Commented Slides / Earnings Conference Call Q3 2016
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Carsten Knobel; Henkel; CFO
& Investor Relations Team

Participants – Active in Q&A session
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Celine Pannuti; JP Morgan; Analyst
Iain Simpson; Societe Generale; Analyst
Martín Roediger; Kepler Chevreux; Analyst
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Operator:
Good morning and welcome to the Henkel conference call. With us today are Hans Van Bylen, 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. Van Bylen. Please go ahead, sir.

Hans Van Bylen:

Dear Investors and Analysts,

good morning from Düsseldorf and welcome to our Earnings Call for the third quarter of 2016.

First I will go through the key developments of the third quarter, Carsten then will comment the detailed quarterly financials and after that I will close my presentation with a brief summary and the outlook.

And finally, Carsten and I will 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 the 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 this conference call.
Let's start with the key developments of the quarter.
In the third quarter of 2016, Henkel delivered a strong performance in a continued challenging and volatile environment.

Sales, adjusted EBIT and adjusted EPS reached all-time highs in this quarter.

On Group level, sales increased nominally by 3.4% to EUR 4.748 million. We delivered the solid organic sales growth of 2.8%.

Adjusted EBIT showed a strong growth of 7.6%. The adjusted EBIT margin rose by 70 basis points to 17.6%, reaching the all-time high of Q2 2016 again.

Adjusted EPS grew 9.2% to EUR 1.42.

In our emerging markets, we once again delivered a strong performance, recording an organic growth of 6.7%. Mature markets were also positive in Q3.

Net working capital further improved and came in at 5.2%.

Our net financial position was negative by EUR 2.7 billion at the end of the third quarter, due to the payments following the closing of our acquisitions.

The Sun acquisition influenced our results. Carsten will later on give you further details when commenting KPIs in detail.
Our profitable growth in the quarter was driven by the strong performance of all three business units.

Our solid organic growth was mainly driven by volume. Pricing was overall positive.

As said, emerging markets achieved a strong organic sales performance, while mature markets showed a positive development.

We delivered once again a very strong improvement in the adjusted EBIT margin and increased adjusted EPS by 9.2%.

Lastly, as you already know, we successfully closed the Sun acquisition on September 1. We are very proud and glad to welcome our new colleagues to Henkel, and we are looking forward to a successful future.
We were able to deliver strong results in a continued challenging and uncertain environment.

The severe geopolitical and social instability and the macro-economic volatility in some countries persist.

Global GDP growth remains moderate, with slowing growth dynamics.

FX headwinds persisted also in the third quarter, driven by volatility, mainly in key emerging market currencies.

And finally, also in feedstock markets, volatility remains high.
We continue to be very satisfied with the strong performance of our Laundry & Home Care business.

The business unit achieved a solid organic sales performance, on high comps, which was driven by strong growth in Laundry Care and a positive development in Home Care. All regions contributed with solid growth in mature markets and a strong increase in emerging markets.

The adjusted EBIT margin, excluding acquisitions, showed again a strong improvement and due to the acquisition impact was slightly below the level of the prior year. Also, impacted by recent acquisitions, ROCE remained below the level of prior year.
Several initiatives drove the strong performance of Laundry & Home Care. Let me give you three examples.

Toilet care once again showed a very strong performance, driven by Bref Power Aktiv, which is the number one toilet rim block in our active markets. Our new formula, now available in 60 countries, contributed to this development.

Also, Perwoll contributed strongly, strengthening its market leadership position in the specialty detergent segment. The introduction of Perwoll in new 3D in 30 countries in Europe and Latin America supported this successful performance.

Last but not least, we delivered double-digit growth in South Korea in the third quarter and further expanded our number one position in the detergent segment, also thanks to the launch of a new Persil variant, Persil Hygiene. Moreover, our growth was driven by our success in e-commerce and home shopping, with a sales share of more than 60%.
Let me finalize my comments on Laundry & Home Care with some comments on the Sun acquisition.

As you all know, this is the second largest acquisition in our company’s history and it represents a step-change for Laundry & Home Care in North America. After the signing at the end of June, we proceeded very fast. In the first week of September, we closed the transaction and secured financing at favorable conditions.

Since then, we fully focused on the successful integration. One of the first initiatives was the decision to move and combine our admin offices in a new location, situated at the east coast, in Stamford, Connecticut. Carsten will give you later some insights on the integration and financials.
Let's now move on to Beauty Care.

Beauty Care achieved a solid organic sales performance and an excellent increase in profitability.

Top line was driven by solid organic growth in the Retail business and a positive performance in Hair Salon. While organic sales growth in the emerging markets was very strong, the mature markets came in on the level of prior year.

Beauty Care posted an excellent increase in the adjusted EBIT margin. As a result of this operating performance, ROCE was above the level of the prior year quarter.
Also for Beauty Care I would like to give you some highlights on our initiatives.

In our Hair Styling category, we were able to further expand our leadership position in Europe and reached all-time high market shares. The success was driven by Taft, which is the number one styling brand in Europe, but also Syoss and got2b strongly contributed.

