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PRESENTATION

Operator

Good morning and welcome to the Henkel conference call. For the duration of the call, you will be on listen-only. (Operator instructions) I will now hand over to Leslie Iltgen, Head of Investor Relations. Please go ahead.

Leslie Iltgen - *Henkel AG & Co KGaA - Head of Investor Relations*

Thank you and good morning and a warm welcome to everyone joining our call at Henkel's half year performance. I'm Leslie Iltgen, Head of Henkel's Investor Relations. Today, I'm joined by our CEO, Carsten Knobel, and our CFO, Marco Swoboda. Carsten will begin with an overview of the key developments and highlights in the first half.

Marco will then follow with a more detailed review of the financial performance. As always, following the presentation, we will open up the lines and Carsten and Marco will be happy to take your questions.

Before handing over to Carsten, please let me remind you that this call will be recorded and a replay will be made available on our Investor Relations website shortly after this call. By asking a question during the Q&A session, you agree to both the live broadcasting as well as the recording of your question, including salutation to be published on our website.

Also, please be reminded that this presentation contains the usual formal disclaimer in regard to forward-looking statements within the meaning of relevant US legislation. It can also be accessed by our website at henkel.com. As always, the presentation and discussion are conducted subject to this disclaimer.

With this, it is my pleasure to hand over to our CEO, Carsten Knobel. Carsten, please go ahead.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Thank you, Leslie, and a warm welcome also from my side to everyone here joining our conference call today. And as always, we do appreciate your interest in our company, and we look forward to answering your questions. And after walking you through the key developments in the first half of 2024, we will elaborate on Henkel's business performance and the full year outlook in more detail.

So let me move straight to the key topics and the highlights of the first half. Our half year results demonstrate the strong performance we achieved in both businesses. At Group level, Henkel recorded 2.9% organic sales growth, with our Consumer Brands business clearly standing out delivering 4.3%. Adhesive Technologies achieved a growth of 2.0%, very much driven by the strong performance in Automotive and a continued recovery in Electronics and overall, a strong performance versus the relevant markets.

Pricing also continued to contribute positively. Volumes again improved sequentially versus Q1 2024. In Adhesives, volume picked up versus Q1 despite an overall demanding environment. In our Consumer business, we also reached positive levels when considering the impact from portfolio measures. We also recorded a significant margin increase and an EPS increase. This development was supported by benefits from the ongoing portfolio optimization, valorization and savings in Consumer Brands, a positive mix impact in Adhesive Technologies as well as supply chain efficiencies in both business units – while advancing the level of investments to fuel growth. Backed by the very strong business performance in the first half of 2024 and our expectations for the remainder of the year, we raised our earnings guidance in July for the full year 2024.

So looking ahead, we are also highly confident to reach the targets we have set for our mid- to long-term financial ambitions now already mid-term.

With that, I would like to turn to some of the highlights in our two business units, starting with Adhesive Technologies where growth continues to be driven largely by customer-centric solutions we offer to our customers. Our Automotive business was yet again a growth engine in the first half, and the market recovery of the Electronic business, which continued throughout Q2, also contributed to the sequential volume improvement.

Beyond driving our financial performance, we are also seeking opportunities to add attractive businesses via value-enhancing M&A to accelerate growth. The acquisition of Seal for Life, which forms an integral pillar in building a growth platform for the maintenance, repair and overhaul business, and the acquisition of the attractive Vidal Sassoon brand in China are two good examples. Both transactions were closed in the first half of this year and thus earlier than originally expected. And both acquisitions are already contributing to the overall strong performance. Execution excellence is key for the success, we are now seeing shining through more and more in the Consumer Brands business. It is key in getting back to more growth and higher profitability levels. The team is doing an amazing job. The ongoing valorization of our portfolio, supported by relevant innovations, and investing behind our strong brands plays a decisive role.

Looking at our Hair category, we can clearly see that the measures we have implemented are bearing fruit. Hair delivered a high single-digit organic sales growth, including positive volume growth as well as global market share gains in Styling and Color. We continue to invest behind our brands, particularly the leading top 10 consumer brands, which provide attractive growth opportunities also going forward.

The benefit from gross profit margin improvement also enables us to increase investments behind the growth. And all in all, we are well on track and delivering on what we said we would. Turning to Adhesive Technologies in more detail. As you know, we are a know-how driven business. Our strength and the key USP lies in customer-centric innovations. We are working together with our customers to co-develop solutions for their specific challenges. This co-innovation is a key factor across industries.

And most importantly, it is the main reason why we continue to grow and win projects in the Automotive business, for instance. Fr example, we are designing platform-specific, lightweight, structural inserts, developing sustainable surface treatment and cleaner solutions adapted to OEM-specific automotive production processes and requirements.

This makes us the partner of choice for our customers and drives the market share. We will look at one very specific example here in a minute.

