Henkel Excellence is our Passion

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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. For the duration of the call, you will be on listen-only. 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. Welcome to our conference call. First, I'd like to focus on the key developments in the second quarter 2013. Then Carsten will provide you with the Q2 financials in greater detail. And after that, I will close my presentation with a summary of Q2 2013 and the outlook for the full year, and finally we'll take your questions.

I would 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 discussions are conducted subject to the disclaimer. We will not read the disclaimer, but propose we take it as read into the records for the purpose of this conference call.

Now, let's get started.

Overall, it was a strong second quarter for Henkel. We saw revenue of EUR4.286b and adjusted EBIT margin of 15.4%, earnings per share of EUR1.07, net working capital of 5.2% and our net financial positions of minus EUR130m, so overall what we perceive as a strong set of numbers.

On the achievement, we saw solid organic growth driven by all our business sectors. From a regional standpoint, which is important, all our regions are growing and the emerging markets are very strong. The emerging market sales are now at 45% of our total sales, and this is not because the mature regions are negative. As I said before, all regions are growing. So, good progress on all regions but also good progress on our position in the emerging regions.

We returned to solid growth for Adhesive business after a slight negative growth in the first quarter, but also we returned to positive growth in North America. And our adjusted EBIT margins were very strong. We saw growth driven by all our businesses.

Now, let me just speak a bit about what we see as some of the challenges in the environment that we are in. We see a continued weakness in Southern Europe which also impacts our business. We see further increased promotional pressure coming particularly in our HPC markets, and we will speak about that more in detail later on.

Our Electronic Adhesives are improving, but we still see slight negative sales. The overall electronic market is decreasing. As a reference point, the PC market in the second quarter was down minus 11%, following a very negative first quarter also on the PC side.

We continue to see a strong headwind from FX, and we see further geopolitical and social unrest, particularly in the Middle East. And despite that, you will see very strong numbers for us in the Middle East, but we do see a very unstable environment in certain of our markets.

Let me start with Laundry and Home Care. We saw in our Laundry and Home Care strong organic sales growth. Laundry was strong and Home Care was very strong. The emerging markets organic sales growth was double digit, while the mature markets remained flat. We saw our adjusted EBIT margin showing very strong increases and ROCE further increased.

We continue to focus on improving our innovation pipeline continuously, to ensure that we can drive top line growth but at the same time also drive bottom line improvement. And you will see that throughout our call today, that that is also being the case. We are spending a lot of our time and efforts to ensure that we have the right innovations, particularly in the markets that will continue to grow in the future, Eastern Europe, MENA and other emerging markets.

On our Beauty Care business we saw solid organic sales growth. Retail was solid and Hair Salon below previous year quarter, but solid retail growth. All regions growing, emerging markets with strong organic sales growth. We also saw that our adjusted EBIT margin showing strong increases, and also ROCE in this environment continued to increase.

As I spoke before, on Laundry and Home Care, we see the same importance in our Beauty Care. Particularly in an environment where we are seeing increased promotional activity, a way of fighting and battling that is having a strong innovation pipeline, and we believe we continually improve with our innovation pipeline.

Now, let me move to our last of our three business groups, our Adhesive Technologies. As I said, following a slight negative first quarter, we now see solid organic sales growth, emerging markets with very strong OSG, mature markets slightly below previous quarter, and I'd like to just clarify that. America is back with solid OSG. What we do see is a slightly negative Western Europe and Japan.

On the returns, we see our adjusted EBIT margins showing excellent increases, with an all-time high, and we see ROCE further increased.

Also here we are spending a lot of time and effort and resources on not only bringing the right products to market, but also integrating the assets we've bought. More than a year ago, we finalized the purchase of our high-pressure sensitive adhesive from Cytec, and I can tell you our integration is fully on track and we have also optimized our footprint following the acquisition of Cytec.

So how does it look towards our targets for 2016? We're recording organic sales growth for the second quarter of 4%, where you can see a lot has been eaten by currency, and Carsten will speak about that in greater detail. The emerging markets showed very strong sales growth of almost 9%, and we continue to have an EPS growth of more than 10%, more specifically 10.3%.

