Commented Slides / Earnings Conference Call Q2 2017
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Hans Van Bylen, CEO:

Dear Investors and Analysts,

good morning from Düsseldorf, and welcome to our Earnings Call for the second quarter in the fiscal 2017.

Today, I'm going to lead you firstly through our achievements in Q2 '17 and highlight the key developments. Carsten will then comment on the detailed financials and give you some highlights on our second quarter developments. After that, I will close my presentation with a brief summary and the guidance for fiscal year 2017. 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 relevant U.S. legislation, can be accessed via our website at henkel.com/ir. Presentation and discussion are conducted subject to the disclaimer. We will not read the disclaimer, but propose we take it as read into the records for the purpose of this conference call.
Let's start with the key developments in the second quarter.
In Q2 2017, Henkel delivered a strong performance in a highly challenging environment.

For the second quarter in a row, sales exceeded EUR 5 billion and increased by 9.6% to EUR 5.1 billion.

Organically, we delivered a good sales growth of 2.2%, with both Emerging Markets and Mature Markets contributing.

Adjusted operating profits grew double-digit by 11% to EUR 909 million. The adjusted EBIT margin increased by 20 basis points to a level of 17.8%.

Both absolute adjusted EBIT as well as the adjusted EBIT margin reached an all-time high for Henkel in the quarter.

We delivered an excellent adjusted EPS growth of 10.7%. Also, net working capital as percent of sales improved and came in at 5.2%.
With these results, we continued on our profitable growth path also in the second quarter and achieved several all-time highs.

All business units contributed to the strong performance. The Emerging Markets continued to achieve a very strong organic sales growth of 4.7%. Mature Markets showed a positive organic growth of 0.5%.

We achieved an all-time high adjusted EBIT, and we again increased our adjusted EBIT margin to a new record level.

And we continue to deliver double-digit growth of our adjusted earnings per preferred share.

We’re also progressing well with the integration of The Sun Products Corporation. Carsten will give you some more insights on the financial impact later on.
We delivered this strong set of results in a continued challenging and uncertain environment characterized by persisting geopolitical tensions and political and macroeconomic uncertainties in some countries.

Global GDP growth remained on a moderate level.

Consumer goods markets faced increasingly difficult conditions.

The FX landscape remained very heterogeneous and volatile. While the net impact for the quarter was flat, currency started to turn into a headwind towards the end of the second quarter.

As already indicated in Q1, raw material spot prices continued to increase.

Looking at our business development, organic growth in Beauty Care business was flat and was below our expectations.
Let me now give you some color on the performance of our business units, starting with Adhesive Technologies.

The business unit posted EUR 2.4 billion in sales, a nominal increase of 3.5% and a strong organic sales growth of 3.4%, with Electronics and General Industry being the main growth drivers.

The adjusted EBIT showed a very strong growth of 6.6% to EUR 455 million, and the adjusted EBIT margin reached 19.2%, 60 basis points higher than the previous year quarter.

This is a strong performance for Adhesive Technologies, achieving again record levels in sales, adjusted EBIT and adjusted EBIT margin.
I would like to highlight some examples that contributed to the Q2 performance of Adhesive Technologies.

In the Automotive Electronics business, we achieved very strong growth, driven by our high-impact solutions for digital innovations in cars. Within our mega-brand Loctite, we offer a broad range of materials that enable OEMs and suppliers to further innovate in the areas of connectivity, eMobility and autonomous driving.

In the Vehicle Repair business, we achieved double-digit growth, driven by our business with authorized repair shops. Our high-performance Teroson products offer customized solutions, for example, in the assembly of windshields.

In the Semiconductor Industry, sales increased double-digit, mainly driven by the increasing performance needs in electronics. Our high-impact solutions under the Loctite brand are successfully targeting new applications in growth segments of mobile devices such as camera modules in smartphones.
We're happy that two acquisitions we have signed in the first half, Darex Packaging Technologies and the Sonderhoff Group, have been closed at the beginning of July.

In total, both acquisitions will add annually around EUR 300 million in sales. With the acquisitions, we further strengthen the leading position in our Adhesive Technologies businesses.

Both acquisitions follow our clear M&A strategy by adding complementary innovative technologies in the highly attractive metal packaging and industrial sealing markets to our portfolio.

This strengthens our offer of customer-specific, high-impact solutions with expertise-driven sales and services, and fosters Henkel's position as a partner of choice.
Let's now move on to Beauty Care.

Beauty Care delivered EUR 1 billion in sales, growing nominally by 0.9%. Organically, sales came in flat.

The Retail business showed a slightly negative development. In Europe, we saw an ongoing market decline in our core categories due to the accelerating price and promotion pressure. In China, our growth was impacted by the ongoing channel shift from brick-and-mortar to online. Moreover, we faced market share challenges in selected countries.

The Professional business continued its successful development and contributed with a very strong organic sales growth.

Thanks to continuous cost discipline, we further grew profitability to new record levels. The adjusted EBIT showed a very strong increase of 4.3% to EUR 180 million, resulting in an all-time high adjusted EBIT margin of 18.0%.

In summary, in a challenging environment, a mixed quarter for Beauty Care with a healthy profitability development but top line challenges for Retail, which the team is fully committed to address going forward.
Let me give you some highlights on our initiatives in Beauty Care.

The Russian Retail business delivered a very strong performance, leading to market share gains in our core category, Hair.

Also, our Hair Styling business showed an ongoing positive development. This was driven by our strong brands Taft and got2b enhancing our market leadership position.

The Hair Salon business continued its excellent growth momentum for more than 2 years now. The very strong growth in the quarter was especially driven by our U.S. business, where we successfully launched our first influencer brand, #mydentity.
Let's move to Laundry & Home Care.

