COMPANY PROFILE

Henkel AG & Co. KGaA

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COMPANY OVERVIEW

Henkel AG & Co. KGaA (Henkel) is a consumer goods manufacturing company. adhesives, sealants and functional coatings, specialty detergents, fabric softeners, laundry performance enhancers, other fabric care products, hand and automatic dishwashing products, cleaners for bathroom and WC applications, and household, glass, specialty cleaners, air fresheners, insect control products, hair care, hair colorants, hair styling, body care, skin care and oral care products. The company markets its products under Loctite, Pritt, Pattex and Ceresit brands. The company operates in Europe, the Americas, Asia Pacific, and the Middle East and Africa. Henkel is headquartered in Dusseldorf, Germany.

The company reported revenues of (Euro) EUR20,029 million for the fiscal year ended December 2017 (FY2017), an increase of 7% over FY2016. In FY2017, the company's operating margin was 15.3%, compared to an operating margin of 14.8% in FY2016. In FY2017, the company recorded a net margin of 12.6%, compared to a net margin of 11% in FY2016.

KEY FACTS

Head Office	Henkel AG & Co. KGaA Henkelstrasse 67 DUESSELDORF DUESSELDORF DEU
Phone	49 211 7970
Fax	49 211 7984008
Web Address	www.henkel.de
Revenue / turnover (EUR Mn)	20,029.0
Revenue (USD Mn)	22,580.6
Financial Year End	December
Employees	53,700
XETRA Ticker	HEN3

SWOT ANALYSIS

Henkel AG & Co. KGaA (Henkel) is a Germany-based company with business interests in laundry and home care, cosmetics/toiletries and adhesive technologies. Strong orientation towards R&D, diverse geographic presence and strong financial performance are the company's major strengths, whereas high debt remains the cause for concern. Focus on innovation, strategic partnerships and acquisitions are likely to offer growth opportunities to the company. However, changing global retail scenario, rising labor wages in Europe and competitive pressure could affect its business operations.

Strength	**Weakness**
Financial performance Strong orientation towards R&D Diverse geographic presence	High debt
Opportunity	**Threat**
Business expansion through acquisitions Strategic partnerships Focus on innovation	Changing global retail scenario Rising labor wages in Europe Competitive pressure

Strength

Financial performance

The company’s financial performance improved in FY2017. Strong financial performance enables the company in providing higher returns to its shareholders, thereby attracts further investments. It also enhances the company’s ability to allocate adequate funds for its future growth prospects and expansion plans. In FY2017, Henkel reported revenue of EUR20,029 million as compared to EUR18,714 million in FY2016, an annual growth of 7%. The growth in revenue was primarily due to strong performance of its all segments. The Adhesive Technologies segment reported 4.8% growth in revenue, which was due to increased sales in the Eastern Europe, Latin America and Asia (excluding Japan) regions and also due to acquisitions/divestments. The Beauty Care segment’s revenue grew by 0.8% in FY2017, due to increased sales in Africa/Middle East region and due to acquisitions/divestments. The Laundry & Home Care segment’s revenue increased by14.8%, due to strong growth in the Asia (excluding Japan) region and also due to acquisitions/divestments. In FY2017, the company’s operating margin was 15.3% as compared to 14.8% in FY2016. Improving operating performance indicates the company’s focus towards efficient cost management. Henkel’s operating cost as a percentage of sales declined from 85.2% in FY2016 to 84.7% in FY2017. Similarly, the company’s net profit margin grew from 10.9% in FY2016 to 12.6% in FY2017. Henkel’s return on equity grew from 13.6% in FY2016 to 16.2% in FY2017.

Strong orientation towards R&D

Henkel has been continuously strengthening its R&D activities in recent past. The company devotes significant resources and attention to product development, process technology and consumer insight research to develop consumer-preferred products with innovative and distinctive features. Furthermore, even in difficult economic environment, Henkel managed to maintain its investment on R&D at a high level. The company incurred EUR476 million in R&D expenditure in FY2017. Also, in FY2017, internal personnel expenses accounted for approximately 60% of total R&D spending. The company has more than 9,200 patents in place to protect its technologies around the world. It also has nearly 5,850 patent applications pending, and has approximately 1,550 designs patents safeguarding its intellectual property. Henkel operates regional research and development sites in all regions across the world. The company develops its research-intensive base technologies at a central location with optimal access to external resources. These basic technologies are applied in the regional research and development sites to customer- and market-specific innovations. The research and development staff in the regional sites works in close contact with markets and customers to obtain information about specific problems for the next generation of innovations, Strong R&D capability allows the company to launch new products frequently, strengthen its product portfolio and expand its customer base by addressing needs of various customer segments.

Diverse geographic presence

Henkel has a diversified geographic presence. The company has strategically expanded its presence across the globe and currently operates operated 188 production sites in 57 countries around the world. The company operates in Europe, the Americas, Asia Pacific, and the Middle East and Africa. In FY2017, Western Europe accounted for 30.3% of the company’s total revenue, followed by North America (25.9%), Asia-Pacific (16.9%), Eastern Europe (14.6%), Africa/Middle East (6.5%) and Latin America (5.7%). The company's presence across various regions indicates lesser vulnerability to country specific risks. Furthermore, the company is well positioned to tap into growth opportunities offered across the regions.