Turning to sustainability – one of our key differentiators deeply rooted in our DNA. As a leader in the sustainability transformation, we are leveraging our unique value chain position for meaningful collaborations in order to create lasting impact across industries.

Looking at a specific example from packaging in the consumer goods market. In cooperation with two leading players in the chemical industry, Kraton and Dow, we have achieved a 25% cradle-to-gate carbon footprint reduction –compared to legacy products – for two of our North American flagship products for end-of-line packaging under the Technomelt brand. We are pioneering superior bonding, sealing and coating solutions in many industries. Another example would be our work with leading electronic key accounts to continuously advance consumer devices and semiconductor packaging. We will add details here in the following minutes.

But before that, I would like to wrap up in highlighting the core enabler of all our activities. It is safe to say that customer centricity and co-innovation would not be possible without our strong customer-facing team around the globe. We are a know-how driven company, leveraging the knowledge of more than 6,500 customer facing experts.

Coming to the examples. One of the big topics driving our business is the future of mobility. We observe several trends that shape the industry. What I would like to highlight is the shift from individual to integrated automotive components that is driven by the ever-growing computing power in cars.

An emerging field here is the integration of electronic control units. What is special about this? Integrating electronic components come with high benefit for cars irrespective of the powertrain. But at the same time, it is a highly complex field with very specific requirements regarding thermal management.

We are one of only few players who recognized the trend early on and collaborated with leading OEMs and key tier suppliers in developing innovative solutions. This puts us in a very unique market position and unlocks new value potential for our business. On the one hand, the total value per component is increasing. And on the other hand, the market is consolidating and we are part of driving this consolidation.

I mentioned the consumer electronics industry in the beginning already. Now taking a closer look. At this field, we see many developments that again have special requirements regarding adhesive solutions. This is, of course, playing to our strength of co-innovating with leading players here to bring their vision to life.

As most likely all of us have already observed in past years in our phones, it is the trend around ever-increasing camera performance. Higher performance in this case requires module miniaturization, ensuring components fit the phone body. Our innovative solutions enable this miniaturization, especially when looking at critical precision in manufacturing processes and solution applications.

Our strong leverage in this field driven by close customer collaboration is also reflected in our performance. We have been outperforming the market in the past years with double-digit growth. Closing our deep dives here, I would like to circle back to the topic of sustainability.

As I mentioned earlier, we have unique collaborations spanning the value chain in consumer packaging. But with our broad portfolio of innovative solutions, we drive sustainability in a large range of industries. Looking at a complete different industry, Construction, we see another area where we are driving critical sustainable impact in terms of reducing CO2 emissions with our cementitious adhesives.

We are looking at an industry with great potential for innovation. The building industry accounts for around 40% of global CO2 emissions. Here, cement plays a key role with more than 350,000 tons CO2 per year. We took on the challenge and are transforming our portfolio of innovative, low CO2 footprint, cementitious adhesives.

With this, we significantly contribute to the decarbonization in this industry. Already with the first wave of portfolio transformation completed in core countries, we created tangible impact by enabling CO2 savings of more than 20,000 tons, CO2 per annum – really a great achievement.

Turning to our Consumer Brands. As I referred to a couple of minutes ago, we are driving the valorization process of our Consumer Brands portfolio with relevant innovations and by significantly investing behind our strong top brands to further improve the mix and fuel profitable growth.

Over the past quarters, we presented a couple of highlight innovations, which we rolled out to the market and which you can already find in the shelf – such as our Persil with the new unique enzyme technology, the fabric care product Perwoll, which renews the color of the fabric, or our innovative Somat caps.

However, it's not just about bringing a high number of new products to the market. All this product and innovations address clear consumer demands and offer an added value to our customers. So it's about focusing on the most promising brands, categories and markets, both in terms of growth and gross margins, and you'll see more of that in just a minute.

At the same time, we continue to invest behind our brands, particularly the leading top 10 brands, which provide attractive growth opportunities going forward. While we have already increased our investment by a double-digit percentage number in 2023, we are further raising our marketing spend significantly also in the second half of this year versus the first half, in order to support our innovations and to strengthen the brand equity.

It is encouraging to see that these innovations are already contributing to a significant sales momentum, particularly of our top brands. We saw high single-digit organic sales growth of our top 10 brands, which accounted for more than 50% of sales in the first half of 2024. We have a well-filled pipeline of innovations, and you will see more of them flowing into the market in the coming quarters.

While there is still work to be done and our portfolio optimization measures are ongoing as we speak, we are clearly delivering what we promised and are thus also confident about the mid- to long-term.

Looking at our Hair category, we can clearly see that the measures we have implemented are bearing fruit. Hair delivered 7% organic sales growth in the first half. This is for sure an excellent performance, but what is even more: We saw the fourth consecutive quarter of positive volume development. In Styling and in Color, we have gained market shares on a global scale, adding 40 basis points each in half year one.

