



# Strategy update Geared for growth

Erkki Järvinen, President and CEO

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



# TIKKURILA

Tikkurila is the leading paints and coatings professional in the Nordic region and Russia. With our roots in Finland, we now operate in 16 countries. Our high-quality products and extensive services ensure the best possible user experience in the market. Sustainable beauty since 1862.

Revenue EUR 584 million

EBIT\* EUR 59 million (10% of revenue)

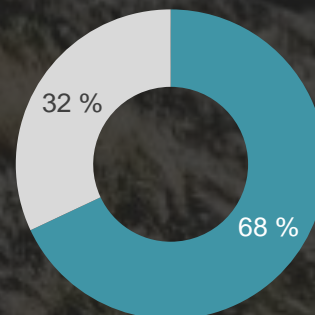
3,100 employees

Production in ten countries

Products available in 40 countries

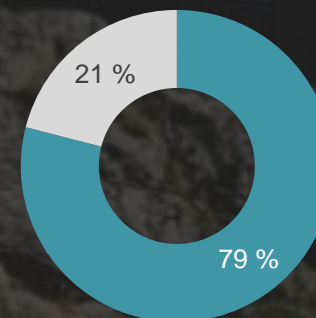
Leading market position in main markets

Revenue by segment



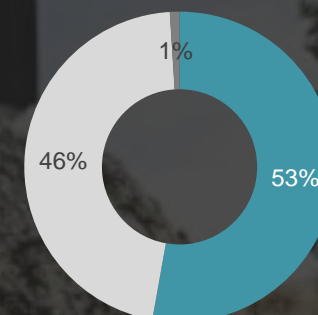
■ West ■ East

EBIT\* by segment



■ West ■ East

Personnel by segment



■ West ■ East ■ Group

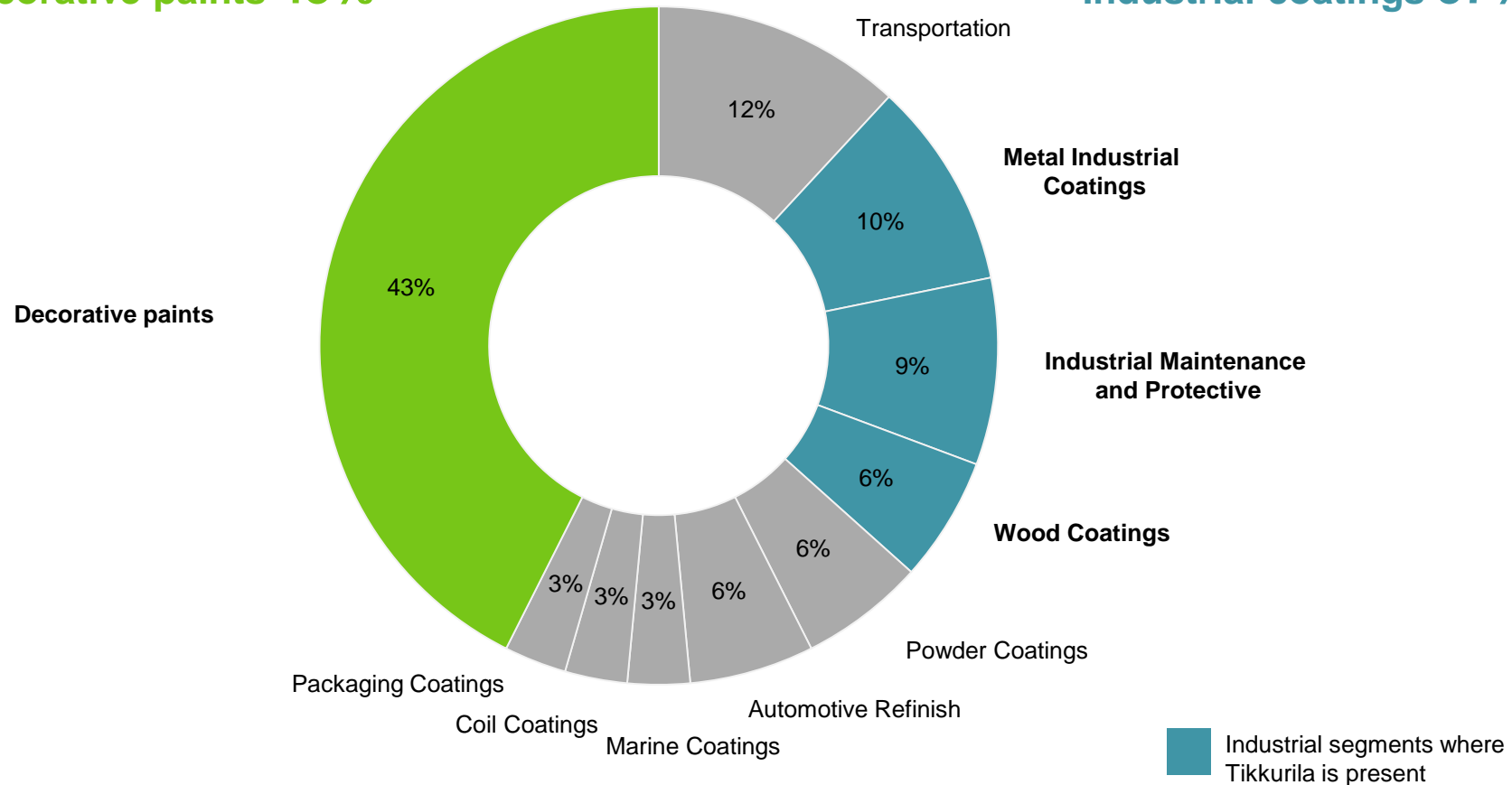
\*Excl. non-recurring and Group items



# Value of the global paints and coatings market; USD ~130 billion

Decorative paints 43%

Industrial coatings 57%



Source: IPPIC 2015

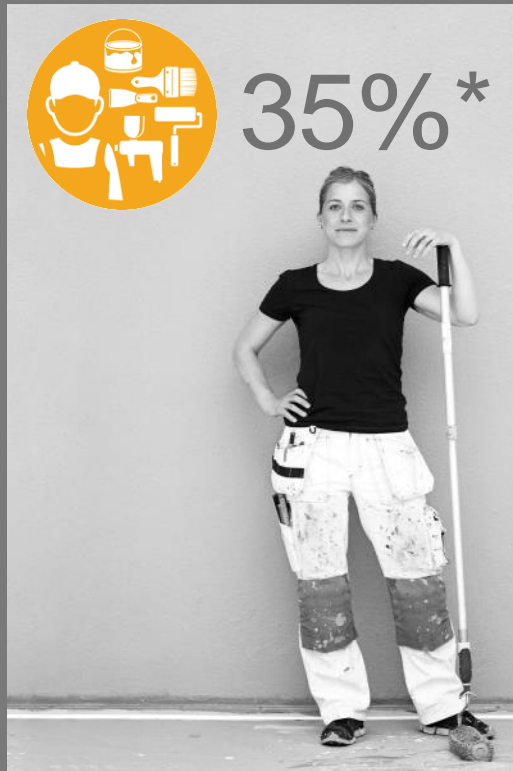
June 2016

# Our end-customers



50%\*

Consumers (DIY)



