



# Beyond paint since 1862

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Private Investors in Russia, November 2017



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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)

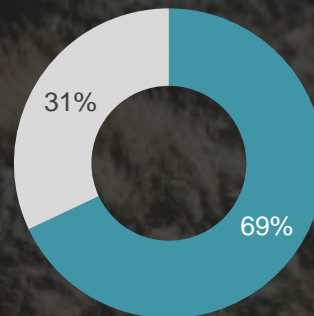
More than 3,000 employees

Production in nine countries

Products available in over 40 countries

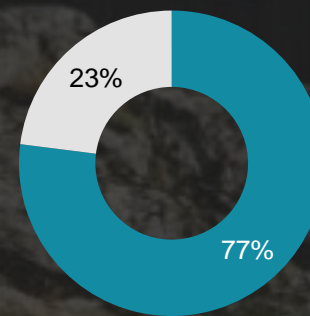
Leading market position in main markets

Revenue by segment



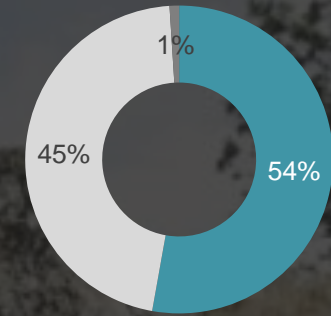
■ West ■ East

Operating profit\* by segment



■ SBU West ■ SBU East

Personnel by segment



■ West ■ East ■ Group

\* Adjusted, excl. Group items

# Our 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

# Our end-customers



Consumers (DIY)



