



Tikkurila in China


Capitalizing on Nordic lifestyle

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Tikkurila Capital Markets Day in Poland on June 14 and 15, 2016



Tikkurila history in China










- 2002 Entered Chinese market, launched Tikkurila Feelings series
- 2007 Established Tikkurila (China) Paints Co. Ltd. in Beijing
- 2008 Started industrial coatings business in China
- 2008 Established Shanghai office
- 2008 Launched a full range of products from Tikkurila Finland
- 2008 Started toll manufacturing
- 2015 Launched Pigrol brand
- 2015 Started cooperation with B&Q big box chain
- 2015 Number of exclusive Tikkurila paint shops reached: 350
- 2016 Launched Beckers brand



Tikkurila supplied paints and coatings for various surfaces in Finland's pavilion Kirnu – "Giant's Kettle" – in the Shanghai World Expo 2010. Quality, beauty and durability were emphasized in product selection.



Tikkurila in China

Key facts							
Employees	67 at year-end 2015						
Business model	Primarily based on import of premium products from Finland, Sweden, Poland and Germany Toll manufacturing for selected products						
Paint brands	<table border="0"><tr><td></td><td></td><td></td></tr><tr><td>Super Premium Decorative Industry</td><td>Super Premium Decorative</td><td>Premium, High-end Decorative</td></tr></table>				Super Premium Decorative Industry	Super Premium Decorative	Premium, High-end Decorative
							
Super Premium Decorative Industry	Super Premium Decorative	Premium, High-end Decorative					
Distribution	350 paint shops operated by dealers in 160 cities 50-60 big box retail outlets						