35%\*

Professional painters



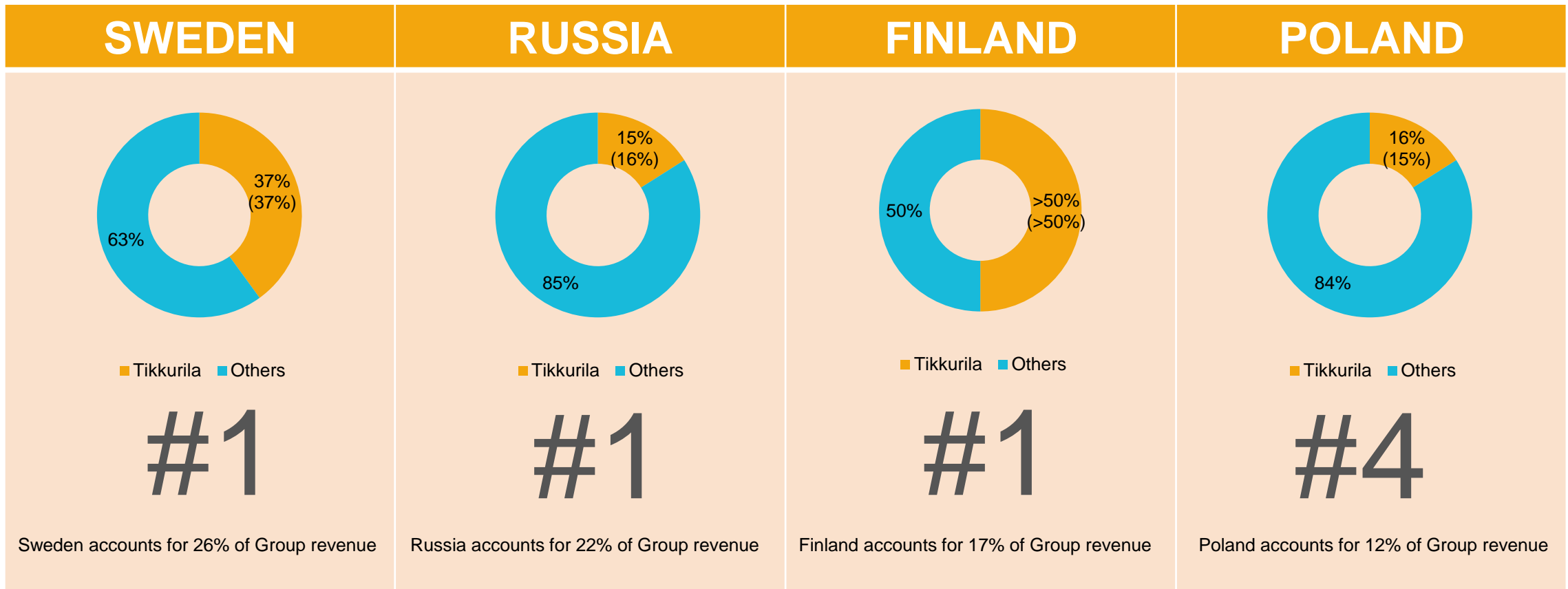
15%

Industry

\*Tikkurila estimate



# Tikkurila market shares in decorative paints in key markets in 2015

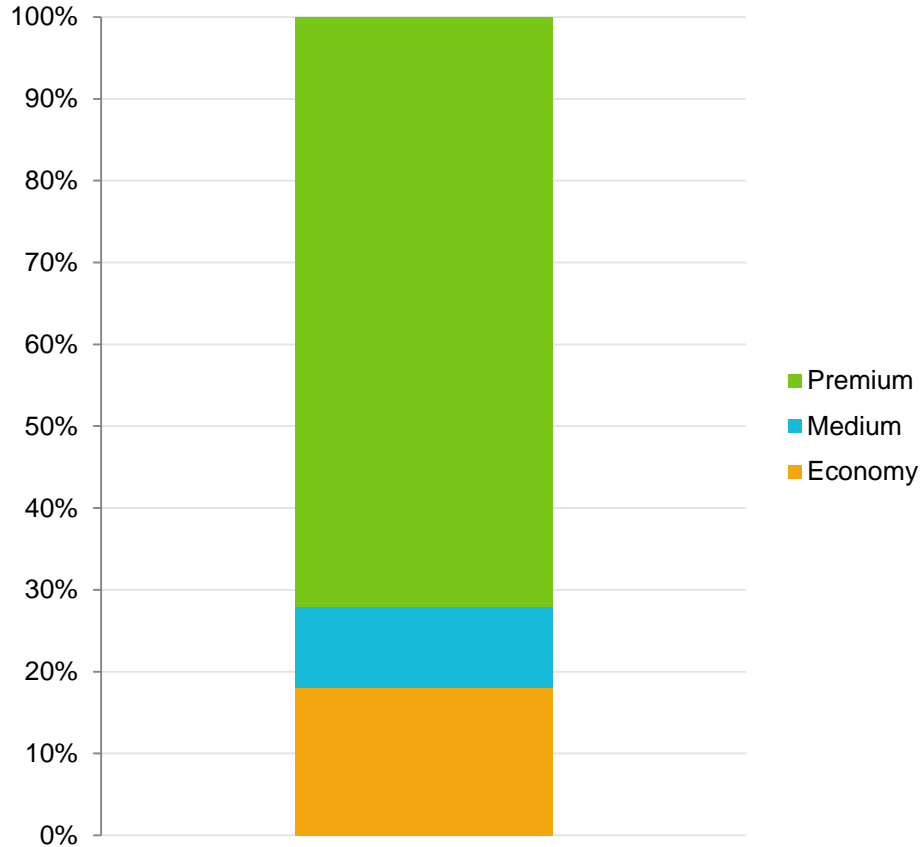


Source: SVEFF (Sweden, value), Chem-Courier (Russia, volume), Association of Finnish Paint Industry (Finland, value), IBP Research (Poland, volume)