This very strong growth is also supported by both Consumer and Professional. Our umbrella brand Schwarzkopf clearly stood out, delivering very strong growth in the first half. Also in Hair, we brought new products to the market, which significantly contributed to the overall strong top line performance. Gliss is a good example where we recorded double-digit organic sales growth in the first half, following a relaunch with new hair-strengthening formulas.

In North America, we saw very strong organic sales growth in Professional, supported by our recently launched 360 degree campaign with well-known celebrities such as Sofia Vergara and Chris Appleton.

Turning to Laundry & Home Care, where we achieved 3% organic sales growth in the first half. Also here, we saw above-average organic sales increases of leading core brands such as Perwoll and Bref, where we recently rolled out innovations to the market.

Our leading Fabric Care brand Perwoll delivered double-digit organic sales growth in H1, fueling a plus of 120 basis points in market shares year to date in Fabric Care in our key market in Western Europe. This new formula, which renews the color of the fabric, is a success and for sure underpins Henkel's technology leadership.

Bref is our leading Toilet Care brand and we recently upgraded the Brilliant Gel range – an all-in-one technology with which we pioneered the market. It now comes with both an improved formulation, increasing customer experience with 35% more fragrance per flush and a sustainable packaging with 98% recycled plastics. Bref also delivered double-digit organic sales growth in H1, driving global market share gains of 50 bps in Toilet Care year to date. In parallel, we have been working stringently towards creating a winning portfolio and driving supply chain optimization along our integration roadmap.

The portfolio measures are well on track. As of today, I can confirm that all targeted discontinuations have already been either initiated or executed. And while we are already more or less done in our Hair category, where we clearly see the positive development I mentioned before, the focus is currently on Laundry & Home Care. From a regional perspective, the majority of the current portfolio measures are allocated to North America. To give a few examples, we have discontinued Sun-branded products in the US and at discontinuing our branded dishwashing products in Canada.

Please note that this is leading to some distortions in volume and market share numbers. But we do expect to have concluded the portfolio measures, particularly when it comes to discontinuations, by the end of this year. While enhancing our consumer brands portfolio, we are also driving the second integration phase, which is focusing on the optimization of the production and supply chain, with full force.

In the meantime, we have successfully implemented the so-called 1-1-1 approach in 28 countries and the further rollout continues as we speak. We also further optimized and consolidated our production and logistics network – worth mentioning are plant consolidations in the US and in Eastern European countries in Laundry & Home Care.

Overall, we further reduced complexity by around 16%. This was achieved, for instance, by reducing the number of production lines and warehouses by another 5% versus end of 2023.

All in all, we are well on track and have achieved further efficiency gains and savings. We are more than confident that we will get to the targeted total savings in the amount of EUR525 million by 2026. So we did not only achieve a strong financial performance, but also have been driving our strategic initiatives in full force.

And this brings me to our outlook for the full year. Let me share some more color on the drivers behind our recent guidance raise from July 17. We saw an overall very strong business performance in the first half of 2024, supported by both business units – with Consumer Brands clearly standing out. The particularly strong performance in Consumer Brands was supported by benefits from the ongoing portfolio measures and better mix, driving strong gross margins.

And in addition, the ongoing valorization of the portfolio and the generation of savings is increasingly bearing fruit. And at the same time, we are investing in marketing to support core brands and innovations to fuel further profitable growth going forward.

For the full year 2024, we expect Group organic sales growth to reach 2.5% to 4.5%. The adjusted EBIT margin is expected to be in the range of 13.5% to 14.5% for the Group. And for adjusted EPS, we expect an increase of between 20% to 30% at constant currencies.

So in short, our strategy is working and Henkel is on a successful and consistent profitable growth path. We are also highly confident to reach our mid- to long-term financial ambition, that we had set ourselves in 2022, now already mid-term. For the Group, we expect organic sales growth of 3% to 4%. We expect organic sales growth in Adhesive Technologies to reach 3% to 5% and 3% to 4% in Consumer Brands.

In regard to adjusted EBIT margin, our mid-term ambition calls for 16% for the Group, a high teens percentage number for our Adhesive business and a mid-teens percentage number for our Consumer business. Adjusted EPS growth is expected in the mid to high single digit percentage territory, always at constant exchange rates, including M&A.

We also will continue to focus on free cash flow expansion. To wrap it up, we did not only show a strong performance year to date, but also a confident for the full year as well as in regards to Henkel's mid-term growth and profitability profile.

And with this, I would like to hand over to Marco, who will lead you through the financials of the first half in more detail.

Marco Swoboda - *Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board*

Thanks, Carsten, and good morning to everyone in the call also from my side. Let me share some more color on Henkel's business development in the first half. We delivered good organic sales growth of 2.9%, driven by both business units. Pricing contributed 2.5%, while volumes were in the positive territory with plus 0.4%. I will get to the drivers in just a minute.

M&A and FX had a negative effect on sales in H1. However, in line with expectations, both turned positive in the second quarter.

