



# Nordic quality from start to finish since 1862

President and CEO Elisa Markula and Interim President and CEO, CFO Jukka Havia  
Tikkurila Annual General Meeting on April 12, 2018

# Disclaimer

*In this presentation, all forward-looking statements in relation to the company or its business are based on the management judgment, and macroeconomic or general industry data are based on third-party sources, and actual results may differ from the expectations and beliefs such statements contain.*

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Jukka Havia:

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# Year 2017 in brief

# Tikkurila – Sustainable Nordicism

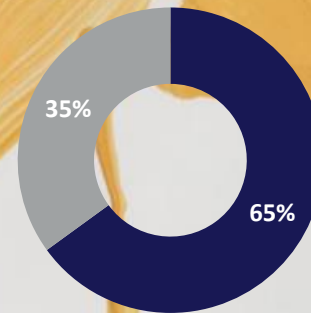
Tikkurila is a leading Nordic paint company with expertise that spans decades. We develop premium products and services that provide our customers with quality that will stand the test of time and weather.

We operate in around ten countries and our 3,000 dedicated professionals share the joy of building a vivid future through surfaces that make a difference.

In 2017, our revenue totaled EUR 582 million. The company is listed on Nasdaq Helsinki.

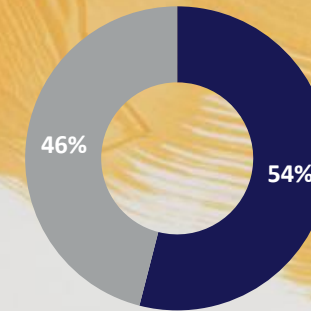
Nordic quality from start to finish since 1862.

Revenue by segment



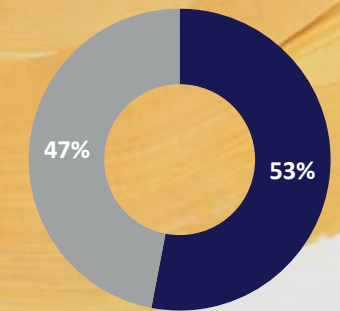
■ SBU West ■ SBU East

Operating profit\* by segment



■ SBU West ■ SBU East

Personnel by segment



■ SBU West ■ SBU East

Revenue EUR 582 million  
Adjusted operating profit EUR 29 million (4.9% of revenue)  
More than 3,000 employees

Production in eight countries  
Products available in over 40 countries  
Leading market position in main markets