Russia keeps on delivering double-digit growth, supported by all categories. This growth is driven by both innovations and an excellent execution.

North America Retail continues its strong growth momentum. Our global megabrand, Schwarzkopf, delivers excellent results in the Hair segment, while also the Body Care business is further expanding with strong Dial innovations.
Moving on to Adhesive Technologies.

Adhesive Technologies achieved a solid organic sales growth and once again a very strong increase in profitability.

Organic sales growth was driven by very strong growth in Transport & Metal and Electronics. The business unit delivered a strong organic sales growth in the emerging markets, and recorded an organic growth slightly below the level of prior year in the mature markets.

Adhesive Technologies delivered a very strong increase in the adjusted EBIT margin, as well as a result of this operating performance, ROCE was above the level of prior year.
I will give you now some highlights regarding Adhesive Technologies.

Our Transport & Metal business showed very strong growth in the quarter. We achieved strong growth in the segment of Metal Containers and Cans. Our innovative and sustainable solutions under the Bonderite brand strengthened our position as the market leader.

In Consumer Packaging, our business with major customers delivered a good growth, thanks to our technologies and products for packaging and labelling. Under the Technomelt brand we expanded our global market leader position.

Also, Electronics had a very strong quarter, supported by the excellent performance and increased market share of our Consumer Electronics business. In this segment, we are the leading supplier of innovative materials for major smartphone manufacturers.

With that I would like to hand over to Carsten.
Carsten Knobel:

Thank you very much Hans, and good morning everyone. As usual I will now go through the details of our financials.

But before, let me state one topic: Together with our new colleagues from Sun, we were able to close the third quarter including the newly-acquired business in line with Henkel's fast closing procedures.

With closing the acquisition on September 1, we have now one month of the Sun business consolidated in our Q3 statements.
But now, as always, let me start with our development of our key KPIs.

In the third quarter of 2016 our sales amounted to EUR4,748 million and in nominal terms that means an increase of 3.4%. Organically we were able to deliver a solid organic net sales growth of 2.8%. The Sun Products acquisition contributed in this part more than EUR100 million of additional sales.

The adjusted gross margin reached 48.8%, a flat development over the prior year, but increased 20 basis points if we exclude the Sun impact. I will give you, as Hans already mentioned before, some more details on the P&L in this respect later.

With a 70-basis points progression, the adjusted EBIT margin came to a level of 17.6%. We delivered a very strong result on the all-time high level of the second quarter - also here excluding the Sun effect of 20 basis points, profitability would have increased even to 17.8%.

Our adjusted EPS increased by 9.2%, now to a level of EUR1.42, the highest EPS we ever had in a quarter. The Sun acquisition had no impact on this figure.

So overall, a high-quality P&L, especially in the context of the present FX environment and also the macroeconomic situation.
With that, moving now to our key financial KPIs related to cash management:

Starting with net working capital, the ratio to sales came in at 5.2%. This is an improvement compared to the prior year quarter of 80 basis points, driven by operating improvements in all areas. Moreover, excluding also here the Sun acquisition, as you know, I already said it to you, it's only one month of consolidation - the ratio would have been an additional 60 basis points better.

Our strong development in net working capital contributed also to a strong free cash flow, which reached an all-time high for a quarter of EUR807 million. So, free cash flow was significantly above the level of the prior year quarter, with an increase of plus EUR210 million.

Finally, as already mentioned by Hans, our net financial position was negative by minus EUR2.7 billion, driven by the closing of our acquisitions in quarter three.
Now, taking a closer look at our sales bridge on the Group level, as already mentioned, sales increased nominally by 3.4% to the level of EUR4,748 million.

Let me this time start from the right side of the bridge:

In the third quarter, we faced continued FX headwinds, negatively impacting our sales by 3.3%. The headwinds were mainly attributable to emerging market currencies, such as the Chinese Yuan, the Mexican Peso or the Russian Ruble.

In total, our organic and inorganic growth amounted to 6.7%.

The organic part is, as already said, 2.8%, splitted in a volume contribution of 260 basis points, while the price contributed by 20 basis points.

Acquisitions and divestments had a positive impact on sales of 3.9%, thereof the contribution of Sun acquisition was 2.5%, as I said already, this corresponds to more than EUR100 million of sales.
Before moving on now to the regions and the business units, let me also give you some more details now about the Sun integration.

We were able to proceed very fast from signing to closing, as you already heard, with a process which took us only 10 weeks.

We secured the financing of the EUR3.2 billion transaction at favorable conditions, composed of EUR2.2 billion of bonds we placed on September 7, in four tranches and three different currencies. The successful placement of these bonds reflects both Henkel's high credit quality and our excellent access to the capital markets. The remaining EUR1 billion has been financed via a bank loan.

Our A flat/A2 rating were confirmed by the rating agencies.

The integration has started and is well on track. We defined 17 work streams to ensure a successful and seamless integration process. The key topics which we're currently facing are the organizational set-up, a common approach to the market, and the system integration.

Regarding the organizational set-up, we announced on October 5 to combine the administration of Henkel Consumer Goods and the Sun operations into one location, on the East Coast, in Stamford, Connecticut.