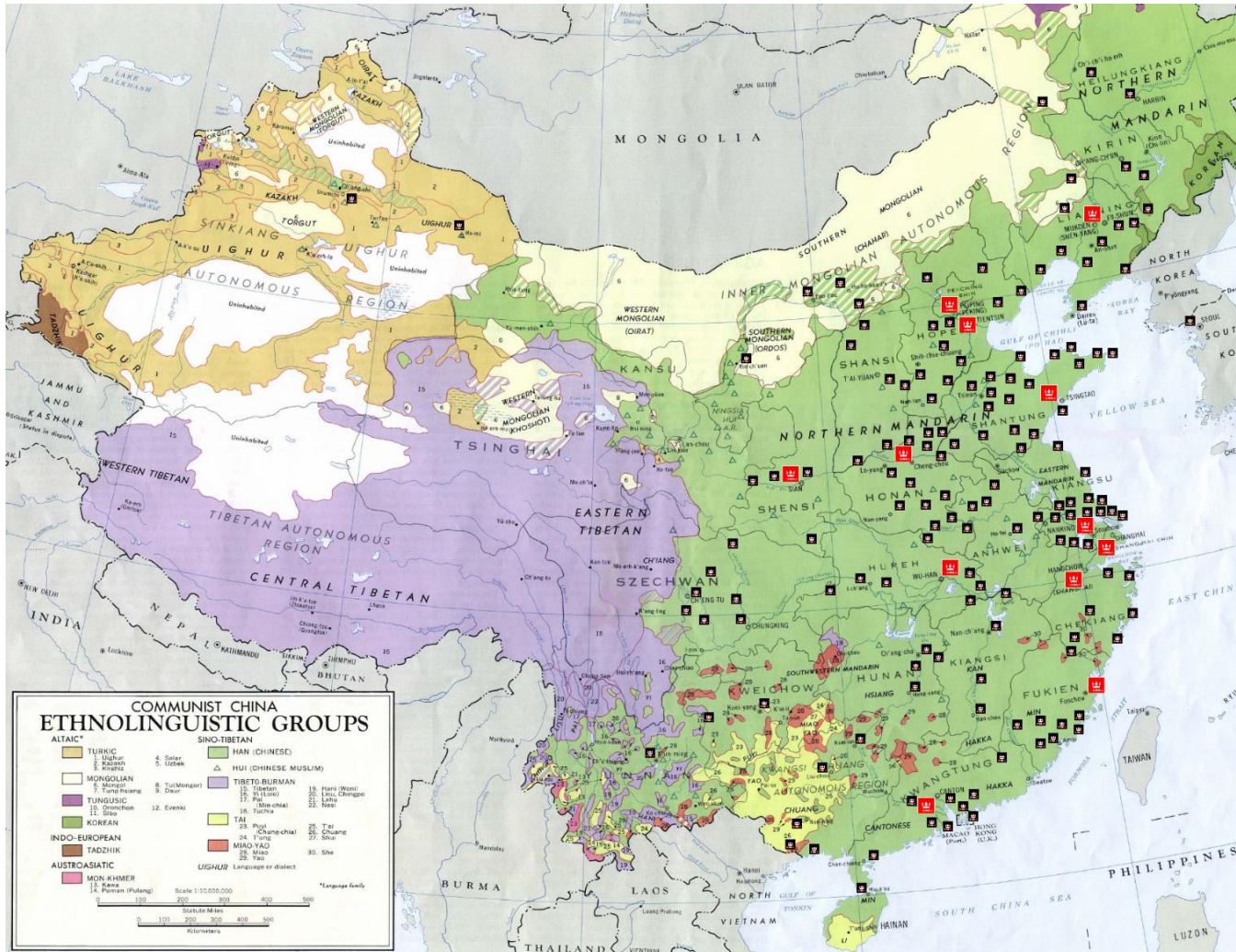


Tikkurila paint shop in Xia Men



Tikkurila warehouse in Beijing

Tikkurila has good coverage on the eastern front



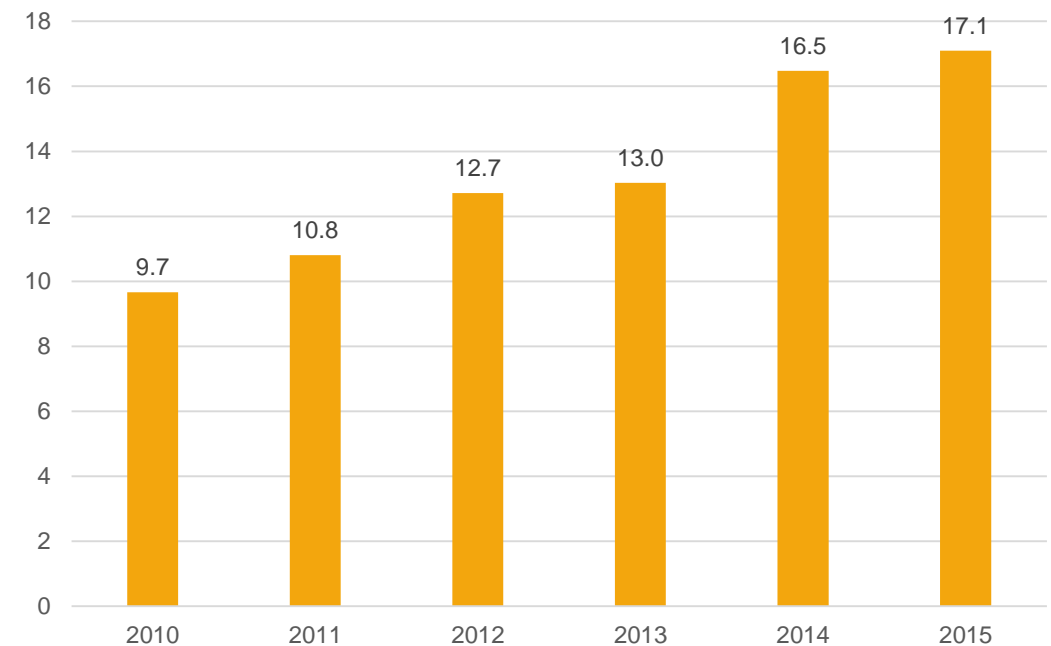
- 80% of revenue in China from imported products from Europe, 20% of revenue from locally produced products (toll manufacturing)
- Local production serves mainly professional and project customers
- Three warehouses; two for decorative paints in Beijing and Shanghai, one for industrial coatings in Shanghai



Chinese economy and paint market has experienced robust growth

- Annual GDP growth has been 7-8 percent in the past 15 years but seems to be slowing down
- Urbanization is the most important growth driver of the decorative paint market
- The paint market has experienced robust growth during the past 20 years (15-20% annual growth); significant slow-down since 2010
- Most of the paint business is still related to new buildings (renovation vs. new building 25/75 in China; in Western countries 75/25), but renovation is increasing.

