



# Half year financial report January-June 2017

Investor presentation



# 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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- Development during the review period
- Strategic Business Units
- Conclusions and outlook
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# Tikkurila in brief



# TIKKURILA

Tikkurila is the leading paints and coatings professional in the Nordic region and Russia. With our roots in Finland, we now operate in 14 countries. Our high-quality products and extensive services ensure the best possible user experience in the market. Sustainable beauty since 1862.

Revenue EUR 572 million

Adjusted operating profit EUR 54 million  
(9.4% of revenue)

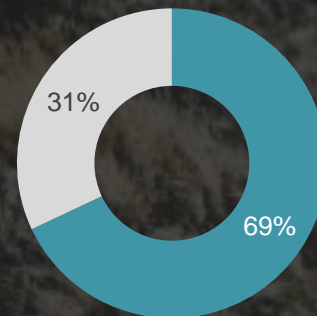
More than 3,000 employees

Production in nine countries

Products available in over 40 countries

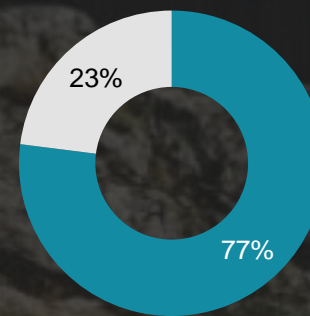
Leading market position in main markets

Revenue by segment



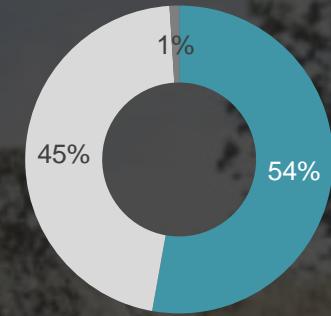
■ West ■ East

Operating profit\* by segment



■ SBU West ■ SBU East

Personnel by segment



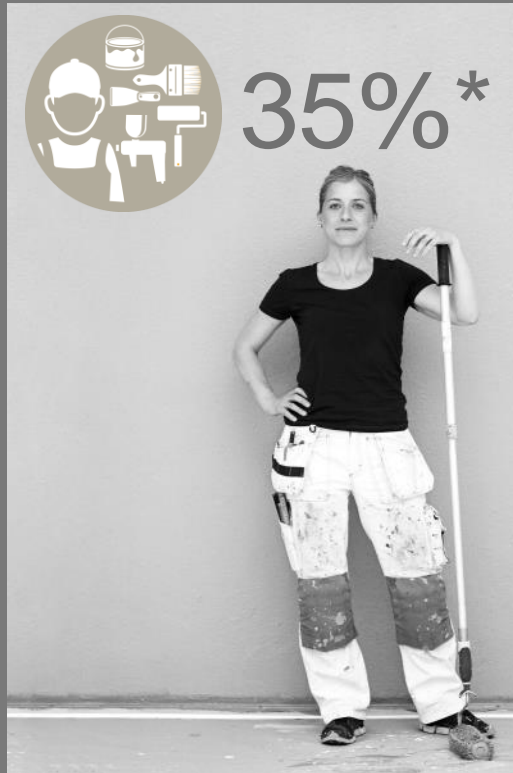
■ West ■ East ■ Group

\* Adjusted, excl. Group items

# Our end-customers



Consumers (DIY)



Professional painters



Industry

\*Tikkurila estimate

# Our locations

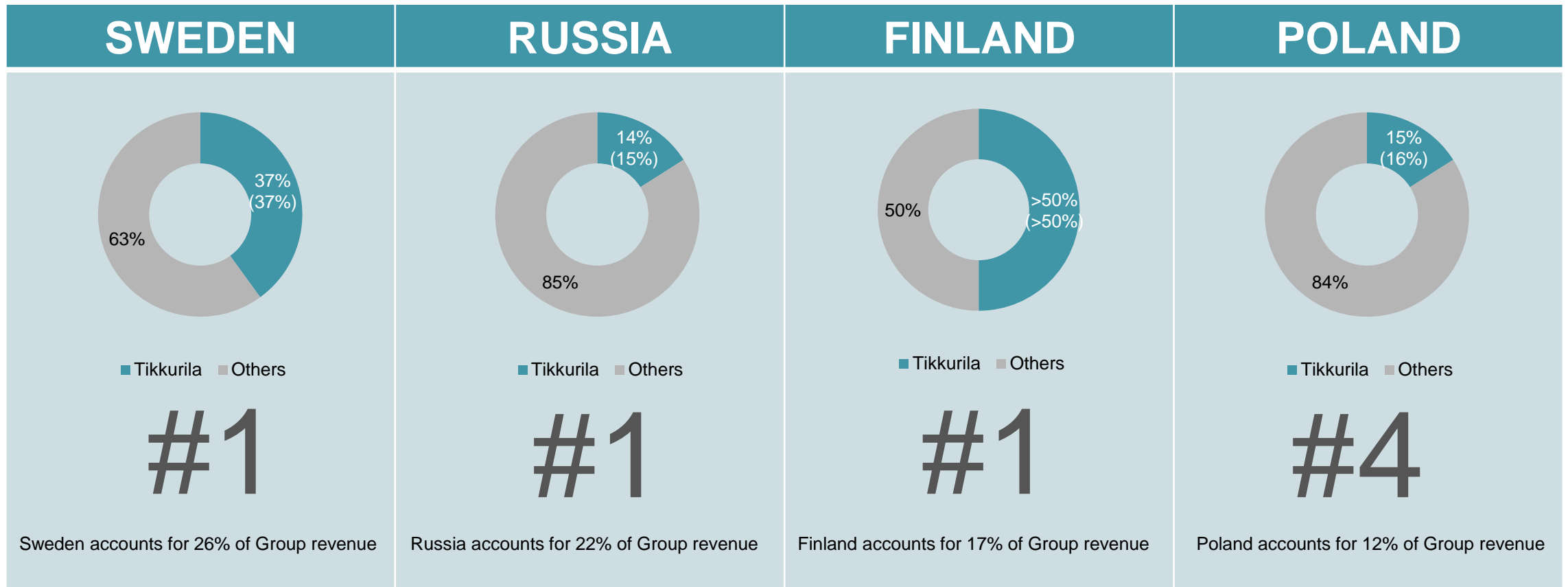


Production units in 9 countries  
 Sales units in 14 countries  
 Training centers in 11 countries