Now, I'd like to hand over to Carsten, who will give you further details on the second quarter.

Carsten Knobel: Thank you very much, Kasper. Good morning also from my side. Let me now guide you through the financial details, and let me start with the overview of our key financials.

In the second quarter, we were able to increase our sales to a level of EUR4.286b and by that growing organically 4.0%, driven by all our three business sectors. Our gross margin adjusted came in with 48.3%, being up 70 basis points. On the back of this, our adjusted EBIT margin increased by 90 basis points to the first time of Henkel's 15.4%, also here supported by all three business sectors.

Our adjusted EPS per preferred share reached a level of EUR1.07, and by that translating into a growth of 10.3%. And this is before adapting to IAS 19 revised. The comparable figure for the Q2 2012 would have been EUR0.96 instead of the EUR0.97, and that translating into an EPS growth of 11.5%.

Moving now to our cash side, and first of all we see again a very good development in net working capital in percent of sales. We were able to improve again our net working capital by 180 basis points, supported by all our three business sectors, and now reaching a level of 5.2% in Q2 2013 compared to the 7.0% in the comparable quarter of last year.

With an amount of EUR203m of free cash flow, we came in -- we decreased compared to the quarter of 2012, which is mainly due to a lower cash flow from operating activities. Here, the increased operating profit was offset by mainly two factors. Firstly, increasing our operating business resulted in higher outflows of trade accounts receivable. And secondly, the special incentives for reaching our 2012 targets were paid out and the payout, as you might know, has been earned over the period from 2008 until 2012.

Our net financial position came in, as already pointed out by Kasper, with minus EUR130m in Q2 2013, and this has been an improvement of EUR1.1b of the comparable quarter of last year.

Moving now to some more details and now starting first with our sales growth. The sales growth on a nominal basis grew by 1.9%, from EUR4.206b now to a level of EUR4.286b. This implies an organic sales development of 4.0% and this is driven by price and volume. The price effect amounted of 80 basis points, while our volume was improved by 320 basis points.

And also here, both effects, price and volume, were supported by all our three business sectors.

Kasper mentioned it before, we have been significantly impacted by FX. Being precise, the FX impact in Q2 2013 amounted to minus 230 basis points, and this was mainly impacted by Japan, US and Russia. The M&A effect came in with 20 basis points. And all of that, as I mentioned before, brought us to EUR4.286b of sales.

Looking now into the regional development of our sales, and here our sales growth was again boosted by a particular performance in the emerging markets. Despite a slower growth than before in the emerging markets, our sales increased by 8.9% organically and reached a level of EUR1.943b, and with this we achieved the highest growth in organic net sales terms since Q3 2011. And by that, we also reached an emerging market share of our total sales of 45%, being up 200 basis points compared to Q2 2012. But also our mature markets grew. We reached a level of EUR2.304b, and by that being organically growing 0.2%.

Let us now have a look on our regions individually. And the first remark is -- and you have heard it already by Kasper -- is that all our regions were growing in Q2 2013. Our Western European business, despite the fact that we have been impacted by the recessionary development in Southern Europe, came in with a level of 0.2% organic net sales growth. Eastern Europe grew strongly and showed a strong performance with reaching 5.8% organic net sales growth, and this especially contributed by Russia and Turkey.

In Africa/Middle East we again reached a double-digit development, being precise plus 18.3%. And this was reached despite the fact that we have been negatively impacted by certain social unrest and political unrest in some of the countries.

In a highly competitive market in North America, we grew our business organically by 1.1%. Latin America came in with a very strong development of 7.8%, mainly or particularly driven by Brazil and Mexico. And finally, our Asia-Pacific business grew plus 6% in organic net sales growth, by double-digit growth within China and with a negative development, or partly compensated by a negative development in Japan.