As you can see, our teams are already now in full execution mode.
Let me now still comment on our accounting topics, and by that the impact on our third quarter.

With the compelling acquisition, we added more than EUR100 million of sales.

As you know, Henkel has a very strong profitability. The Sun margins are lower than Henkel’s and therefore the acquisition had a dilutive impact in Q3 of 20 basis points on both the adjusted Gross margin and also the adjusted EBIT margin.

By consolidating, as I already mentioned, only one month, the acquired Sun business had a significant impact on the net working capital ratio on sales. Excluding the Sun acquisition, the ratio would have been 60 basis points better.

Lastly, the acquisition had no impact on our adjusted EPS in Q3.
With that, now let me move to our regular chart in terms of showing our regional performance in the third quarter.

Here starting with the development of our emerging markets and the mature markets. In the emerging markets, we showed a nominal growth of 1.8%, to a level of EUR2,031 million. Organically the emerging market contributed with a strong organic net sales growth of 6.7%. In addition, acquisitions contributed 1.9%, so that the organic and inorganic part offset the negative FX headwinds, which had been 6.8% negative.

Emerging markets with that accounting for 43% of our total Group sales.

The development in the mature markets showed a nominal growth of 4.9% to a level now of EUR2,688 million. The organic growth was slightly positive at 0.1%. In addition, acquisitions contributed 5.4% to the growth, offsetting negative currency effects of minus 0.6%.

So overall organic growth was broad-based across the regions, and with that I would like to give you some more detail on the individual regions.
Starting with Western Europe, Western Europe remained with minus 0.5% organically below the level of the prior year period. The development of Southern Europe could not be compensated by the positive development and performance of other countries, for example, of Germany.

Eastern Europe recorded in the third quarter a solid organic net sales growth of 4.5%, here specially driven by Russia and Turkey.

Africa Middle East posted a strong organic net sales growth of 6.9%, despite an ongoing, difficult environment. Iran contributed here with a double-digit growth.

Coming to North America, we recorded here a positive development organically of 1.6%, supported especially by a solid growth in our Consumer Businesses. Adhesives showed in the third quarter, based also on high comparables, a stable development.

Latin America recorded a double-digit organic net sales growth of 13.9%. Once again the strongest contributor in the third quarter here was Mexico, with a double-digit performance.

And finally, Asia Pacific showed a solid performance in terms of organic sales growth of 4.3%. Here we had several positive contributors, India, with a double-digit development, South Korea, very strong, and also China contributed with a strong growth.
With that, moving now to our three business divisions, starting with Laundry & Home Care.

Laundry & Home Care delivered a solid organic sales growth of 4.0%, driven by 360 basis points of increase in volume, and 40 basis points in price. In addition, 11.9% of growth came from acquisitions, especially from Sun, contributing more than the EUR100 million to the sales, besides our smaller acquisitions in Nigeria and in Iran. Negative currency effects for the division amounted to 3.3%, so in line with the Henkel number in terms of impact. And the total nominal growth came in at plus 12.6%.

Looking at the two businesses, Laundry Care showed a strong organic development, Home Care recorded a positive one.

Looking also here into the regions, emerging markets provided again particular momentum to the organic sales development with a strong growth rate. In more detail, Asia and Middle East Africa delivered a double-digit development. Latin America and Eastern Europe with a solid performance.

Mature markets, the organic sales development was solid. The main driver was North America, with a solid performance. Western Europe reported a positive growth momentum.

Coming now to the adjusted EBIT margin of our Laundry & Home Care business, we reported a margin of 17.9%, slightly below the prior year quarter. Excluding the impact of Sun, Laundry & Home Care progressed well on its margin trajectory and achieved a strong margin increase of 50 basis points, to a level of 18.7% versus the prior year.

From a cash perspective, the net working capital ratio was again at a very low level at minus 2.9%, and excluding the Sun part it would have been even better at minus 5.7%, showing an improvement of 160 basis points over the prior year quarter.
With that let me now move to our Beauty Care division.

Beauty Care delivered another quarter of profitable growth. Sales grew organically by 2.6%, driven by volume with 180 basis points and a price effect of 80 basis points. In addition, 1.5% of growth came from acquisitions. Currency effects for the division were at 3.7% negative, therefore sales in nominal terms increased in total of 0.4%.

Also here, looking at the two SBUs on that division, Retail showed a solid development, positive development in our Hair salon business.

Emerging markets also here, like in Laundry & Home Care, posted a very strong growth, due to a double-digit contribution from Eastern Europe, driven by Russia, and from Latin America, driven by Mexico. China in the quarter was negatively impacted by the development in offline channels, while online channels contributed double-digit.

Mature markets were overall stable, while Western Europe was negative due to an ongoing high competitive intensity and the pricing pressure. North America, like in Laundry & Home Care, recorded a solid organic sales development in the quarter.

Also, now moving here to the adjusted EBIT margin, profitability wise, Beauty Care posted once again an excellent increase in the adjusted EBIT margin, now to a level of 17.5%. This is an improvement of 140 basis points, and now on a similar level as we have already shown to you in Q2, where we had 17.4%.