The business unit achieved EUR 1.7 billion in sales, growing nominally by 26.6%, driven by our acquisitions and a good organic sales performance of 2.1%. Organic growth in Laundry Care was positive; in Home Care, very strong.

In Laundry & Home Care, the adjusted EBIT grew by 22.2% to EUR 298 million.

Due to the impact of acquisitions, adjusted EBIT margin came in at 17.5%, below the level of the prior year quarter. Carsten will give you the details here.

Overall, a strong set of numbers, delivering profitable growth through our existing business and acquisitions.
Let me share with you the highlights of Laundry & Home Care for this quarter.

Our global mega-brand Persil showed a good development in the second quarter. Our strong international innovations drove growth in new countries, and we're especially satisfied with our sales development in the U.S.

In the Automatic Dishwashing segment, we delivered very strong growth. With the launch of new variants in more than 30 countries we continued the successful category development.

Also, our business in Australia and New Zealand, which we acquired in 2015, delivered very strong growth. This was fueled by successful innovations launched under our 3 core laundry brands: Fab, Dynamo and Cold Power.

And with this, I now hand over to Carsten.
Carsten Knobel, CFO:

Thank you very much, Hans, and good morning, everyone. So let us now have a look at the financials for the second quarter 2017 in more detail.
As always, let's start with our key KPIs.

In the second quarter of 2017, our sales came in at EUR 5,098 million. In nominal terms, this represents an increase of 9.6%. Organically, we delivered a good sales growth, as already indicated by Hans, of 2.2%. The Sun Products acquisition contributed in the second quarter EUR 330 million of additional sales.

Moving to the adjusted gross margin, this reached 47.6% compared to 49.1% in the prior year. Important to mention, excluding the impact of acquisitions of 100 basis points, our adjusted gross margin amounted to 48.6%. Moreover, increasing input costs affected the gross margin. But as always, I will give you some more details on this development later on.

The adjusted EBIT margin showed a continued increase to 17.8%. This is an increase of 20 basis points compared to the prior year level. Also here, excluding the impact of acquisitions, mainly Sun, in total 50 basis points, profitability would have been increased to 18.3%. That means 70 basis points above the prior year.

Our adjusted EPS for the preferred shares increased by 10.7% now to EUR 1.55. This is the highest EPS adjusted we ever had in a quarter.

So overall, a high quality of earnings, especially in the context of the ongoing difficult environment.
With that, let us move now to the key KPIs when it comes to our cash management.

Once again, we delivered a quarter of disciplined net working capital management and strong cash generation.

The ratio of net working capital to sales improved slightly to a level of 5.2%. This is an improvement of 10 basis points compared to the prior year quarter, and this was driven by operating improvement. Moreover, also here, excluding the impact of acquisitions, the ratio would have been an additional 20 basis points better and would have improved to 5.0% in percent of net sales.

The free cash flow remained strong with EUR 317 million and decreased compared to the prior year, mainly due to higher CapEx and a lower operating cash flow.

And finally, our net financial position came in at minus EUR 2,342 million, and I will provide you also here some more details on the development later on.
With that, let me give you some more details on our net sales development, and first, taking a closer look at our sales bridge at group level.

Our organic plus inorganic growth amounted to 9.6%, so a significant increase.

Organically, we delivered, as already mentioned, a good growth of 2.2%, which is volume-driven, while prices remained overall on prior year level.

The net effect of acquisitions and divestments had a positive impact on our sales of 7.4%, and here, for sure, Sun being the main component, representing 6.9% out of that 7.4%.

In Q2, we saw again a very heterogeneous development of FX, so that overall currencies were neutral. While we see a positive development of the Russian Ruble and the U.S. Dollar compared to the prior year, we observed FX headwinds in key emerging market currencies like the Egyptian Pound or the Turkish Lira.

Summing up, we closed the quarter with EUR 5,098 million, as already said, an increase of 9.6% compared to last year.
Moving now to the regions and first looking on our Emerging Markets and Mature Markets development.

Emerging Markets showed a nominal growth of 5.5% to EUR 2,073 million. Organically, the Emerging Markets contributed with a very strong organic net sales growth of 4.7%; acquisitions, with a contribution of 1.1%; FX, slightly negative with minus 0.3%.

The sales development in the Mature Markets showed a nominal growth of 12.7% to EUR 2,997 million. The organic part of that was 0.5%. Acquisitions contributed with 12.1%, and we had a positive currency effect of 0.1%.

The good organic growth of 2.2% on group level was broad-based across the regions, and I will now lead you through the detail.
Let me start with Western Europe.

Western Europe is the only region which remained with minus 1.2% organically slightly below the level of prior year. Germany showed a positive development, but could not compensate for the development in some countries like France and Italy.

Eastern Europe, a very strong growth, 5.2%, especially driven by a double-digit development in Turkey. But also, Russia contributed with a good growth.

In Africa/Middle East, we posted a positive organic sales growth of 1.1% despite an ongoing difficult market environment.

North America sales showed a strong increase of 3.2%, here driven by all 3 business units.

Latin America, a very strong growth with 6.1%, here supported by double-digit growth in Mexico.

And finally, Asia Pacific showed a very strong increase with organic sales of 4.8%. Here, to be mentioned, South Korea and India with significant growth, but also China contributed here with a very strong development.

With that, let me now move to our 3 business divisions, starting with our Adhesive Technologies business.
The business posted a strong organic net sales growth of 3.4%, volume-driven, while prices remained on the prior year level. Acquisitions and divestments had a negative impact of minus 0.5%. Currency effects amounted to 0.6% of sales, and with that, resulting in a nominal sales increase of 3.5%.

