Henkel Q1 2018

Hans Van Bylen, Carsten Knobel
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Hans Van Bylen, CEO:

Dear Investors and Analysts,

good morning from Düsseldorf and welcome to our Earnings Call for the first quarter of 2018.

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. The presentation and discussion are conducted subject to the disclaimer. We will not read the disclaimer, but propose we take that read into the records for the purpose of this conference call.
Today I'm going to lead you firstly through the key developments of the first quarter in 2018.

Then Carsten will comment the detailed financials for the quarter.

After that, I will close my presentation with the guidance for the fiscal year 2018, our focus areas for the remainder of the year and the key take-aways.

And finally, Carsten and I will take your questions.
Let me start with an overview on key macroeconomic developments impacting our businesses.

Henkel overall operates in a continuously heterogeneous environment. Global GDP grew moderately by around 3%. The industrial production continued its growth momentum with the IPX increasing by more than 3.5% in Q1.

The difficult conditions in the consumer goods markets persisted. We faced a decelerating volume growth momentum, while at the same time the price and promotion pressures remained high. This was fueled by further consolidation of retailers in some markets.

Looking at FX, we have been confronted with an exceptional situation with most of our currencies having devaluated against the euro. Especially important currencies like the U.S. dollar or the Russian ruble devaluated double-digit compared to the prior-year quarter.

At the same time, commodity headwinds persisted. Substantial feedstock price increases were mainly driven by crude oil price inflation as well as market shortages and force majeures.

Lastly, geopolitical uncertainties and political and economic tensions remained.
Positive development in Q1 2018

- Positive organic sales growth driven by very strong performance of Adhesive Technologies
- Delivery difficulties in North American consumer goods businesses
- Significant headwinds from FX impacting top and bottom line
- Continuous improvement in Adjusted EBIT Margin supported by strong cost management focus
- Adjusted EPS above previous year

<table>
<thead>
<tr>
<th>Sales</th>
<th>Organic Growth</th>
<th>Adjusted EBIT</th>
<th>Adjusted EBIT %</th>
<th>Adjusted EPS Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ 4.8 bn</td>
<td>+1.1%</td>
<td>€ 842 m</td>
<td>17.4%</td>
<td>+1.4%</td>
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In this environment, Henkel delivered positive organic sales growth and further improved the adjusted EBIT margin and adjusted earnings per share.

Organic sales growth at +1.1% in the first quarter was driven by the very strong performance of Adhesive Technologies and the Emerging Markets contributed with an over proportional growth rate of +6.9%. As we announced already in March, our results were adversely affected by delivery difficulties in the consumer goods businesses in North America.

Sales reached EUR 4.8 billion, nominally 4.5% below the prior year. FX headwinds had a significant impact on the quarter with minus 8.6%. This is the highest impact we have seen in more than a decade.

Adjusted EBIT came in at EUR 842 million. Despite the challenges, we continued on our profitable growth path, increasing the adjusted EBIT margin to 17.4%, up 50 basis points, supported by our strong cost management focus.

Adjusted earnings per preferred share amounted to EUR 1.43 and thus grew by 1.4%. Carsten will talk about the significant FX impacts on our P&L later on.
Consumer Goods – North America

- Q1 impacted by delivery difficulties resulting from change in the transportation and logistics processes and systems
- Causes have been identified, countermeasures defined and are being implemented
- Service levels already improved significantly
- On track to return to normal service levels in the course of the second quarter

Before moving on to the business units, let me give you a short update on the current status of the delivery difficulties in North America.

As you know, we faced problems in the supply chain due to change in the transportation and logistics processes and systems for our Beauty Care Retail and Laundry & Home Care businesses in the beginning of the first quarter. Adhesive Technologies and Hair Professional were not affected.

The delivery difficulties were caused by issues in interaction between workflows in the supply chain and the logistic system. The problems occurred when using the system under "full load". Shortages in the U.S. transportation market added to these difficulties.

As a result, we faced disruptions across the supply chain from production planning, order processing, production, storage and transportation to our customers. We immediately took action to identify the causes and defined countermeasures, while at the same time actively engaging with all our customers. As a result, service levels already improved significantly and we have not lost a single customer.

Working through these imbalances in the supply chain takes some time. We are on track to return to the usual service level in the course of the second quarter. Regarding the impact on our Q1, Carsten will provide more details later.
Let me now go through our business units, starting with Adhesive Technologies.

The business unit continued its profitable growth path and delivered a strong performance.

With very strong organic sales growth of 4.7%, Adhesive Technologies continued to outperform its markets and relevant peers, driven by innovative high-impact solutions for its global customer base. All business areas contributed to the strong momentum, in particular Electronics, with significant growth, and General Industry, with very strong growth.

In a challenging environment with ongoing raw material headwinds, the business unit achieved a good balance of volume growth and continued pricing measures. Together with the implementation of our Fund Growth initiatives, this resulted in a continuously high adjusted EBIT margin level of 18.1%.
This strong performance was driven by our high-impact solutions.

For example, in the Industrial Assembly business, we achieved double-digit growth, with new solutions for manufacturers of appliances and white goods.