Net working capital came in at the level of 3.3% of sales, again reaching a low level, and an improvement of 30 basis points in comparison to the prior year quarter.
With that moving finally now to our Adhesives Technologies business, here we posted a solid organic net sales growth of 2.5%, mainly driven by the volume development of 260 basis points. The price effect was negative with 10 basis points. Acquisitions contributed by plus 0.3%. Also in Adhesive Technologies, the business was impacted by an adverse currency effect,amounting to 3.1% of sales. In total that means nominal sales development, a decrease of minus 0.3%.

Also, looking here on the different business areas, the organic sales growth was driven by a very strong growth in Transport & Metal and Electronics, as Hans has already reported on. Consumer and Craftsman Adhesives come in slightly negative, while Packaging Adhesives contributed with a positive growth and General Industry posted a solid organic net sales development.

From a regional perspective, in the emerging markets of Adhesives we recorded strong organic net sales growth. Latin America with a double-digit development, also here, like in the other divisions, driven by Mexico. Eastern Europe posted a solid organic net sales growth, with Russia also here double-digit. Emerging Asia showed a very strong performance. We saw a good development in China, in the quarter, so that in the year-to-date we are in positive territory. This is good news, but we remain cautious and want to see more supportive evidence going forward.

Mature markets in total showed a slightly negative organic net sales performance. We recorded a slightly negative development in Western Europe. North America showed a stable development.

Also, having a look now on the profit development, the adjusted EBIT margin progressed once again to an all-time high level of 18.9% with a strong improvement of 80 basis points.

And lastly, also looking at net working capital, also here a very strong performance. We were improving the number by 150 basis points, now to a level of 11.7%.
With that, I'm moving back to the Henkel Group level and giving you some insights on our Gross margin development.

You already are aware that our nominal sales increased by 3.4% to the EUR4,748 million. Our gross profit came in, in this quarter at EUR2,315 million, also an increase of 3.4% compared to quarter three of last year.

By that the adjusted Gross margin is a 48.8%, like on the level of prior year. I already commented on the impact of the Sun acquisition.

So, we were able to compensate the negative impact of transactional FX effects and the acquisitions, thanks to our ongoing measures in four areas, reducing costs, enhancements in production and supply chain efficiencies, selective price increases and lower costs for total direct materials.
Moving on, in our adjusted income statement, now looking on the bridge from Gross Profit to EBIT.

Our marketing, selling and distribution expenses decreased by 60 basis points to 24.2% of sales compared to the prior year. Our relative improvement was driven by the adaptation of our structures and efficiency gains, realized in selling and distribution.

Our absolute marketing expenses increased compared to the level of the prior year quarter.

Looking at our R&D expenses, at the level of EUR160 million, this is in percent of sales roughly 2.4%. And this is close to the level of the Q3 of last year.

We reduced our administrative expenses in percentage of sales by 10 basis points, now to a level of 4.5%. The absolute figure remained on the level of prior year, despite also taking the acquisitions in our P&L, and this reflects our strong cost discipline and efficiency focus.

At minus EUR1 million the balance of other operating income and expenses remained at a low level.

Overall with that, as already mentioned, our adjusted EBIT came in at EUR837 million, translating in a very strong increase in our adjusted EBIT margin of an increase of 70 basis points to 17.6%, in percent of sales.
Now, as you are already used to, I give you also the bridge from reported to adjusted EBIT.

Our reported EBIT came in at EUR775 million.

We recorded no one-time gains in the quarter. We had one-time charges of EUR27 million, slightly below the level of the prior year, which relate, among others, to our One Global Supply Chain project and the acquisitions.

Moving to restructuring charges, they amounted in the quarter to EUR35 million and reflect our continued adaptation of our structures.

The adjusted EBIT amounted to, as mentioned before, EUR837 million, an increase of 7.6% above the prior year.

Let me come at this point to our restructuring guidance. As we have now closed the Sun acquisition and we are progressing with the integration, we also increased our restructuring guidance for the full year from previously EUR150 million to EUR200 million now to EUR250 million to EUR300 million.
Last but not least, let me shortly comment also on our net financial position in quarter three.

It came in at minus EUR2,661 million. Comparing that to the end of the second quarter of this year, this is a reduction of EUR2.5 billion.

We continued our strong cash flow generation, as already indicated to you, in the third quarter, with this EUR807 million, but also paid for our acquisitions, resulting in a cash out of around EUR3.3 billion.

Even if our net financial position decreased by EUR2.5 billion, we think that we will still have a strong balance sheet, allowing us to do M&A in case attractive targets match our criteria. At the same time, we remain committed to our A flat rating.

Lastly, I would also like to take a moment and update you on our expectations for our CapEx spends for the full year. In the first nine months, we spent EUR370 million on CapEx, mainly for the expansion of our production capacities, our supply chain optimization and our IT infrastructure.

For the full year now we expect to spend EUR550 million to EUR600 million, compared to our previous year expectations of EUR650 million to EUR700 million. We lowered this amount as we reprioritized the timing of our investments.