- Production, distribution center, sales
- Distribution center, sales
- Training center



# Tikkurila market shares in decorative paints in key markets in 2016



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

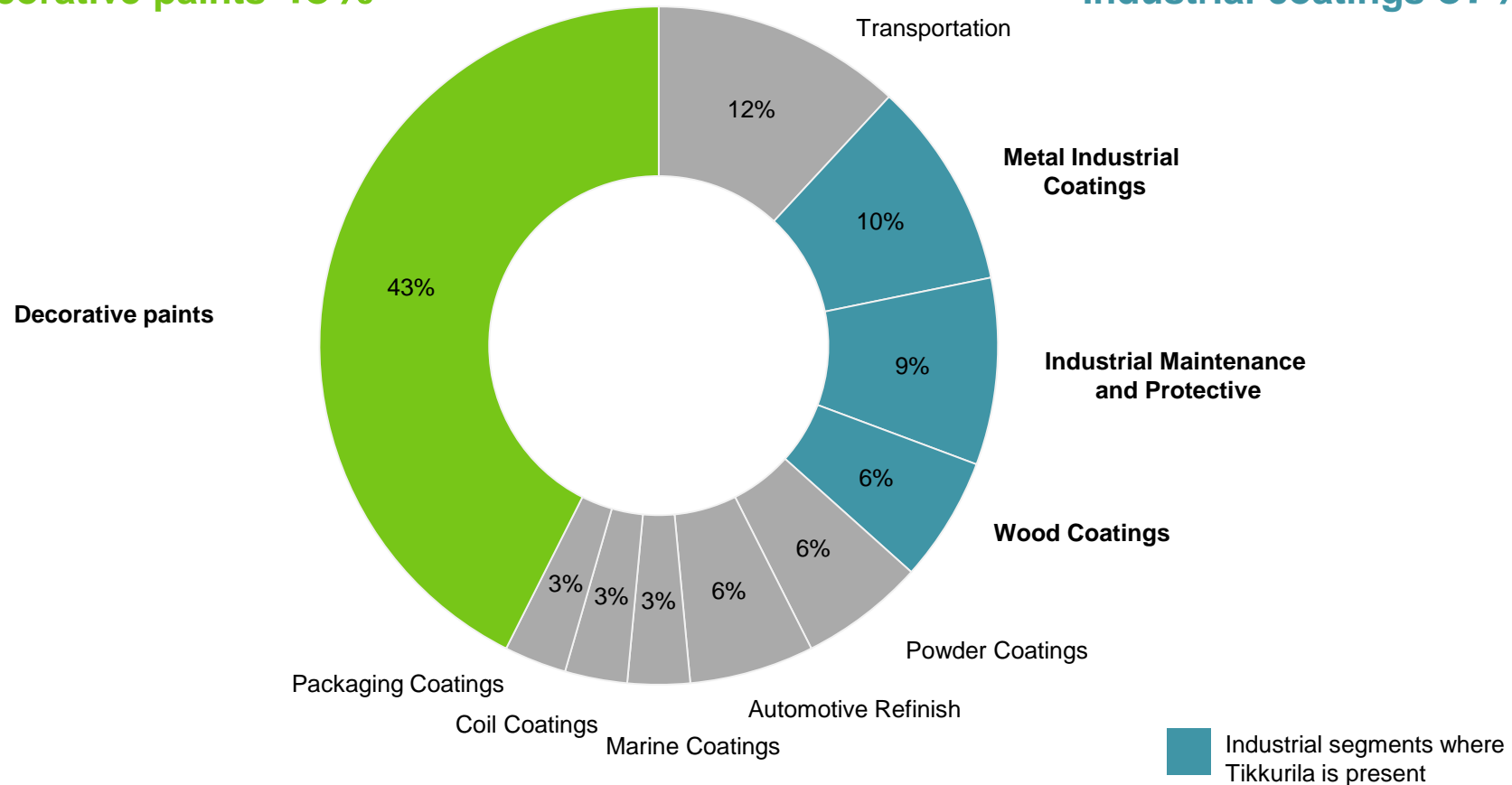




# Value of the global paints and coatings market; USD ~130 billion

Decorative paints 43%

Industrial coatings 57%



Source: IPPIC 2015

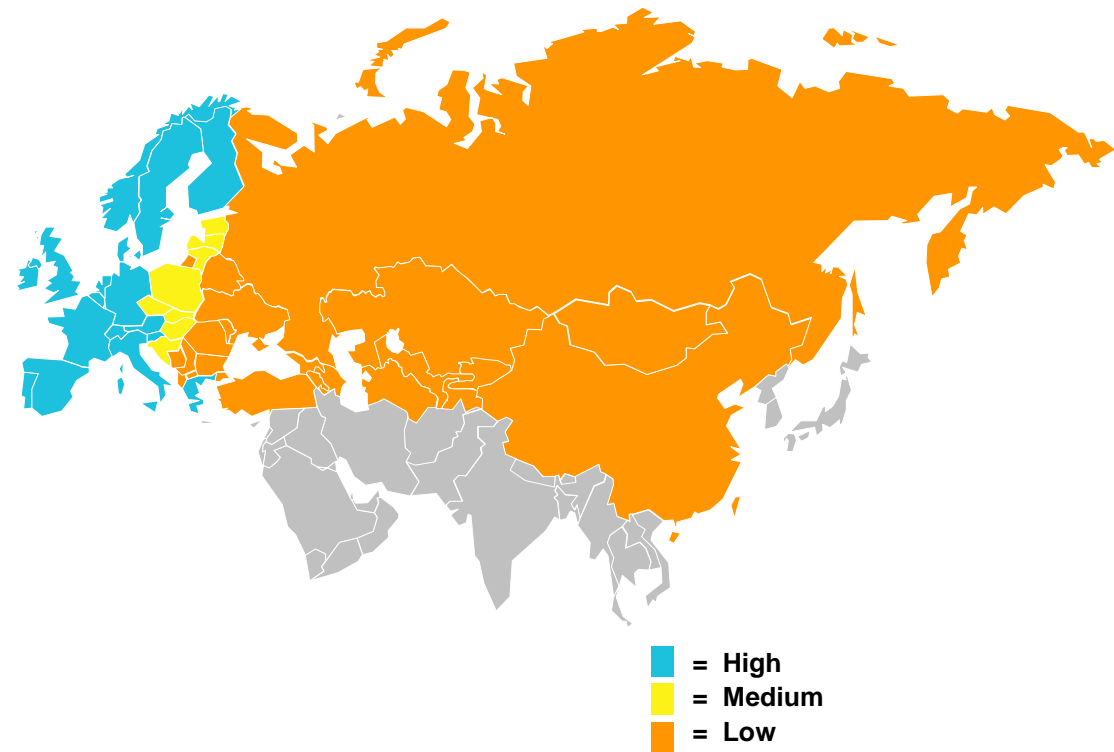
August 2017

# Paint consumption and demand structure

## Factors impacting paint demand

- Living standards
  - Local habits and painting methods
  - Construction styles and available materials
  - Trends in interior decoration, colors etc.
  - Level of activity in new construction, renovation and industry
  - Functional paints
- Markets in Western Europe mature, growth opportunities in areas with increasing income per household
  - Tikkurila has an established presence in areas with expected growth in consumption per capita and increasing demand for premium products

## Estimated paint consumption per capita\*



\* Paint consumption source: Management estimates, IPPIC

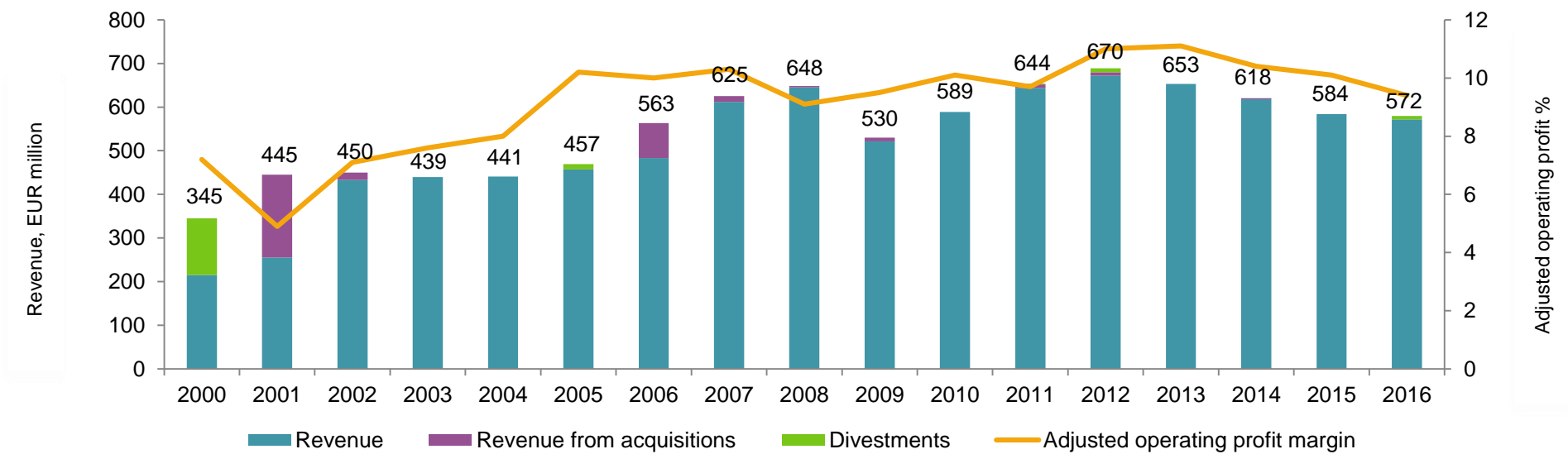


# Long term financial development

## Development of sales and profitability 2000–2016

### 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)
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# Tikkurila strategy