We also achieved double-digit growth with our Infrastructure Electronics business, driven by solutions for the protection, bonding, connection and thermal management of electronics in sectors such as solar and telecommunications.

We also achieved significant growth with innovative and sustainable solutions across the food packaging value chain. Our broad portfolio for flexible packaging, for example, enhances the efficiency of manufacturers while ensuring the highest food safety standards for consumers globally.

Summing up, Adhesive Technologies has shown an excellent quarter, outperforming competition. With this strong performance, the business unit is well positioned to continue its profitable growth trend.
Impacted by the delivery difficulties in North America, Beauty Care recorded an organic sales development of minus 4.3%. Excluding this impact, Beauty Care sales would have been around prior-year level.

In Retail, in addition to the delivery difficulties, the ongoing weakness of the mass beauty market impacted our growth in the Mature Markets. The Emerging Markets had a good start into the year. Our global market shares, excluding North America, remained stable. The Hair Professional business continued its successful development and achieved strong organic sales growth, further strengthening its global #3 position.

Thanks to our strong cost management focus, we were able to maintain our margin level of 16.7%.
Let me highlight that in Beauty Care some categories and businesses showed a compelling performance.

In Eastern Europe, we delivered strong growth in Retail driven by all categories. Successful launches of new variants, for example under the Gliss Kur brand, contributed to this development.

Also, our Coloration business continued its significant growth momentum and further expanded market shares. This was driven by a successful base portfolio as well as innovations such as got2b and #PURECOLOR.

The Hair Professional business continued its strong organic growth momentum, further enhancing its market position. Growth was especially driven by our Schwarzkopf innovations such as Oil Ultime and our acquired brands Kenra and Alterna.

In summary, the performance of Beauty Care continued to be characterized by top line challenges in Retail and strong performance in Hair Professional. Under a new leadership, the team is focusing on strengthening our global and local brands, launching exciting innovations and driving sales across all channels.
Laundry & Home Care showed a slightly negative organic sales growth of minus 0.7%, affected by the delivery difficulties in North America. Excluding these, the business unit showed a good underlying development.

Growth in Laundry Care was negative, while Home Care recorded a good organic sales growth.

The adjusted EBIT margin displayed an excellent increase of 1.2 percentage points and reached 18.5%. The improvement once again reflects the very good progress in the integration of the Sun business as well as our strict cost management.
Let me come to the highlights in our Laundry & Home Care business unit.

In Germany, we delivered a strong performance, driven by Laundry Care as well as Home Care. For example, Persil grew double-digit thanks to Liquid and Caps.

Middle East/Africa delivered double-digit growth in the first quarter of 2018, thanks to a successful Persil re-launch throughout the region and the strong development of our Pril brand.

The Toilet Care category continued its strong momentum and delivered double-digit growth, driven by successful innovations. With the exception of North America, a very sound performance of Laundry & Home Care in the first quarter.

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

Thank you very much, Hans, and good morning, everyone. Let us now have a look at the financials of the first quarter of 2018 in more detail.
We achieved a sound underlying performance and made good progress with our Fund Growth initiatives as well as the integration of our acquisitions. However, this was contrasted by 3 topics: the delivery difficulties in North America, the significant FX headwinds, and the ongoing material cost inflation.

So overall, we generated sales with EUR 4.8 billion, 4.5% down on previous year’s level, mainly due to FX. We delivered a positive organic net sales growth of 1.1%.

The adjusted gross margin reached 47.5% compared to 47.9% in the prior year quarter, and I will come back to that later during the presentation.

We continued to increase the adjusted EBIT margin, now to a level of 17.4%. This is 50 basis points up compared to the prior year level.

And finally, our adjusted earnings per preferred share increased by 1.4%, now to EUR 1.43.
Looking now on our cash management, and to be precise, on our Cash-KPIs. They were also affected by the mentioned challenges before.

The ratio of net working capital to sales increased to 6.2%, 130 basis points up versus the prior year quarter, and also here I will come back later in the presentation.

The free cash flow was lower at EUR 22 million, mainly driven by significantly higher CapEx, also here I will give you later detailed explanations.

And lastly, our net financial position remained robust at minus EUR 3.2 billion.
Delivery difficulties in North America
Impact on Q1 2018 results

<table>
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<tr>
<th>Henkel Group Results</th>
<th>Q1 2018 actuals</th>
<th>Q1 2018 w/o delivery difficulties</th>
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<tbody>
<tr>
<td>Organic Growth</td>
<td>+1.1%</td>
<td>&gt;2.5%</td>
</tr>
<tr>
<td>NWC in % of Sales</td>
<td>6.2%</td>
<td>~ 5%</td>
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Excluding the effects from the delivery difficulties organic growth in Q1 was in line with full year outlook Henkel has introduced countermeasures to partially offset effects by year-end 2018

Before now taking you through the P&L, let me also comment on the impact of the delivery difficulties in the North American consumer businesses.

Hans has already pointed it out, we have quickly identified the causes and already improved the service level significantly. We are on track to return to usual service levels in the course of the second quarter.