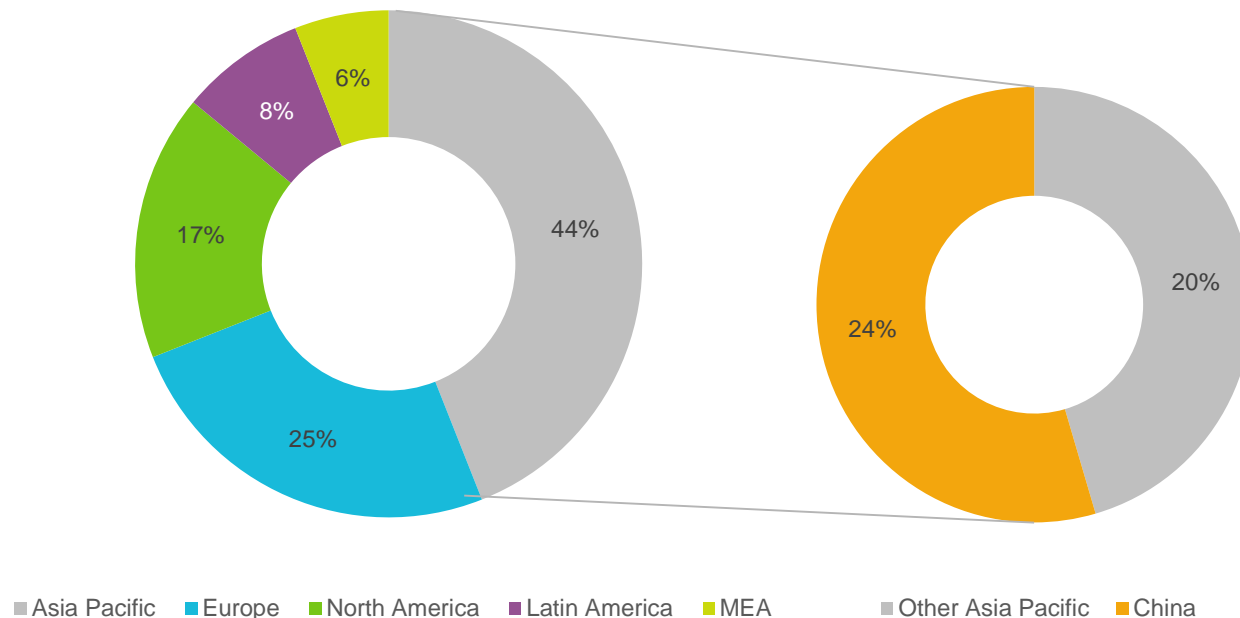
Production volume of China's paint industry (in millions on tons)



Source: CNCIA

China is the largest paint producing and consuming country

China as part of the total value of the coatings market

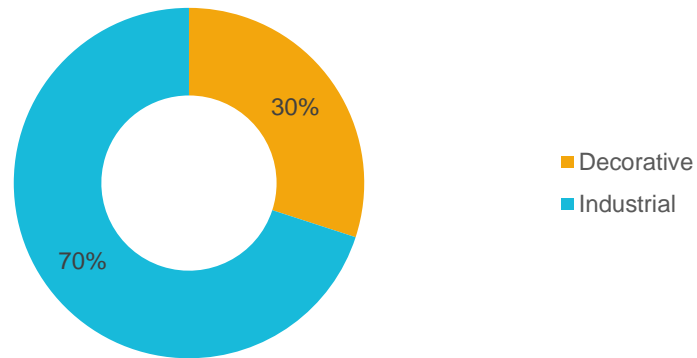


- China is a huge country with 1.4 billion inhabitants, 9.6 million square kilometers in area and 34 provinces
- China accounts for 29 percent of the total coatings market volume and 24 percent of the value (volume of the global paints and coatings market is around 37 billion liters and its value is approximately USD 130 billion)
- China has been ranked as the largest paint market in the world since 2009