In regard to M&A, the sale of our business activities in Russia had a negative impact, while the recently closed acquisitions of Seal for Life and Vidal Sassoon contributed positively. In nominal terms, sales showed a slight decrease of 1% in H1, while being up by more than 3% in the second quarter. Group sales in the first half, again, clearly surpassed the EUR10 billion mark reaching EUR10.8 billion.

From a regional perspective, we recorded different dynamics. Europe showed organic growth of 1.8%. And in North America, sales declined organically by 1.6%. In Adhesive Technologies, this was mainly due to the development in Packaging & Consumer Goods, while performance in Consumer Brands remained to be impacted by the ongoing portfolio measures, and Carsten alluded to that already. But it is encouraging to see that Q2 improved sequentially versus Q1 in North America. In Latin America, organically, sales remained flat. While we saw a very strong development in Consumer Brands, Adhesive Technologies was impacted by a challenging environment.

IMEA recorded clear double-digit growth of plus 21%. And the Asia Pacific region showed 5.5% organic sales growth, also reflecting the continued recovery, particularly in our Electronics business in China.

Let us move on to the performance of our two business units, starting with Adhesive Technologies. The business generated sales of EUR5.5 billion in the first half. In organic terms, we delivered 2% growth, with pricing showing a stable development of 0.2%, and volumes clearly picking up versus the prior quarter and contributing 1.8% in the first half.

Absolute adjusted EBIT amounted to EUR933 million, resulting in an adjusted EBIT margin of 17%. Overall, we were able to significantly increase both the absolute adjusted EBIT and the adjusted EBIT margin despite the overall challenging environment.

Overall, the Adhesives business delivered good organic sales growth, which was particular driven by very strong growth in Mobility & Electronics. Despite a still overall challenging environment, we also recorded a sequential volume increase in Q2 versus Q1, which is quite encouraging.

The negative working day impact we experienced in Q1, partially reversed in Q2 and will fully reverse over the course of the year. Pricing overall proved to remain resilient in H1 in comparison to markets, which clearly shows the strength of our portfolio. We also managed to significantly increase margins. Besides the robust pricing, lower input costs in the first half, better mix and supply chain efficiency gains contributed to this very strong development. Overall, we are quite pleased with the performance of the business.

Let me turn to the performance in the individual business areas, where we continue to see different dynamics. Mobility & Electronics again was the main growth driver with a plus of 5.3%. This increase was driven by all businesses, with Electronics clearly standing out, contributing double-digit growth.

Packaging & Consumer Goods recorded an overall flattish development, with Packaging showing an overall stable development and Consumer Goods remaining below prior year against strong comparables. Craftsmen, Construction & Professional delivered organic sales growth of 1%, particularly driven by positive growth in the Construction and Consumers & Craftsmen areas. The development in the General Manufacturing & Maintenance business reflects the currently challenging market environment, thus remaining slightly below the prior year. Overall, a robust performance of our Adhesive Technologies business in comparison to our relevant markets and peers, clearly reflecting the strength of our business and portfolio.

Turning to Consumer Brands. The business generated sales of EUR5.3 billion, which translates into strong organic sales growth of 4.3%, which was first and foremost driven by a still strong price component of more than 5%. Volumes were more muted due to the portfolio measures. The adjusted EBIT margin was clearly up to 14.3%.

Turning to the next slide, I would like to elaborate in more detail on the price/volume and margin development.

The continued strong pricing also reflects the ongoing valorization of our portfolio with strong innovations and sustained elevated marketing support, as Carsten already alluded to in his part of the presentation. Volume development showed a further slight sequential improvement versus Q1 2024. And when adjusting for the impact from portfolio measures, which accounted for approximately 2-percentage-points, volumes would have been at around plus 1%, and thus clearly in the positive territory. Please note that we still expect the effects of discontinuations on organic growth to be more front-end loaded, and that we still strive to complete the discontinuations by year-end.

The substantial margin step-up was supported by the ongoing valorization and portfolio measures, leading to an overall better mix as well as further savings from supply chain efficiency gains. At the same time, however, we are stepping up our level of investments, particularly in marketing to strengthen our brands, support the innovations that we are bringing to the shelf and, last not least, to fuel further growth in the future.

Now turning to the performance by business area. Laundry & Home Care delivered strong organic sales growth of 3.1%, to which both Laundry Care and Home Care contributed. In Laundry Care, Fabric Cleaning and Fabric Care were amongst the growth drivers. In Home Care, growth was mainly fueled by Toilet Care and Dishwashing. In Hair, which comprises both the Professional and Consumer business, we grew by more than 7% - with a particular contribution from our Consumer business. Here, we saw double-digit growth with contribution from all categories. In Professional, we recorded strong growth in our key markets Europe and North America. In Other Consumer, growth was driven by our Soap business under our Dial brand in the US and by Deodorants across regions.