Weakness

High debt

High debt remains a major concern for the company. The company’s total debt increased from EUR3,871 million in FY2016 to EUR4,429 million in FY2017. This increase in debt levels indicates that Henkel will incur higher interest expense in the future, which could affect its profitability. High debt obligation requires Sembcorp to channelize a substantial part of its cash flow from operations towards the payment of principal and interest amount, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions, and other purposes. The company's inability to meet the debt service obligations, could force it to restructure or refinance the indebtedness, seek additional equity capital or sell assets.

Opportunity

Business expansion through acquisitions

Henkel has made certain acquisitions and entered into agreements to acquire few other businesses in the recent past. In May 2018, the company entered into an agreement with Acasta Enterprises Inc. to acquire JemPak Corporation for EUR77 million. Through this acquisition, the company can further expand its market position and existing laundry and home care portfolio in North America. It also enables the company to strengthen its leading position in the retailer brands category in North America. In September 2017, the company acquired Nattura Laboratorios, S.A. de C.V., a Mexico-based hair care company, and associated companies in the US. The acquisition strengthens Henkel's hair professional business and expands its market positions in Mexico and the US. In July 2017, the company acquired Darex Packaging Technologies business, a company that supplies high-performance sealants and coatings for the metal packaging industry around the world. It also acquired the Sonderhoff Group, a leading manufacturer of innovative foamed-in-place gasketing solutions in the same month. Both these acquisitions allow the company to expand and position its Adhesive Technologies business as a global market and technology leader. It also complements Henkel's technology portfolio. Strategic acquisitions such as these could help the company consolidate its presence across all of its operational markets, thereby enhancing its revenue base.

Strategic partnerships

Henkel collaborates with global companies to conduct research across various fields in the adhesive technologies industry. In March 2018, the company entered into a partnership with Waste Free Oceans to remove plastic waste from oceans and rivers – and transform it into over a million bottles used for its Lovables laundry brand. The partnership is expected to help the company in promoting sustainable packaging and recycling. In January 2018, the company entered into a partnership with Selinko SA to expand and improve smart and interactive packaging solutions especially focussing on FMCG markets. The collaboration provides an competitive advantage to Henkel in the IoT space. In November 2017, Henkel entered into partnership with Plastic Bank to stop ocean plastic and provide opportunities for people in poverty. Through this partnership, the company could raise consumer awareness about plastic waste and demonstrate the strength of its commitment to environmental sustainability and social progress. In the same month, the company entered into partnership with WaterAid to tackle water and sanitation crisis. This partnership enables the company to provide people access to good sanitation and hygiene. In March 2017, the company entered into partnership with Benteler-SGL to develop composite matrix resin systems for its Volvo models. This partnership enables the company to implement lightweight technology in its Volvo models. Through potential partnerships and collaborations, the company will be able to leverage the expertise and market reach of its partners in the global market. This will, in turn, enhance Henkel's market share in the industry.

Focus on innovation

The company's continuous focus on innovation enables it to launch several new products and solutions. In June 2018, the company launched solutions to enhance tissue manufacturers' products and operations to "be more": more efficient, more sustainable and more reliable. In April 2018, the company launched world's first Internet of Things (IoT) electrical diffusor, "HomeControl" under the brands Vape (Italy), Bloom (Spain) and Catch (France). In March 2018, Henkel introduced a comprehensive range of services and equipment know-how for 3D Printing solutions. In February 2018, Henkel introduced a range of new material innovations for medical and automotive printed electronics applications. In January 2018, the company launched Loctite SI 5930 FIT, an RTV silicone rubber adhesive for in-tire bonding applications. In November 2017, the company launched Indola #SimplySmarter for near field communication (NFC) solutions. Such new products and solutions provide competitive edge to Henkel over its peers.

Threat

Changing global retail scenario

Henkel's products are sold in a highly competitive global marketplace which is experiencing an increased trade concentration and the growing presence of large-format retailers and discounters. With the growing trend toward retail trade consolidation, it is increasingly dependent on key retailers. Some of these retailers have a greater bargaining strength than Henkel. They may use this leverage to demand higher trade discounts, allowances or slotting fees, which could lead to reduced sales or profitability for the company. Henkel may also be affected by changes in the policies of its retail trade customers, such as inventory de-stocking, limitations on access to shelf space, delisting of products and other conditions. Changes in the policies of its retail trade customers and increasing dependence on key retailers in developed markets may affect its business.

Rising labor wages in Europe

The labor wages have been increasing in Europe in recent years. According to Eurostat, the hourly labor costs in the euro area (such as Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia, Latvia and Finland) and EU28 zone (such as Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the UK) grew by 2% and 2.7%, respectively, in the first quarter of 2018, compared with the same quarter of previous year. A significant portion of the company's revenues are derived from Europe. Therefore, rising labor wages in Europe could impact the margin expansion adversely and affect Henkel's profitability.

Competitive pressure

Henkel operates in the fiercely competitive personal care and home care markets. For example, in mature markets such as the US, France, Germany and the UK, personal care sales are suffering stagnation due to heavy competition, and manufacturers will need to offer value-added attributes in order to gain share. Declining prices, coupled with rising demand for discounts from the trade partners, is putting pressure on margins. Henkel faces competition from Procter & Gamble, Unilever, L'Oreal SA, The Clorox Company and Reckitt Benckiser. Increasing competition from these bigger players demands higher investments from the company on product innovation and marketing. Failure to match price flexibility or marketing strategies of its competitors could have a material adverse impact on Henkel's market share.