Looking at the different business segments, the performance was driven by a double-digit increase of our Electronics business and very strong growth in General Industry. Transport & Metal and Packaging showed positive growth, while the Consumer and Craftsmen business was slightly negative.

Looking also here at the regional development, starting again here with the Emerging Markets, we have seen a very strong organic net sales growth in the Emerging Markets. Latin America contributed with a significant organic net sales growth, driven by Mexico. Asia, excluding Japan, showed a significant organic growth, driven by China, India and South Korea. Middle East/Africa was negative. Eastern Europe posted a very strong organic net sales growth. Looking at the Mature Markets, we have seen a performance which was positive. The mature markets of Asia Pacific remained on the prior year level. Western Europe and North America both showed a positive increase.

Moving to the profitability of our Adhesive division, and here to the adjusted EBIT margin, we progressed again and reached an all-time high in terms of margin of 19.2%, a very strong improvement of 60 basis points compared to the prior year quarter.

And finally, also looking at our net working capital development, we have seen an improvement in the division from a level of 11.9% in Q2 of 2016 now to a level of 11.1%. This is an improvement of 80 basis points. So once again, a strong performance in Adhesives, thanks to our differentiated portfolio covering all regions and a wide range of different market segments.
With this now, let me move to Beauty Care.

The sales remained organically on prior year level. Price component increased by 0.4%, which was offset by a slight volume decline of also minus 0.4%. Acquisitions contributed with 0.7% to growth. Currency effects for the division were at 0.2%. With that, in nominal terms, we have seen an increase of 0.9% of our sales.

Our Hair Salon business further accelerated and delivered a very strong growth in the quarter. Organic growth in Retail, as already pointed out by Hans, was slightly negative.

Emerging Markets posted a good growth, driven by a double-digit increase in Middle East/Africa; Eastern Europe, with a very strong development here by a double-digit increase in Turkey; Latin America came in very strong. China was strongly impacted by the channel shift from brick-and-mortar to the online business. Moving to the Mature Markets. The Mature Markets posted a slightly negative organic growth. Western Europe was negative as some countries showed a negative growth due to an accelerated price and promotion pressure. North America recorded, on the opposite, a very strong organic net sales growth.

Moving to the profitability of our Beauty Care division. Here, we have posted a very strong increase in the adjusted EBIT margin from 17.4% in Q2 2016 now to 18.0%, which represents an increase of 60 basis points.

Net working capital came in at 4.5%, a very low level, nevertheless, 140 basis points above the prior year.
With this, let me now finally move to our Laundry & Home Care business.

The business unit delivered a good organic net sales growth of 2.1%. This was driven by a 2.5% increase in volume while the price component was negative with minus 0.4%. In addition, 25.8% of growth came from acquisitions here, especially from our Sun Products acquisition, I already disclosed the number, roughly EUR 330 million in Q2 besides some smaller acquisitions. Negative currency effects for the division amounted to minus 1.3%, so in total, nominal growth of the division was 26.6%.

The Laundry Care business contributed with a positive increase. Home Care delivered a very strong growth.

Looking also here at the regional split, first, the Emerging Markets. Emerging Markets reported a strong organic net sales growth. Asia and Eastern Europe, with a very strong development; Latin America, with a good growth; Africa/Middle East contributed with a positive organic growth. Looking also here at the Mature Markets, the development overall was positive. In the mature markets of Asia Pacific, we achieved a very strong growth; North America delivered a strong growth; Western Europe remained on prior year level.

Looking at the adjusted EBIT margin. You see an adjusted EBIT margin of 17.5%, which compares to the 18.1% in the prior year. This is, as you know, a temporary dilutive effect. Excluding the Sun impact of 120 basis points, profitability would have increased to 18.7%. That means an increase of 60 basis points compared to the prior year quarter and, thereby, a very good development.

From a cash perspective, also coming now to net working capital, it is at the very low level of minus 2.2%; and doing here the same exercise, excluding the acquisition effect, we would have improved to a level of minus 4.4%. And by that, an improvement of 50 basis points compared to the minus 3.9% we had recorded in Q2 2016.
With that, let me move back to the Henkel Group and particular now to our adjusted income statement.

You are already aware that our nominal sales increased by 9.6% to the level of EUR 5,098 million. The adjusted gross margin was at 47.6% compared to the 49.1% in the prior year quarter.

As already said at the beginning, excluding the impact of acquisitions of 100 basis points, the adjusted gross margin would have reached 48.6%, and by that, a 50 basis point reduction compared to the prior year quarter.

This decline was mainly driven by Adhesive Technologies as our continued measures in cost reduction and improvement in production and supply chain efficiency could not fully compensate for the higher raw material prices. This is in line with what you can observe also in the industry over this reporting period. And in other terms, by that, our fast-moving businesses Laundry & Home Care and Beauty Care, related to our gross margin, remained on the prior year level.

The impact of the rising raw material prices are in line with our expectations, and we reiterate at this point of time our expectations for a moderate increase of our direct material prices for the full year.

Despite these headwinds, we have an ongoing commitment to continue on our profitable growth path.
Moving further on our income statement and here now, the bridge from adjusted gross profit to adjusted EBIT.

Our marketing, selling and distribution expenses increased by 4.5% to EUR 1,203 million. The relative decrease of by 120 basis points to 23.6% of sales is, amongst others, attributable to the lower sales share related to the Sun Products acquisition.

Our absolute R&D expenses remained with EUR 118 million on the level of prior year.

Our administration expenses in percentage of sales was 4.4% or slightly below the level of prior year.

At EUR 26 million, the balance of other operating income, other operating expenses remained at the low level and was slightly above prior year due to a higher other operating income.