Turning now to the Group level again, and with that to the components of the adjusted income statement. We significantly increased our adjusted gross profit, now reaching 50.6%, thanks to the continued strong pricing to further compensate for the overall still elevated input and energy costs versus pre-crisis levels, and due to a better mix as a result of the portfolio optimization measures. In addition, we also benefited from further savings deriving from Phase 1 and 2 of the Consumer Brands merger. Marketing, selling and distribution expenses increased both in absolute terms and as percentage of sales, particularly due to the step-up in marketing spend in the Consumer Brands business in order to strengthen brand equity. As a result, at a level of EUR3 billion, marketing, selling and distribution expenses accounted for 27.6% of sales. Research and development and admin expenses were also higher, with their relative impact increasing slightly to 2.8% and 5.3% respectively.

Other operating income and expenses were more or less flat compared to prior year, and with that had a rather neutral impact as a percentage of sales. As a result, the adjusted EBIT margin showed a very strong increase by 340 basis points to 14.9%.

Moving on to the bridge from reported to adjusted EBIT. At close to EUR1.5 billion, the reported EBIT was up by more than 70% compared to the previous year level. One-time expenses of EUR31 million are mainly related to the acquisition and divestment-related costs as well as IT integration costs in the context of the Consumer Brands merger.

Restructuring charges amounted to EUR110 million and were thus lower than in the first six months of 2023, with the majority related to the merger of our consumer business and the supply chain optimization measures of Phase 2 as well as the discontinuation of business activities in Venezuela, resulting in a non-cash charge for the half year.

As a result, adjusted EBIT came in at around EUR1.6 billion, an increase of almost 30% compared to the prior-year period. Taking a closer look at the bridge that leads to the adjusted EPS. The adjusted financial result amounted to around minus EUR33 million, and thus slightly improved compared to the prior year, mainly due to lower net debt levels. The adjusted tax rate was at 25.5% and thus on prior-year level. And finally, adjusted net income after minorities came in at nearly EUR1.2 billion. And this translates into adjusted earnings per preferred share of EUR2.78 and represents a significant increase by 30.5% year-over-year or – at constant exchange rates – an increase by even 32.9%. On to our key cash KPI's. Net working capital as a percentage of sales further improved by 90 basis points to a level of 5.2%. This development was mainly driven by lower inventory levels. We improved our free cash flow to around EUR772 million in the first half, reflecting the continued strong free cash flow, supported by an increase in earnings. Our net debt amounted to around minus EUR1.4 billion, and this development was mainly driven by cash outflows for the recently closed acquisitions as well as for the dividend.

Overall, an excellent financial foundation, which gives us ample room to further invest in measures to accelerate growth. Now, based on the strong performance in the first half and our confidence for the remainder of the year, we increased our earnings guidance for 2024 in July. Carsten already alluded to the drivers earlier.

We continue to expect organic sales growth of 2.5% to 4.5% on Group level. And for Adhesive Technologies, we guide 2% to 4%. And in Consumer Brands, we guide for 3% to 5%. Our adjusted EBIT margin expectations were increased on July 17 and are as follows now: For the Group, we now expect 13.5% to 14.5%, and while we still guide for 16% to 17% for our Adhesives business, we have raised our outlook for Consumer Brands to 13% to 14%.

Breaking it down to adjusted EPS expectations at constant currencies, we increased our guidance range from previously plus 15% to plus 25% to now plus 20% to plus 30%. The guidance still considers the anticipated increase in prices for raw materials in the second half of the year and now also a stronger increase in investments in marketing to support innovations in the Consumer Brands business unit in H2.

Our expectations in regard to FX, acquisitions and divestments, direct material prices, restructuring expenses and CapEx for fiscal 2024 remain unchanged. So overall, we again lifted our earnings expectations for the full year 2024 and are confident to continue on our profitable growth path.

With that back to you, Carsten.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Thank you, Marco, and let me summarize today's key takeaways before we come to the Q&A. We sustained Henkel's good growth momentum with a strong organic top line performance, which was supported by both business units. We also saw sequentially improved volume developments in both businesses, which is quite encouraging.

We also significantly stepped up profitability. Both business units delivered strong margins while continuously investing into the business to drive further growth and while pursuing efficiency gains, particularly by further optimizing the supply chain. All of this translates into a very strong increase in EPS in H1.

Having said that, and considering the strong first half year performance and our confidence for the remainder of the year, we recently raised our full year earnings guidance again in July. What is more, we are also highly confident that we will achieve the targets we had formerly set ourselves for the mid- to long-term to now be reached midterm.

We are delivering what we promised, pursuing clear strategic priorities and commitments and pushing further ahead with our growth agenda.

With that, let us move on to the Q&A. Marco and I are looking forward to taking your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Knobel. Ladies and gentlemen, the question-and-answer session will be conducted electronically. (Operator instructions)

Guillaume Delmas, UBS.