With this, I thank you and would like to hand back to Hans.
Hans Van Bylen: Thanks very much, Carsten. Let me now summarize, before we look at our guidance for the full year and then move on to the Q&A.
Overall, the strong performance and high quality of earnings in the third quarter was driven by all business units, thanks to the strong commitment by all our teams in the emerging and mature markets.

We delivered a very strong improvement of our adjusted EBIT to the same all time high level as in the second quarter, and grew our adjusted EPS in the high single-digits to a new all-time high.

And finally, we successfully closed the step change acquisition of the Sun Products Corporation, with favorable financing conditions and are now well on track with the integration.
Before moving to the guidance, let me also briefly summarize our strong performance in the first nine months.

Our sales increased nominally by 1% to EUR13.9 billion, with a solid organic growth of 3%. This was driven by strong organic growth of 6.4% in the emerging markets, while mature markets contributed 0.6%.

Our emerging market share on total sales was 42%, slightly below the level of previous year of 43%.

We generated EUR2.4 billion of adjusted EBIT, 6.9% above prior year and we delivered an excellent increase in adjusted EBIT margin by 100 basis points to 17.4%.

Lastly, in the first nine months we achieved an adjusted EPS growth of 8.5%.
When we look upon 2016, we expect that the environment will continue to be challenging:

Geo-political tensions and macro-economic volatility persist. GDP forecasts indicate a moderate growth with slowing growth dynamics, and currencies and feedstock markets continue to remain volatile.

In this environment, our priorities remain unchanged:

We will keep on investing in a focused and balanced way to foster organic growth. This we will do thanks to a strong pipeline of new products and solutions for our customers.

We will remain disciplined when it comes to costs and will keep on adapting our structures to the changing market conditions.
Based on this, we are confirming our full year 2016 guidance given in August.

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

We expect to see a slight decrease in the sales share of our emerging markets.

For the adjusted EBIT margin we anticipate an increase to above 16.5%, with all three business units above previous year level.

We expect an increase in adjusted EPS of between 8% and 11%.
I would like to come to the close and the upcoming events.

We will present next week, on Thursday November 17, the Henkel Strategy Update for the next four years. The event will take place at our Düsseldorf headquarters and, of course, I look forward, together with Carsten, to meet most of you in person next week to share further perspective and ambitions of Henkel.

I suggest we now open the Q&A.

**Q&A Session (p.1/9)**

*Operator:* Thank you, Mr. Van Bylen. Ladies and gentlemen, the question and answer session will be conducted electronically (Operation Instructions).

The first question comes from the line of Toby McCullagh from Macquarie. Please go ahead.

*Toby McCullagh:* Hi there, good morning. I think I just have a couple of questions on the contribution from Sun, basically trying to backend some of the numbers that you were giving. You said that the revenue contribution was more than EUR100 million in the quarter, if I sort of work it out it sounds like it was about EUR115 million of revenue contribution, and the margin of that business was about 9%, the operating margin. Is that maths correct?

And I was just wondering if you could give us an update on what you think the synergy targets should be, potentially what the savings we should expect and whether there’s any reason that this business shouldn’t reach the profitability of the overall Laundry & Home Care business in the medium term. Thanks a lot.
Q&A Session (p.2/9)

Carsten Knobel: So Toby, as I said during the call, what we consolidated in the first month was about EUR100 million. So yes and your maths is correct. On the other side, as I stated at the beginning of my presentation, it's only one month of consolidation, so therefore, you have to take into account that we for sure have one-time effects, special effects, which we take into a consolidation when we start integrating.

And on savings, we do not disclose anything at this point of time, but for sure we will continuously update you going forward, how we are proceeding.

Toby McCullagh: Thanks, but is the maths getting to around about 8% or 9% operating margin in this isolated month correct? And is that a reasonable basis of expectation, at least for the very short term?

Carsten Knobel: No, first of all, Toby, your maths was correct. On the other side, I clearly told you that it is the first month of consolidation and therefore, you should not expect that this is the ongoing way of going forward, because we're integrating. And by that, because clearly we stated with this acquisition, we want to also realize offensive and defensive synergies.

Toby McCullagh: Okay, thanks.

Operator: The next question comes from the line of Celine Pannuti from JP Morgan. Please go ahead.

Celine Pannuti: Yes, good morning. First, I wanted to ask, maybe it's a follow-up question on Sun and as well on overall savings. Your restructuring charges has increased to target by EUR100 million. Is that all related to Sun and will there be more restructuring charges related to Sun going forward?

And what's does that - I understand you probably don't want to give too much detail, but what kind of return should we expect on those savings? This extra EUR100 million that I think is pertaining to Sun.

The second part to the same question is on the overall savings that you've done in Adhesive and then in your SG&A. Can you give us an update on where we are in terms of running up on these initiatives? That’s my first question.

My second question is on Gross margin. You said that Gross margin was flat, could you share with us what the Gross margin was in Adhesive and what should we (and you said as well that for material was a positive contributor) expect for raw material contribution, or the shape of raw material cost going forward, specifically in Adhesive? Thank you.