Excluding the impact of the delivery difficulties, we would have recorded a good organic net sales growth of more than 2.5% for the Henkel Group.

With this, Henkel would have achieved in the first quarter an organic sales growth for the Group in line with our full year guidance. We have introduced countermeasures to partially offset the negative effects in the full year 2018.

And lastly, also net working capital in percent of sales was affected and would have been at about 5%, almost on par with Q1 2017.
With that now coming back to the Group performance in the first quarter and let’s take a closer look at our sales bridge.

Organically we delivered, as already said, a positive growth of 1.1%, driven by a balanced composition of 60 basis points increase in volume and 50 basis points increase in prices. The net effect of our acquisitions and divestments had a positive impact on sales of 3.0%. So adding the organic plus the inorganic growth, this amounted to 4.1%, and with that, a very strong increase.

This was over-compensated by significant currency headwinds of minus 8.6%, the strongest negative headwinds we have seen in over a decade for a quarter. As a result, sales decreased nominally by minus 4.5% to EUR 4.835 billion.
Softer US Dollar and EM currencies

To give you a better understanding of the FX headwinds, we have listed the top 10 non-Euro countries, which you see on the left side of the chart, and their respective Group sales exposures.

As you can see, 9 out of 10 currencies were weakening against the euro in the first quarter of 2018. The biggest headwinds in absolute terms came from our 3 biggest non-Euro countries, which are the U.S., China and Russia.

The United States account for almost 1/4 of our Group sales, and with that, represent our biggest currency exposure. Already in the second half of ’17, we saw a weakening of the U.S. dollar, which continued also in the first quarter of ’18. So the 1.23 $ / euro on average in the first quarter ’18 corresponds to a roughly 15% devaluation year-on-year.

At current rates, we will continue to see a headwind especially in Q2 substantially softening then in the second half of 2018. However, currencies remain very volatile and that is what we had also reflected in our adjusted EPS guidance for the full year, if I can remind you on that.
Let me now come to the organic performance of the regions.

The positive organic growth on the Group was driven by the Emerging Markets with a very strong growth of 6.9%, almost amounting to EUR 2 billion sales, representing with that about 41% of Henkel Group sales, slightly above the level of the prior year.

Sales in the Mature Markets came in at EUR 2.8 billion, organically minus 2.8% below the prior year. This was, as already mentioned, due to the delivery difficulties in North America, resulting in a negative organic growth for the region of minus 6.5% for North America.

Looking at Western Europe, sales were organically stable at 0.2% as a result of the ongoing price and promotional pressure in the consumer goods businesses.

Eastern Europe recorded a significant organic sales growth of 7.6%, here driven especially by a double-digit development in Turkey.

Latin America recorded a significant organic sales growth of 7.3%.

And Africa/Middle East achieved a significant organic sales growth of 8.6% despite the continuing political and social unrest in some of the countries.

Asia-Pacific showed a very strong increase, with organic sales growth of 4.2%. Here India contributed double-digit and China delivered a very strong growth.
With that, now let me move on to our business units and starting with Adhesive Technologies.

The business unit posted a very strong organic net sales growth of 4.7%, mainly driven by volume, 3.6% up, and also a positive price component of 1.1%. And also here, we are exactly delivering on what we told you over the last couple of quarters. I may remind you, we started Q1 of ’17 with slight negative pricing, were flat in Q2, and a 50 basis points price component positive in Q3, a 100 basis point price component in Q4, and now 110 basis points in Q1 2018. We continued with the implementation of the price increases in order to offset the ongoing raw material headwinds, which are the biggest one in our Adhesive Technologies group. Acquisitions contributed with 3.0%, and Adhesive Technologies was impacted by currency effects amounting to minus 8.8%, with that resulting in nominal sales decrease of minus 1.1%.

All business areas contributed to this very strong organic sales growth development. The powerful performance was driven by a significant increase of Electronics and a very strong growth in General Industry. The other 3 business areas, Transport & Metal, Packaging and Consumer & Craftsmen delivered a strong growth.

Looking at the regional perspective, we have seen a good organic sales growth in the Mature Markets. This was driven by a good development in Western Europe and in North America. The Emerging Markets showed a significant organic sales growth. And this development was driven by a double-digit development in Eastern Europe and very strong growth in Asia excluding Japan. Latin America and Africa/Middle East also contributed with a very strong growth.

Moving to the right part of the chart and looking to the profit. Thanks to the continuous implementation of price increases as well as our strong cost management focus, the adjusted EBIT margin remained on the high level of the prior year of 18.1%.
And with this, now moving to Beauty Care.

Overall, a difficult quarter. Organic sales growth was negative at minus 4.3%, driven by a decrease in volume by minus 3.6% and a negative pricing component of 70 basis points. Excluding the impact from the delivery difficulties in North America, the growth would have been roughly flat.

Acquisitions contributed with 8.0% to the growth and currency effects for the divisions were at minus 8.3%. Therefore, sales in nominal terms came in at minus 4.6%.

The organic sales growth was negative in Retail and in Hair Professional again a strong organic sales growth, as you have been used over the last 12 quarters of the past.