Guillaume Delmas - *UBS - Analyst*

Thank you very much and good morning, Carsten, Marco and Leslie. I have two questions. The first one is on your gross margin. So you did 50.6% in the first half. I think it's by far the highest gross margin you ever reported on a half year basis. So my question here is, is 50% plus a sustainable level for your gross margin, and it's simply reflective of your portfolio reshaping and savings productivity efforts, or was the first half performance boosted by some temporary favorable factors? I mean, I'm thinking lower commodity costs, you talked also about strong positive mix in adhesives and maybe in the case of consumer brands, still a relatively low level of promotional activity. So any color you could provide on this 50%-plus gross margin level?

And then my second question is on your mid- to long-term financial ambition that you're effectively bringing forward this morning. And here, I'm just wondering if this is simply a factual statement – because based on your 2024 margin guidance, I mean, you should be getting very close to your mid- to long-term financial ambitions – or are you also trying to signal that consensus may be a bit too conservative at this stage? If I look at 2027 or 2028 expectations for consensus, it's barely at 15%. And you seem to imply that 16% EBIT margin is around the corner. So any clarification on this and the potential timing of the 16% EBIT margin would be great. Thank you.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

So good morning, Guillaume. So to your questions, thank you first. And let me start with the second one, your question regarding mid- to long-term, now the mid-term. So first of all, I think we are well on track to implement our strategy even in a very difficult environment. Our strategy works, our transformation is successful. And I recall 1.5 years ago, I think that was by ourselves, but for sure also, indicated by you – not you personally, but you as analysts – that we need to show tangible progress. And what we did in 2023, we did deliver on what we promised – means, tangible progress in our development. And the same is now valid for 2024. We are improving, we have great half year results and that's another proof point of tangible progress.

So we are delivering what we are promising and therefore, I'm very confident in our future – and that's not only that what is out for 2024, that we are committed to make 2024 a successful year, but also for the upcoming years in that context.

Consensus may not fully reflect us reaching the mid-term ambition yet, but we are well on track to reach that. And by that, I think it's a clear proof point that instead of mid- to long-term, we are now very confident to get that into the mid-term territory. But again, as I said, it's a very clear proof point of our strategy going forward. And to your first question regarding the gross margins. First of all, yes, our adjusted gross margin amounted to 50.6%, and that's roughly 600 basis points above the prior-year period in that context. And that is supported by strong pricing, by decreasing material costs, coupled with savings from cost reduction measures, efficiency improvements in the supply chain in terms of Henkel Consumer Brands Phase 2, but also the supply chain optimizations in Henkel Adhesives.

And for sure, we are interested in keeping high gross margins, which also gives us another room to reinvest into the business, and on the other side, to really also drive growth. You may recall the flywheel which we explained, which Wolfgang and the team are driving in Henkel Consumer Brands – in terms of focusing on margins and brands in that topic of higher margins being more investing into that, which also stimulates growth.

And on the topic, exactly, is the number a one-timer or not – you know, we're not guiding on gross margins. But there is for sure a point which is a sequential increase of direct material costs in H2, which we also alluded to. We will also invest more in terms of marketing.

On the other side, you have the point that we are not at the end with our portfolio measures, we are not at the end with our saving initiatives – I also alluded to that, especially also in Phase 2 of our supply chain optimization – , which have a significant impact on the gross margins.

So we are very confident that, with gross margins level, we will also continue on that end for the gross margins of H2. Nevertheless, as I said, they will be maybe a little bit less than H1. But on the other side, they will be higher than the gross margins in H2 of 2023. And I think that's a very clear path that we are driving into that direction.

Hope that helps, Guillaume.

Guillaume Delmas - *UBS - Analyst*

It does. Thank you very much.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

You're welcome.

Operator

Christian Faitz, Kepler Cheuvreux.

Christian Faitz - *Kepler Cheuvreux - Analyst*

Yes, thank you. Morning Carsten, Marco and Leslie and team. Two questions, please. First of all, what is your current order book visibility in Adhesives, i.e. what is September doing versus the summer months, July and August? Can you give us a trend maybe there in terms of order book activity?

And then my second question is, how do you see raw materials trending in H2 versus H1? I mean, Marco, you already mentioned you will see an increase in H2, which is an iteration of your view in May – can you put a number on this? Thank you very much.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

So good morning, Christian. Marco, are you willing to start with the second question on the raw materials.

Marco Swoboda - *Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board*

Yeah, Christian, as you already said, we basically expect that the prices for raw materials in the second half will be above the level of the first half, and that is actually reflected also in our guidance.

And also to note, when we look at the prices for H1, just also to underline, also the level we saw there was still much elevated if we compare that to the times before the COVID crisis. So also H1 wasn't really cheap, but H2 now iswhat we see in the market from a price point of view will increase also again in versus H1. And that is actually what we reflect also in our guidance when you look at the margin development.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Thank you, Marco. So, Christian, to your first question – I hope you understand I will not comment on the monthly situation, but maybe it's good enough or even better to give you a broader perspective on the H2. So, in Henkel Adhesives, in general, we expect a volume pick up in H2 – also in line with the IPX development, the index for production.