With that, I would like to move to the income statement adjusted, and here sales to gross profit. Our sales, as mentioned before, normally grow 1.9% to a level of EUR4.286b. The cost of goods amounted to EUR2.2b, and with that reaching a gross profit in absolute terms of EUR2.072b, over-proportionally growing by 3.4%, and by that relating to a gross margin of 48.3%, being up 70 basis points despite a negative impact from cost of goods which was less than 50 basis points. The disciplined execution of countermeasures supported this development in Q2 2013.

Moving now further in our income statement adjusted and now gross profit to EBIT. As you will see, our cost lines between gross profit and EBIT in percent of sales remained almost flat in comparison to the previous year quarter. In absolute terms, we saw an increase in our marketing, selling and distribution expenses, as well as in our administration expenses. The increase in the admin expenses is impacted by our investments we undertook in order to shift infrastructure to the emerging markets by further strengthening our regional hubs.

Our adjusted EBIT came in with EUR660m, and by that, as I mentioned before, first time that we have been able to show an adjusted EBIT margin of 15.4% for the quarter.

Coming now to the reported to adjusted EBIT. Our reported EBIT came in in the quarter of EUR607m. There were one-time gains in the amount of EUR10m which are related to gains from the sale of our enzyme technology to BASF, which we were closing in April this year. There are one-time charges of EUR36m, and the charges reflect our decision to fully exit from our Iranian business. We have booked an impairment of EUR35m, which has been reported under other operating expenses in the P&L. The deconsolidation is expected to result in additional expenses. In total, we expect a loss of around EUR55m.

Finally, restructuring charges. In order to continue our adaptation to our structures to the markets, we have spent EUR27m of restructuring in Q2 2013, which is in line with our guidance for the full year of EUR125m.

The development of our net financial position, mentioned before, we reached a level of minus EUR130m. And this is a very positive picture because we could improve our position by EUR1.1b compared to Q2 2012.

And another sign, in that respect, of our financial strength is also related, if you compare that to the end of the previous year, December 31, 2012, where we had more or less the same amount, but taking into account that we had to pay dividends of EUR425m in April this year within this quarter.

With that, I would like to move to the financial details of our three business sectors, and starting with our Laundry and Home Care business.

The second quarter showed a very good performance within our Laundry and Home Care business. We had a strong organic net sales growth organically of 5.8%, and this was driven by price and volume. Price was driven by 150 basis points, while our volume was increased by 430 basis points. The development was supported by a strong increase in Laundry and a very strong sales growth in our Home Care business.

Regionally speaking, the emerging markets showed a double-digit growth, impacted by a top -- a very positive development of Africa, Middle East and Eastern Europe. And despite a very intensified promotional environment, especially in North America, and the negative market conditions in Southern Europe, we managed to achieve a stable performance in the mature markets.

If you look on our adjusted EBIT margin, we were able also here to show a very strong increase, by 80 basis points now to a level of 15.3%. And this was impacted by an increase due to efficiency gains but also a strong cost discipline. I mentioned net working capital for the overall Company as a very good development. Also here Laundry and Home Care by an improvement of 150 basis points also supported this development, now reaching a level of minus 4.2%.

Moving now to our Beauty Care business, also here we were able to achieve another quarter of profitable growth. We came in with a solid organic net sales growth of 2.8%. Also here, this was supported by price and volume. Price came in by a positive impact of 50 basis points, while we increased our volume by 230 basis points.

Looking to our business sectors within Beauty Care, we saw our retail business continuing its growth path with solid organic net sales growth. Our Hair Salon, as mentioned before by Kasper, was negatively affected by a strong decline of the markets, and by that also being negative in terms of organic net sales growth in Q2 2013.

Regional wise, and here remarkable, all regions contributed to this positive organic net sales development. The emerging markets grew strongly, with a double-digit contribution from Africa/Middle East but also from Asia. The market environment in mature markets, as pointed out already with Laundry and Home Care, remained difficult. Nevertheless, we were able to increase our organic net sales growth compared to the previous year quarter in the mature markets, especially driven by North America and Western Europe.