The Mature Markets were negative due to delivery difficulties in North America. In Western Europe the performance was mixed, Germany showing a positive development, while France was negative. Emerging Markets posted a very strong growth, here mainly driven by Eastern Europe.

Profitability-wise, despite the challenges, Beauty Care maintained its good profitability level of 16.7%, which you can see also here on the right side of the chart.
Finally, let’s move on to our Laundry & Home Care business.

The business unit delivered a slightly negative organic sales growth of minus 0.7%, with volumes being down minus 110 basis points, while prices were positive at 0.4% up. Excluding the delivery difficulties, also here Laundry & Home Care would have shown a better performance, and to be precise, a good performance.

Acquisitions contributed with 0.3% to the growth. Negative currency effects for the division amounted to 8.7% so that in total the nominal growth came in at minus 9.1%.

Laundry Care showed a negative organic sales development. The Home Care business delivered a good growth.

Looking at the Mature Markets, they were negative due to the development in North America, while Western Europe showed a positive growth, and the Mature Markets of Asia-Pacific grew double-digit. Emerging Markets here showed a significant organic sales development. Africa/Middle East delivered a double-digit growth and also Eastern Europe contributed with a very strong growth.

Despite the challenges, the Laundry & Home Care business delivered an excellent increase in adjusted EBIT margin, now to a level of 18.5% from the 17.3% in Q1 2017. And this is mainly driven by 2 factors: on the one side, the continued realization of the Sun synergies, and our Fund Growth initiatives, which we have explained to you over the last couple of quarters.
Let’s now move back to the Henkel Group and in particular to our adjusted income statement.

Our adjusted gross margin was at 47.5% compared to the 47.9% in the prior year, so minus 40 basis points. But excluding acquisitions, the adjusted gross margin would have been at 47.6%, so only 30 basis points below the prior year. This development was driven by a continued headwind from higher direct material prices, and that impacted in particular our Adhesive Technologies division. The decline was smaller compared to prior year quarters also as a result of our pricing measures.

Despite all these headwinds, we were able to further increase our adjusted EBIT margin.

In percent of sales, marketing, selling and distribution expenses improved by 30 basis points, now to 23.6%. We continued to realize efficiency gains through our ONE!ViEW project, which is a part of our Fund Growth initiatives, and we adapted also our marketing spend to the current business environment, especially in North America, while we continue to adequately support and invest behind our brands.

R&D expenses were stable at 2.4%. Our admin expenses we were able to reduce again and in percent of sales they came in at 4.5% and this is an improvement of 20 basis points.

At EUR 19 million, the balance of other operating income and expenses remained at a low level and was above prior year due to numerous individual transactions relating to our operations.

Overall, our adjusted EBIT came in at EUR 842 million and the adjusted EBIT margin, as pointed out earlier, continued to increase, now to a level of 17.4%, and this is an increase of 50 basis points.
Earlier on, I already highlighted the significant impact of FX on our sales growth. This of course also impacted our adjusted EPS growth with a strong FX headwind of minus 6.4%, even above the Q4 2017 impact of minus 3.9%.

Excluding FX, we continued to deliver a strong operating EPS performance of 7.8% despite the delivery difficulties we faced in the quarter in North America.

So overall, adjusted EPS came in 1.4% higher with a level of EUR 1.43.
And let me now move to our Cash-KPIs more in detail, as pointed out at the beginning, and let me start with net working capital.

Net working capital of Adhesive Technologies came in at 11.9%. This is an increase of 40 basis points. But adjusting for acquisitions, roughly 20 basis points, net working capital would have been very close to the prior-year level.

In Beauty Care, net working capital increased by 240 basis points to 5.8%. This significant increase is due to 2 effects, both effects being more or less equal in terms of weight: the delivery difficulties in North America account for roughly 120 basis points and also the impact of the just done acquisitions has an impact of roughly 160 basis points.

Net working capital in Laundry & Home Care increased by 120 basis points to a level now reaching in Q1 2018 of minus 1.2%. Also here the development was driven by the delivery difficulties. Excluding those, we would have shown an overall improvement.

As a result, the Group recorded, as already pointed out, 6.2%, and with that being above the prior year comparison with 130 basis points. So excluding the effects from the delivery difficulties, our net working capital would have been almost on par with prior-year level.

Nevertheless, and to be very clear, we are not satisfied with this development. We are putting high emphasis on getting back to a lower level and we'll report on the progress we make now for sure, as you are always used to, quarter-by-quarter.
Moving now to our free cash flow.

The free cash flow decreased to EUR 22 million in Q1 2018.

The lower operating result and the net working capital development impacted our operating cash flow, which came in at EUR 391 million, EUR 51 million below the prior year.

Capital expenditures significantly increased by EUR 227 million, now to EUR 345 million for the quarter, and this was due to an acquisition of a technology.

Our net financial position remained largely unchanged at minus EUR 3.2 billion versus year-end 2017. The increase compared to the prior year is due to the acquisitions in Beauty Care and Adhesive Technologies over the last 12 months.

Summing up, we continue to have a strong balance sheet.

And with this, I hand back to Hans.
Hans Van Bylen:

Thank you very much, Carsten.