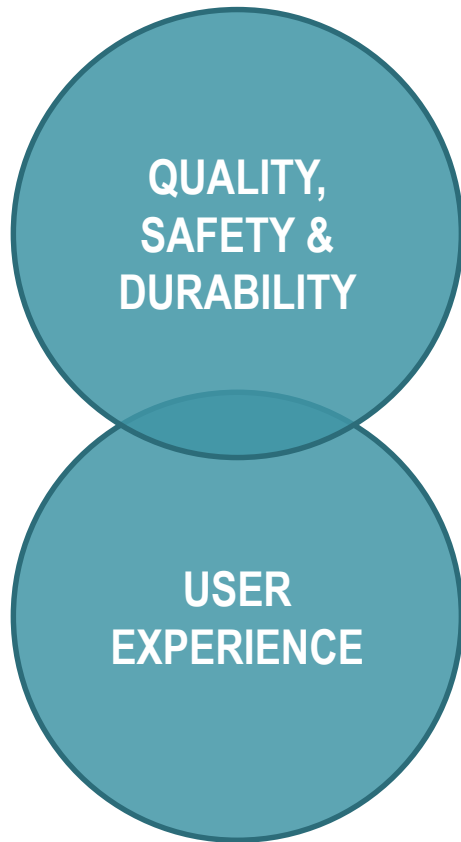


# We are focused on high-quality products

Tikkurila's sales split by brand



# Our sustainability promises

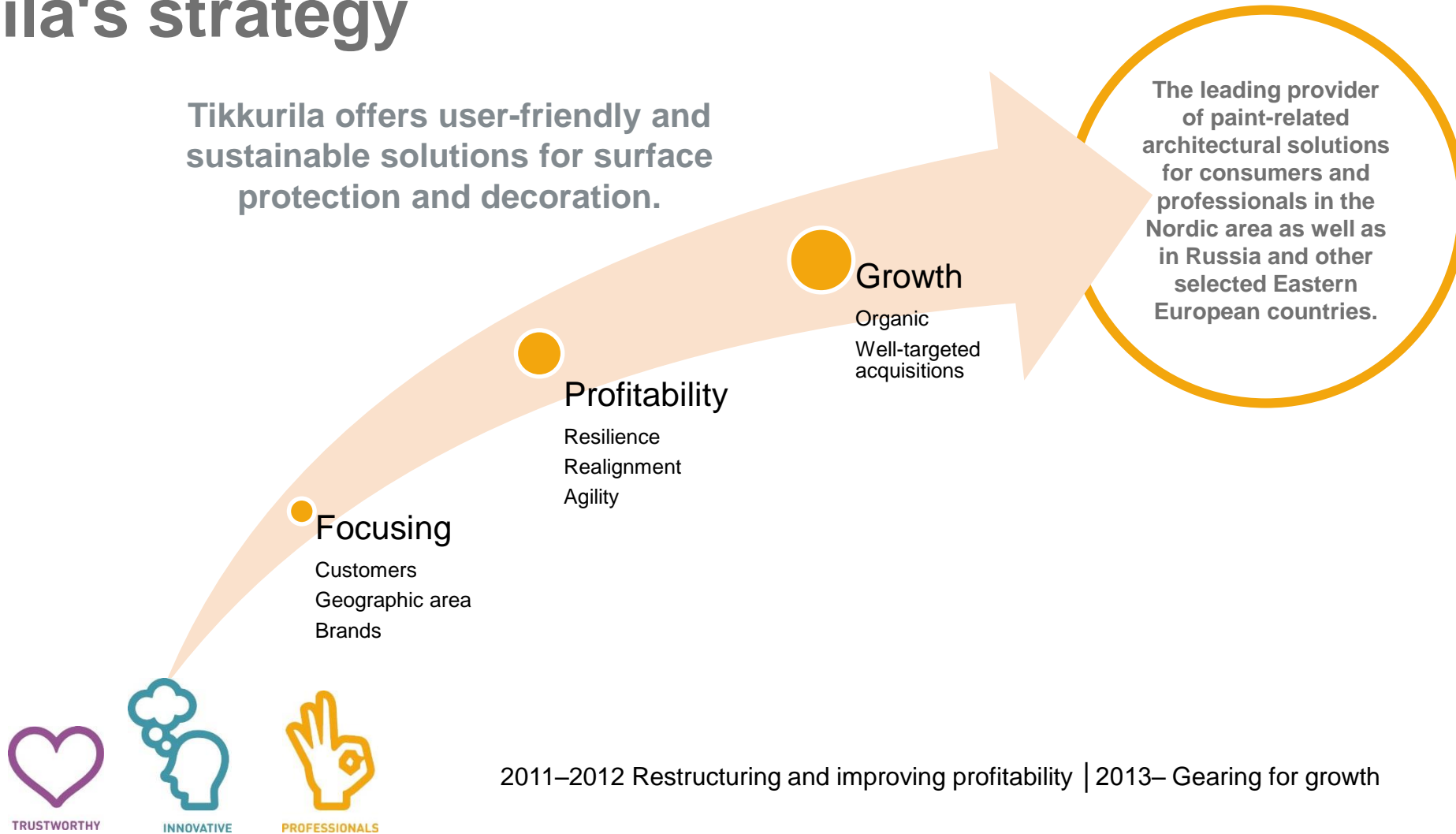


- Water-borne and low-emission products
- Eco-labels
- High product and user safety
- Long service life of surfaces
- Training and advice services