Also in the adjusted EBIT margin we were able to again increase our adjusted EBIT margin in percent of sales, now to a level of 14.9%, and by that improving by 50 basis points. And this was driven by improvement of gross margin, and also here a strict cost discipline.

Finally, net working capital. Also the Beauty Care business is supporting our overall net working capital development, improving by 40 basis points, now to a level of 2.4% in relation to sales.

Coming finally now to our Adhesive Technology business, and after a negative top line development in Q1 2013 with minus 1.2%, Adhesives returned to a solid organic net sales growth, now reaching 3.6% in organic net sales growth, also here driven and supported by price and volume. Price effect was 50 basis points, while the volume was increased by 310 basis points related to volume.

Emerging markets showed a very strong organic net sales growth, particularly driven by also Latin America contributing double digit. And here I would like to mention, and we mentioned that already in Q1 where we had the first signs of recovery, which we reported, and this was continued, the strengthening effect in Brazil also in the second quarter, showing a double-digit organic net sales growth for our Adhesives business.

Asia and Eastern Europe showed a very strong development compared to the prior year quarter. Within the mature markets, we were slightly below the previous year. But our North American business, as pointed out by Kasper, showed a solid development. Western Europe -- the Western European business and also Japan were impacted by a slightly negative organic net sales growth.

Coming now also here to the adjusted EBIT margin, and here an excellent development within our adjusted EBIT margin, improving by 120 basis points, now to a level of 16.9% for Q2 2013. And a similar development, sorry to say, also here not to forget strong cost discipline and an improvement in gross margin supported that development of the 120 basis points improvement.

And finally, our net working capital number, also here a significant improvement, 220 basis points improvement, now to a level of 12.2% of sales.

With that, I would like to hand back to Kasper.

Kasper Rosted: Thank you very much, Carsten. Let me now, please, summarize.

We had a strong second quarter, with overall solid growth driven by all businesses, taking the top line to 4% growth. In a market which remains highly volatile, and also with recessionary elements, particularly in Europe, it was good to see that all regions were growing. The emerging markets, as Carsten said, showed its highest growth rate over the last two years and came in with approximately 45% of our total business.

Let me just pause here for a second and mention the following. There has been a lot of discussion over the last quarters about the continued dynamics or lack of the same within the BRIC countries. Of the four BRIC countries, Henkel had double-digit growth in Brazil, India and China, and remained strong in Russia. So the emerging markets, also with the larger countries, continues to be the growth engine behind Henkel's top line.

Our adjusted EBIT margin was very strong and the growth was driven by all businesses. And our adjusted EPS, our growth was above 10%. Overall, a strong quarter in a continued challenging market environment.

On the outlook, at the beginning of the year our statement was that we assume that the global economy would recover in the second half. Currently, we see that is not happening. We believe that the global economic environment remains difficult and will not change in the second half. Thus, a strong innovation pipeline to foster profitable growth is necessary, despite higher competitive environment. We are also seeing FX headwinds persisting.

Despite the above, I would like to make certain that I am very clear on this. We are confirming our guidance for FY 2013, despite the headwinds and despite the remaining difficult market environment, which brings me to the guidance.

We are guiding around three factors or three elements; organic sales growth which is 3% to 5%, adjusted EBIT margin which is 14.5%, but our primary KPI which we outlined in our 20-10-10 strategy in November is EPS. So, in contrast to the last four years, where our primary guidance was 14%, out of the three, the most important one to ensure that we deliver a key message and also value to our shareholders is EPS growth, and we are confirming our guidance of around a 10% EPS for 2013.

In this context, also because of the market environment, we will continue to adapt our structures to the market. You have heard Carsten speak about that. You will continue to see us focus on ensuring that we have the right structures, because of the fluctuating marketplace, to ensure that we can deliver upon our 20-10-10 targets.

What are the upcoming events? We have our third-quarter numbers coming up in November 12. And in February 20, we're done with the year and we'll be reporting the full year.

Now we're coming to the end of the presentation, and Carsten and I would be happen to take your questions. Thank you very much.

