taking promotion off.

What I do want to say is you need to look upon it, and that's the way we look upon it, on over more than a quarter. We look upon the correlation between top-line growth, bottom-line growth and market share growth, which Carsten spoke about. And in one quarter, and we've had that, you can have abnormalities. Sometimes we've had very high growth in a quarter and we've gone in and said we believe that growth is overstated. We said that in the first quarter because new in market, new product introduction.

So you need to look upon top line, bottom line, market share and then consistency in the overall market investment, which is a mix between promotion and A&P.

Andreas Riemann: Okay.

Operator: Toby McCullagh, Citi.

Toby McCullagh: Hi there. Morning. I've just got one quick question about the primary source of surprise or upside relative to expectations in the last handful of quarters has obviously come from upside in the adhesives margin. Just wondered if you could help out a little bit about what the long-term margin potential is in that business.

I guess also you've spoken about taking efficiencies. There's portfolio optimization within adhesives. But as I understand it, the margins within the adhesives business, within the various different categories, whether it's transport and metal or electronics or general industry, are quite different. So what's the range of profitability by category? And is the margin upside being driven by a short-term change in mix or is it something that's longer-term and more sustainable?

Kasper Rorsted: I think if you start at the macro level the portfolio is key because there's very bit EBIT margin and also GP1 margin difference between the different subsets of our adhesive business. So what you've seen in the third quarter has been a mix between not only region, but also product categories and also input cost. We believe that if you look on the current margin at 17.8% -- five years ago it was 10% -- that has come through a substantial change in our portfolio. And that has a negative impact on our top line.

So what we could have done is we could have delivered a higher top-line growth than the 4.2%, but also with a lower margin. So for us it's about finding the right mix. And I don't think there's one element. We could very easily take the market to 20%, very easily. We could very easily take it to 15%. And what we're consistently trying to do is find the right balance to ensure that we cover the appropriate market segments that we need to cover, grow aggressively, so we cover market share, but at the same time also protect the bottom so we don't get low-end competitors up.

And that's why I think the current number you're seeing is a very high number. And I'm not giving guidance because we never give guidance per business group on margin. But it is on the high side what we're seeing right now.

Toby McCullagh: Okay. Thanks. But what's the range of margins by category, though?

Kasper Rorsted: I think we've said that before. We've seen a -- without going into detail, we're seeing one that is between 20 and 30, and we have seen one that's probably between

10 15, so you can see there's a difference in margin of 10 points of the EBIT margin. So it depends on how we manage that business.

But what we shouldn't do is we shouldn't compare apples with bananas. So solutions on the [AC] side, so the consumer side or the building side, can be very different to that of electronics or automotive, also because the R&D impact is very different of those. So there's high -- that's why I'm saying it's driven by portfolio.

Toby McCullagh: Sure. That's helpful. Thanks a lot.

Operator: Chas Manso, Societe Generale.

Chas Manso: Yes. Good morning. My first question's on adhesives too, and I guess it's probably a follow-on from Toby's. To get to your 3% to 5% like-for-like range this year in adhesives, it requires further acceleration in the last quarter. And I was just wondering what you're seeing out there that will drive that. I'm guessing it may have something to do with electronic materials that you've commented was weak so far this year. And is that improving now into the final quarter? That's the first question.

The second question is really for an update on the laundry side on the laundry capsule wars, if you like. How are your market shares developing in those key markets where there's a lot of activity over capsules? And do you see conditions tough but stable or tough but getting tougher?

Carsten Knobel: Okay. Starting with your first question regarding adhesives, we have the guidance of 3% to 5%, which Kasper talked about, for the overall Company and for all our three, for the three business divisions. And I can only repeat what Kasper said in that respect, is we're coming in the adhesive sector from the lower end. But, as we are saying, we are confirming the 3% to 5%, so that means coming from the lower end.

And we are hoping in that respect, I cannot give you no more specifics on the businesses, but more maybe on the regional. We are seeing that there is a certain upwind coming from the US in that respect. So that's related to the adhesives question.