- Good partner with retail and customers
- Supplier management and raw material traceability
- Resource-efficient supply chain
- Ethical business operations
- Active in the local communities



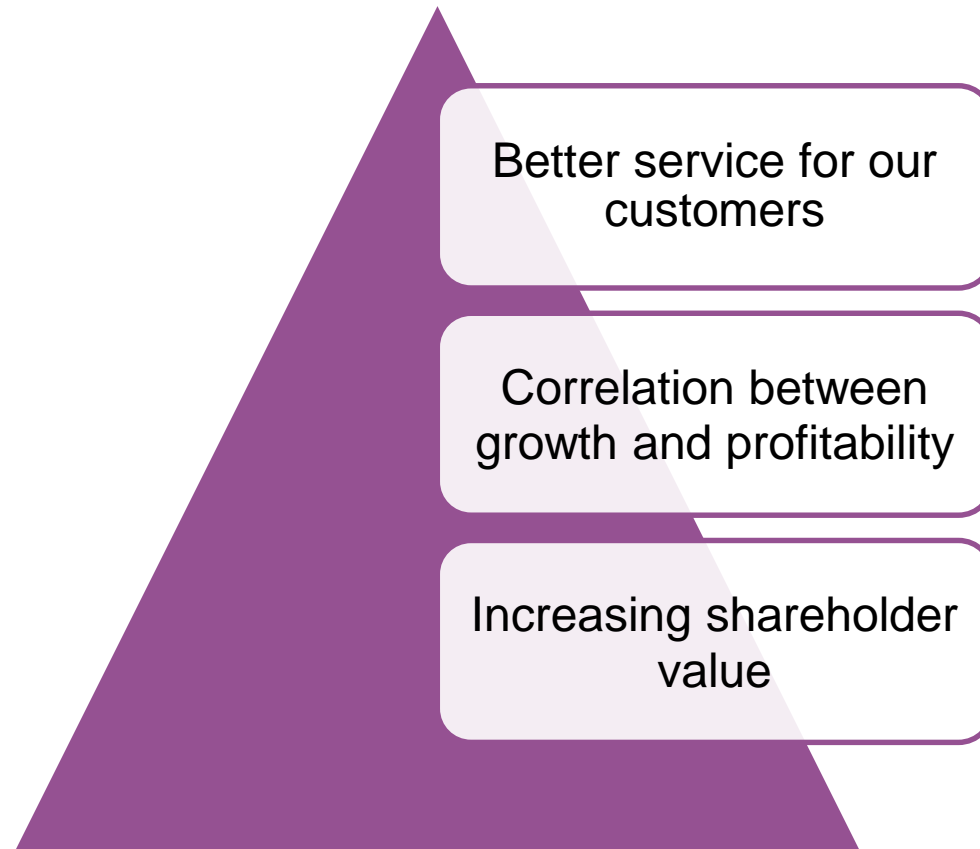
# Tikkurila's strategy

Tikkurila offers user-friendly and sustainable solutions for surface protection and decoration.