Q & A Session

Operator: Thank you, Mr. Rorsted. The first question comes from the line of Gael Colcombet from MainFirst. Please go ahead.

Gael Colcombet: Yes. Good morning, gentlemen. Well done on the quarter. My first question is on Laundry. It seems that the strong momentum we have seen over the past couple of quarters is continuing. You hit 6% organic growth in Q2, after 8% in Q1, even if comps were a bit more difficult. So why do you think that Laundry organic growth will be below 5% for the full year, which seems to be implied by your guidance?

Secondly, on EBIT margin, I know it's not your primary KPI, but you are running above 14.5% in Q1 and Q2. So why do you think that the margin progression might slow down in H2 as implied by your guidance?

And finally, on Beauty, it seems there was some deceleration sequentially after Q1, even if comps were easier. I think you mentioned that market had been decelerating for Beauty. Is there any other factor that might explain the sequentially slightly slower organic growth, such as phasing of your launches? Thank you.

Kasper Rorsted: If I start with Laundry, we did say at the beginning of the year we believe that we would see a slower growth coming throughout the year. Well, we are seeing, particularly in certain markets, very high competitive pressure, North America being one, and also Russia, with a very high price decrease and promotional activity. So our expectation is, as I said also in the second quarter, we will see a slowdown within the second part of the year. Particularly -- we're not completely certain it will come into the 3% to 5%, but we expect a slightly slower growth for Laundry in the second half than the first half.

On EBIT margin, as I said before, our primary guidance is EPS. And this year we have had a very fluctuating environment. We have had flat raw materials and we've had a high decrease on our -- we've had a lot of headwind on the currency. We want to make sure that we deliver the 10% EPS. If we believe that the 14.5% is not the right margin guidance, we will look upon that and revise in the third quarter. But our primary target is what we said, is our EPS.

On Beauty Care, we're just seeing a very difficult market these days. We're seeing a market that many markets are becoming extremely negative. We're impacted by a negative Japan, and Russia we also see as a very challenging market. So that's the net of Beauty Care. So what we are seeing, we are seeing a market where the underlying elements across the board are very, very volatile.

Next question.

Gael Colcombet: Thank you.

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

Iain Simpson: Thank you very much. Good morning, gentlemen. Just a couple of questions, if I may. Firstly, on financial items, you obviously repaid that bond at the end of June. Should we be expecting a decrease in financial items in the second half? What sort of number should we be thinking of for the full year?

And then, going more operationally, you sound happier with Adhesives in North America. It would be interesting to hear any -- how far along recovery should we think of Adhesives in North America as being? Should we expect sequential improvement into the third quarter, as you fully address those first-quarter issues that you saw?

And then just lastly, in Laundry, I note that you haven't called out Western Europe as a region that's seen a step-up in competitive intensity, despite one of your large competitors launching very high-profile products there. Any color you can give on the trends within Western European Laundry would be great. Thanks very much.

Carsten Knobel: Iain, regarding your first question regarding financial items, I think with EUR27m we showed a significant improvement in our financial results in Q2 2013, compared to minus EUR44m we had in the Q2 of 2012. For sure, the impact of repaying the senior bond will have an impact in the second half of the year, but we do not guide the financial results for the full year. But you have seen that we have significantly improved over Q2 in this year, and there will be no other changes expected also for the upcoming quarters in the year.

Kasper Rorsted: On the two other questions, we are seeing a slight pickup of the overall US economy. It's probably slower than anticipated. In the first quarter we stated that we're not happy about -- or satisfied is probably more the appropriate word -- about our performance in North America. That has changed in the second quarter.

What has impacted the reported numbers in North America is the sluggish electronics market. I'm seeing a market right now where a lot of that is being recorded in North America. So in the long term, our expectation is that the North American economy will continue to pick up. Of course, a lot of the electronics business is recorded from a reporting standpoint in North America, which has a reporting impact.

On the third one, Laundry, we are seeing increased competitive pressure from one of our bigger American competitors, particularly when it comes to pricing and promotional activity. And we are seeing that in Western Europe, but we're also seeing that in certain countries in Eastern Europe where market share positions have changed over the last couple of years. I think that's the appropriate way of saying that.