Overall, with that, our adjusted EBIT came in at EUR 909 million and with that representing an adjusted EBIT margin with a continued increase of 20 basis points now to a level of 17.8%.
As always, let's also have a look on our bridge from reported to adjusted EBIT.

Our reported EBIT came in at EUR 839 million. As you can see, we had minor onetime gains in the quarter of EUR 2 million.

We incurred EUR 36 million of onetime charges, which are mainly related to our ONE!Global Supply Chain project and some integration costs of the Sun acquisition.

And moving to the restructuring charges, they accounted for EUR 36 million, mostly related to the adaptation of our structures to the market and with that, we achieved EUR 909 million of adjusted EBIT for quarter 2, 2017.
Last but not least, our net financial position in Q2 2017 came in at minus EUR 2,342 million.

Comparing that number to the end of the first quarter of this year, this is a reduction of EUR 381 million. Here, we continued our strong free cash flow generation in the second quarter with EUR 317 million. And as usual, we paid in April our dividends resulting in a cash-out of around EUR 735 million.

Even if our net financial position is at minus EUR 2.3 billion, we have a strong balance sheet at our hands. With two acquisitions in Adhesive Technologies, we executed the successful placement of the bond, was significantly oversubscribed and attracted wide interest by international investors, reflecting here our excellent access to the capital markets.
With this, I thank you for your attention and hand over back to Hans.
Hans Van Bylen, CEO:

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

In a challenging environment, we delivered a strong performance in Q2 2017. The successful performance was driven by our highly committed global team.

We achieved record sales, driven by the significant organic and inorganic growth. Both the Emerging Markets as well as the Mature Markets contributed.

The adjusted EBIT margin reached again an all-time high. And the adjusted earnings per preferred share continued to grow double-digit.

The integration of The Sun Products Corporation is well on track.

Moreover, at the beginning of July, we have successfully closed 2 acquisitions in Adhesive Technologies.
Before moving to the guidance, let me also briefly summarize our strong performance in the first 6 months.

For the first time, half year sales exceeded EUR 10 billion and increased by 11.5% to around EUR 10.2 billion. Also, all business units achieved record sales levels. Acquisitions contributed 7.9% to growth. Currency effects added 0.5%.

We achieved a strong organic top line increase of 3.1%, driven by growth across all regions and all business units. We delivered a very strong organic growth of 4.4% in Adhesive Technologies, Beauty Care grew by 1.1% and Laundry & Home Care contributed with a good organic growth of 2.5%.

We generated close to EUR 1.8 billion of adjusted EBIT, delivering an increase of 12.3% versus prior year. All business units contributed with record levels to these results.

Our adjusted EBIT margin reached 17.4%. The improvement was driven by a very strong increase of Adhesive Technologies to 18.6% and a strong growth of Beauty Care to 17.4%. Due to the impact of acquisitions, Laundry & Home Care came in below the prior year and delivered 17.4%.

Summing up, with our strong performance in the first 6 months, we grew adjusted EPS by 10.9% and achieved for the first time EUR 2.96.
Looking at the full year 2017, we expect that the environment will continue to be challenging. GDP growth overall remains on a moderate level even if there are heterogeneous trends across regions. Geopolitical tension and political and macroeconomic uncertainties will continue.

In the consumer goods markets, difficult conditions will persist.

FX development will remain unpredictable and heterogeneous and are turning currently more and more into a headwind.

In a very challenging environment, we continue to focus on our top priorities. We further drive growth with strong innovations, leading brands and an intensified customer focus.

We increase the agility of our organization by constantly adapting structures to the market.

We fund our growth with a continuous and rigorous cost focus.
Based on our results in the first half and the expectations regarding the ongoing challenging market environment, we confirm our guidance for 2017.

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

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

And finally, we expect our adjusted earnings per preferred share to grow between 7% and 9%.
I would like to come to the close of the upcoming events.

The Q3 earnings conference call will be on November 14, followed by our full year earnings release for 2017 in February 2018.

Let's now open the Q&A.

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

**Christian Faitz, Kepler Cheuvreux:** Just 2 questions as a start. In Laundry, you talked about a solid NAFTA performance. Is that referring to sales including Sun Products or is it referring to organic growth? Also, can you share with us the run rate of growth for Persil Pro, which I believe is now 2.5 years into the launch? And then second question on that, can you talk about the progress in terms of synergy generation for Sun Products, for example, procurement synergies, et cetera?

**Hans Van Bylen, CEO:** Thank you, Christian, for your questions. Let me start with Persil Pro U.S. As indicated in our comments on the developments and also looking at our U.S. development organically, excluding Sun, which is quite strong also again this quarter, we are quite happy with the development of Persil. And we see that, indeed, our further buildup of distribution, combined with continuing good sellout, is now resulting in market shares which exceed 3%. So with this, I mean, we see that also take-up continues to be good. And month-by-month, in fact, we see a continuing good pace.

Your first question on Laundry, the solid quarter is also meant clearly excluding Sun. Because excluding Sun, we see a good organic growth. As Carsten indicated, we see weakness in certain European countries, especially France.
And we also see, if you take Middle East/Africa, a country like Egypt, one of our core countries, where the growth is slower than it used to be. But in total, if we look at market dynamics, if we look at peer performance, we see here a very solid performance.

On the question of synergy, I suppose, Carsten, you take this question.

Carsten Knobel, CFO: For sure, Hans. Christian, so regarding the synergies and the overall development of the Sun Products integration, we are continuously progressing with the integration, and we are really well on track related to that. And if you can also make the mathematics, we're continuously increasing and improving our margin. Now we are in the low teens. But as I said, it's a continuous improvement: Q4, last year, Q1, Q2, this year. So as I said, well on track and really developing, as we are expecting.