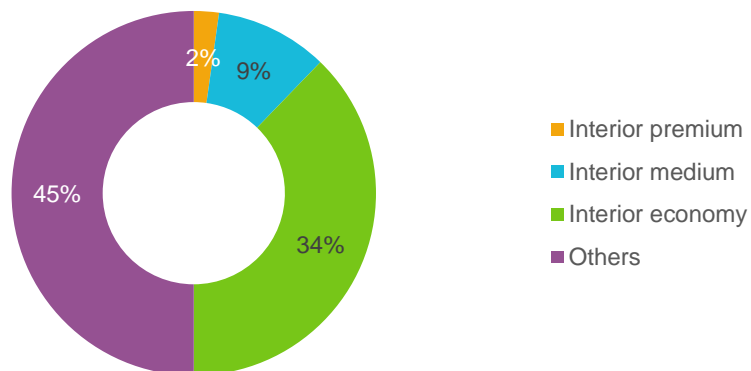
Source: IPPIC 2015

The Chinese paint market is trading up

Total paint market split in China, volume



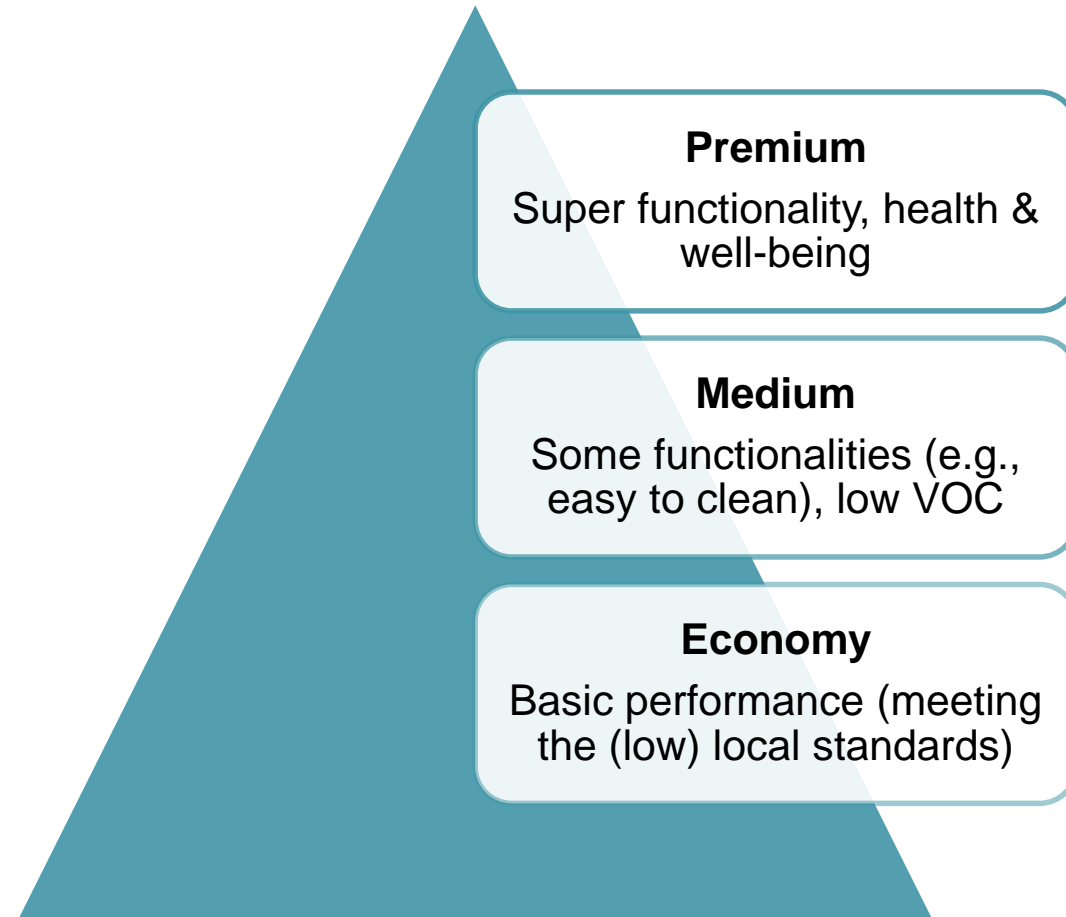
Decorative paint market split in China, volume



- The decorative paint market accounts for around one third of the total paint market volume
- Decorative paint consumption per capita is around 2 liters
- The decorative paint market consists of the retail decorative paint market (one-third of the total decorative paint market) and the project market (two-thirds)
- The economic segment accounts for more than two-thirds of the interior paint market; however, medium and premium segments are growing fast
- In the exterior paint market, energy saving solutions (e.g., coatings reflecting solar radiation) are becoming more and more important