\* Adjusted, excl. Group items

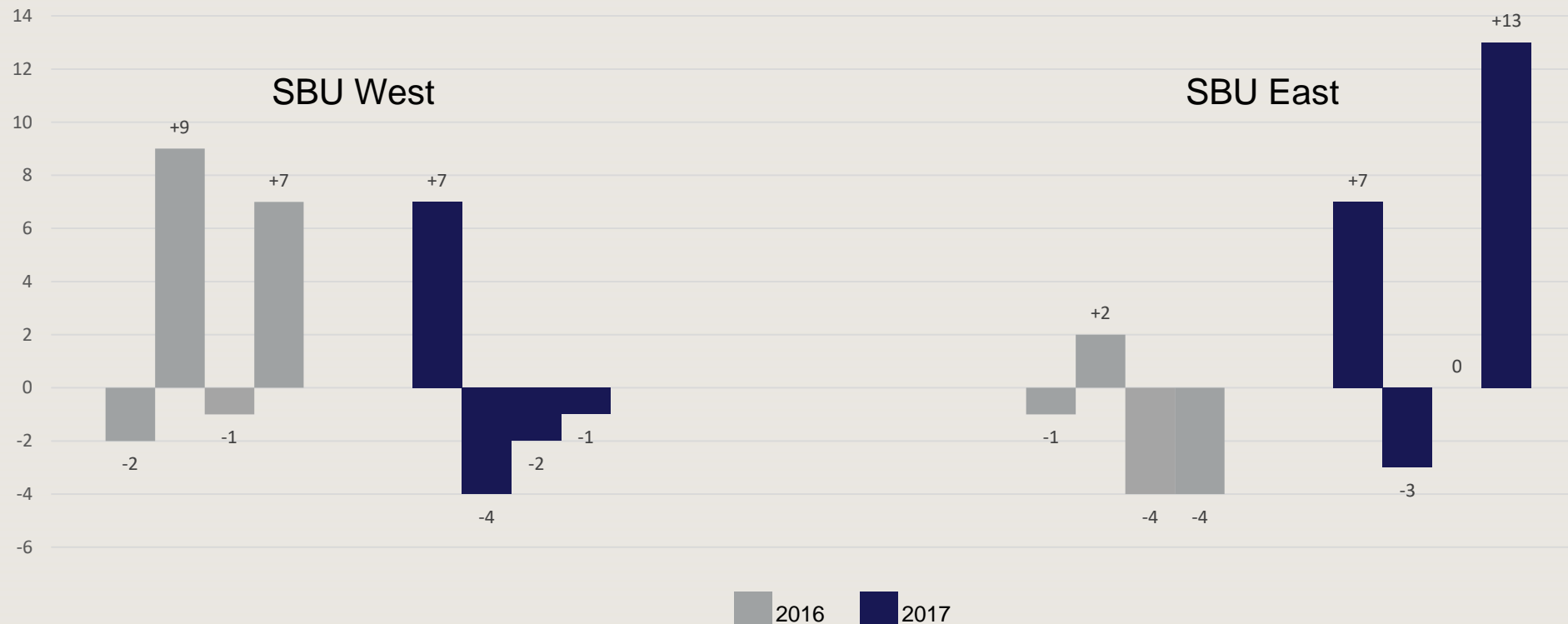
# Full-year highlights

- Revenue was at the comparison period's level. Tikkurila was not able to meet the market demand in full in the Nordic countries due to delivery problems. Sales volumes grew in other parts of the Group.
- Profitability was weakened by the costs being higher than in the comparison period, which was related to the introduction of the new ERP system and the increased costs of raw materials and packaging materials.
- Cash flow was weakened by lower profitability and costs related to implementation of new ERP system.

EUR million	1–12/2017	1–12/2016	Change %
Revenue	<b>582.4</b>	572.0	1.8%
Adjusted operating profit	<b>28.8</b>	54.0	-46.7%
Adjusted operating profit, %	<b>4.9%</b>	9.4%	
Operating profit (EBIT)	<b>19.3</b>	53.1	-63.6%
Operating profit (EBIT), %	<b>3.3%</b>	9.3%	
EPS, EUR	<b>0.24</b>	1.01	-76.0%
ROCE, %, rolling	<b>6.3%</b>	18.5%	
Cash flow after capital expenditure	<b>4.4</b>	22.7	-80.5%
Net interest-bearing debt at period-end	<b>90.1</b>	58.7	53.5%
Gearing, %	<b>50.2%</b>	28.1%	
Equity ratio, %	<b>42.0%</b>	50.9%	
Personnel at period-end	<b>3,037</b>	3,033	0.1%

# Tikkurila was not able to meet the market demand in full in the Nordic countries

Sales volume development by quarter, % change from the comparison period



# Deployment of the new ERP system

Schedule for the deployment of the new ERP system

2016	2017	2018-2019
Lithuania Estonia Latvia	Finland Norway Poland Sweden Denmark	China Russia

- The direct costs of the introduction of the new ERP system, including amortization, were EUR 10.4 million in 2017.
- Some indirect costs were also incurred due to, for example, the addition of work shifts and work resources, additional logistics costs as well as customer refunds in Sweden caused by delivery problems.
- Due to the introduction of the ERP system Tikkurila was also not able to fully meet the market demand in Sweden and Finland in particular.



# Benefits of the new ERP system

Enables to harmonize functions and processes in the new, centralized organization and leading model

Harmonizes the systems and key processes

Increases transparency and improves reporting, which enables more efficient and faster steering

Provides capabilities to increase efficiency and further harmonize operations

Risk management: previous systems were at the end of their life cycle

# Actions to boost profitability

In 2017, Tikkurila initiated an extensive program to boost profitability. The program is aimed at generating at least EUR 30 million in savings. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities.