Alain-Sebastian Oberhuber, Mainfirst: I have 2 questions as well. Could you go a little bit more into discussion of input costs, give us more -- which input costs are up mainly? And as you said, you expect still a slowdown in these costs. If you could help us from that side. And the second is regarding FX, what we could expect in the full year if we look at the current currency situation?

Carsten Knobel, CFO: Good, Alain. Let me start with your question related to the direct material prices. As per our indication, which we gave you in February 2017, we expected at that point a moderately increasing input cost in '17, and this is happening so far. The direct material prices sequentially increased in Q2 versus Q1, and we expect that headwind also to continue. However, we expect a slowdown of spot prices increases compared to the first half of 2017. And therefore, for the full year, we reiterate our expectation that we will see a moderate increase of our raw material prices. But it is, as we indicated that already in Q1, that we anticipated this moderate increase, and the reality is in this dimension. To your second question through the currency, we expect the volatility in the currency markets to continue. That's for sure not surprising. We do not anticipate any major change in the average of the U.S. dollar exchange rate for 2017 compared to 2016. And by contrast, the major currencies in the Emerging Markets could further weaken.

Mirco Badocco, RBC: One question on Adhesives, if I can. I understand there was an impact from less working days in Q2, so I wonder if you can quantify that. So basically, what's your underlying trend you are seeing in Adhesives? And also, can you add some color on what's behind the decline in Consumer and Building in Adhesives?

Carsten Knobel, CFO: So to your first question, we are not doing that, telling you the impact of working days, because at the end of the day, at the half year results, this has leveled out, and we don't want to focus on - and that's always a point - we are not looking for excuses of a working day more or less. We know that. We plan that. And by that, we're not giving you the impact of the dimension of that.
**Hans Van Bylen, CEO:** Then on your question concerning Consumer and Craftsmen developments. In fact, we have 2 components. One is that in the Middle East, the building markets are and remain quite challenging. And the other element is that markets, especially Western Europe, Do-It-Yourself and Craftsmen are particularly weak, and specifically speaking about Southern Europe here.

**Iain Simpson, Societe Generale:** A couple of questions, if I may. Firstly, Professional Hair Care is clearly going pretty well for you at the moment, but this is a division that was struggling a few years back. What’s driven the turnaround there? Secondly, the weakness in France. Is this a step-up in price competition and competitive intensity or is it just more generally a weak consumer? And then thirdly, you’re guiding for all divisions to have organic sales growth in the 2% to 4% range, yet Beauty did 1.1% in the first half. This implies a meaningful acceleration in Beauty growth in the second half. What do you expect the drivers of this to be? And then just lastly, I think this is Renata's final set of quarter results, so I just wanted to thank her for all the help she's given analysts over the years.

**Hans Van Bylen, CEO:** Thanks, Iain, for your questions. Let me start with answering your question on Professional Hair Care, which indeed, I mean, we see more than 8 quarters now that we’re back to growth, and the last one shows even some very good growth. In fact, what is driving this change is mainly innovation, where we got significantly better. And that, especially in some segments like, for example, just a spontaneous example which comes up, is in the blonde segment where we got really some superior innovation. And this has been translated into a strong continuation of partnerships and expansion of business. The other component is U.S. which is doing very well. And as you know, we acquired 3 different brands in the U.S. in '15, and this business now proves to be really extremely strong. And then as I indicated in my short presentation, if you take a brand like mydentity, a brand developed completely in a new digital environment, it has quite impressive take-off. So this helps us a strong way forward. Weakness, France, Carsten, can you take that one?

**Carsten Knobel, CFO:** Sure, I can. So weakness in France, for sure, we have different effects here. I think overall, you can see definitely that the French business or the French market is affected by a market decline. It is affected by retailer consolidation and, for sure, also by strong competitive pressure. With that, we see that we have market shares, which are slightly below prior year, and that’s especially relevant for our consumer businesses. And that’s the situation how France is currently looking, Iain.

To your third question, I think this is related to the OSG. For sure, you’re rightly pointing out that the half year results at Beauty Care are at 1.1%, and this in the context of a challenging market environment. The Beauty Care team is fully committed to reach the targets and to address the challenges we face. As you heard in Retail business and you have also heard, based on your question, the answer regarding Professional, how we are developing, very positively on that. We have intensified our measures on all growth drivers, that means on price, on promotion, on the innovation program and on specific customer actions.
On the other side, you also see that we continue to focus on cost discipline in order to keep investing in the business. And we have a clear strategy, which is profitable growth. And as I said, due to the fact that the team is very keen on delivering that, that's also the reason why we continue to see that all divisions stay in the range of 2% to 4%. And by that, we confirm our guidance not only on the group level but also on the 3 divisions.

**Martin Deboo, Jefferies:** It's a question on U.S. Laundry. We've observed in the latest Nielsen that P&G has significantly increased their promotional and price investment in the U.S. market. And I'm just interested to hear whether you anticipated that move, how you're feeling about it and how you plan to respond.

**Hans Van Bylen, CEO:** Martin, thanks for your question. Concerning the question on promotion intensity what we see in general is, that this topic is increasing. You also see it in our Q report where you see the price/volume mix, where you see the price component, which has some pressure. So this is not only in the U.S. Specifically, about the U.S., we have all price segments now with our portfolio which we cover. And we reacted selectively in a way that with our premium brand Persil, you can imagine that we are extremely disciplined to keep our premium price position. With other brands, we have more flexibility in price points concerning promotion. But be assured that we do everything and we are very competitive in this. And at the moment, we see share development for total U.S., including our portfolio cleanup, is stable.