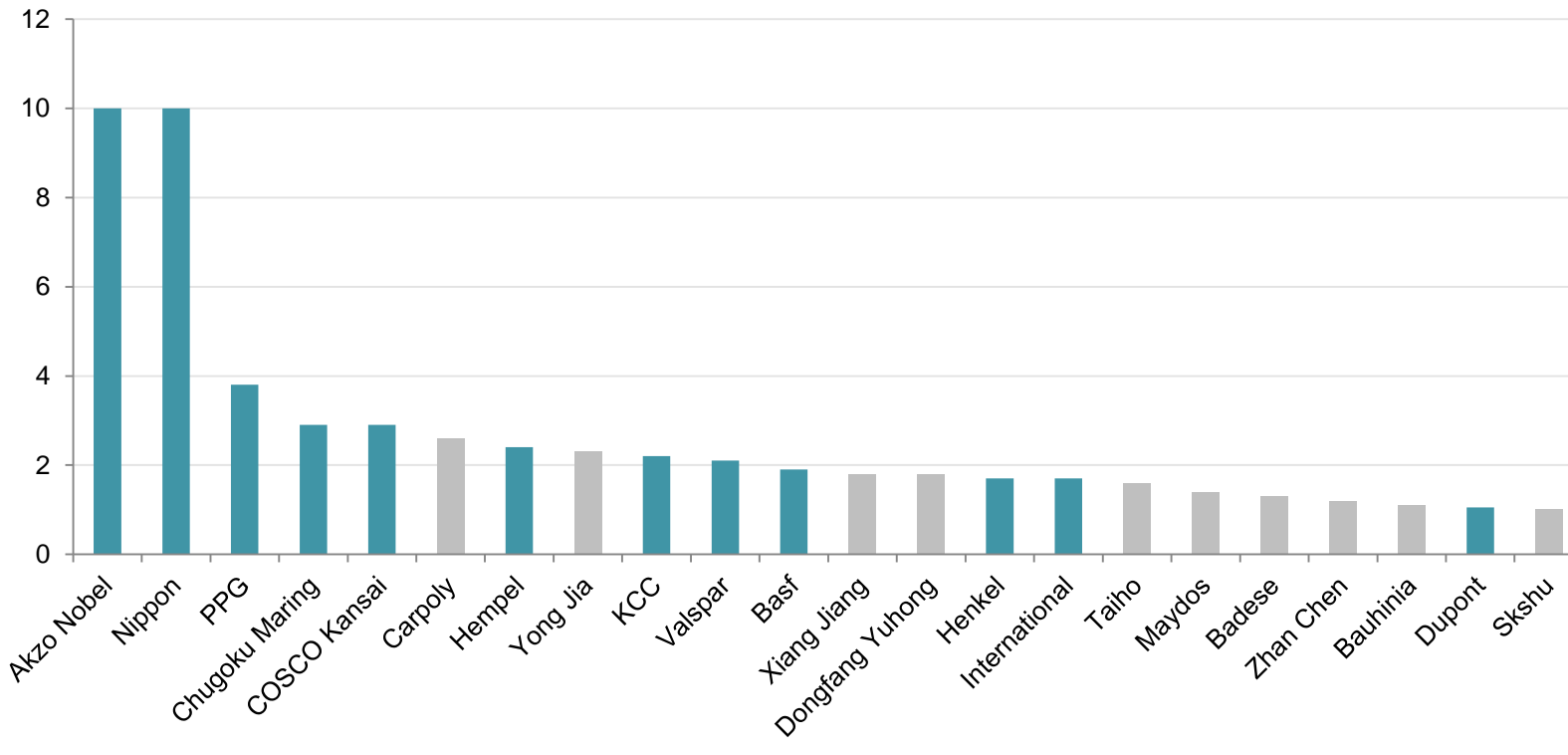
Segmentation of interior paint market

- Premium decorative paint market (price per liter more than CNY 150, i.e., EUR 20)
- Premium segment growth is driven by the increase of family income and growing environmental and sustainable awareness
- Tikkurila focuses on the super premium decorative retail market, in which Tikkurila is among the top three companies (management estimate)



Western paint companies are strong in China

Annual revenue of the biggest paint companies in China (in billions CNY)



- Consolidation of the Chinese paint market continues
- Western companies are gaining market share, i.e., the relative share of premium quality increases