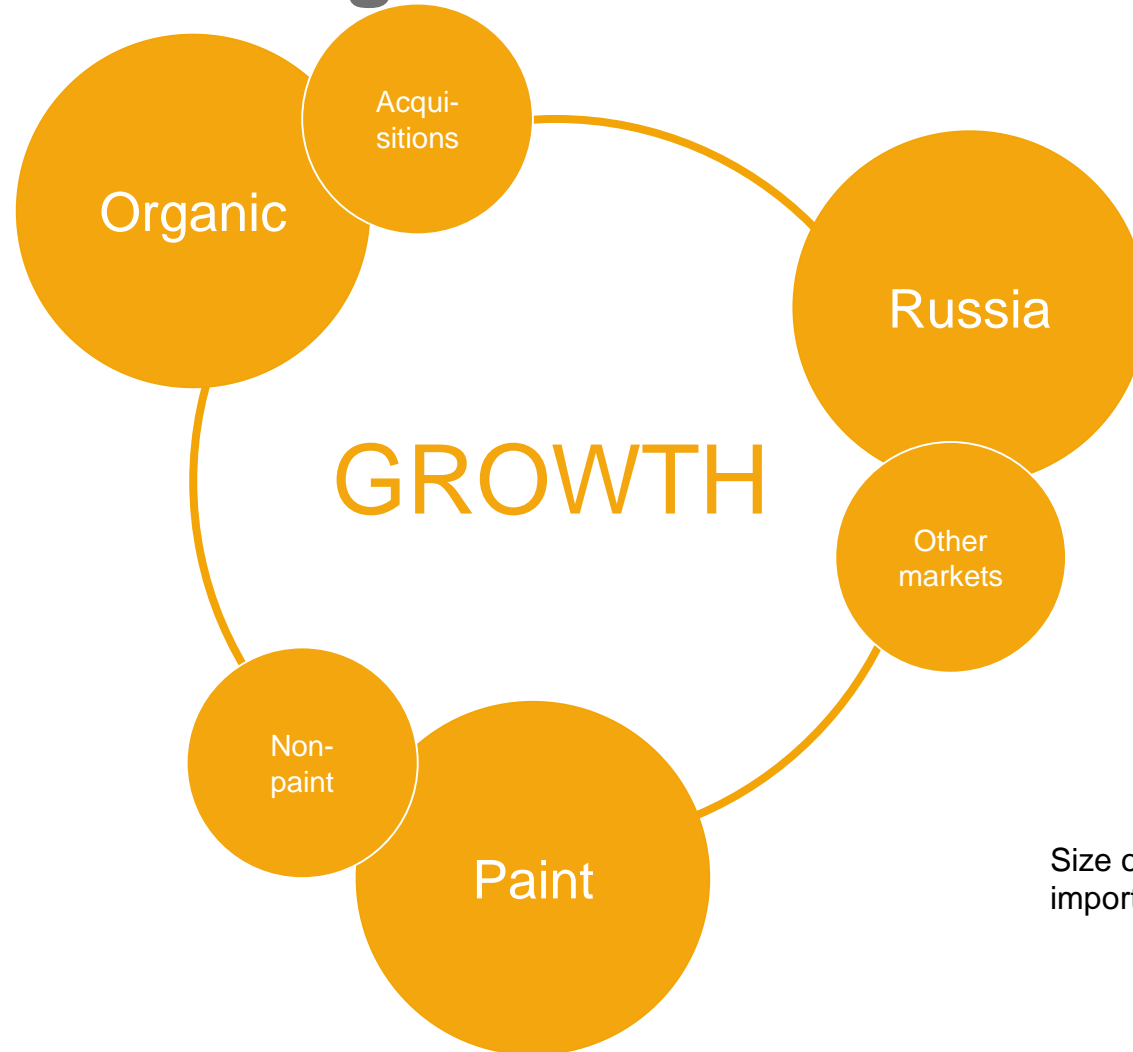




# Going for growth – growth rationale



# Sources for revenue growth disclosed in 2012

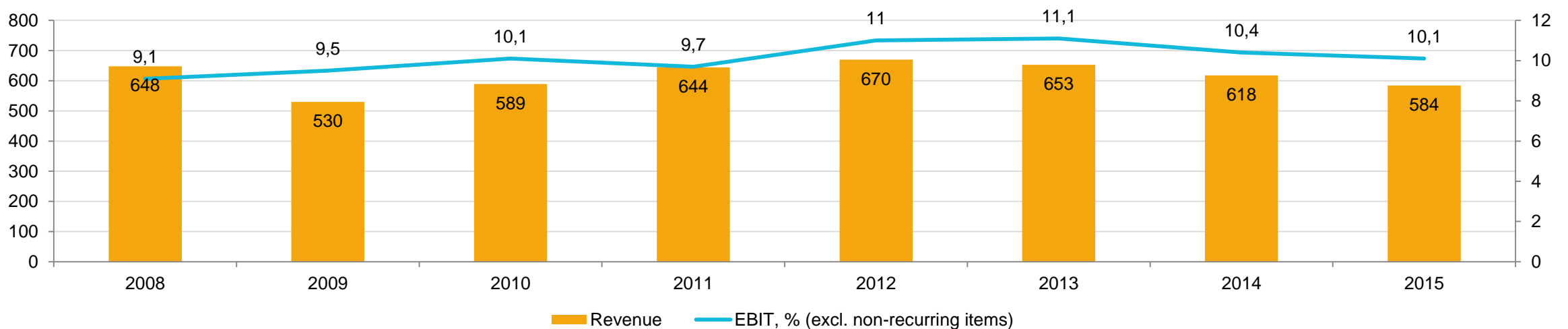


Size of the bubble illustrates the relative importance of the growth source



# West has not been able to fully compensate for the weakness in the east

	2008	2009	2010	2011	2012	2013	2014	2015
<b>External environment</b>	<ul style="list-style-type: none"> <li>Financial crisis</li> </ul>	<ul style="list-style-type: none"> <li>Financial crisis</li> </ul>	<ul style="list-style-type: none"> <li>Recovery</li> <li>Raw material prices up</li> </ul>	<ul style="list-style-type: none"> <li>Eurozone debt crisis</li> </ul>	<ul style="list-style-type: none"> <li>Weakness is global economy and Eurozone</li> </ul>	<ul style="list-style-type: none"> <li>Growth slowed down in Russia</li> </ul>	<ul style="list-style-type: none"> <li>Difficult market situation in Russia</li> </ul>	<ul style="list-style-type: none"> <li>Difficult market situation in Russia</li> </ul>
<b>Own actions</b>		<ul style="list-style-type: none"> <li>Restructuring</li> </ul>	<ul style="list-style-type: none"> <li>Price increases</li> </ul>	<ul style="list-style-type: none"> <li>Restructuring</li> </ul>	<ul style="list-style-type: none"> <li>New financial targets; ambitious growth target</li> </ul>		<ul style="list-style-type: none"> <li>FX impact</li> </ul>	<ul style="list-style-type: none"> <li>Restructuring</li> </ul>