2017

2018

## Reorganization

- The goal of the reorganization measures is to clarify the decision-making process and responsibilities while eliminating overlaps

## Structural changes

### Decisions to close down and divest business operations:

- Discontinuation of manufacturing and warehousing operations in Stary Oskol in southwestern Russia and move of the unit's production to our St. Petersburg site during 2018.
- Sale of the entire share capital of the subsidiaries in Serbia and Macedonia to the local management of Tikkurila

### Plans to optimize production:

- Plans to construct a new factory in the St. Petersburg area in Russia to replace two existing units. Design of the facility is under way

### Portfolio optimization:

- Raw materials
- Formulations
- SKUs (the aim is to have 30% less in 2020)

## Structural changes

### Decisions to close down and divest business operations:

- Discontinuation of German business operations

**Optimization of the production and logistics network and the portfolio as well as other cost saving measures will be continued during this year**

# Transition was made to a centrally driven function-based organization model in May 2017



# Our locations



- Tikkurila has discontinued or decided to discontinue production in the Balkan area, Stary Oskol (Russia) and Germany in 2018
- A new, efficient factory is planned to be built in Russia
- Optimization of the production network will be continued during this year

# Last year was difficult for the paint industry

## Development of sales and profitability 2000–2017

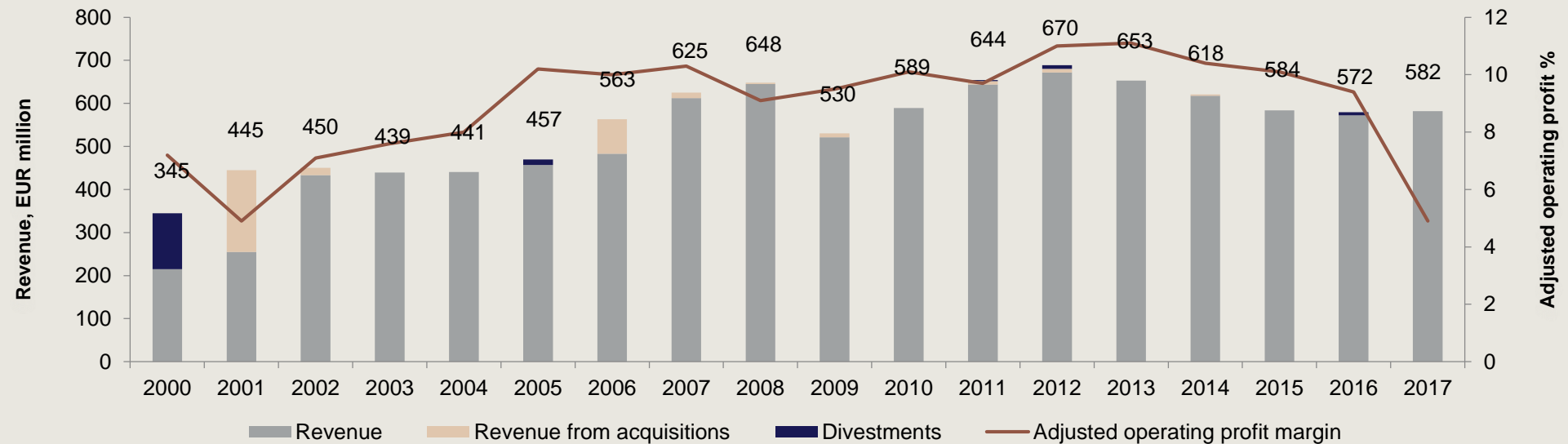
### Major acquisitions and divestments

Sale of tinting business in 2000  
(Revenue ~MEUR 130)