Source: HC360

Local companies



Tikkurila brands in China

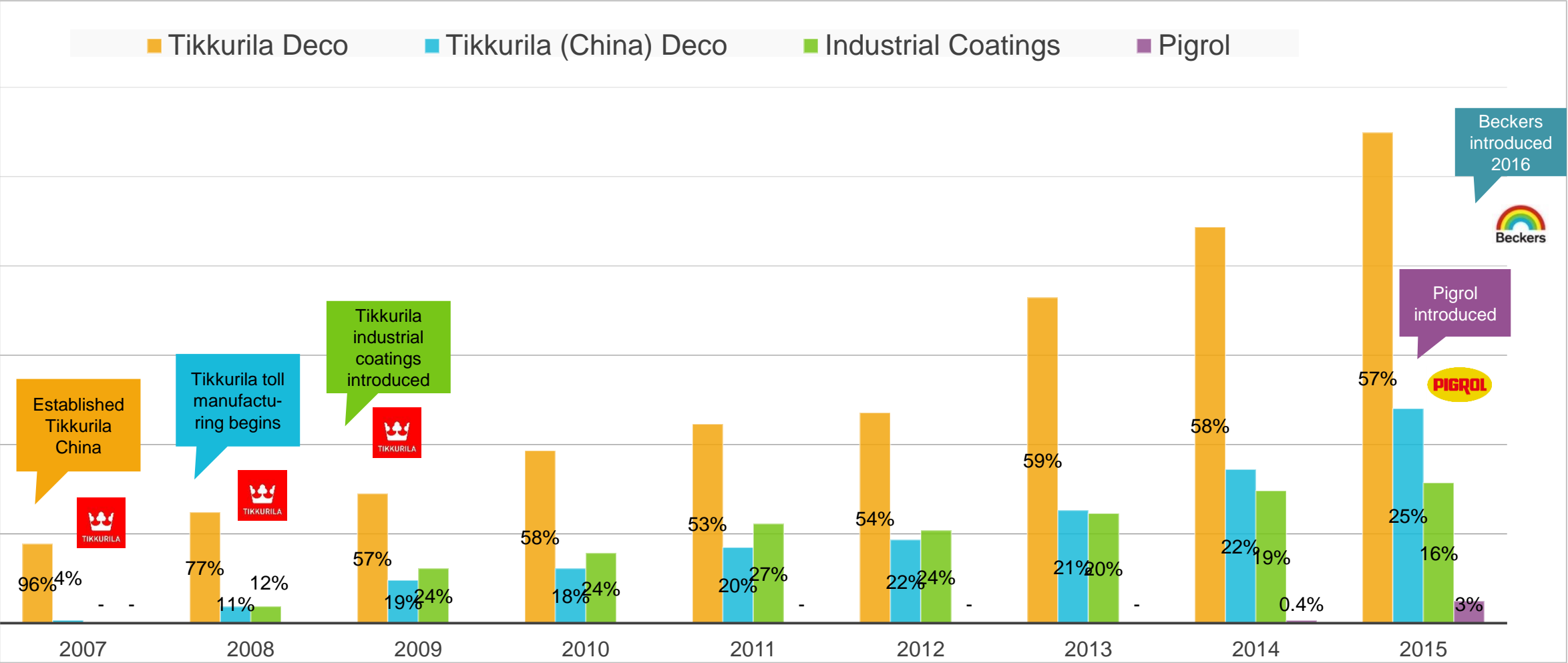


Positioning	Super premium	Super premium	Premium/ High-end
Price level	>CNY150/liter*	>CNY150/liter	>CNY120/liter
Main sales channel	Exclusive shops	Online to offline	Big customers
Main target groups	Well-educated women, aged 30-50	Well-educated women, aged 25-40	Decoration companies
Main selling points	Finnish, environmental and allergy certified, tinting	Scandinavian, environmental and allergy certified, trendy	German, Blue Angel certificate
Product portfolio	Interior products, functional products, industrial coatings	Interior products	Interior products
Main competitors	Benjamin Moore	Benjamin Moore	Düfa

*EUR/CNY exchange rate at year-end 2015:
1 euro = 7.1 Chinese yuan



Revenue split by brand





Brand building in decorative paint business in China

- Tikkurila operates with three main premium brands in China
- The focus is on decorative paints and the retail market (rather than the project market)
- Success is built on an extensive network of exclusive sales channels and branding (Nordic and German functionality and indoor air quality)
- Tikkurila is always trying to influence end-consumers directly, although architects, designers, decoration companies and other tastemakers are presently the main target groups
- Currently, our main marketing channels consist of online marketing, radio advertising, professional magazines, roadside signs and marketing support to dealers



The origin of the product, i.e., Finland, is an important part of the brand; instructions in local language is added with a sticker

Sustainability adds value to Chinese customers

- Global megatrends have a major impact in China.
 - Urbanization: increasing construction, increasing consumption, increasing emissions
 - Rise of the middle class: increasing consumption, high-quality products and services, from public services to private (e.g., health care), health and well-being highlighted
 - Climate change: air pollution, indoor air problems, energy efficiency, changing weather conditions
- Nordic origin stands for environment, reliability and quality.
- Internationally-known product certificates boost purchase decisions and guarantee quality.
 - Eco-labels, asthma and allergy labels, M1 classification, Swan, Blue Angel
- Certified operations refer to responsible and ethical production.
 - ISO 9001, ISO 14001, OHSAS 18001



Drivers for the super-premium segment demand



Chinese customers are looking for products that have minimal negative impact on health.