Let me now conclude with our guidance for 2018, our priorities for the remainder of the year and the key take-aways before we move on to the Q&A.
We expect the high volatility and uncertainty of the business environment to persist.

GDP forecasts indicate a moderate growth with the positive momentum of industrial production expected to continue. However, we anticipate challenges in the consumer goods markets to prevail.

As Carsten illustrated, FX continues to show an unfavorable development, especially the U.S. dollar. We continue to expect an increase in raw material prices throughout 2018.

In this environment, we confirm our 2018 outlook.

- For 2018, Henkel expects to generate organic sales growth of 2% to 4%, with Adhesive Technologies and Laundry & Home Care within this range, and Beauty Care between 0% and 2%.
- For the adjusted EBIT margin, Henkel anticipates an increase versus the prior year to more than 17.5%, with all 3 business units contributing.
- Reflecting the uncertainties in the currency markets, especially the U.S. dollar trends, Henkel expects an increase in adjusted earnings per preferred share in euro of between 5% and 8%.
We are committed to deliver on our outlook for 2018 and have set clear focus areas for the remainder of the year.

We are working hard to maintain our strong growth momentum in Adhesive Technologies and continue to outperform competition.

We are fully on track to get back to a normal service level in our North American consumer goods businesses in the course of Q2.

We are accelerating innovations in our consumer goods businesses to drive our growth.

We are executing our Fund Growth initiatives to support investments and our bottom line.

We are focusing on getting our net working capital back to a lower level.

And we will successfully complete the integration of our acquisitions.
Let me summarize the key take-aways we wanted to convey to you today.

In the first quarter, Henkel delivered positive organic sales growth, driven by a very strong performance of Adhesive Technologies.

Delivery difficulties in North America affected our Q1 results, but we are on track to get back to a normal service level in the course of the second quarter.

FX had a significant impact on our top and bottom line performance.

Thanks to our continued cost management focus, we delivered a very strong improvement of our adjusted EBIT margin and higher adjusted earnings per preferred share.

And we are fully committed to achieve our guidance for 2018.

With this, let's move on to the Q&A.
**Question:** Two questions or actually 3 questions if I may. First of all, can you explain the significantly higher CapEx year-on-year, i.e., the technology you mentioned you acquired in the call? Then second of all, your SG&A costs are down quite markedly year-on-year. How much of that is attributable to the weaker U.S. dollar and how much of that is active cost cutting? And then third question, can you talk about demand trends in key customer industries in your Adhesive Technologies business, i.e., in automotive, electronics?

**Hans Van Bylen:** Thank you for your 3 questions. Two concern a more deep dive into financials, which Carsten will do.

Let me take the question on some demand trends which we see in our industry, in our Adhesive Technologies business. First of all, as we pointed out, supportive and good news is that we see the industrial production index, the so-called IPX, which we see as quite representative on showing how production globally develops, shows a very good momentum. And as we said, 3.5% growth is a very healthy growth momentum concerning global industrial production. As we also see reflected in our business within this, of course we see some businesses which have over-proportional growth. And what jumps out of course is for us our Electronics business. As you know, it's a business meanwhile for us, which we built up quite fast to a more than EUR 1 billion size. And also again in Q1, we saw up to a double-digit growth in parts of this business. And demand is there driven by different industries. That's also why we pointed out the more industrial part of this, where also we serve a lot of businesses which have an over-proportional growth index. In automobile, and I'm pretty sure you also follow that, the global market in automobile is not growing that much, but in the segments in which we are, which is a strong focus both on electronics and, for example, also weight reduction, also autonomous driving, these segments we're strong and these are within automobile also over-proportional growth drivers. And General Industry in itself is also quite healthy. And here of course, we serve different industries and different segments in which we're well positioned. So overall, I think quite good momentum, as we also pointed out, within Packaging, where of course there is some price pressure, we find some good segments, like we have our food packaging, in which we take care that also we find sustainable solutions for our customers and also this had quite a good momentum in Q1. Hope this gives some flavor on the different segments. Carsten?

**Carsten Knobel:** Good morning. So first of all, thanks that you are raising the question related to CapEx. As I pointed out, we reached a level of CapEx of EUR 345 million in quarter 1. This is an increase of EUR 227 million. Out of this EUR 227 million, roughly EUR 200 million amounted to an investment related to the acquisition of a technology.
I fully understand that you would like to learn more about that, but as a part of our confidentiality agreement which we have agreed on we cannot provide further information at this point of time. I hope you also understand that is also relevant for competition and we don't want to lose a competitive advantage on that. But that's what I can say at this point of time. So therefore, you see the normal development of our CapEx. The extraordinary part comes due to the acquisition of this technology.

**Question:** Can you point to any of your 3 segments this technology or...

**Carsten Knobel:** For sure I could. But that's exactly what I would like to stay confidential, because that would also give a significant hint to competition, which we don't want to do at this stage. But you can be assured that we have handled this project as disciplined as we are doing that with our M&A projects. And by that I think you can imagine that with this investment, we also expect a certain impact, otherwise we would not be willing to pay such an amount. That's the CapEx part.