**Guillaume Delmas, Bank of America Merrill Lynch:** A couple of questions from me. The first one, on Adhesives. So in the face of the rising input costs, have you implemented some pricing actions in the second quarter that have not seen yet in your organic sales growth, but that should come through from the third quarter onwards? And related to that, Carsten, just to make sure I understood properly. In terms of input cost, are you guiding for still some inflation in the second half but less than what you faced in the second quarter?

And my second question is on Beauty Care and effectively the balance between organic sales growth and margin. We've had a very strong quarter margin-wise, but organic sales growth, flat. We're hearing from most of your competitors, an increase in A&P spend expected for the second half of the year. So are you going to be looking in the second half at rebalancing this equation between organic sales growth and margins?

**Hans Van Bylen, CEO:** Carsten, I suggest you take the Adhesive Technologies question, and I will take your Beauty Care question.
Carsten Knobel, CFO: For sure. Guillaume, so related to the Adhesives part, the price increases which are taking place have been communicated to customers throughout the quarter. So we continue with the gradual realization of implemented price changes due to the longer-running price agreements with customers. So going forward, we will closely monitor our prices and take the actions accordingly to the market development. So when you look at the price components, we had a price component in Adhesives of minus 0.3% in Q1, if I recall it correctly, and flat in Q2. And your assumptions, what you have is right. So we are assuming that with the price increases we are getting to our customers, that this will materialize in the second half of 2017 gradually, as you know.

And I think important is in the adhesives sector, we are leveraging here our Adhesive Technologies leadership position with very high adjusted EBIT margins and with increasing innovations on a global scale, and tapping by that into very promising or the most promising industrial trends like Industry 4.0. And we feel that we are with our customers on a very strong way and therefore you see also this gradual improvement of the pricing components with the negative start in Q1, a flat situation now. And as I said, the plan is to see a positive pricing impact in the second half. I hope this helps.

Hans Van Bylen, CEO: Let me, Guillaume, continue with your question on Beauty Care. Indeed, as we indicated ourselves, we see the quarter as mixed because we have a very good margin. But in growth, this is below expectation. And indeed, it is all about this balance about profit and growth. The Q2 had a high quality of margin, meaning that the margin we achieved was combined with good investment. You also see that in price/volume. We have a positive price component in this market with volumes going down. And as Carsten said, the team has been working very hard now to find out an adjustment on that balance concerning price promotion intensity, intensified innovation. But we will always keep an enormous focus also on costs in order to finance all those activities. So profitable growth for us is crucial. We're not targeting growth at any cost. And in this framework, all measures are now initiated, and teams are enormously committed to address those topics.

Carsten Knobel, CFO: If I may add, Hans. Looking at the first half year, Guillaume, in Beauty Care, we have invested in absolute terms more than the comparison of last year and also in relative terms. So the profitability increase is a healthy one.

Marion Boucheron, Raymond James: I have 2 questions, please. The first one is on your guidance of 3% to 4% growth in all divisions. Then is there any reason why you would expect a slowdown in Adhesive Technologies in H2, especially as you still have a bit more price component in growth? And then, could you elaborate a bit on China and the shift to more to the e-commerce channel? Where do you stand currently with your e-commerce sales and how long do you think it will affect the performance?
Hans Van Bylen, CEO: So, I will start with your question on e-commerce in China because indeed what we saw this quarter is that this transformation has some special destocking effect. We see that our market shares stay on a very high level, so sellout is good. And I mean, that's for us, of course, crucial. Up to now, we could clearly compensate this effect by ongoing share gains. Now we see that the destocking effect was quite significant. Our part of e-commerce is over-proportionally strong. We now have a share in China of pure e-commerce of around 50%, 5-0, so significantly strong and also with a very good market position in this. Carsten, you come to guidance.

Carsten Knobel, CFO: Yes. Marion, to your first question on guidance, we have clearly pointed out that we reiterate our guidance of 2% to 4% for the group, but also for the divisions. And for sure, as always, some are completely in that guidance, some a little bit above and some are a little bit below. All 3 divisions are really committed to be in that guidance. You maybe refer because you explicitly pointed out the Adhesives part, which is currently at 4.4% for the first 6 months. But we are not changing guidance for being 30 or 40 basis points above or below. And the similar situation is based on the other question we had before on Beauty where we are, at this point of time, below the 2%. Nevertheless, we are, as we pointed out, committed to be between 2% and 4%, and that's always the case. And as I said, for some percentage points above or below, we don't change immediately the guidance. I hope this helps.

Jörg Frey, Warburg: Two questions from my side. Firstly, I think you pointed out that gross margin decline in the quarter was basically exclusively driven by Adhesives. And given the comments we already had on pricing, this certainly would imply an accelerating -- or a potential for acceleration in EBIT margin growth in Adhesives in the second half. Is there anything which we should bear in mind regarding the comparison base for your efficiency improvement measures also in the second quarter, which would alter that picture, or any specific measures or so that we should bear in mind on the cost side for Adhesives in H2? So that's the first one.

And secondly, you spoke about some market share issues in some countries in Beauty Care. Is this -- well, is the cause of that always pretty similar? Is it at the same category? Or is it more heterogeneous basket of things impacting your market share? So just some color on that one.