- water-borne solutions
- low emissions
- low odour
- eco-labels
- user safety



Chinese customers are looking for products that have minimal negative impact on the environment.

- no hazardous chemicals used (e.g., no formaldehyde, CRM, heavy metals)
- eco-labels
- product safety



Chinese customers are looking for products that are produced ethically and responsibly.

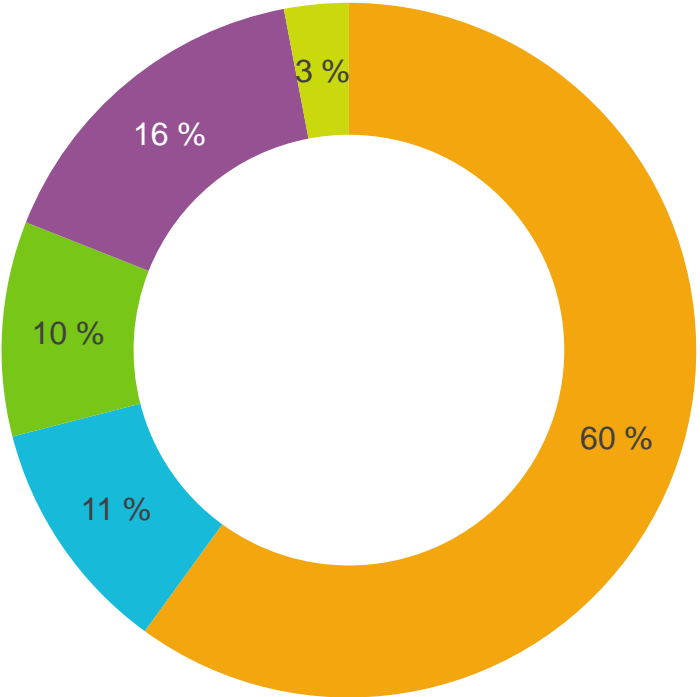
- certified operations
- no social or human rights-related risks
- transparency in origin of raw materials



Chinese customers are looking for luxury goods worldwide.

Exclusive paint shops are the main sales channel

Revenue split by sales channel in 2015



Dealers Big Box Professional Industrial coatings Online

Exclusive paint shop



Big box





Tikkurila aims to reach 1,000 exclusive paint shops by 2020



- There are currently 290 exclusive Tikkurila shops in more than 160 cities. In addition, there are 30 exclusive shops in Macalline, a shopping mall chain specialized in decoration materials



- Online and offline combined
- Physical shops provide logistics and service



- 30 Pigrol shops in 18 cities



Tikkurila in big boxes

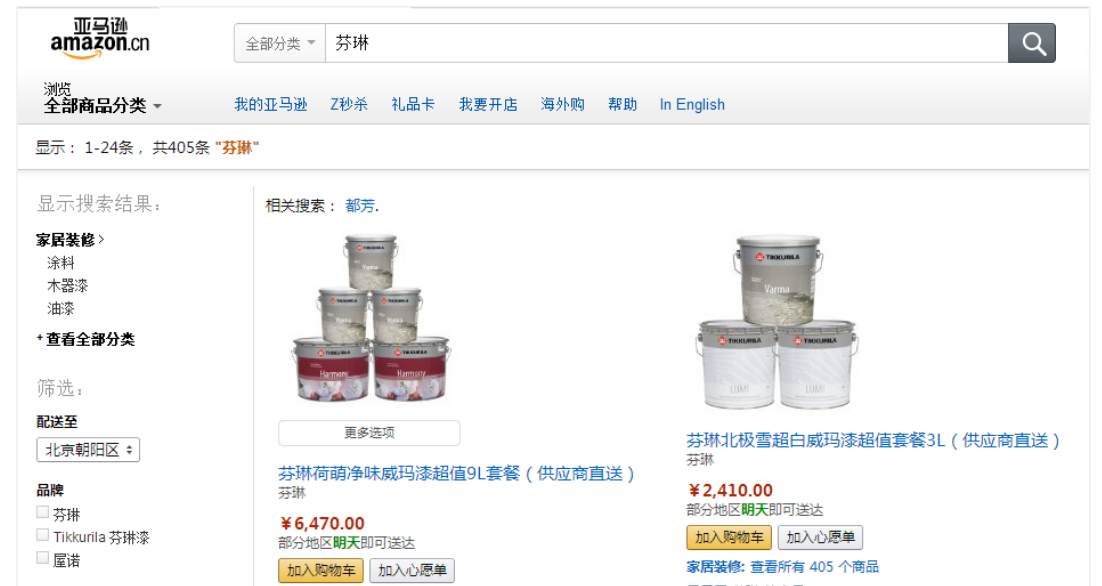
- Tikkurila entered the Easyhome big box chain in 2003 and B&Q in 2015
- Currently, Tikkurila's products are sold in more than 50 big box stores. The main big box partner is B&Q, others being Easy-Home, Leroy Merlin, and Homemart
- Unlike in Europe, big box stands for premium image