# Development in 2012–2015

## Financial targets for 2018

The following targets were disclosed in 2012:

- Revenue of EUR 1 billion
- Operating EBIT >12%
- Operative return on capital employed (ROCE) >20%
- Gearing <70%

## External environment

Limited economic recovery in the west

Difficult market situation in the east

## Tikkurila actions

Restructuring to increase flexibility and to control operating expenses

Harmonization of product and raw material portfolio

Geared for growth:

Continuous investments in brands and distribution

Acquisitions in functional paints

Unified Enterprise Resource Planning System

## Tikkurila performance

Revenue down by ~10%

Operating EBIT 10-11%

ROCE ~23%

Gearing ~24%

Strong cash flow

# Proceeding of strategic efforts in 2015

## Growth

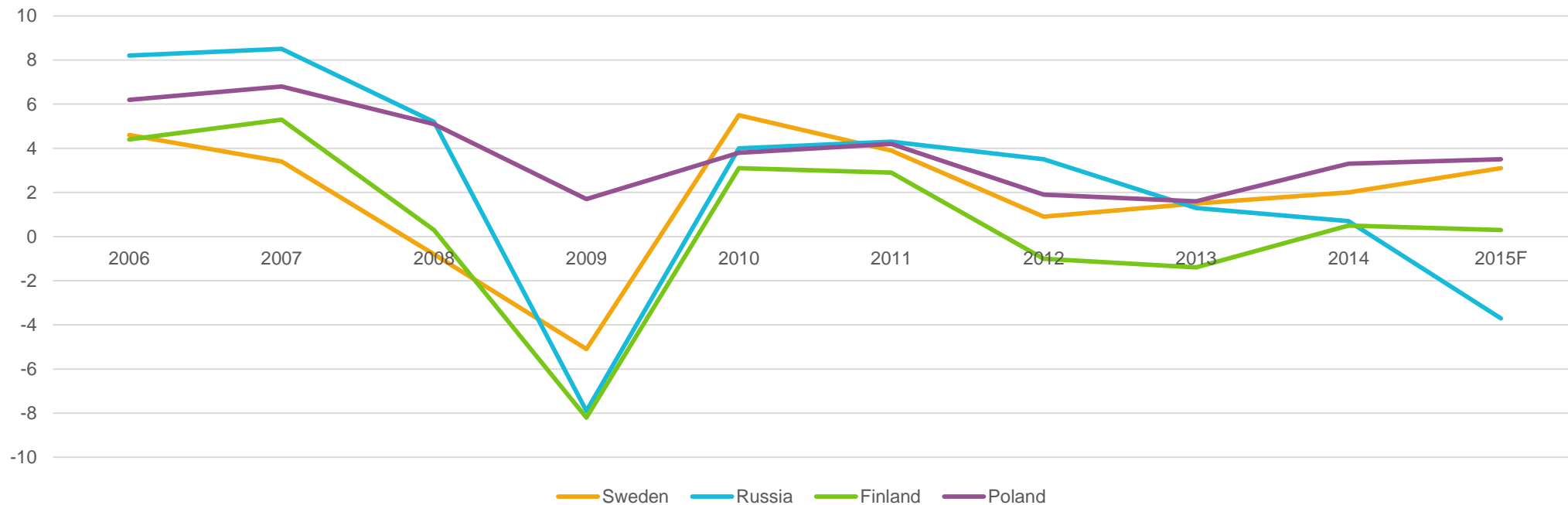
- A hundred new exclusive Tikkurila shops operated by a third party opened in China
- New production unit to Kazakhstan
- Development program for professional and industrial businesses
- Increased functional product portfolio
- Reorganization and increased ambition level for export function
- Seeking for new market areas

## Flexibility

- Adjustment and restructuring of operations in Russia, Finland and Sweden
- Integration of operational systems and centralizing operations in Poland
- Harmonization of raw material and product portfolio
- Expanding LEAN operating philosophy