Hans Van Bylen, CEO: So let me start with your market share question. So overall, as indicated, we see a mixed development in categories. Quite interesting to see that there's very good performance in styling and color, and it's more in the volume categories. Answering your question, do we see a certain pattern - it's more in volume categories such as shampoo and shower gel where we see some sales challenges in selected countries. And if you go on a country level, in fact, it's concentrated on France, Italy, then also Australia and Japan. That would be the basket.
Q&A Session (p.7/9)

Carsten Knobel, CFO: Philipp, to your first question, let me emphasize again on the overall thing that we are on the same page. You see an adjusted gross margin decline of 150 basis points. We clearly pointed out that 100 basis points are related to the impact of the acquisitions we made, mainly in the Laundry part. So the pure like-for-like number is minus 50 basis points. And as you pointed it out and as I communicated that, the 50 basis points are completely related to Adhesives, so the Consumer businesses are on prior year level. The raw material impacts, we assume, on the one side, will become stronger for Adhesives. On the other side, we will have the price component, which I pointed out before. So you should not expect any special situation in Adhesives. If you look at the Adhesives division, and I think that's referring to a comment I made earlier during the Q&A, I think we see a very strong and excellent development in our Adhesives business now through the complete P&L, a strong organic growth and, as we always pointed out for all 3 divisions, a profitable growth with a significant increase of our margins. And I think that's a very healthy and a very sustainable situation, and this will also continue going forward.

Hans Van Bylen, CEO: And perhaps, Carsten, important perhaps to stress the level of margin. I mean, we just are reporting our Adhesives margin of 19.2%. And as you know, marketing budgets in Adhesive Technologies are not that relevant, so which means, I mean, we're able to compensate gross margin impacts by really significant cost improvements. 19.2%, if you put that in peer comparison, is also a development which is extremely competitive, and a performance of which we're very proud.

Alexander Smith, Barclays: Just a quick question on M&A, I guess, in Adhesives, in particular. You've made quite a few small bolt-on acquisitions of late. It still feels like it's quite a fragmented industry. But I'm just wondering, how much more scope do you feel there is for you out there to consolidate on your leadership position through more bolt-ons, either in current end markets that you already operate in or perhaps in adjacent technologies? How much more is there to go before, I guess, you start running into trouble with the competition authorities? Or how should we think about how the competition authorities take market shares into account?

Carsten Knobel, CFO: Alex, one thing is clear, and there is nothing changing compared to that what Hans alluded to you during our strategic priorities presentation in November and which we also continuously tell you. We keep on screening our M&A opportunities with focus and attention to quality of the assets. And the intention is clearly to continue our innovative track record when it comes to the successful integration of these acquisitions. And in the markets which we operate, as we always tell you, there is plenty of opportunities we have in Laundry, in Beauty, in Adhesives. The only difference between Laundry and Beauty and Adhesives is what we always point out: In Adhesives, we are more related to technology-oriented acquisitions and then rolling that out across our very strong footprint we have in Adhesives across the world. And in Laundry and in Beauty, it's very clear, it's the country-category combination where we want to get strong positions in a category in a specific market.
Q&A Session (p.8/9)

And I cannot tell you and also Hans cannot tell you what kind of concrete projects we have. But we have a full pipeline of projects which we are working on in all 3 divisions. And I think you have seen over the last couple of at least 2.5 years that we continuously execute, be it in Laundry, be it in Beauty and be it in Adhesives. We just have announced 2 acquisitions, the Sonderhoff and the Darex one, which we signed and closed recently. And that is something which we continuously see, because M&A is an integral part of our strategy going forward.

Andreas von Arx, Baader-Helvea: I just noticed that in the Beauty Care business, your margins on a reported basis are down 90 basis points compared to 40 basis points in the first quarter, and was wondering whether that is an indication that you might see some accelerated efficiency or restructuring measures in the quarters to come, also given the performance that you have in the second quarter. And then, I know it's not a big market for you, but if you could maybe comment on how you see the market in Brazil, especially for the Personal Care segment.

Carsten Knobel, CFO: So to your first question related to the reported margin, you're right with the numbers. The operating profit and the return on sales were both slightly lower in Q2 than in prior years, which is mainly due to higher restructuring expenses. And as you know, we adjust the restructuring expenses in our adjusted return on sales measures. And as we always indicate, restructuring is a part of our way going forward. We have a guidance of EUR 200 million to EUR 250 million for the year. And that's an ongoing activity that we adapt our structures to the market, and that's relevant and valid for all 3 divisions.

And as you can see, as I pointed it out before, because your question is specific on Beauty, we have seen a healthy development in Q1 and Q2 of our Beauty Care margin and, as I pointed out before, not at the expense of investing into the market. Here, I made it clear on the KPI of marketing investments in terms of absolute terms and also in relative terms, we stay above the first half of prior year. And yes, I think that's the answer.

Hans Van Bylen, CEO: I can answer your question on Brazil. As you know, Brazil for us is a country in which we, in fact, have only one business unit with a more significant business, which is Adhesives. This business is doing fine. But your question was more on Beauty and to comment on the beauty market, we are in Professional in Brazil, relatively small. The business is fine. But in general, I mean, we do not have too many insights in the bigger-piece consumer as we are not active in Brazil there. Of course, I have an opinion on that, but this would not be fact-based. So as we are not day-by-day living the dynamics there, I cannot comment there in detail.
Celine Pannuti, JP Morgan: Two questions from me. First, on Eastern Europe. Some of your peers have commented that they have seen a mixed performance in Russia and a slow-down in the market. From your commentary, you seem to have done quite well still in the region. Just wanted to hear what you see in terms of market growth and maybe pricing in that region. Also, could you comment on the pricing in Laundry in Western Europe? I think you commented on Beauty promo, but I just wanted as well to understand what's going on in Laundry.

And then, second question is on -- there is a Others swing in the second quarter. Could you comment on what we should expect on this kind of gain for the remainder of the year?

Hans Van Bylen, CEO: Thank you, Celine, for your questions. So on Russia, indeed, the second quarter for us was quite good even in Russia. We also see market shares for both consumer divisions doing quite well also the last period. The pricing in Russia is quite a volatile environment because, indeed, after last year with the huge inflation pricing, now you see with currency bouncing back, I mean, it's different. So a volatile environment, and we are extremely sharp in monitoring that, indeed. We keep our price points competitive in this market. Carsten, on the second question concerning Others?