Now, your second or third question was related to the development of our admin cost. Yes, it's correct that we have a good development of our admin costs, reported down around 8%, adjusted down double-digit, so minus 10%. And, yes, it is also clear when we were talking that FX effects are affecting us quite significantly negative on our top line side. We also have related to our footprint also a positive impact when it comes to this area. And to be very clear on that, roughly 50% of that impact or the decrease what you have seen could be accounted to the influence of the currencies. The rest is the cost management measures, which I've also related to the Fund Growth initiatives, be it on efficiency in terms of how we develop with our Shared Services, be it the ONE!ViEW activities in terms of a new flexible cost set up. So that is roughly 50/50 in terms of impact, helping us to decrease the costs on the admin part.

**Question:** I have 2 questions. First is regarding the commodity price input costs you mentioned. Could you give us a guidance how much you expect for this year that input costs could go up? And the second question is regarding the Beauty Care, in particular about the cycle. Now, obviously organic growth came down faster than we were expecting, but you had a very good margin given this decline we have seen. Is it mainly because you have taken out some promotion marketing costs or the other way, could we expect now a gradual improvement of the Beauty Care organic growth as well as EBIT margin improvement for the rest of the year?

**Hans Van Bylen:** Thank you for both questions. Perhaps we start with commodity, Carsten?
Carsten Knobel: For sure, Hans, I can do. What we already pointed out, we saw negative impacts from increasing direct material prices in all business units. The highest impact, as I have pointed it out, was seen in Adhesive Technologies. The gross margin of Adhesive Technologies by that was below prior year due to the significant direct material increases. We have partly offset that by our strong saving initiatives and the ongoing implementation of price increases. And in our consumer goods business, the gross margin was on the level of the prior year quarter. On top, your question was more related then to the full year of 2018. And as you know, we have given the guidance on that beginning of the year, where we said we expect a moderate increase for the whole company. And this maintains. And I think that's all what I can say at this point. As I said, the strongest impact also for the full year in Adhesive Technologies, lower in the HPC, overall a moderate increase.

Hans Van Bylen: Thank you, Carsten. Let me give you some insight then in your question concerning margin development in Beauty Care. What for us is indeed quite supportive is that we see that despite some challenges we have in top line, the margin stays quite healthy. And this is also linked to some supportive effects out of mix. As we report, you see the Professional business developing quite well. Also, meanwhile, getting also in the quarter, it's quite interesting to see that we get to one quarter of the Beauty business is now Professional, also now that all acquisitions are getting integrated, so getting up to EUR 1 billion size for the year. And this business has a structural higher margin, in a way also a higher gross margin. As I also have been describing within Beauty, some businesses do very well. Our Hair Coloration business, double-digit growth in Q1. And also here these are the businesses with a structurally significant higher gross margin. So mix effects help to secure the gross margin. Because on the other hand what we do see is that within our Retail business, especially in Europe, markets are down quite significant also because of significant negative pricing. If I look at the market statistics and I've been managing Beauty myself, I never saw in Western Europe such negative developments in some markets. Take some markets like France, where we see up to nearly double-digit negative market development in our businesses by severe pricing. And of course in this environment, we balance out. Good news for us also in Q1 was, for example, Germany, where we have been winning significant market share, because balancing out again pricing versus also margin. What also has been on EBIT margin up to now a negative impact in margin is the 2 acquisitions which we still have to integrate. Before integration now, they are somewhat dilutive in the total margin. And going forward of course, this is a further potential. Once we start working onto the full integration, capturing the synergies, we also see further margin potential there. Hope this gives some flavor on your question on margin in Beauty.
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**Question:** A couple of question from me if I may. Firstly, pricing in Beauty looks to have improved significantly. I think it was sort of negative -2 in the fourth quarter '17, but negative 0.7 in the first quarter. I just wondered if you could give us some more color on this please. Are there any particular geographies where promotional intensity has improved? And then secondly on Iran. I think this is one of your bigger Middle East markets. Are there any consequences for you if we see U.S. sanctions reintroduced?

**Hans Van Bylen:** Thank you for both questions. Carsten, pricing in Beauty. You can give some flavor on the regional topic. I think we talk mostly on the Western Europe topic, where we do see also in the Western Europe markets, as I have indicated before, have some heavy pressure in especially pricing. So the negative pricing in Beauty comes mostly out of the European markets. U.S., now, is difficult to judge. Perhaps now I'm already in the answer, because if we look at the split, it's clear that the negative pricing comes completely out of the Mature Markets and there mainly France.

Iran. Since this night this news is out. But what it means specifically it's not clear at all yet. So of course we do actively monitor what's happening there. And as we are globally in a lot of countries with our business, and in all businesses we do, of course we respect all regulations. And going forward, not clear yet what it means and it's quite hot news and we will monitor it in all details.

**Carsten Knobel:** Iran is a big market for sure, but overall it's not really a big impact on Henkel overall.

**Question:** Thank you for the color on the pricing. Was there any regions that have improved over the last few months, because your pricing in Beauty looks to be getting better? I just wondered if there were any regions or countries that were driving that improvement. Or is it just that you are lapping previous competitive intensity?