So to give you maybe some more specifics on that: While the light vehicle production index is expected to decline in H2, we expect to continue clearly outperform the automotive market. I think we were alluding to that during our presentation now related to H1, also with some examples – you know, these components which are getting more complex, and by that, really playing into our know-how business really as an superior situation, and even more importantly, continuing to win projects in that context of that market. I think that is really where we are benefiting also from our global presence, and – as I mentioned before – from the project wins. Electronics, it is expected to continue its recovery also in H2, supported by the ongoing market recovery in China and also here fueled by innovations, which we are launching in H2.

And now from a regional perspective, looking at North America and Europe. We expect also here an improvement in H2 versus H1, so stronger MRO and construction business and improved performance in Packaging for both regions.

And by that, I think we are very well-positioned, as I mentioned before, that we are expecting volume pick up for Henkel Adhesives overall in H2 versus H1.

Hope that helps Christian.

Christian Faitz - *Kepler Cheuvreux - Analyst*

Yes, thanks very much, Carsten, Marco.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

You're welcome.

Operator

David Hayes, Jefferies.

David Hayes - *Jefferies - Analyst*

Thank you. Good morning all. Couple for me on HCB volumes, if I can, if I could just play back and check in on some of the outlook. So I think previously you said you expect volumes to be flat to positive ex portfolio measures, just checking for the full year that’s still the case?

And then just on the portfolio measures, I think you talked about 2-percentage-points in the first half, and we might just think it's about 0.5-percentage-point in the second half to be just over one for the full year. I think you kind of talked about around 1% for the full year previously.

And then I guess if you put that all together, it would suggest that you probably expect volumes to be positive in the second half. Is that fair and would you expect positive volumes in HCB in the third quarter potentially?

And the second part of the question – we keep looking at scanner data in Europe and the US in Laundry and it continues to run down sort of high single digits levels. I just wonder whether you can give us a bit more sense of what the sell-in rates are against that number – I know you mentioned again earlier that some of those numbers are a little bit skewed by portfolio measures.

So can you give us any indication about what Home Care volumes are doing in developed markets from your perspective and how that might not reconcile to some extent with the scanner data that still shows some quite significant decline year-on-year. Thank you much.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Good morning, David. So to your questions, starting with the first one, HCB and related to volumes. So first of all, a clear yes –we stick to the statement we made at the beginning of the year that the volumes exportfolio measures should be flat to slight positive, or in that territory – that's unchanged. We have seen a sequential volume improvement Q1, Q2 in that context, and that's a very clear answer.

That's the first thing.

And the second part, I hope you understand that we are not guiding volumes for a single quarter when you were sort of talking about Q3 or Q4. I think important is that the situation of our portfolio measures is, as we also indicated, more front-end loaded than back-end loaded, which means, as you rightly have pointed out, first half year around 200 basis points of impact. For the full year, we are in the range of 100 to 150 basis points. So a little bit more than what we said at the beginning of the year. But yes, the portfolio impact will come down towards the end of the year very clear.

But we have this portfolio program and we're using the momentum in that context to really and concentrate what is good for the business going forward.

And that relates also a little bit to the question Guillaume had at the beginning in terms of the high gross margins, which we have been seeing with more than 50%. One reason for that is definitely concentrating on the brands, on the SKUs, on the businesses, which have a future. In that context, we are really being quite, I would say, drastic in terms of what we are doing. And I think that's exactly what is in line with our strategy.

On the other side, if you look at the differentiation, before coming to your Laundry & Home Care question – what I mentioned before related to Hair. In terms of Hair, we have been showing in that half year a very strong growth, 7%. You know that we are always pointing on that the optimization of the portfolio measures in Hair is more advanced timing-wise than in Laundry & Home Care, or we can also say it is more or less finalized.

And that has also shown that has brought us very clearly into positive territory when it comes to volume. The 7% is four consecutive quarters now in a row that the Hair business delivered volume growth, and especially now in the half year, a very balanced mix between price and volume. And I think that's exactly in line with strategy. And I have to tell you, I take the time what is needed in order to make that right.

And the consequence also is that also with that, we have attached market share gains in the Hair category globally. And that brings me to Laundry & Home Care.

Yes, you're right, that we are still seeing in the market shares, for example, some negative trends. But this is really related to our ongoing portfolio optimization, and we will continue to focus on that because we want to have our portfolio right at this point.

And the impact, when you look at Europe, the rolling annual view impacted in parts by the portfolio measures. So in some extent, some trade negotiations are also impacting that and the new legislation in France, and you still have – differently than in Hair – that private label still plays an elevated level. Nevertheless, there are already today first signs of declines or stabilization of the private label business in Europe. And looking to North America, I think we mentioned that – Marco and myself – , the development overall was slightly negative, but which is first and foremost really driven by the portfolio measures in the Laundry & Home Care business, which accounts for the vast majority of that.