## KEY SUCCESS FACTORS

- Brands
  - Services
  - Innovations
  - Know-how
  - Sustainability
- = **Best end-user experience**

## LONG-TERM FINANCIAL TARGETS

- Revenue EUR 1 billion
- Adjusted operating profit >12%
- ROCE >20%
- Gearing <70%

## STRATEGIC PRIORITY AREAS



### GROWTH

Growth Initiatives  
Other organic growth  
Joint ventures and M&As



### AGILITY

Efficiency and flexibility  
Complexity reduction  
Harmonization  
**LEAN**





# Strong and well-established brands



Strategic international brands



Strategic regional or local brands



Tactical regional or local brands





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



Inspiration



Ideas



Colors



Stores



Helpline



Internet



Training



Designer Pool  
Contractor Pool



Professional  
services



# Distribution channels



\* Only in some markets

\*\* Big boxes, specialized paint shops



Consumers

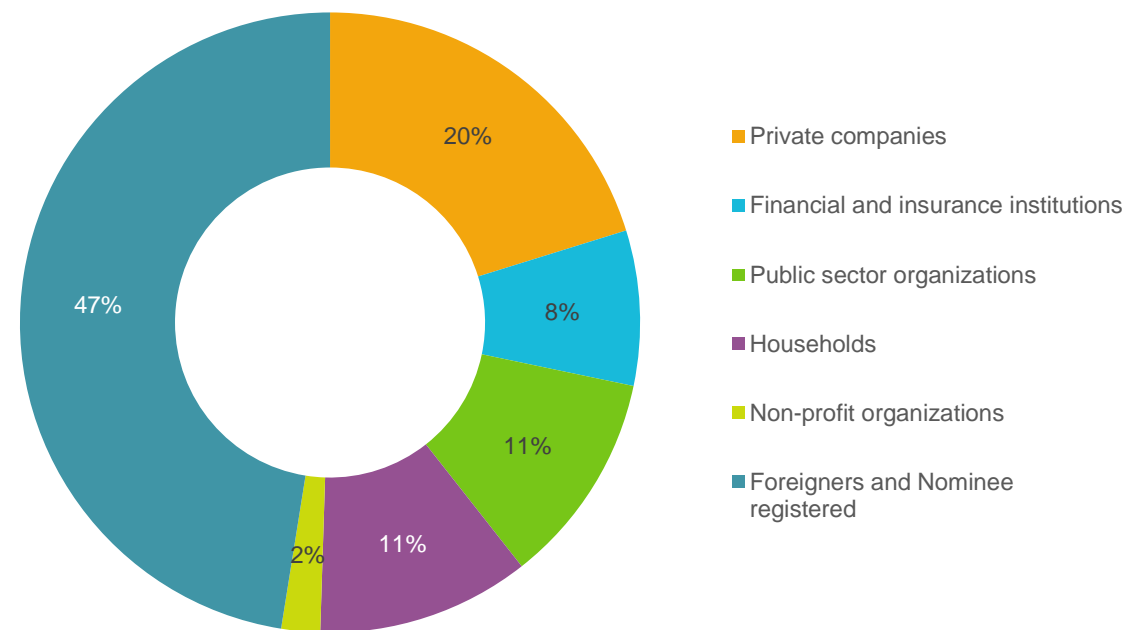


Professionals

# Tikkurila's ownership on June 30, 2017

- Number of shareholders ~19,900
- Foreign ownership in Tikkurila has increased
- Largest shareholders: Oras Invest Oy (18.1%), Varma (5.7%), and Ilmarinen (4.0%)