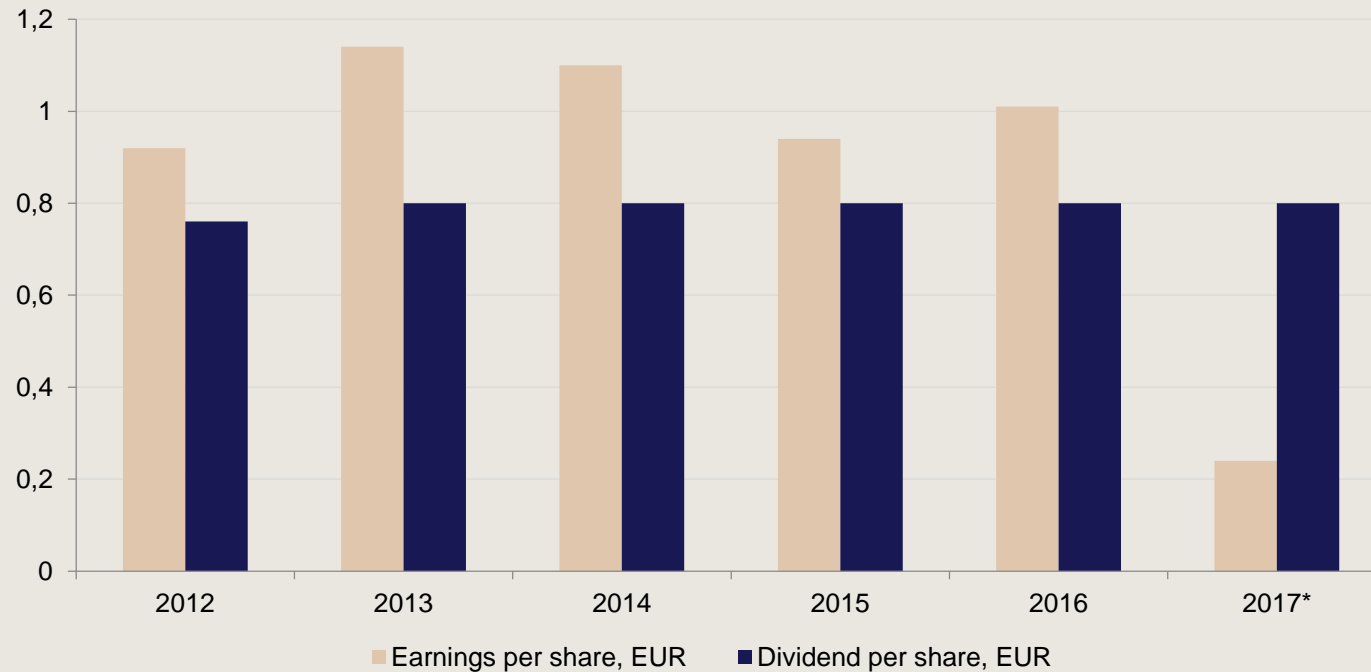
Acquisition of Alcro-Beckers in 2001  
(Revenue ~MEUR 190)

Acquisition of Kraski Teks in 2006  
(Revenue ~MEUR 80)

Acquisition of Zorka Color in 2011  
(Revenue ~MEUR 16)  
Divestment 01/2018



# Stable dividend



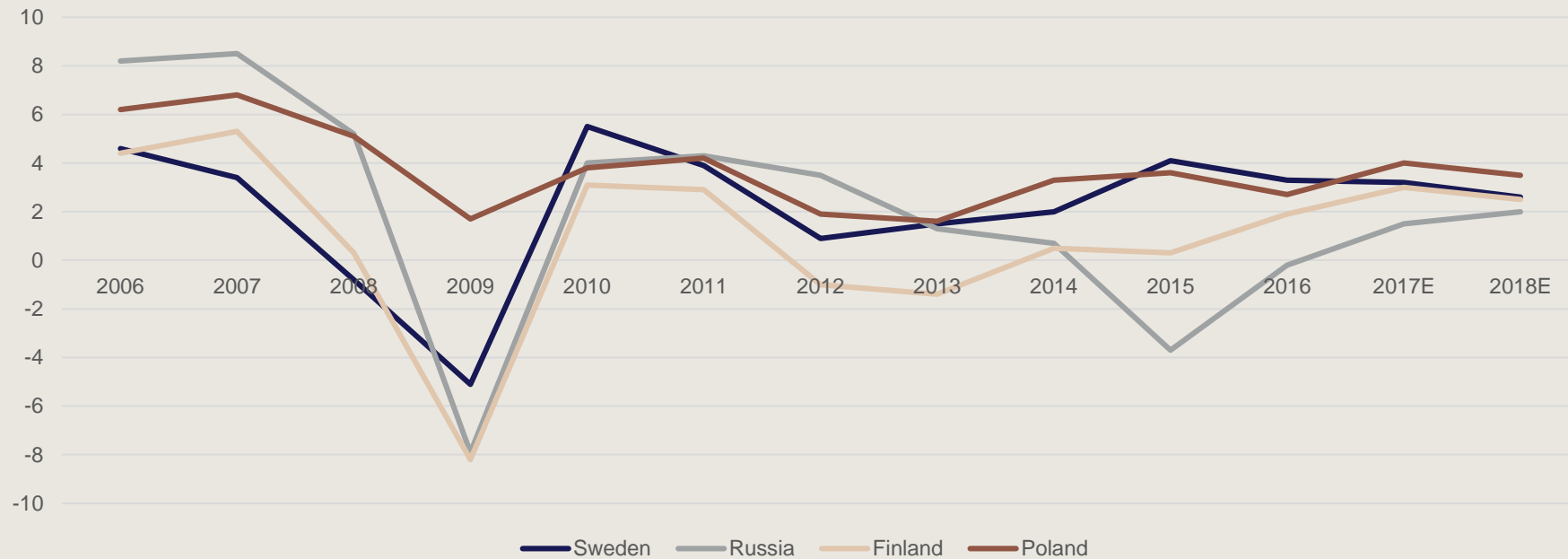
\*Board of Directors' proposal for the Annual General Meeting