Hans Van Bylen: Celine, just to answer your first question, the increase of restructuring is exclusively due to the Sun integration, so to be very clear on that one. On the general savings on SG&A, I think Carsten alluded to that. And concerning Gross margin, I think Carsten, you can shortly comment on that.
Q&A Session (p.3/9)

Carsten Knobel: So Celine, you asked on the development of our Adhesive adaptation of our structures. As we told you last year, we were expecting of up to 1200 FTEs to be impacted by that and I think we commented on that in Q2, that the majority of the impact was realized in Q2 and by that, that's where we are.

Regarding Gross margins, we do not disclose the Gross margins in detail, but they are up for Adhesives, in the development overall of this flat. But also take into account what I said, that Sun had a 20 basis points dilutive impact on our Gross margin for the quarter, so it would have been 20 basis points higher on the like-for-like business of our three business divisions; Laundry, Beauty and Adhesive, without the acquisitions.

Celine Pannuti: Yes and can you comment on the raw material question, the shape of raw mat, you said that raw mat was still a positive contributor. What shall we expect going forward, given you also mentioned the price of feedstock being volatile?

Carsten Knobel: So the first part of the question I can easily answer; yes, it has a positive impact, or we had a positive impact of direct materials, but going forward we are not guiding at this point of time what the impact is.

As you know, it is quite volatile in these days, but as I said, guidance will come, as you know, for the next year, beginning of next year. But we confirm our guidance, what we have already outlined, that we are on a flat development overall for the year.

Celine Pannuti: Thank you.

Carsten Knobel: Welcome.

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

Iain Simpson: Good morning, everyone, a couple of questions from me, if I may. Firstly, thank you so much for quantifying the Sun impact in the third quarter. Presumably in the fourth quarter, where we've got the full three months of impact, I was initially thinking that we'd be looking at 60 bps at a Group level and then 150 bps to 200 bps impact on Laundry in the fourth quarter.

But if I've understood your comments to Toby's question correctly, that Q3 impact that you gave us includes some one-off costs or something. So the Q4 impact won't be quite as much as you might think, just projecting out Q3 times three.

And then secondly, sticking with Sun, apologies, but now you've closed the deal, are you able to give us any help as to how we should think about the phasing of synergies? I'm not asking you to quantify how much synergies you're looking to achieve, but would it be reasonable to assume you'll realize the bulk of whatever you do achieve by the end of 2017? Thank you.
Carsten Knobel: Good morning, Iain. So I think to state definitely, we started the integration just a month ago in terms of beginning of September, if we talk about the quarter three. And you can be assured that it will take some months and therefore, also some one-time effects in the first month of consolidation.

So therefore, I will not comment on your mathematics, how you see quarter 4, because it is too early to say. The only thing what I said is we had only one month and therefore, you cannot take this month and make some calculations for next quarter or full year.

Regarding the savings, in total, yes, I will not give an amount at this point. Your assumption that the majority of the savings will come in in 2017, I would say they will come in within the next 24 months, that's 2017 and 2018. For sure it's always related to what kind of level of savings, in administrative parts or also in production and supply chain. And as you can assume that it will take also a while if you would change things in supply chains that you cannot do in a quarter, but the majority of the savings will come in the next 24 months starting from 2017 on.

And as you know, we have already made a major step in that - what Hans alluded to, a new administrative location, where we have decided to go to the East Coast, to Connecticut in Stamford. This is already now a quite important step.

Iain Simpson: Thank you very much.

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

Martin Roediger: Actually it's Martin Roediger on behalf of Christian Faitz. Thanks for taking my two questions. Firstly, on adhesives, it's a follow-up question on Celine's question. You had a favorable raw material impact and you don't want to specify that, but can you give us a hint how material that effect was in Q3? Was it a low or more a high double-digit figure? And also, any hint that this effect in Q3 was less pronounced than in [H2/Q2] would be also helpful.

And secondly, also on Adhesives, you mentioned volatile raw materials. Do you feel right now that raw material costs are now getting to rise? And to which extent do you fear then a time lag in passing on such raw material costs to your customers in Adhesives? Thanks.

Hans Van Bylen: Perhaps let me answer more in a -- because I think your question is more also on the development, so I think it is indeed something which is close in what we monitor.

Indeed part of your question is that we see the effect decreasing, so as you say, the Q3 effect was lower than the Q2 effect, which of course, confirms the development of the raw impact getting less favorable. That is in fact the base of your question. And that's also what we see translated into our numbers.

The second part of your question is concerning time lags. I think on that one, we see that the development at the moment is not so outspoken that we can have any explicit comment on that one.
Q&A Session (p.5/9)

Martin Roediger: Okay, thanks.

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

James Targett: Good morning, two questions from me. Firstly on China, I think in Beauty you flagged the slowdown or the negative growth in China in the third quarter, coming from the offline channel. I think you had strong growth in China, or positive growth in China in the second quarter, so I wonder if you could talk about the magnitude and the speed of the slowdown in Beauty for you in China.

And then secondly, coming back to Sun, any comment you could give on the year-on-year growth rate that Sun is doing at the moment from a top line perspective? Then related in the fourth quarter in terms of margins, taking your point about the dilution, do you still expect Group margins to be up year-on-year in the fourth quarter, considering the momentum in Beauty and Adhesives? Or is that going to be offset by the dilution from Sun? Thank you.