Tikkurila's ownership structure on June 30, 2017





# Development during the review period



## Second quarter highlights

- Revenue increased by 2 percent due to sales price increases and changes in the sales mix as well as due to changes in the exchange rates
- Tikkurila was not able to fully meet the market demand due to the problems related to the ERP implementation and raw material shortages. Moreover, weather conditions were poor in the Nordic Countries and Russia
- Adjusted operating profit fell to 10.9 percent (Q2/2016: 15.8) of revenue. Profitability was weakened by decreased sales volumes and the costs being higher than in the comparison period. The costs were higher due to the increased raw material prices as well as the direct and indirect costs arising from the introduction of the new ERP system
- Cash flow was weakened by lower profitability and costs related to implementation of new ERP system. The growth in net working capital was primarily due to the increase in trade receivables
- Focus will be on bringing operations to the normal level. An extensive program to boost profitability has been initiated



# Review period key figures

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	2016
Revenue	<b>183.2</b>	179.3	2.1%	<b>320.2</b>	309.8	3.4%	572.0
Adjusted operating profit	<b>20.0</b>	28.4	-29.6%	<b>25.2</b>	40.9	-38.4%	54.0
Adjusted operating profit, %	<b>10.9%</b>	15.8%		<b>7.9%</b>	13.2%		9.4%
EBIT	<b>20.0</b>	27.6	-27.7%	<b>25.2</b>	40.1	-37.2%	53.1
EBIT, %	<b>10.9%</b>	15.4%		<b>7.9%</b>	13.0%		9.3%
EPS, EUR	<b>0.28</b>	0.54	-47.7%	<b>0.41</b>	0.77	-46.6%	1.01
ROCE, %, rolling	<b>12.9%</b>	19.6%		<b>12.9%</b>	19.6%		18.5%
Cash flow after capital expenditure	<b>-33.4</b>	-23.2	-44.0%	<b>-63.9</b>	-56.7	-12.7%	22.7
Net interest-bearing debt at period-end				<b>157.2</b>	135.2	16.3%	58.7
Gearing, %				<b>83.3%</b>	70.2%		28.1%
Equity ratio, %				<b>34.8%</b>	36.6%		50.9%
Personnel at period-end				<b>3,228</b>	3,157	2.2%	3,033

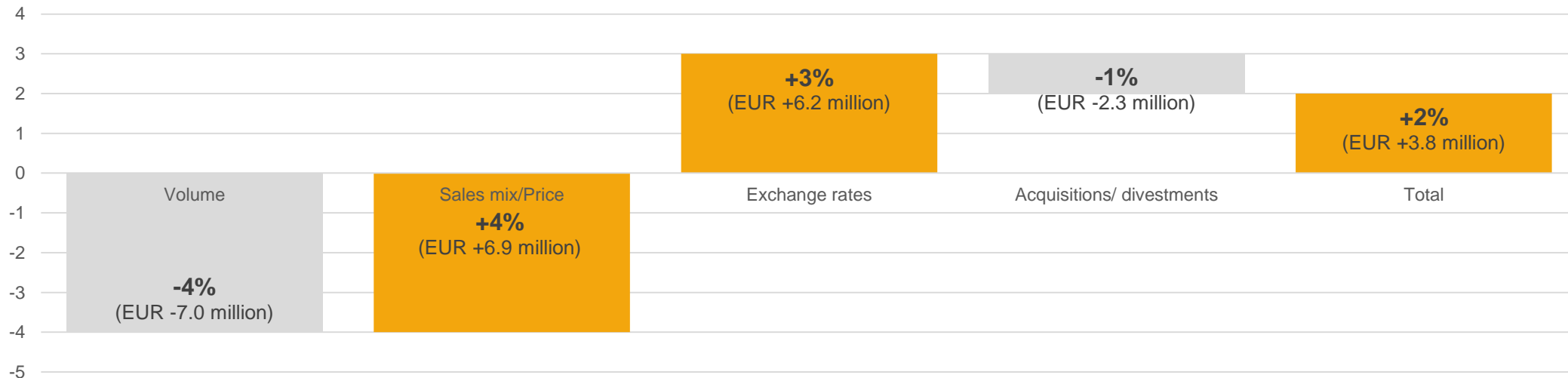


# Poor weather and low supply chain reliability decreased volumes

EUR million	4–6/2017	4–6/2016	Change %	1–6/2017	1–6/2016	Change %
Revenue	<b>183.2</b>	179.3	2.1%	<b>320.2</b>	309.8	3.4%