- Dividend policy: Target is to pay at least 40 % of annual adjusted net income as dividends
- Historical (2010-2016) dividends have corresponded to approximately 70-90% of the adjusted net income

# Outlook for 2018

# Economies of the key markets are growing

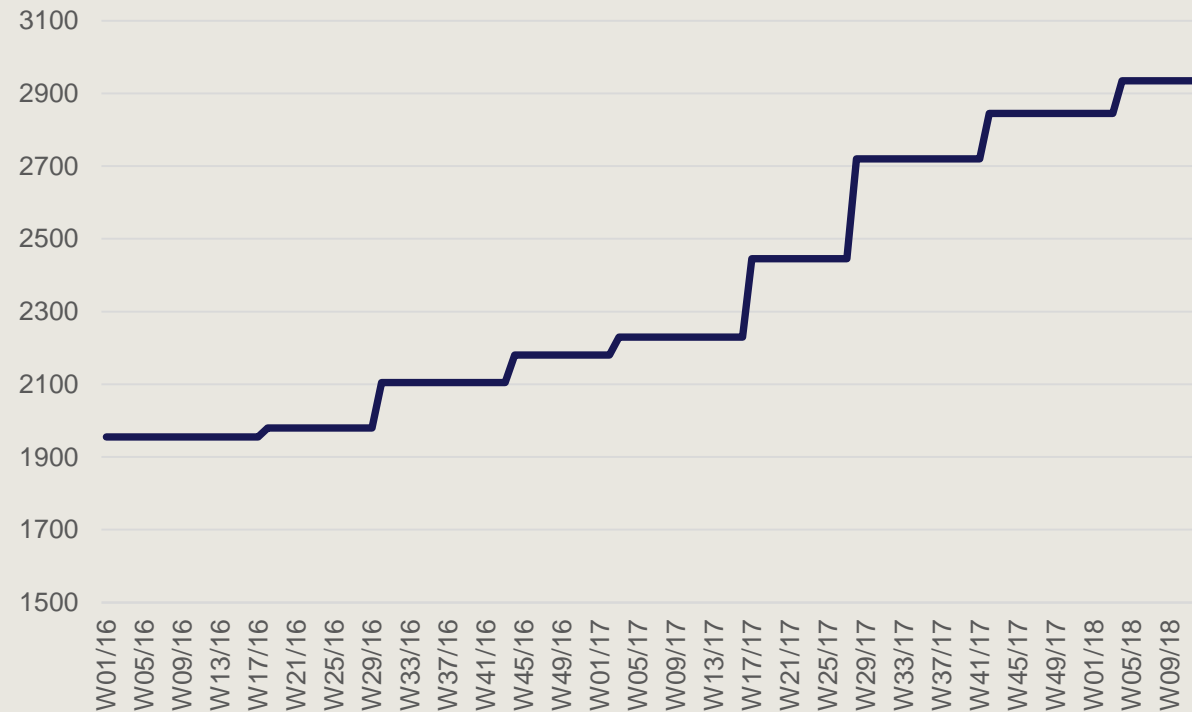
GDP development of Tikkurila's key markets, %





# There is a steep rise in raw material prices

Price development of titanium dioxide 2016-2018, market price per tonne (euros)