So there are still some adjustments. And as I said, we want to close these discontinuations by the end of the year, and then from 2025 on, we will, for sure, have a more clearer and more focused portfolio also in Laundry & Home Care. But also here, I think we mentioned that the top brands also here significantly growing in both categories.

And I mentioned some examples, be it Perwoll, be it Bref, where we have seen double-digit growth rates, and Somat in that context. So I think there are clear proof points that we are going into the right direction. And this is also one of the reasons why our confidence in reaching our ambition in the mid-term is the most important way in order to improving our performance. Sorry for the long answer, but I hope it helps to clarify some points.

David Hayes - *Jefferies - Analyst*

Thank you.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

You're welcome, David.

Operator

Rashad Kawan, Morgan Stanley.

Rashad Kawan - *Morgan Stanley - Analyst*

Hey, good morning, guys. Thank you for taking my question. Just one for me, please. I think, over the past few weeks we've seen a lot of your peers kind of talk about the increased level of promotional intensity within the consumer business, particularly Home Care in both the US and Europe.

Can you talk about what you're seeing there in terms of the competitive landscape, whether that's changed over the past three months, that would be helpful.

Thank you.

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Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Yes, Rashad, good morning. Yeah, we are also executing promotions to an appropriate degree with a methodological approach, considering efficiency, both in promotional weight, frequency and also the discount level. However, usually the return is bigger when constantly or continuously investing in marketing instead of in shorter-term promotions. And we also consistently invest in advertising and marketing to strengthen our brand equity, and by that supporting the innovations and to fuel further growth. And with other words, yes, we've seen that intensity, but I mentioned it before, I think we are very clear on our measures, which we would like to take in order to optimize our portfolio – at the same time in balance with our gross margins. And for sure, we are taking also the innovations into account. That's what I would like to say at this point.

Rashad Kawan - *Morgan Stanley - Analyst*

Thank you very much.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

You're welcome, Rashad.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

Good morning everybody, thank you. Two, please. Firstly, just on the marketing expense increase, is there a catch up in H2, then it reverts to a slightly different or lower level as a percentage of sales in H1 next year? Or is this the new base for the level of A&P as a run rate in the second half of the year? And I guess alongside that, will you get EBIT growth in H1 next year or will EBIT growth in full year '25 be skewed towards the second half of the year?

And then if I could, just on, is it possible to give some more details of what's really driving that IMEA growth and perhaps get your view on where the operating margin is in that region versus the rest of the Group?

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

So Tom, good morning. So to your first question, again, I will not comment on any individual quarters or half years when it comes to individual performance. But first of all, H2 in this year, also the increase of further marketing spend is also connected with the launch of innovations and which we would like for sure, also to support – but as I said, no real guidance on that.

And what we can also say is what we will spend in half year two is round double digit, 10% higher than H1. That's for 2024. We have been clearly stating where we see our guidance in terms of EBIT for the full year, 13.5% to 14.5% for the total company. For sure, we are not here today to guide for 2025, but I think it's very clear in the context what we also said today – that we are changing our financial ambition from mid- to long- term to mid-term – that we are very confident that our tangible progress path, which we have been showing in 2023 and in 2024, will also continue in 2025 – as I said, without giving now today a clear guidance on that.

So that's maybe to the first question. And then the second one was to IMEA growth, Marco, can you take that?

Marco Swoboda - *Henkel AG & Co KGaA - Executive Vice President - Finance, Purchasing, Global Business Solutions and Member of the Management Board*

Yeah, to IMEA, what we basically saw is that both businesses actually contributed to this performance, also showing double-digit growth rates. And in Adhesive Technologies, that was driven by both a strong price effect but also volume growth for the region in Adhesive Technologies, and all divisions in Adhesives actually contributed there. We saw a double-digit development in our Automotive & Electronics business, but also Packaging & Consumer Goods businesses in Adhesives developed positively on the top line, and also, we had strong growth in Consumer, Craftsmen & Professional. So overall, HAT – Adhesive Technologies – saw growth across the region. And in Consumer, that was in total also including volume growth in the first half. And that actually that was augmented by also, of course price growth, because in the emerging markets you need to actually price continuously also to compensate for higher raw material costs in local currencies, and that's what we actually do in the region. But what for me is always important is that also that came with volume growth in that region, in particular, in both businesses.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

Good. Thank you, Marco. Tom, I hope both helps.

Tom Sykes - *Deutsche Bank - Analyst*

Thank you. That's great.

Carsten Knobel - *Henkel AG & Co KGaA - Chief Executive Officer*

You're welcome. So with this coming to an end. So thank you for your questions and with that, let me also close today's call.

We are really looking forward to connecting with you again in November when we will release our Q3 results. And with this, I would like to thank you for joining our call today. Have a great remainder of the day. Take care. Goodbye and most probably see you in the evening. Bye-bye.

Operator

You may now disconnect your lines. Bye-bye.