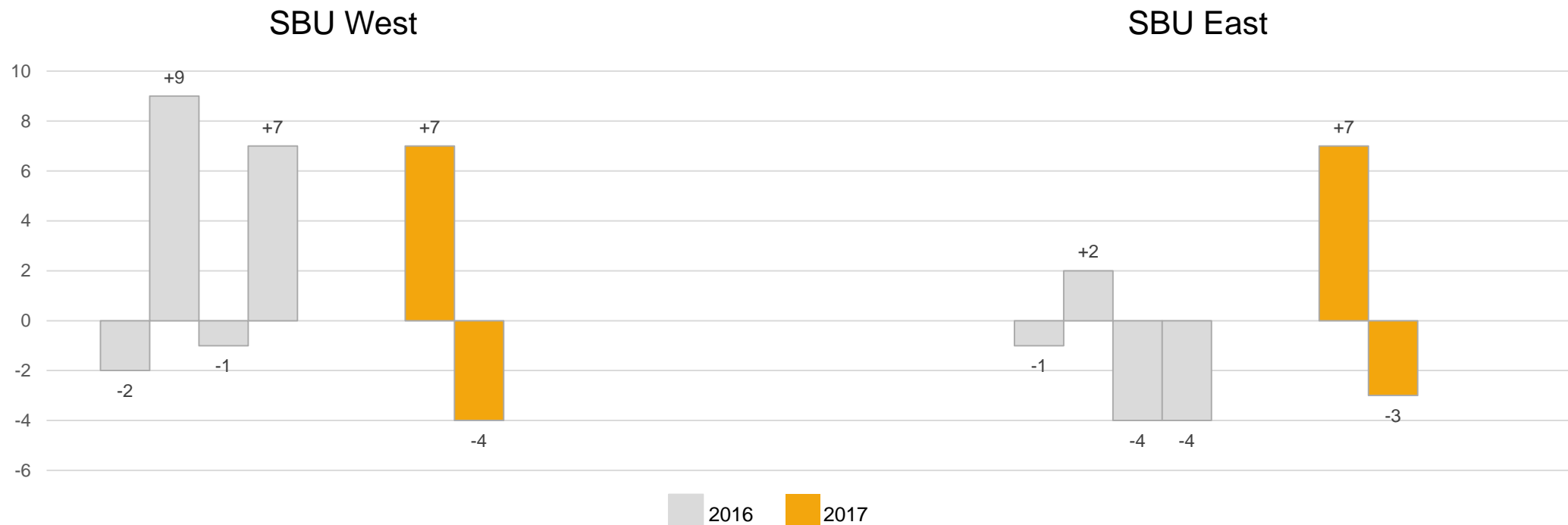
Group's revenue development Q2/2017 vs. Q2/2016

Increase/decrease, %



# Tikkurila was not able to fully meet the market demand

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



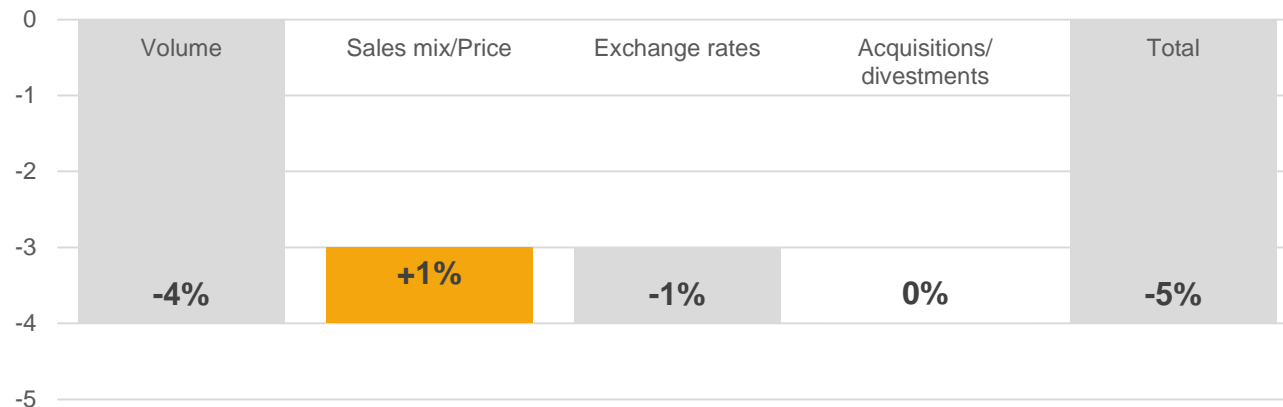
# Strategic Business Units

# SBU West Q2/2017

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	1-12/2016
Revenue	<b>118.0</b>	123.5	-4.5%	<b>216.9</b>	223.1	-2.8%	395.2
Adjusted operating profit	<b>15.5</b>	22.2	-29.9%	<b>22.6</b>	36.4	-38.0%	45.3
Adjusted operating profit, %	<b>13.2%</b>	17.9%		<b>10.4%</b>	16.3%		11.5%

## Revenue development Q2/2017 vs. Q2/2016

Increase/decrease, %



The figures on the graph above have been independently rounded, which should be taken into account when calculating total figures.

## Q2/2017 highlights

- The decreased sales volumes were caused by poor weather conditions, lack of raw materials, and the introduction of a new ERP system
- Sales volumes decreased in Sweden and Finland, but improved well in Poland and the Baltic countries
- The weakened profitability was caused by decreased revenue and higher cost level

# STREET ART ACROSS FINLAND

To celebrate the Finland 100 centenary, Tikkurila has donated murals across Finland. In addition, Tikkurila will compile the favorite colors of Finnish homes into a color card covering the whole of Finland. So far, more than 3,300 Finns have taken part in compiling the color card:

**[tikkurila.fi/suomi100](http://tikkurila.fi/suomi100)**

Mural in Tikkurila, Laurea University of Applied Sciences campus





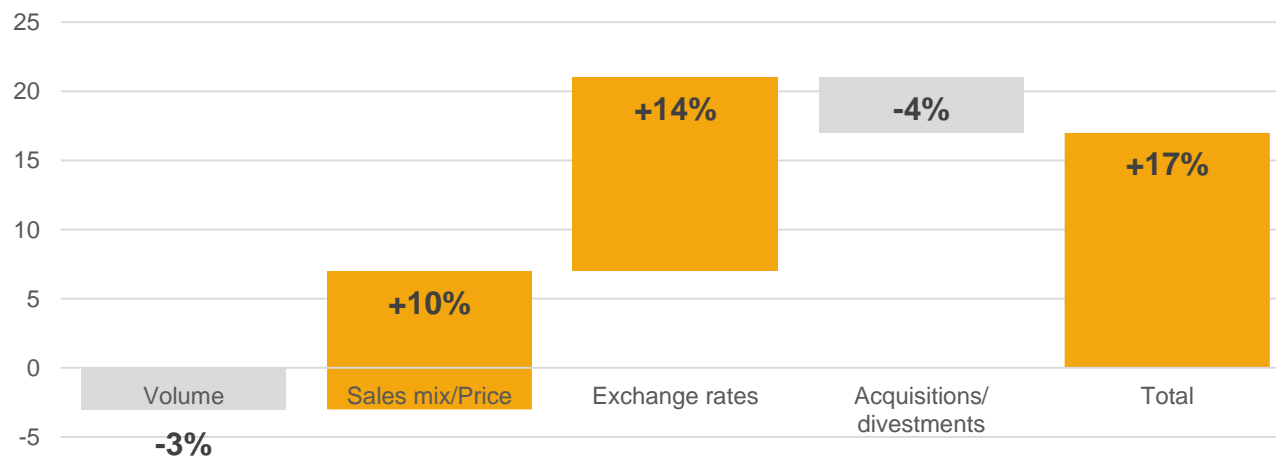


# SBU East Q2/2017

EUR million	4-6/2017	4-6/2016	Change %	1-6/2017	1-6/2016	Change %	1-12/2016
Revenue	<b>65.2</b>	55.8	16.8%	<b>103.3</b>	86.7	19.2%	176.8
Adjusted operating profit	<b>6.4</b>	7.6	-15.4%	<b>5.4</b>	7.0	-22.1%	13.4
Adjusted operating profit, %	<b>9.9%</b>	13.6%		<b>5.2%</b>	8.0%		7.6%

## Revenue development Q2/2017 vs. Q2/2016

Increase/decrease, %



## Q2/2017 highlights

- In Russia, demand was reduced by weather conditions and weakened purchasing power; development was good considering the market situation
- Stronger Russian ruble increased the euro-denominated revenue
- Sales prices were increased in Russia at the beginning of the year. Sales mix also developed favorably
- Profitability of SBU East deteriorated due to the higher cost level and China's weakened sales mix



# NEW FACTORY IN RUSSIA

Tikkurila has signed a Letter of Intent to buy a seven hectare industrial site near St. Petersburg, Russia. The aim is to start the construction work of a greenfield factory in 2018. The annual capacity of the factory will be 30 million liters with an expansion possibility in the future. The new site will also include a Research, Development and Innovation (RDI) center as well as extensive warehouse premises for raw materials and finished goods with railway connection, which will improve and enhance the efficiency of Tikkurila's distribution facilities. The total investment amount will be around EUR 30-35 million depending on the final set-up. Design of the facility will start immediately and construction is scheduled to begin late next year. The production is set to commence in 2020. The new factory will produce decorative and industrial products and it will replace the two existing solvent-borne production units in St. Petersburg.

# Conclusions and outlook

# CONCLUSIONS

The economic situation in Tikkurila's key markets remained strong in Sweden and Poland, improved in Finland and stabilized in Russia. Tikkurila was not able to fully meet the market demand due to the problems related to the ERP implementation and raw material shortages

Significant upward pricing pressure has been imposed on raw material prices

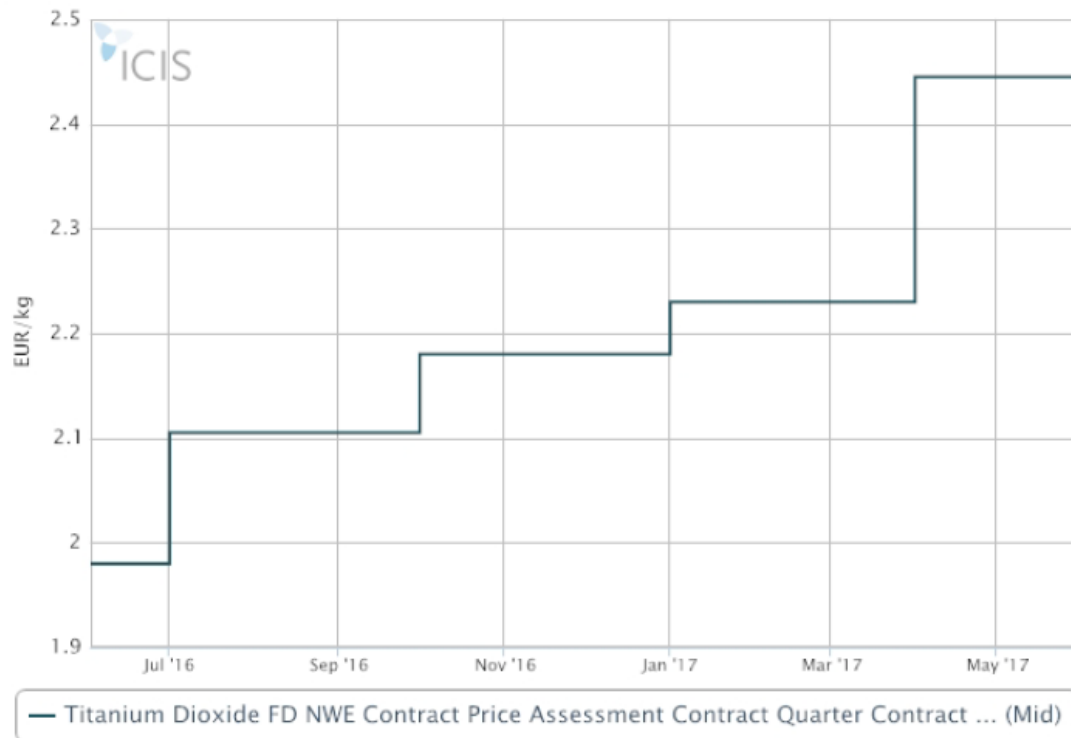
Focus will be on bringing operations to the normal level and raising revenue

The problems related to the ERP system have been solved to a large extent but they will still affect our operations in the latter year-half

An extensive program to boost profitability has been launched. The previously launched organizational and structural transformation will also be continued; additional costs will be generated by the restructuring activities

# TiO<sub>2</sub> prices increasing, also problems with the availability

Price development of titanium dioxide in June 2016–June 2017



© 2017 ICIS

Source: ICIS, June 2017

- Market price for titanium dioxide has increased by more than 20 percent during the past year
- Major price hike was seen in Q2/2017; prices are expected to increase by a similar magnitude, if not more in Q3/2017
- 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
- Situation is expected not to ease until towards the end of 2018

# Implementation of the new ERP system

Implementation schedule for the new ERP system



- Implementation of the new ERP system was started in March 2016
- Among Tikkurila's key markets, the system has been introduced in Sweden, Finland and Poland; the most significant problems in implementation have occurred in Sweden and Finland
- Currently, stabilizing phase of the system is underway (improving the functionality, efficiency and performance of the system); the problems in implementation will still affect our operations in the third quarter
- ERP system will be introduced in Russia at the turn of the year