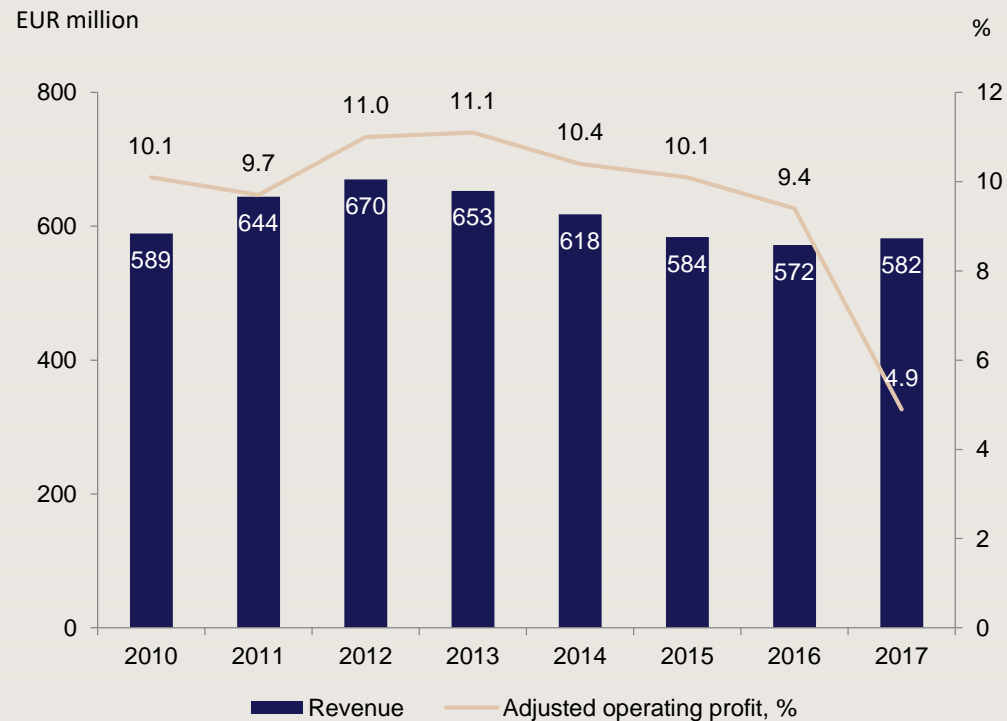
- Prices for raw materials and packaging materials have increased significantly during the past two years.
- Market price for titanium dioxide has increased by almost 50 percent along with the increased demand and decreased supply. Tightness in European TiO<sub>2</sub> supply is linked to e.g. producers' strict inventory controls, restructuring measures and Huntsman's TiO<sub>2</sub> plant fire in Pori, Finland.
- The rise in the oil price also raised the price of solvents and solvent-borne binders. Additionally, the lack in monomers caused the price of water-borne binders to rise. Steel price trends raised the price of metal packaging.
- Increase in raw material prices and problems with the availability are anticipated to continue during 2018.
- Tikkurila will continue to increase its sales prices to compensate for the cost inflation.

# Conclusions

- Identified problems with the deployment of the ERP system have mostly been resolved
- Service level is good
- Program to boost profitability is proceeding
- Focus will be on improving profitability and increasing sales from last year
- Market outlook is fairly good for this year
- Raw material prices are anticipated to continue to rise, we will continue to increase our own sales prices

# Guidance for 2018

## Revenue and profitability of Tikkurila 2010–2017



## Outlook and guidance for 2018

The market outlook for the current year is relatively good, although uncertainty has increased in the Swedish housing market in recent months. Economic growth is anticipated to continue in Tikkurila's key markets and consumer confidence is high. The identified problems with the deployment of the ERP system have mostly been resolved, and inventory levels have been significantly raised in order to ensure deliveries.

The prices of raw materials and packaging materials are anticipated to continue rising throughout the year. Some challenges with availability may also still occur. In order to compensate for increased costs, Tikkurila will continue to raise its sales prices and to take action to boost profitability.

The ongoing organizational and structural change may cause indirect costs or otherwise negatively affect the company's operations.