Iain Simpson: Thank you very much. Very clear.

Operator: The next question comes from the line of Harold Thompson from Deutsche Bank. Please go ahead.

Harold Thompson: Yes. Good morning. I've just got one question. Kasper, you keep saying that you're keen to keep adjusting structures and setups to continue delivering in the tough environment. However, I also noticed that your restructuring charges are basically remaining fairly low and unchanged. So when you're talking about keeping -- adapting things, does that mean there might be some extra measures to take which cost you a bit more on restructuring, or is it just all internally financed and that's the way it will be? Thank you.

Kasper Rorsted: What we did was we guided the year in the beginning at EUR125m when we ran at EUR27m for restructuring. Of course, if we believe that the markets will fundamentally change, we will address that. And if we were to do that, we will do it quicker than later. What we are concerned about, we are continuously concerned about the sluggish Europe, where it's very difficult to see a recovery coming up.

So the purpose of all we're stating, we want to adapt our structures to the market, is that we believe that the markets are extremely difficult to predict at this stage. We came out and we thought that the GDP would be around 3% for the year. Right now, FERI is projecting 2.1%. And if we believe that this is an average number, if we believe there are certain elements that will necessitate us to do something, we will do it upfront instead of later, like we did in the H2 '12. But I'm not saying that we're going to have a big restructuring program. I'm just saying that we're very, very -- we're monitoring the changes in the market very carefully.

Harold Thompson: Okay. If I can just do one follow-up, you've also been fairly vocal on M&A and you've updated the markets about a target list, if one would say it that way. Is there anything else you can add to that, or not really?

Kasper Rorsted: Not really.

Harold Thompson: Okay. Thank you.

Operator: The next question comes from the line of Christian Faitz from Macquarie. Please go ahead.

Christian Faitz: Yes. Good morning. Just two questions, please. First of all, can you comment on the North American situation in Laundry and Home Care specifically? In your release you talk about an increasingly declining market, so not competitive pressure but declining market. What's going on there?

And then, second of all, in Adhesives in North America, which industries were the main drivers for the solid improvement? I would believe predominantly automotive, but also construction. Is that right? Thanks.

Carsten Knobel: Regarding your question of Laundry and Home Care North America, we saw after eight quarters of positive organic net sales development a slight negative development in this quarter. And this is on the one side due to the fact that the laundry market is under extreme pressure and being negative, and within this development we maintain our market shares. And within Home Care there is the point that we are phasing in, especially in our air care topic, a significant new product line, phasing in, phasing out. And this is an impact which is a one-timer in that respect, and that's the reason for the development on top.

And I was -- I think Kasper has already mentioned that in the question before, there is a significant improvement of promotional pressure within North America in total. And despite that, all SBUs in Adhesives are growing organically, despite our electronics business which we have mentioned at the beginning in the call, and I see a smaller impact than that.

Christian Faitz: Okay. Great

Operator: The next question comes from the line of Eddy Hargreaves from Canaccord. Please go ahead.

Eddy Hargreaves: Thank you and congratulations on the quarter. Kasper, a question for you, really, and forgive the slightly personal nature of it, but you've obviously been associated with the successful renaissance of Henkel over the last few years, generally, since having led the Company very successfully by most investors. Over the last quarter we've seen a number of media reports of you being associated with moves to other companies, which I'm sure will be disappointing to the majority of investors and myself. Is there anything that you could say to reassure us that you're not going anywhere and reconfirm your commitment to Henkel?

Kasper Rorsted: You said you're disappointed, it's because I'm staying or? No, Eddy, I've been onboard since 2005. It's my sixth year as CEO. I believe we have a great team. We have a new strategy. I'm completely committed to doing the next round also. I think we got off to a good start, which you can see. We're running at 10.3% in the first half. But we still have four, three-and-a-half years to go and I'm completely committed to taking this to the end. I'm very happy where I am and I'm having a great fun and excitement doing what I do.