Hans Van Bylen: James, many thanks for your question. I take the China question, as I have been -- I mean a few weeks ago I've been in China. What of course we do see is -- and I think you also have heard this from other companies, that the shift from offline brick and mortar to ecommerce is at an impressive acceleration going on.

First, what we do see is that we continue to do more than double-digit very well in our ecommerce business, which now is getting up to a total share of our total business direction 50%. On the other hand, we see a decline in brick and mortar channels, also those retailers getting more cautious and that's also affecting our business, and that explains, I mean for us, the Q3 number.

Carsten Knobel: Regarding -- James, regarding your Sun question, since we have acquired the business it is our P&L, it's our definition, it's based on our standards and therefore, I cannot tell you, even if I would like to tell you, how the OSG is, because we have a different P&L firstly. And secondly, you know that in the first year of an acquisition, what we are doing, there is no impact on OSG because it's disconnected from the OSG development.

And the other point regarding your margin question, you know I will not guide on the margin. The only thing what you know and as Hans has given a guidance on for the Company, where he stated that adjusted EBIT margin will be above 16.5% for the full year.

James Targett: Okay, thanks.

Operator: The next question comes from the line of Guillaume Delmas from Bank of America Merrill Lynch. Please go ahead.
Guillaume Delmas: Good morning, gentlemen, no question on the Sun acquisition for me. Two questions on -- the first one on the Adhesives for Consumers, Craftsmen & Building. I thought we had turned a corner in Q2 with a strong performance, but now in Q3 we’re back to negative organic sales growth, margin contraction. It’s not new, we’ve seen a weak performance in this division for almost 18 months. So is there anything structural in that soft performance? Or is it down to Russia again, because if I understand well, Russia was strong for HPC, but the offset to that must have been Adhesives.

And then a big picture question on Beauty Care. Organic sales growth remains soft, we’ve seen that for a couple of years. Is it down to a slowdown in category growth, particularly with the heightened level of competition, more promotional activities? Or is it also down to you outperforming the market but at a slower pace, which would raise a question of having a less diversified portfolio with Hair Care accounting almost for 70% of your sales? Is it putting you at a competitive disadvantage in the long run? Thank you.

Hans Van Bylen: Let me answer your question on Beauty. What we also have been saying indeed is that our footprint, the category country footprint, is compared to global markets at a disadvantage. The Hair market at the moment, is growing at a lower level and also our emerging markets exposure also being at the lower level.

With this being said, what we do see is that this year our growth has been picking up slightly. Also Q3 was a growth level where we have been strengthening, compared to last year. But indeed, coming to your question, what we are working upon is to further strengthen our exposure to emerging markets and to take care that our structural growth disadvantages, that we continue improving them.

Carsten Knobel: Then onto your question of Adhesives and specifically on the Consumer part, first of all, there is no structural topic behind. We had good developments in North America and Eastern Europe. The development was negatively impacted by a weak demand in the Building Materials segment in Middle East.

Overall, we are satisfied also with the market share development in the segment, so no structural topics. And as I pointed out, the growth, the negative growth, was a slightly negative growth, so not something structurally, as I mentioned.

Guillaume Delmas: Thank you.

Operator: The next question comes from the line of Hermine de Bentzmann from Raymond James. Please go ahead.

Hermine de Bentzmann: Hi, good morning, I have two questions please. The first one on the Laundry division, you expected growth in full year to be between 2% and 4%. If we assume that you’re at 4%, that implies a very strong deceleration in Q4. Any explanation on this figure, as we see the division outperforming the 2% to 4% brackets since a few years now? So any explanation about Q4 deceleration expected?

My second question is on the tax rate, can you give your expectations of the tax rate in full year? We’ve seen the tax rate being lower in Q3, what could we expect for the full year? Thank you.
Hans Van Bylen: Let me take the question on laundry, because indeed I just confirmed also our guidance, which is an OSG between 2% and 4% for the total Company for the full year. And there was also a comment on the divisions on that.

For sure, Laundry & Home Care has a very strong bracket on growth. Let’s see what comes out, we remain here a little bit cautious.

Carsten Knobel: Regarding the tax rate, it’s only a quarter. We don’t guide on the tax rate, as you know, but you should not expect anything different what you have seen over the last couple of years. That means on the level of around 25%.

Hermine de Bentzmann: Okay, thank you.

Operator: The next question comes from the line of Jörg Philipp Frey from Warburg Research. Please go ahead.

Jörg Philipp Frey: Hello, gentlemen, three questions, two smaller ones re restructuring charges regarding Sun. Do you think mostly all we should expect [in 2016], or do you expect any significant charges in 2017? And secondly, in terms of the impact on your own existing North American Laundry business, how much will the restructuring affect that? How many people do you want to relocate and things like that?

And secondly, a bit more on the Beauty Care side, I think you’re one of the few non-luxury, non-make up exposed companies that actually managed an acceleration now in the third quarter in terms of organic sales growth. Well how persistent should we -- or how much should we read into this momentum improvement?