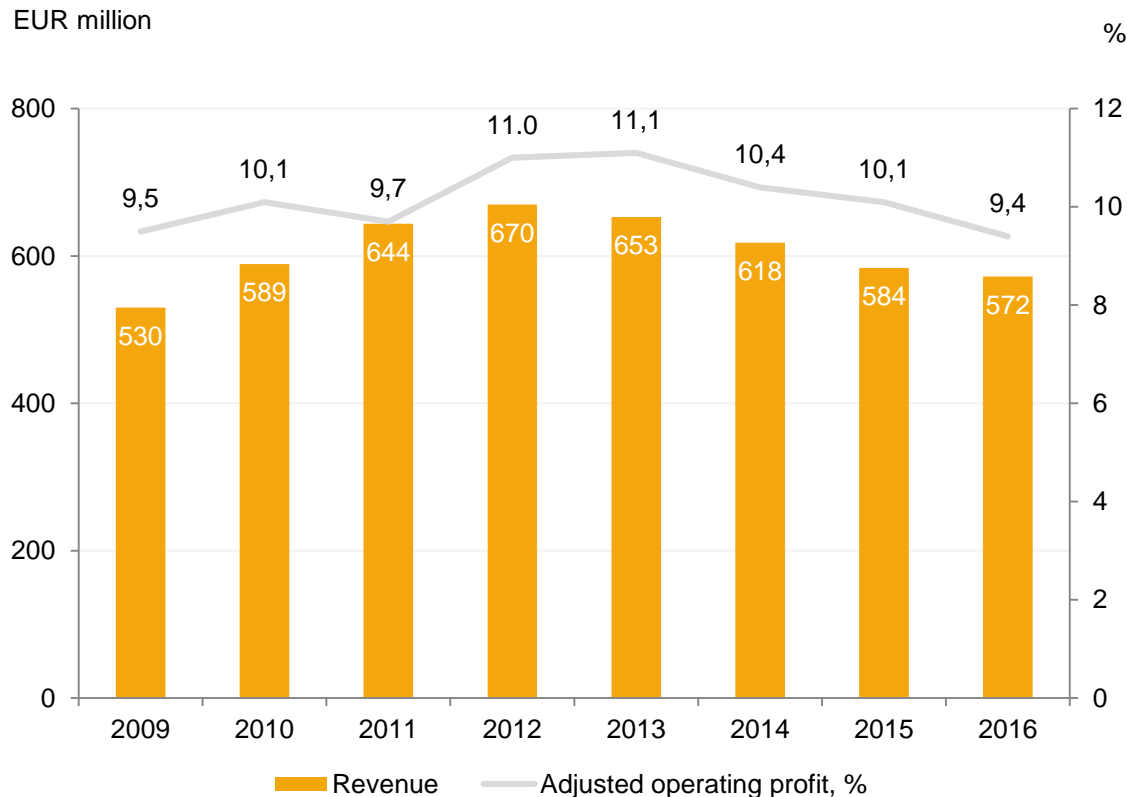
# Program to boost profitability

- An extensive program to boost profitability has been initiated
- The aim is to generate at least EUR 30 million in savings
- As part of the program, a study on the future production network has been started
- The previously launched organizational and structural transformation will be continued. The aim is to clarify decision-making and responsibilities and eliminate overlaps. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities
  - New Tikkurila Management Board was appointed as of May 1, 2017



# Guidance for 2017 (updated on July 13, 2017)

## Revenue and profitability of Tikkurila 2009–2016



## Outlook and guidance for 2017

Among Tikkurila's key markets in Sweden and Poland, the fairly strong economic growth is expected to continue in 2017. The economies of Finland and Russia are also anticipated to grow slightly. Demand for paint is predicted to moderately increase in Tikkurila's operational area during the current year. The importance of the professional segment is growing, which affects the sales structure of the Tikkurila Group.

The problems related to the introduction of the new ERP system and the availability of raw materials meant that Tikkurila could not fully meet market demand during the first half of 2017. The problems related to the ERP system has been solved to a large extent but they will still affect our operations in the second half.

Raw material prices are expected to rise, but Tikkurila will aim to compensate for this impact by intensifying its raw material procurement, increasing local purchasing in Russia, and by increasing its sales prices. Furthermore, there are risks related to the availability of titanium dioxide.

Additional costs will be generated by restructuring activities and the introduction of the new ERP system.

**Tikkurila expects its revenue to remain at last year's level and adjusted operating profit for the financial year 2017 to remain below the 2016 level.**



# Appendix

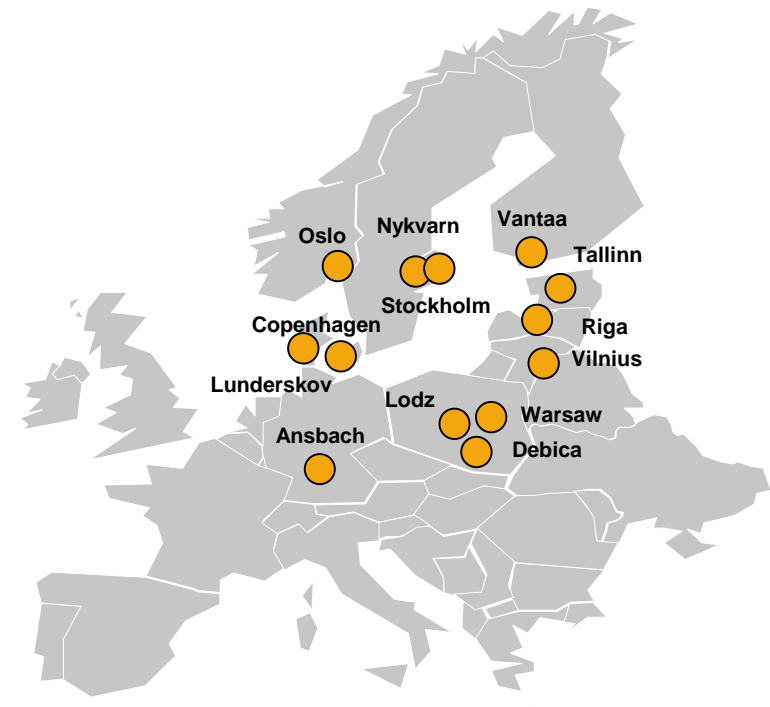
# Tikkurila Strategic Business Units (SBU)