**Carsten Knobel:** Overall, Emerging Markets improved, but also North America is difficult, yes. But as you know, North America is also impacted by the current delivery situation. So therefore, I would wait on that. But overall it's more the Emerging Market part.
**Question:** So first one from me, a really quick one, just on the distribution issues in the US. Are you already at a normal service level or are you still working your way back? I just wanted a bit of clarity on that. And then secondly, I'd like to understand your strategic priorities little bit better. I think in your strategy presentation back in November 2016, you made clear that driving growth was your #1 strategic priority. I think you said it was very deliberately chosen and that driving growth was your first priority. Clearly, driving growth in Adhesives is working really well, 4% to 5% like-for-like pretty much every quarter since. But in both consumer businesses growth has slowed, I think around 1% in Laundry and obviously negative in Beauty; at the same time your margins keep churning out record highs. So I want to understand a little bit more about the priorities in the consumer businesses. Is it margin development or is it top line growth? Outside of Germany do you need to reinvest significantly in the Laundry and Beauty businesses to get them to grow or is it more of a scale issue?

**Carsten Knobel:** Yes. I will start with the distribution question. As we have pointed out, we are improving. We have significantly improved our service level, and as we have pointed out, we expect to get back to normal in the course of Q2. That means we expect no material impact on our KPIs negative in Q2. And you know that we normally don’t give anything in terms of trading of the actual quarter, but we are very confident that what I said before is right based on what we have seen in April.

**Hans Van Bylen:** Coming to your question on strategic priorities to drive growth. For sure, our ambition - and that's also our financial ambition - is to deliver both on further strengthening growth and margin. This is for sure always the challenge, but this is a challenge which we see as quite healthy, to continue our profitable growth path. Putting more emphasis on growth even when growth is more difficult to capture is for us the right priority. As you indicate yourself, in Adhesive Technologies, we are now getting to a best-in-class growth in the industry, which is also because looking at this priority we focus even better and more on our customers, on innovation, which is in Adhesive Technologies extremely close developed with our customers. But also in Retail, we put in the organization by far more focus on the customer. And of course another indicator is market share. I mean, also now in Q1 if we look at our market share developments, we have a good start in market share in both our consumer businesses. In Beauty, if we exclude US, it's flat, but we see some highlights. In Laundry & Home Care, we have in general a very good start in market share. So we feel with this balance we are doing quite well in the way that of course we have to fuel investments.
And that's why the 4 strategic priorities they are linked together, because as in the last call we brought some transparency in our ambition to save costs, our Fund Growth initiatives. And we see significant cost leverages on which we work and which also we see during Q1, resulting in both potential to invest and bottom line. And during the year, we see a strengthening of those initiatives. So within this mix that's also our financial ambition and that's why we think we have the right priorities here. On top in Driving Growth, we become more digital. I mean, digital sales in Q1 also had a good development and that's another priority of course for the company to further strengthen our position in digital world. Good. We come to the next question.

**Question:** A couple of questions from me. Firstly, on Beauty. I just wanted to sort of have your thoughts on how organic growth develops during the year. Because obviously excluding the U.S. effect, you said organic growth was broadly flat in the first quarter. But obviously your guidance, it does imply even at the bottom end there's acceleration during the year. So I'm just trying to get an idea of what you think is going to drive that acceleration in growth outside the U.S.? Also, within Beauty China, you mentioned at the Group level strong growth in China. But I just wonder how Beauty growth was developing in China with the destocking issues that you've seen from the channel shifts? And then in Laundry & Home Care, you mentioned strong growth in Middle East and Africa. But I know that Egypt has been a big drag on the business over the last few quarters. So I just wondered how the developments were going on in Egypt in Laundry & Home Care? And then maybe one quick final one just on restructuring, which I think had come up quite a lot in Q1. I think you've done about 1/3rd of your annual restructuring budget in Q1, so I just wondered how confident you are that it comes in within your guidance for the full year.

**Hans Van Bylen:** Thank you for your 3 questions. Concerning Beauty, as you indicate yourself, indeed to get to our year ambition it means we will need to strengthen. And we see some positive developments, a fact which also will play a role, is of course and that will happen especially in Q3 and Q4, that our comparables get substantially weaker. And that of course also in the course of the year our performance, driving this forward, also will help. On China, it's quite interesting to see if we go more in detail in China, the total business in Beauty had a slight growth in Q1, but with e-commerce being very strong double-digit. And now the e-commerce part is getting to half of the business. And this means of course that the destocking topic is not yet over, because of course you can imagine the other business -- if one is growing and nearly getting to 1/2, clearly double digits, the other businesses has some pressure. So this will still continue.
On the Laundry & Home Care, indeed, happy for us and also we reported this that excluding US, we had a very good quarter, and we're also elaborating that as one of the highlights that Middle/East Africa is back to strong growth. And this of course is also helped by a strong Egypt business. I mean, Egypt is one of our core countries and we had a good start of the year there, mainly also linked to (inaudible). Carsten just tells me it’s indeed a double-digit growth we had in Egypt for the first quarter. So we had a re-launch of Persil. Pril is doing well. And the market itself hopefully is recovering. Let’s now see. We all have oil price now, which also we see, but let’s hope that also oil price recovery also brings back some growth into those markets in those countries. And on restructuring, Carsten --