**Tikkurila's revenue is expected to remain at last year's level and adjusted operating profit to improve.**

# New President and CEO

# Tikkurila's new President and CEO as of April 12, 2018



## Elisa Markula appointed President and CEO of Tikkurila

- Born: 1966
- Nationality: Finnish
- Education: M.Sc. (Econ.) International Marketing, Turku School of Economics and Business Administration

### Work experience:

- 2010–  
Senior Vice President, Paulig Group  
Managing Director, Oy Gustav Paulig Ab (Coffee division)
- 2006–2009  
Country Manager, Oy Suomen LEGO Ab (Finland)  
Member of the Management Team, Nordic-Benelux Business Unit
- 2003–2006  
Sales Director, Oy Snellman Ab

### Board memberships:

- Olvi Oyj 2015–
- The Association of Finnish Advertisers 2014–

# Strategy

# Good prerequisites to return to profitable growth



## WELL-KNOWN BRANDS

According to external surveys, Tikkurila Group's strategic brands are either the best known or among the best-known paint brands in their respective market areas.



## STRONG MARKET POSITION

Tikkurila is the market leader in decorative paints in Russia, Sweden, Finland and the Baltic countries.



## SKILFUL EMPLOYEES AND HIGH CUSTOMER SATISFACTION

The NPS (Net Promoter Score) measured in a survey was very high. Positive feedback was especially given for our customer service and the quality of our products.



## INSPIRING VISION AND MISSION

Surfaces that make a difference.  
Nordic quality from start to finish.

# STRATEGY 2022

OUR VISION

## Surfaces that make a difference

FOCUS AREAS



Improve segment-specific customer journeys and support



Harmonize portfolio for segment needs across markets



Utilize resources more efficiently

WE ARE



PROFESSIONALS



TRUSTWORTHY



INNOVATIVE

VALUE WE CREATE

## Nordic quality from start to finish



# We help our customers to succeed in surface protection and decoration

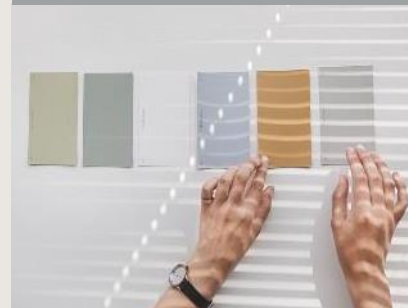
INSPIRATION



IDEAS



COLORS



STORES



CONSUMER SERVICES



DIGITAL CHANNELS



TRAINING



PROFESSIONAL SERVICES



# Megatrends that drive our business



**Climate change affecting the whole globe:** Changing weather conditions and temperatures, increasing air pollution and indoor air problems, different health risks.



**Share of middle class is growing:** Increases in economic income and consumption, changing consumption patterns, increasing demand for premium brands, health and well-being related products and services.



**By 2050, more than 65% of world's population lives in urban areas:** Improved economic well-being, social development, increasing building construction, increased energy consumption and emissions.



**Digitalization:** Comprehensive way to connect with customers and understand their needs in detail through data, optimize operations and develop new growth opportunities.