And then the other one was related to the capsules. Here we see that this is alone -- as you know, this is a strong contributor in terms of organic net sales growth. We have shown very good development in Western and Eastern Europe and in North America, with market shares up in that respect. And we, for sure we are, and as we already mentioned, strongly affected by promotional activities in North America, but we will continue to invest in this segment and to further expand our position from our point of view in a growing category.

Chas Manso: Okay. But in Western Europe where there's a lot of capsule activity, what is happening to your market share at the moment in the key markets?

Carsten Knobel: Yes, we are up, as I said.

Chas Manso: In Western Europe?

Carsten Knobel: We had, I said we had a very good development in Western and Eastern Europe. And a very good development means also for us increasing market shares, otherwise we wouldn't state that as a good development.

Chas Manso: Okay. Thank you.

Carsten Knobel: Welcome.

Operator: Iain Simpson, Barclays.

Iain Simpson: Thank you very much for allowing me a follow-up. Two questions, if I may. Firstly, I think this is the first time you've specifically called out mix in HPC as being a big help to the margins there. I just wondered if you could give -- I know you've always talked about innovation being gross margin-accretive, but I wonder if you could give any more color as to exactly what's helping push that mix margin benefit in HPC.

And secondly, third quarter US laundry clearly saw a fair bit of promotional pressure. I just wondered, going through the quarter, did that ease towards the end of the fourth quarter or are you able to share with us any expectations for the promotional environment in fourth quarter US laundry given we're almost halfway through it now? Thanks very much.

Carsten Knobel: Iain, being a little bit or maybe you have to be a little bit more precise because I don't know exactly what you mean with mix. I think we have not reported that mix has anything in terms of changes in our HPC sector. What do you mean exactly with that?

Iain Simpson: Just that when you talked about the HPC margin development, I think you called out mix as having been a helpful factor. You said innovation had added to the laundry margin. I know you've talked about mix being gross margin-accretive before, but I think that -- I don't recall you having mentioned it on a call before. So I just wondered if you had an especially strong mix benefit from your new laundry innovations this quarter.

Carsten Knobel: No. Maybe I was not clear enough in that respect. So what I said, the improvement in the gross margin in laundry and homecare was related mainly to three factors, which is efficiency gains in production and supply chain, which is cost reduction measures as a second point, and the third thing which is new in that respect is that we had lower prices of our total direct materials. And there was one question where I was referring that this lower pricing effect in terms of direct materials was higher in laundry than in beauty care. This is what I wanted to say.

Iain Simpson: Okay. Thank you very much. And just the promotional environment outlook for US laundry.

Kasper Rorsted: I will get to that. Overall we believe that the long-term outlook for North America continues to be very attractive. It's a growing market. It's a growing population. What we've seen this year is we've seen volume growth, we've seen value decline, primarily due to price erosion, but less so but more promotional.

Over in the longer period of time we -- our expectation is that we will increase the value -- the value of the North American marketplace will increase. And whether there will be short-term pick-ups, we'll let you know by the end of the year. But this year so far the value of the North

American marketplace has been negative. And even if there are changes in the marketplace, I wouldn't rather get excited neither positive or negative. I think the outlook is positive this year. It's been a, quote-unquote, from a value standpoint a disappointing marketplace in the US, not from a volume standpoint.

This brings me -- I think that was the last question. One second.

Operator: Thank you ladies and gentlemen. I will now hand over to Mr. Rorsted for his closing remarks.

Kasper Rorsted: So thank you for participating in our conference call today. And despite the difficult market environment and intensive promotional pressure in HPC, thanks to the strength of our teams we believe that Henkel delivered a strong performance in the third quarter. That's why we're confirming our OSG and our adjusted EPS guidance for the full year and we're increasing our EBIT margin guidance for 2013 to around 15%.

We wish you all the best and we look forward to speaking to you at our Q4 earnings call which will take place on February 20, 2014. Thank you very much for dialing in today. Bye.

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