**Carsten Knobel**: Thank you for the question also related to restructuring. You know how we operate. We're trying to be proactive. We are always trying to be in a way continuously adapting our structures to the market. That's also why you have seen in Q1 an over proportional share of the amount of restructuring if you would multiply that with 4. It is related to projects which will optimize our production footprint and our sales and distribution structures. And by that, we were for sure impacted in Q1 with a higher amount. But we stick very clear to our guidance which we have given to you beginning of the year, which means EUR 200 million to EUR 250 million, most probably more at the higher end than at the lower end. But guidance is the guidance and this means roughly between EUR 200 million and EUR 250 million.

**Question**: So 2 questions. Firstly, just delving a bit deeper into the working capital, you had a very big outflow in your trade accounts receivable. Could you talk a bit about how the delivery difficulties in the U.S. affected that number and whether there were any other factors at play such as longer payment terms for your customers? And then secondly, if you could just give some greater quantification on the likely raw material pressure that you’re going to face later in the year? That would also be very helpful.

**Carsten Knobel**: Starting with net working capital, as I pointed it out, excluding the delivery difficulties in North America our net working capital would have been more or less flat, that means flat compared to prior year level, around 5%. And furthermore, companies we acquire usually have a higher net working capital compared to ours and we work on bringing those to the level of Henkel. In Q1, that was roughly 50 basis points related to this acquisition effect. And so therefore on that we will work. And I pointed out that we are not satisfied overall and therefore we will also for sure try to get back even to lower levels than before.
Related to your question more in the receivables area, end of Q1 there were certain bank holidays, and with that, related lower payment. But I would not over evaluate that too much. That's more a seasonal effect in this specific quarter.

For me, the points that I mentioned before are the leading topics. The delivery topics in North America impacted us by 120 basis points. We had acquisitions, which we are still working in, with roughly 50 basis points impacting us. And on top, we see improvement potential on operating items, which are related to all major components, which is inventories, receivables, but also on payables. And on that we are working. Your second question was related to raws. But here I think we had a similar question already before. We remain confident in this respect that a moderate increase we will see for the full year. We will see no significant change to Q1 in the upcoming quarters. And therefore, I will stay with these statements, as I said before.

**Question:** Just a simple question from me really. Just why were margins so good in Q1? Supply chain was a headwind on top line and therefore lost you contribution. Plus, there were incremental fixed costs. Plus, commodities presumably started to turn upwards in Q1. And yet margins were ahead of consensus and it was particularly strong in Laundry. I guess the question is, is that all coming from Fund Growth initiatives and Sun product synergies or are you taking down A&P is the question I would ask there? And just a supplementary, was transactional FX an influence on margin in Q1 and will it be for the full year?

**Carsten Knobel:** You have seen and we have pointed that out that Adhesive Technologies and Beauty Care were stable in terms of margin and that we have seen a very good development of the Laundry & Home Care margin development. And here we have 2 points.

The one point is related to the consequent implementation of our integration path when it comes to the Sun acquisition. This is well on track and we plan to achieve our synergy targets. You know that we commented on that to be higher than 10% in relation to the former Sun sales and this is really working exactly. And that has nothing to do in parallel with the delivery difficulties what we have. So here we are really progressing. And I have shown you the update on that quarter-over-quarter.

And the second part, which is not only related to Laundry & Home Care, but it's for sure impacting the whole company, is the whole topic of our Fund Growth initiatives, and to be very specific here, our ONE!ViEW, the new cost management approach. I pointed that out also during the last call and presentation that we are really doing a good progress on that and we have a consequent implementation of these strong Fund Growth initiatives and our cost management initiatives.
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And by that, we see this upside, which you also see in our admin costs. We had a question also before on that, where we had a double-digit improvement. And 1/2 of that was related to currency, 1/2 related to really the execution and implementation of the measures we are having. And then your second part of the question, of your simple question, was related to the transactional FX impact. And the answer is yes. Yes, there is a transactional FX impact on our gross margin, which is not a significant one, but it is impacting us negatively. And most probably – and I don’t know the future - but it maybe will also remain during the year. But let’s see and what the next quarters will give us related to these topics. Hope that clarifies.

Hans Van Bylen: Thank you, Carsten. Also, thank you, investors and analysts. Thank you for joining and also thank you very much for your questions. Last but not least, please be reminded of our upcoming events.

At our next event, Carsten and Bruno will be pleased to welcome you to the Investor and Analyst Day this year on Laundry & Home Care in Düsseldorf on May 29th. Please contact Investor Relations in case you have not registered yet.

Thank you very much for listening in. Wish you a good day. Goodbye. Thank you.
Thank You
## FY 2018: Additional input for selected KPIs

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Adaptation of our structures to the market

in €m

Reported EBIT Q1/18: 739
One-time gains: -11
One-time charges: +30
Restructuring charges: +84
Adjusted EBIT Q1/18: 842
Thank You