	SBU West	SBU East
Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania	Russia, Central Asian countries, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
Production sites	Nykvarn, Sweden      Lunderskov, Denmark Vantaa, Finland Debica, Poland Ansbach, Germany Tallinn, Estonia	St. Petersburg, Russia Stary Oskol, Russia Almaty, Kazakhstan Sabac, Serbia
Current demand structure	Premium and medium price and quality segment products	Economy price and quality segment products
Expected demand structure	Premium and medium price and quality segment products	Premium price and quality segment products expected to rise
Competitors	Akzo Nobel, PPG, Flügger, Jotun, Sherwin-Williams, Teknos, Nor-Maali, Sniezka	Akzo Nobel, Lakra-Sintez, Empils, ABC-Farben, Meffert, Caparol
Distribution channels	<b>Deco:</b> DIY retailers, independent retailers, Alcro professional stores, wholesalers <b>Industry:</b> direct sales, Tikkurila Industrial Paint Service	<b>Deco:</b> DIY retailers, independent retailers, wholesalers <b>Industry:</b> direct sales, Tikkurila Industrial Paint Service

### SBU West key facts

Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania
Revenue 2016	EUR 395.2 million, 69% of Group
Adjusted operating profit 2016	EUR 45.3 million, 77% of Group*
Employees	1,649 (at year-end)
Production sites	Nykvarn, Sweden; Vantaa, Finland; Debica, Poland; Ansbach, Germany; Tallinn, Estonia; Lunderskov, Denmark
Development in West	<p><b>1862</b> Tikkurila founded in Finland</p> <p><b>1865</b> Beckers founded in Sweden</p> <p><b>1906</b> Alcro founded in Sweden</p> <p><b>1930</b> Customer training started in Finland</p> <p><b>1958</b> Color card development and color advisory service started in Finland</p> <p><b>1970</b> Monicolor tinting system launched in Finland</p> <p><b>1992</b> Paint production started in Estonia</p> <p><b>1995</b> Sales company established in Lithuania</p> <p><b>2000</b> Maalilinja customer helpline launched in Finland</p> <p><b>2001</b> Acquisition of Alcro-Beckers in Sweden</p> <p><b>2001</b> Production plants in Germany and Poland</p> <p><b>2003</b> Customer training center Paletti opened in Finland</p> <p><b>2007</b> New production plant in Nykvarn Sweden</p> <p><b>2009</b> Avatint tinting system launched</p> <p><b>2012</b> Divestment of subsidiaries in Hungary, Czech Republic, Slovakia, and Romania</p> <p><b>2014</b> Acquisitions of ISO Paint Nordic and KEFA Drytech</p>

### SBU West locations



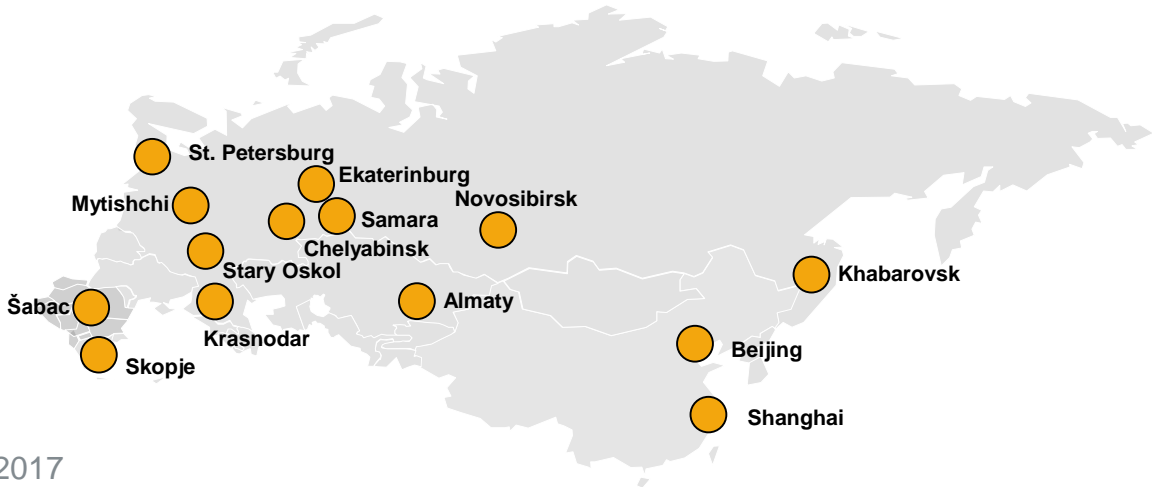
\* Excluding Group items

### SBU East key facts

Operational area	Russia, Central Asian countries, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
Revenue 2016	EUR 176.8 million, 31% of Group
Adjusted operating profit 2016	EUR 13.4 million, 23% of Group*
Employees	1,353 (at year-end)
Production sites	St. Petersburg, Russia (3) Stary Oskol, Russia Šabac, Serbia Almaty, Kazakhstan

### Development in SBU East

<b>1970s</b>	Export to Russia and the former Soviet Union started
<b>1994</b>	Sales company in Russia
<b>1995</b>	First western paint factory opened in St. Petersburg
<b>1998</b>	Sales company OOO Tikkurila Coatings established
<b>2004</b>	Acquisition of Kolorit in Ukraine
<b>2006</b>	Acquisition of Kraski Teks
<b>2006</b>	Sales company established in Kazakhstan
<b>2007</b>	Sales company established in China
<b>2008</b>	Sales company established in Belarus
<b>2009</b>	Completion of logistic centre in Mytishchi, Moscow region and new water-borne production lines to Obukhovo site in St. Petersburg
<b>2011</b>	Divestment of the powder coatings business
<b>2011</b>	Acquisition of the business of Serbian Zorka Color
<b>2012</b>	Expansion of sales and ware house network in Russia
<b>2015</b>	New factory opened in Almaty, Kazakhstan focusing on water-borne products
<b>2016</b>	Divestment of subsidiaries in Ukraine and Belarus



\* Excluding Group items



# Investor and media contacts



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TIKKURILA

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TO COLOR YOUR LIFE.™