Carsten Knobel, CFO: Yes. Celine, regarding the Other operating income and expense balance, this increased from EUR 11 million to EUR 26 million, and this was mainly due to higher gains on disposals on noncurrent assets and higher public grants. But we are not guiding on that for the full year. And there's always things which are developing depending on decisions that we are taking. But you should not expect any significant changes or development on that.

Operator: Ladies and gentlemen, this was our last question. I will now hand over to Mr. Van Bylen for closing remarks. Please go ahead.

Hans Van Bylen, CEO: Thank you. In closing, dear Investors, Analysts, we are happy to report a strong performance for Q2 as well as for the first 6 months and to confirm our guidance for the full year 2017. I look forward, together with Carsten, to our Q3 earnings call on November 14. Thank you for listening in, and goodbye.
Thank you!
## FY 2017: Additional input for selected KPIs – confirmed

| FY 2017 |
|-----------------|-----------------|
| Prices for Total Direct Materials | Moderate increase vs. the level of the prior year |
| Restructuring Charges | € 200 - 250m |
| CapEx | € 750 - 850m |
High quality of earnings
Key financials – 1-6/2017

Sales in m€, OSG in %
+3.1%

Gross Margin Adj. in %
+120bp

EBIT Margin Adj. in %
+20bp

EPS Pref. Adj. in €
+10.9%
Excellent NWC management
Key financials – 1-6/2017

<table>
<thead>
<tr>
<th></th>
<th>NWC in % of Sales</th>
<th>Free Cash Flow in m€</th>
<th>Net Financial Position in m€</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>5.3</td>
<td>766</td>
<td>-118</td>
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<tr>
<td>4-6/16</td>
<td>5.2</td>
<td>617</td>
<td>-2.342</td>
</tr>
<tr>
<td>4-6/17</td>
<td></td>
<td>30.6/16</td>
<td>30.6/17</td>
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-10bp
-19.3%
€ -2.2 bn
Double-digit organic & inorganic sales growth in m€, changes in %

<table>
<thead>
<tr>
<th>Component</th>
<th>Change in %</th>
</tr>
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<tbody>
<tr>
<td>Sales 1-6/16</td>
<td>+11.5%</td>
</tr>
<tr>
<td>Volume</td>
<td>+3.1%</td>
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<tr>
<td>Price</td>
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<tr>
<td>M&amp;A</td>
<td>+7.9%</td>
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<tr>
<td>FX</td>
<td>+0.5%</td>
</tr>
<tr>
<td>Sales 1-6/17</td>
<td>+10.5%</td>
</tr>
</tbody>
</table>
All regions growing in m€, OSG in %

- **Western Europe**
  - 1-6/16: 3,114
  - 1-6/17: 3,080
  - Growth: +0.3%

- **Eastern Europe**
  - 1-6/16: 1,327
  - 1-6/17: 1,444
  - Growth: +8.8%

- **Africa/Middle East**
  - 1-6/16: 682
  - 1-6/17: 690
  - Growth: +1.7%

- **North America**
  - 1-6/16: 1,858
  - 1-6/17: 2,648
  - Growth: +4.3%

- **Latin America**
  - 1-6/16: 514
  - 1-6/17: 508
  - Growth: +1.2%

- **Asia-Pacific**
  - 1-6/16: 1,555
  - 1-6/17: 1,872
  - Growth: +8.8%
Adhesive Technologies
Key financials 1-6/17

Sales in m€, OSG\(^1\) in %

<table>
<thead>
<tr>
<th></th>
<th>1-6/16</th>
<th>1-6/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>4,433</td>
<td>4,665</td>
</tr>
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EBIT Margin Adj. in %

<table>
<thead>
<tr>
<th></th>
<th>1-6/16</th>
<th>1-6/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>18.1</td>
<td>18.6</td>
</tr>
</tbody>
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NWC in % of Sales

<table>
<thead>
<tr>
<th></th>
<th>4-6/16</th>
<th>4-6/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>NWC</td>
<td>11.9</td>
<td>11.1</td>
</tr>
</tbody>
</table>

\(^1\)Volume: 4.5% Price: -0.1%

Q2 2017 – Henkel Investor & Analyst Call  Aug 10, 2017
Beauty Care
Key financials 1-6/17

Sales in m€, OSG\(^1\) in %

- 1.938 (1-6/16)
- 2.007 (1-6/17) [+1.1%]

EBIT Margin Adj. in %

- 17.0 (1-6/16)
- 17.4 (1-6/17) [+40bp]

NWC in % of Sales

- 3.1 (4-6/16)
- 4.5 (4-6/17) [+140bp]

\(^1\)Volume: 0.0% Price: 1.1%
Laundry & Home Care
Key financials 1-6/17

<table>
<thead>
<tr>
<th>Sales in m€, OSG¹ in %</th>
<th>EBIT Margin Adj. in %</th>
<th>NWC in % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,678</td>
<td>18.2</td>
<td>-3.9</td>
</tr>
<tr>
<td>3,429</td>
<td>17.4</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

¹Volume: 3.0% Price: -0.5%

Q2 2017 – Henkel Investor & Analyst Call  Aug 10, 2017
Continued increase of Adjusted EBIT margin

in m€, % of sales

- 47.8% 4,853
- 23.7%
- 2.4%
- 4.6%
+ 0.3%
17.4% 1,763

Adjusted Gross Profit Marketing, selling & distrib. expenses R&D Admin OOI/ OOE Adjusted EBIT
Adaptation of our structures to the market

in m€

Reported EBIT 1-6/17: 1,662
One-time gains: -21
One-time charges: +75
Restructuring charges: +47
Adjusted EBIT 1-6/17: 1,763
Thank you!