And particular in light of this very strong margin improvement that you had in the quarter, how much did the North American operations, Schwarzkopf in particular, this relaunch, contribute to that? And a bit more color on that would be appreciated, thank you.

Carsten Knobel: So I take your question regarding restructuring. The EUR100 million which has been increased, Hans has already answered that is exclusively related to the Sun acquisition. But you also have to assume that not everything is done in this year; it will also continue in 2017, as I alluded already before.

We will have different kind of projects, which we will currently evaluate and which will for sure be executed in terms of the integration. You have to understand that I will not give you any details about which kind of employees, at which level at this point of time will be impacted. But you can assume, as we already -- and Hans told you, that the new location will be in Stamford, Connecticut and this will have for sure impact on those.

On the current location where the Sun organization has been placed, that means in Wilton, but for sure also on our Laundry & Home Care people and also Beauty Care, which are located currently in Scottsdale in Arizona.

Jörg Philipp Frey: Yes, just wanted to get a feeling on how deep this will, but I appreciate your comments.
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Hans Van Bylen: Then Philipp, if okay, then I will answer your question on Beauty Care.

Jörg Philipp Frey: Yes please.

Hans Van Bylen: As you rightly indicate, our active markets have at the moment less growth dynamics than the markets which you mentioned. And that's why seeing our 2.6% growth shows indeed, like you say, some positive signs and pickup. Especially in the light, I think, Q3, China was not supporting growth, meaning that indeed we were quite happy to see our German business growing. And especially, as you say, North America is quite a big support in our growth at the moment in Beauty Care.

And that has indeed to do with our launch of Schwarzkopf, where after the first year exclusive with Walmart we now went on a national base and we do see indeed that we have a very good growth momentum in the US. And that of course, together with big countries like Germany but also Russia, Eastern Europe as you've seen in the numbers has been quite convincing. That at the moment translates into let's say a good pickup in growth again.

Jörg Philipp Frey: Thanks a lot and all the best.

Hans Van Bylen: Thank you very much.

Operator: We will now take our last question from Iain Simpson from Societe Generale. Please go ahead.

Iain Simpson: Well thank you very much for allowing me a follow-up. Are you able to give us any more color on what's going on with your Beauty margins? There's been a very strong development there for really quite a few quarters now, after it spent some years as a laggard. Is it just that the cost savings in that business have stepped up? And if so, how much longer should we expect to see this run rate continue for?

And secondly, it would be great to get an update on Persil in the US. You say you've expanded distribution further in the third quarter. Can you just remind us what sort of market share Persil is at now? Thank you very much.

Hans Van Bylen: Thank you, Iain. On the Beauty margin, as always in these kind of developments, of course, it's a mixture of different topics. I think the team is doing a good job there also in managing the mix, looking at the different categories where we have different margin structures.

And the high margin products at the moment contribute over-proportionally. And I think also we're working total Company-wise, because you see our structural costs are evolving in a very high dynamic. We see total Company, so that's also where we talk also this quarter again about the quality of our margin.

We're quite happy to see the dynamics in this, indeed our total bottom line is enormously supported by saving structural cost. And that's also the case on top then of the portfolio topics within Beauty Care.
Q&A Session (p.9/9)

Your question on Persil in the US, it is for us a good momentum also we see in that business, after the exclusive launch in Walmart. We now get to quite good national distribution levels. At the moment our weighted distribution total US will be around 65%, slightly plus, so there we get good acceptance.

Also important to see that our customers are happy with the development. We positioned it at quite a high premium and now, of course, with the Sun acquisition on top it means that the coverage of the different price segments, we feel very well equipped for the future.

So all in all, looking back towards that moment, at that moment a very courageous move, but we’re happy with the development and we see quite significant further potential in that.

Iain Simpson: Thank you.

Hans Van Bylen: Good. Then I think with this, dear investors, dear analysts, we come to a close. I thank you again for joining our conference call. I thank you also very much for your questions.

As this set of results shows that we had strong performance in the third quarter and we also confirmed our guidance for the full year 2016. And of course, we are very much looking forward to welcoming you in person next week in Düsseldorf. Thank you for listening in and goodbye.

Operator: Thank you for joining today’s conference call. You may now replace your handsets.
**Additional Guidance FY 2016 for selected KPIs – updated**

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<td>Approx. at the level of the prior year</td>
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[Additional information chart not shown during conference call]
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[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]
Excellent increase of adj. EBIT margin
YTD 1-9 2016

in m€, % of sales

Gross Profit 6.775
Marketing, selling & distribution expenses -24.4%
R&D -2.5%
Admin -4.5%
OOI/OOE 2.407
EBIT

[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]
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[Additional information chart not shown during conference call]
Adhesive Technologies
Key figures YTD 1-9 2016

Sales in m€, OSG in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>OSG</th>
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<tbody>
<tr>
<td>1-9/15</td>
<td>6,783</td>
<td>6,705</td>
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EBIT Margin Adj. in %

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NWC in % of Sales

<table>
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<td>7-9/15</td>
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* OSG driven by 2.1% in volume and 0.3% in price

[Additional information chart not shown during conference call]