That the press writes I think is natural. Sometimes that you have CEO changes in other companies, but I can assure you I'm extremely committed to this company. I think we have a great company. And as I said, ongoing course, I think we're only halfway through our transformation. We have a long way to go, which is the exciting part of being part of Henkel.

And in contrast to 2008 to '10, today we have a very strong balance sheet where we actually can do much more from a balancing standpoint than only from a P&L standpoint. So I can assure you, whether it's disappointing for you or not, I'm planning to stay.

Eddy Hargreaves: No, it would be exactly the opposite, but that's great news. Thank you.

Kasper Rorsted: Thank you.

Operator: The next question comes from the line of Markus Mayer from Kepler Cheuvreux. Please go ahead.

Markus Mayer: Yes. Two questions, if I may. First of all, on the raw materials, you said that raw materials have been fairly stable this quarter. Can you split this up more in the different divisions? Have been the raw material cost prices also been more or less flat, because I assume they're different.

And then secondly, on the cash flow, this higher trade receivable, do you think this will then turn in the second half? And what do you expect -- what kind of net working capital inflow expect -- you do expect in the second half?

Carsten Knobel: So, regarding your raw material question, we have the guidance which is still valid, which is that we see a moderate increase in -- for the full year. Yes, it is true that we have stabilized within the first half-year our raw materials, but you all know the ongoing political and economic unrest which we face in this world, especially in Middle East. And in that respect, we still remain cautious and therefore we stay with our guidance regarding raw materials. But we do not disclose any details regarding business sectors or any specific raw materials.

And regarding your second question, regarding cash flow or better to say then related to net working capital, I think also here I think we have shown over the last year that we are driving net working capital quarter over quarter, and we have a guidance -- we have not a guidance specifically geared on net working capital. We have said that we would like to reach a net working capital until 2016 in the level of 5% regarding net sales, and this is still valid. And all three business divisions will support on that, as you have seen that over the last quarters.

Markus Mayer: Okay. Very clear. Thanks.

Operator: The next question comes from the line of Chas Manso from Societe Generale. Please go ahead.

Chas Manso: Yes. Good morning. My first question would be whether you could just go down your three divisions and update us on how you see market growth in the three divisions and your market share trends in those three divisions. Is the change in market share harder than it used to be? Are you gaining less market share than historically?

And the second question would be on the margin. I know you're stressing EPS is your primary KPI, but your current guidance does imply a margin decline in the second half. Could you maybe help us with the moving parts that you anticipate? Are you just keeping some flexibility to respond to competitive pressures, or are there any other cost levers that we ought to be aware of? Thank you.

Kasper Rorsted: You're asking a very broad question, first off. So the macro of it is, in our business groups, in Laundry we are slightly growing our market share, in Beauty Care we're flat to growing, in Adhesives we're flat.

On the competitive pressure, we are seeing increase in competitive pressure in both Laundry and Beauty Care. Particularly Laundry has further increased in North America and in Eastern Europe in the latter part. Beauty Care is consistently high and Adhesive is very consistent. As you know, in the Adhesives side, we are managing very much the portfolio. We're not trying to get every deal we can on the price. That has market share impact for us, because we do not want to be in the commodity space. So in certain areas, particularly in our Packaging Adhesives, we are foregoing certain businesses because we see our primary competitor -- competitive environment is driven around technology and presence.

When it comes to the guidance, we don't guide on currency, but we -- as I said, we want to go back and say what did we actually say in November of 2012 when it comes to strategy. And that was absolute size, the EUR20b. It was presence in the emerging markets as a long-term revenue driver, EUR10b. And it was EPS of 10%. And that is strategically how we run the Company.

Of course, then when we go into a year, we tactically run the Company based on different KPIs and these are around OSG, organic sales growth, margin and then EPS. OSG, of course, is only good and valid. It gives you an indication of the health of our business in the local countries. But OSG, if you have high volatility on currency, actually can be misleading when it comes to the EPS side. And that's why OSG is important when it comes to our local presence and market share. Margin is important for us because it articulates our capability to generate value in the market. But we want to optimize EPS.