Online sales strategy differs from brand to brand

- The Tikkurila brand: a minor share of sales come from the online market (< 3%)
- Pigrol brand: no online sales
- Beckers: Online to offline; a great majority of sales will come from online shops, offline shops provide service (including tinting, delivery, instruction, application, etc.)



Decoration companies



- A significant share of urban consumers use a decoration company as a turn-key contractor
- The consumer selects the materials from the decoration company's material list
- Tikkurila is the preferred paint supplier of many premium decoration companies

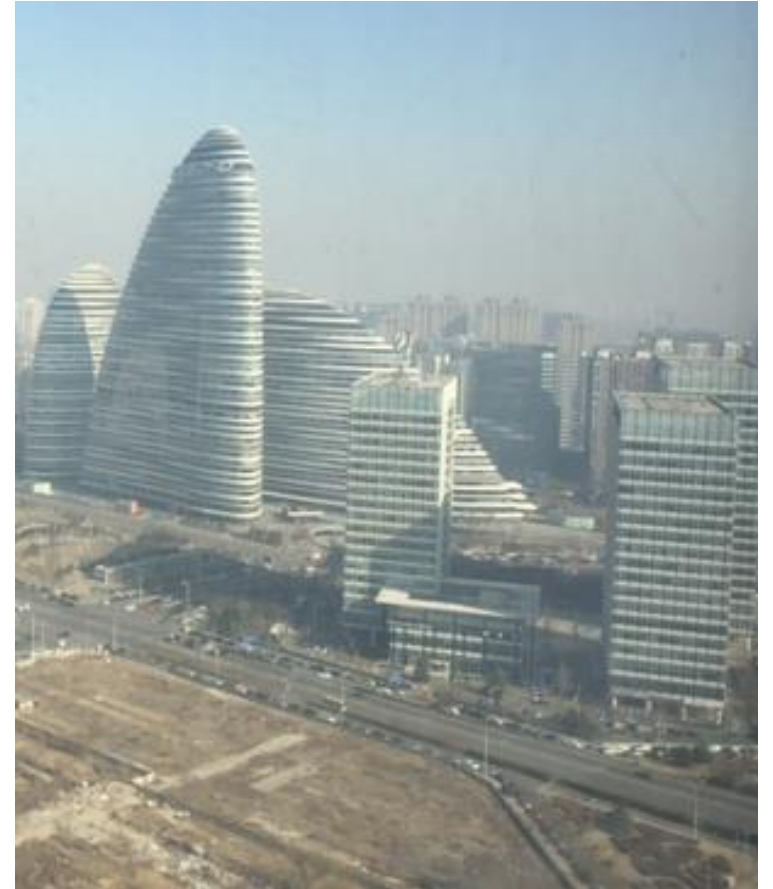
Industrial coatings

- Tikkurila mainly serves a dedicated group of Nordic and German industrial customers in China
- Most Tikkurila industrial products sold in China are imported from Finland



Conclusions and Tikkurila's future in China

- Tikkurila's revenue in China is currently less than 5 percent of the Group revenue
- With the current premium-focused strategy, Tikkurila aims to at least double its revenue in China during the next few years
- However, the limited size of the super premium segment poses a challenge - Tikkurila is also considering the possibility of entering other market segments
- Market prospects are good for functional products. Tikkurila is currently looking for new dealers who are strong in the project business
- Tikkurila will invest in training and call-in services. S&M expenses will also be higher in the coming few years





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