# Surfaces that make a difference: Sustainability promises for 2018–2022



**WE DRIVE OUR PORTFOLIO  
TOWARDS MAXIMIZED  
PERFORMANCE WITH MINIMUM  
ENVIRONMENTAL IMPACT.**

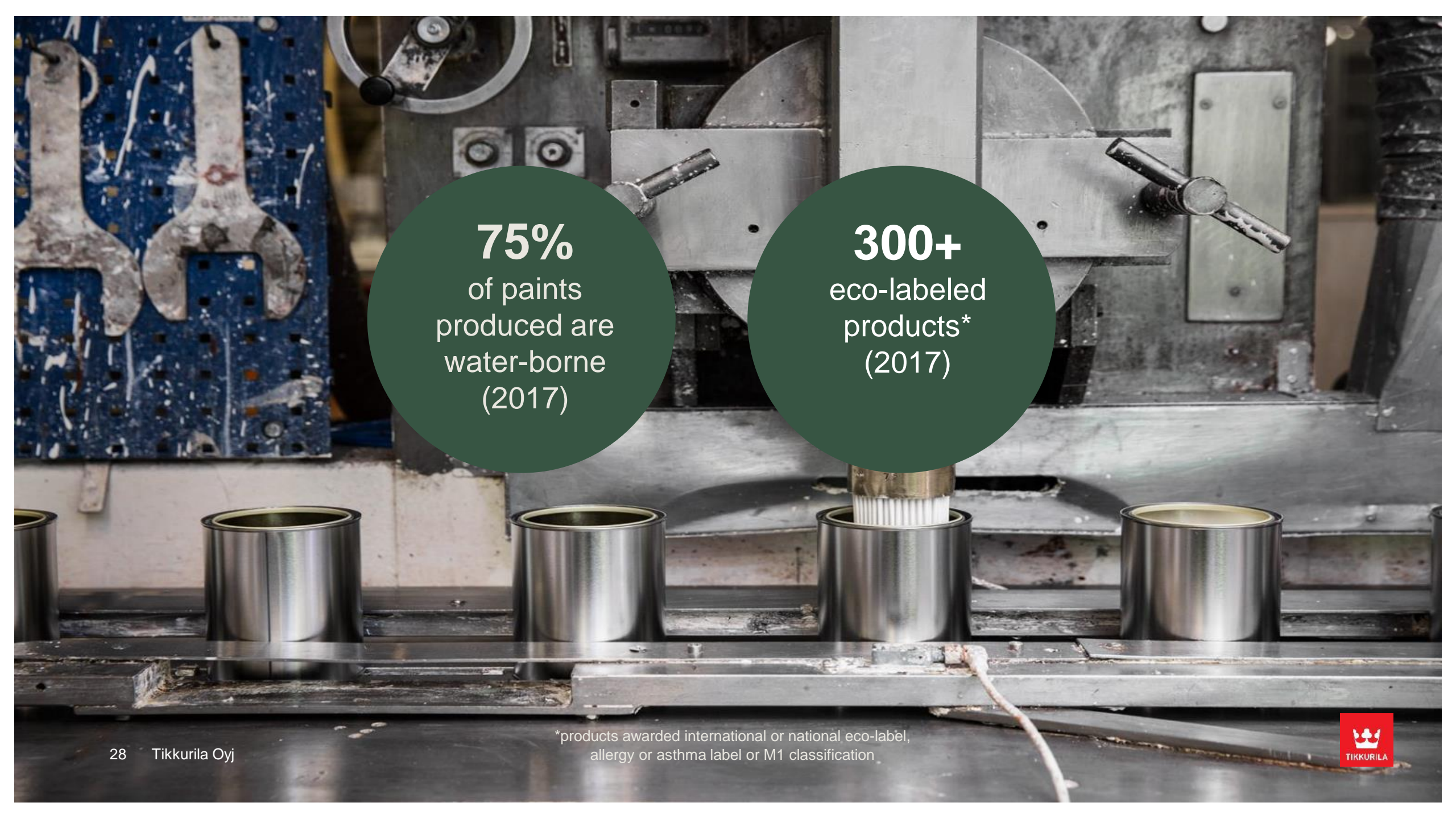
**WE IMPROVE AND PROTECT  
AIR QUALITY WITH  
OUR PRODUCTS AND  
PROFESSIONAL SERVICES.**



**WE DRIVE AT BETTER RESOURCE  
EFFICIENCY WITH QUALITY,  
SAFETY AND DURABILITY  
ON TOP OF OUR MINDS.**

**WE ARE A RESPONSIBLE  
AND ACTIVE PARTNER  
IN OUR COMMUNITIES.**



The background image shows a complex industrial machine used for manufacturing paint cans. On the left, a blue perforated metal panel holds several wrenches. The main body of the machine is made of dark, heavy-duty metal with various rollers, gears, and adjustment knobs. In the foreground, a row of silver metal paint cans is positioned on a conveyor belt. One can in the center is being filled by a white, ribbed applicator. Two dark green circular callouts are overlaid on the machine, containing white text.

**75%**  
of paints  
produced are  
water-borne  
(2017)

**300+**  
eco-labeled  
products\*  
(2017)

# New Children's Hospital in Helsinki

- Tikkurila has supported the New Children's Hospital project in Finland by donating the interior paints for the hospital. The completion of the Hospital will be celebrated in May 2018.
- In hospitals, paints and coatings can be used to create surfaces that fulfil the most stringent requirements of durability and hygiene, and colors can contribute to the wellbeing and recovering of people of all ages.
- The most important paint is Argentum 20, which is a water-borne special interior wall and ceiling paint to help hygiene control in demanding environments. It contains active silver as an effective agent that will prevent the growth of bacterial strains on the painted surface.



# The way forward: clarity, direction, focus





NORDIC QUALITY FROM START TO FINISH SINCE 1862.