So you can then say is there currently leeway on the margin side. If you do the mathematics, with the current currency, yes. So we're not trying to reserve ourselves any right, but we are trading at the higher element of it. But we want to say we want to maintain market share or grow market share. We want to improve our position in emerging markets. And we want to deliver the 10% EPS. If that then implies a different margin, then so it be, and we'll then re-guide in the third quarter. But because of the extreme volatility on currency, we believe it's too early to do at this stage.

Chas Manso: Okay. Thank you.

Operator: We have to follow-up question from the line of Iain Simpson from Barclays. Please go ahead.

Iain Simpson: Thank you very much for allowing me a follow-up. Just a couple, if I may. Looking at Adhesives, that improvement in net working capital over the last few years has been really quite dramatic. And I wondered if you could give us any sense of, at a granular level, exactly how you're realizing those improvements, and also just how much there is left in the pipeline. You've previously said that structurally Adhesives will always have slightly higher net working capital requirements than HPC, but it would be great if you can give any color as to how far you feel you are along that journey.

And secondly, a more operational question. Looking at your HPC business, are there any particular sub-categories where you feel that you have what could be a very major innovation in the pipeline or whether you've had anything that you're particularly excited about that's launched recently? I'm just trying to think in terms of the innovation phasing for the second half of this year. Thank you.

Carsten Knobel: So, starting first with your question again to net working capital, yes, you are right, we are improving in Adhesives significantly over the last years, and this is something -- we started definitely earlier an improvement in our HPC businesses. And we take the learnings from all our divisions. We have since years a cross-divisional net working capital council which is led by myself, by all three business divisions within. And here we're getting the knowledge and the impact of inventories, receivables and payables which we exchange, and by that we are able to improve that.

For sure it's getting tougher and tougher, day by day. Why? As you have heard before, we are moving more into the direction of emerging markets, so changing our footprint. And one thing is for sure, within the emerging markets it's definitely tougher to improve net working capital, or with other words, the level of net working capital in emerging markets is higher than in the mature markets, which is an additional burden in order for our organization to move that. But on the other side, you see that we are doing that because I think we have the right topics and measures at hand in order to improve that into that direction.

And you have also seen at the beginning of the year, in Q1, we changed the net working capital definition in that respect, to further improve the basis by putting also trade accounts and receivables into that with all customers in that respect. That's, I think, the answer to your net working capital question.

And the second was regarding innovations. And I think also here, if you see, for example, Laundry and Home Care and what we are currently or since a while now doing with our -- especially in our toiletry business, with the driving of innovation with our rim blocks and rim balls, I think that's, I think, the short answer, but this is especially what helps us to further drive that.

Iain Simpson: Thank you.

Kasper Rorsted: Let me just clarify one thing, because I think it's important that we're on the same page when it comes to EBIT. We're not guiding downward EBIT, to be clear. We're managing our EPS. And if you just do the basic mathematics -- and I'm not trying to change the guidance. I said if we change guidance, we normally do in the third quarter. We're actually confirming the guidance, and then you can do the maths you want to do. And I say that with great respect.

We want to do the 10% EPS. You can play with the currency number. If we do the OSG of 3% to 5% and Carsten articulated with two and a half headwind on currency, you get to a certain EBIT number in order to do the EPS. I want to make certain that I don't leave anybody in this call that we're downgrading our EBIT margin guidance. We are not doing that.

Operator: We currently have no further questions in the queue.

Kasper Rorsted: So, okay, I think I'll press star 1 then. Ladies and gentlemen, thank you very much for participating in our conference call today.

Overall, Q2 was a strong quarter on the background of a difficult market environment, which we assume continues to be difficult, and intensified promotional pressure in HPC. We confirm our guidance for 2013 around the 10% EPS and we're confident for the rest of the year.

I wish you all the best and we look forward to speaking to you at our Q3 earnings conference call on November 12. Thank you very much. Bye.

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