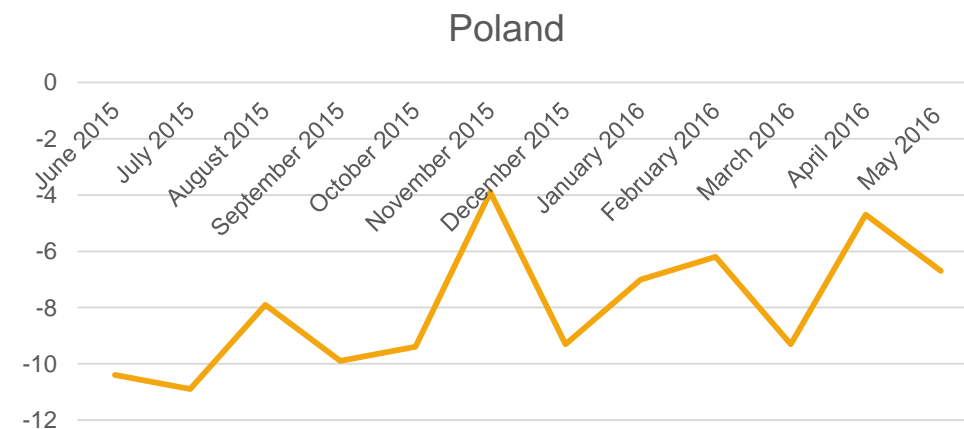
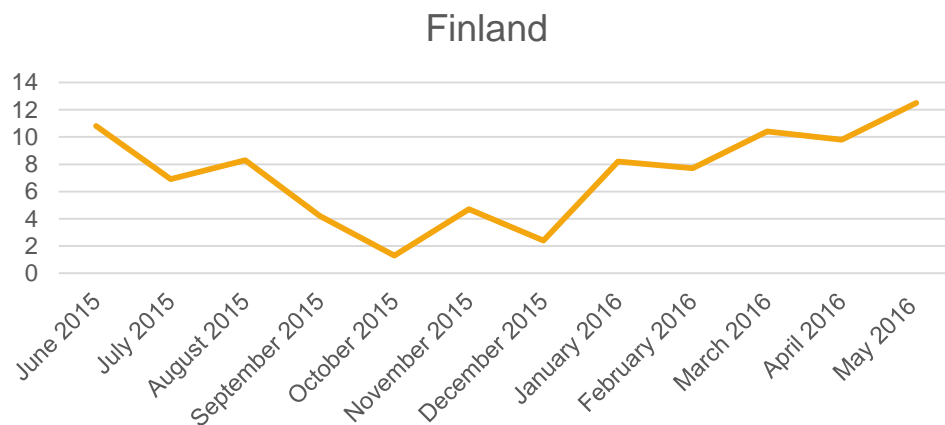
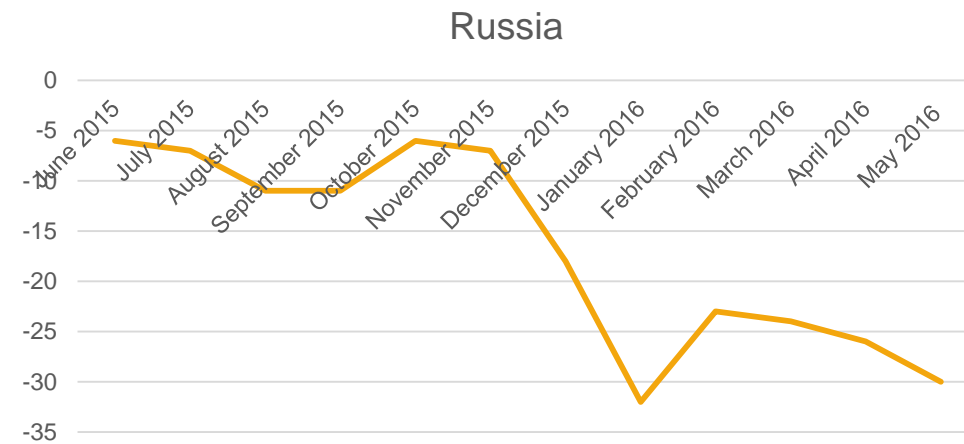
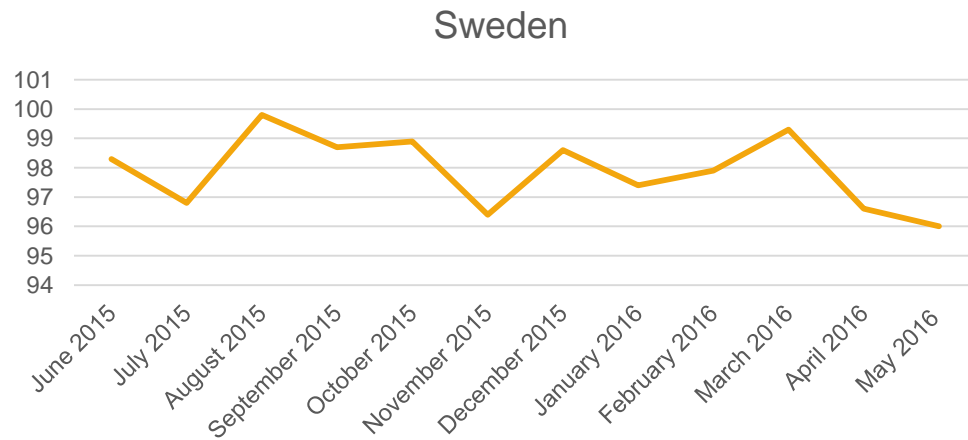
# Stable development in the west, east bottoming out?

GDP development, %





# Consumer confidence cautious in general, situation improving in Finland



# We are aiming at profitable growth

## Enablers of growth

- Commercial excellence
  - Strong brands with high customer loyalty
  - Leading market positions
  - Good distribution coverage
- Other
  - Strong balance sheet
  - Restructuring for growth

## Accelerating growth

- Functional coatings
- New technologies
- Partnerships and cooperation
- Export
- Utilizing fully our challenger position
- Professional and industrial business
- Services
- New distribution channels
- M&A







# Long-term financial targets

Board of Directors decided to change the timeframe for Tikkurila's financial targets.

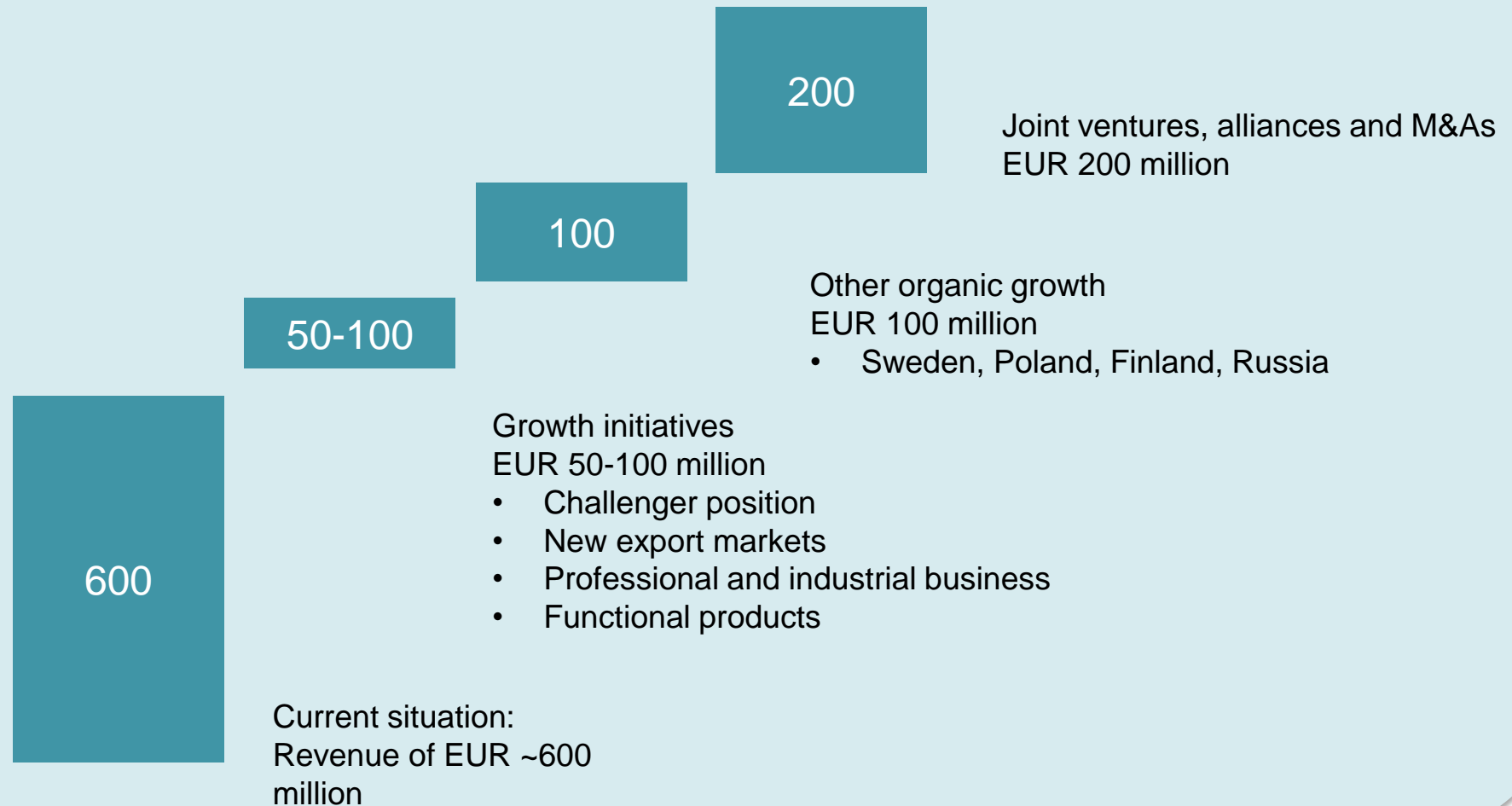
Financial targets remain the same, timeframe was extended from 2018 to long-term.

- Revenue of EUR 1 billion
- Operating EBIT >12%
- Operative return on capital employed (ROCE) >20%
- Gearing <70%
- Dividend policy: Target is to pay at least 40% of annual operative net income as dividends

	Historical performance								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	625	648	530	589	644	670	653	618	<b>584</b>
EBIT, % <sup>1</sup>	10.3%	9.1%	9.5%	10.1%	9.7%	11.0%	11.1%	10.4%	<b>10.1%</b>
ROCE	24.5%	18.7%	15.7%	19.2%	19.4%	21.0%	23.5%	22.9%	<b>22.2%</b>
Gearing	135.3%	208.5%	90.0%	41.4%	51.9%	40.6%	23.4%	24.6%	<b>23.7%</b>
Dividend paid; share of operative net income, %				84% (EUR 0.70 per share)	88% (EUR 0.73 per share)	72% (EUR 0.76 per share)	69% (EUR 0.80 per share)	73% (EUR 0.80 per share)	<b>90% (EUR 0.80 per share)</b>

1) Excluding non-recurring items

## Long-term growth avenues





# Key strengths of Tikkurila

**LEADING MARKET POSITIONS IN KEY MARKETS**

**STRONG BRANDS AND WIDE DISTRIBUTION COVERAGE**

**LEVERAGING STRONG B2C HERITAGE**

**GOOD CASH FLOW GENERATION ABILITY**

**SOLID PERFORMANCE OVER BUSINESS CYCLES**

**PROFITABILITY EXCEEDS THE INDUSTRY AVERAGE**



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TO COLOR YOUR LIFE.™