Professional painters



Industry

\*Tikkurila estimate



# Megatrends drive our business



## Urbanization

Division into growing, mature and declining regions



## Climate change

Ensure market position through sustainable products and processes



## Growing middle class

Service economy: segments grow / decline faster than overall market



## Digitalization

Connect with customers and understand their needs in detail





# Sustainability principles

**QUALITY,  
SAFETY &  
DURABILITY**

**USER  
EXPERIENCE**

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





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



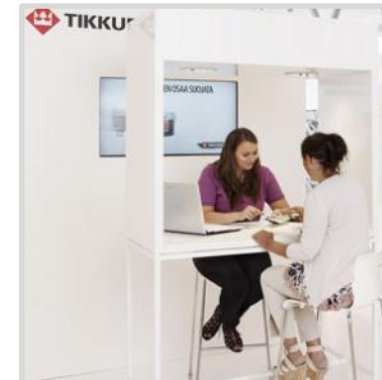
Inspiration



Ideas



Colors



Stores



Helpline



Internet



Training



Designer Pool  
Contractor Pool



Professional  
services

# Long-term growth avenues




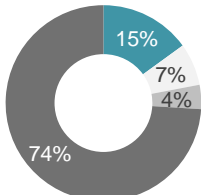




# Tikkurila in Russia



# Tikkurila in Russia

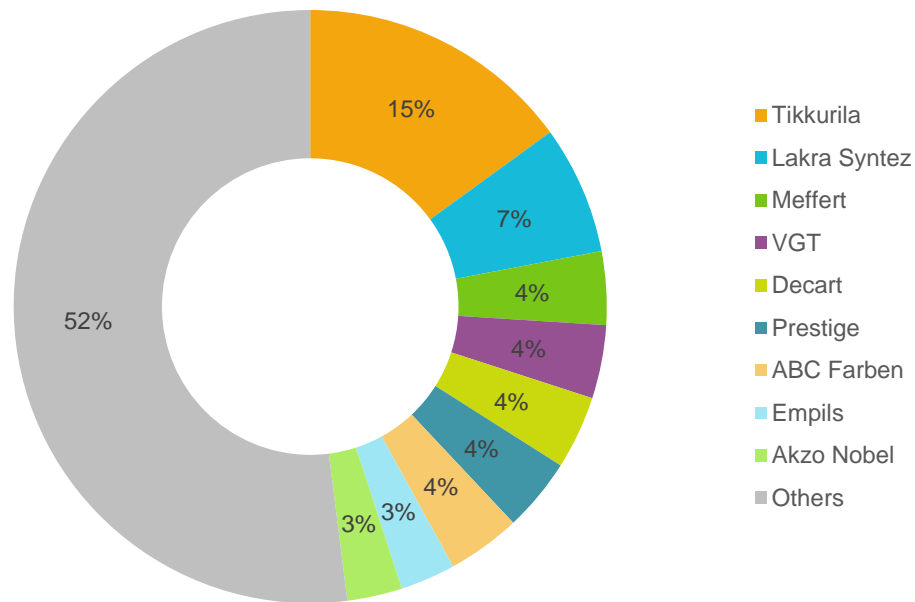
|  |   |
|--|---|
| 2016 revenue                                 | EUR 120 million, 21% of Group   |
| Brands                                       |   <br>PREMIUM → ECONOMY |
| Production                                   | Production sites in St. Petersburg (3) and Stary Oskol<br>Majority of the products sold in the area are produced locally, Tikkurila brand is also exported from Finland   |
| Raw materials                                | Approximately half of the raw materials used in the production in Russia is sourced from local suppliers  |
| Retail                                       | Tikkurila's products are sold in around 5,000 retail outlets  |
| Market position in 2015 in decorative paints |  <ul style="list-style-type: none"><li>■ Tikkurila</li><li>■ Lakra</li><li>■ VGT</li><li>■ Others</li></ul> <p>Source: Chem-Courier, 2016 (volume)</p>                                    |





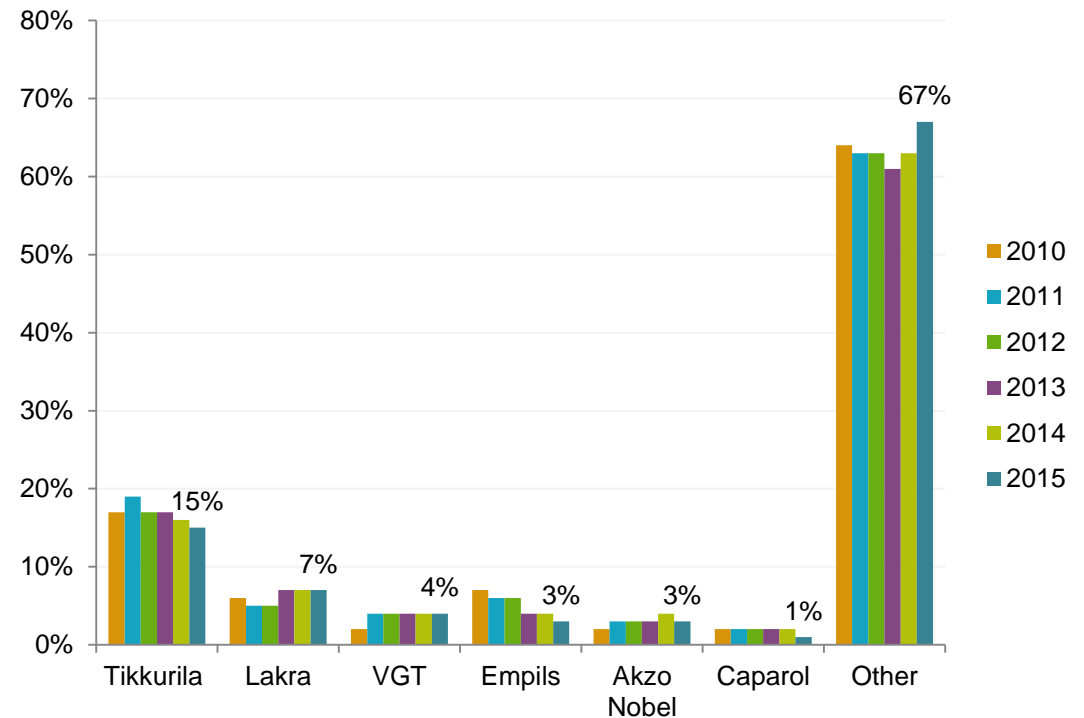
# Russian paint market is still highly fragmented

Russian decorative paint market shares in 2015



Source: Chem-Courier 2016 (volume)

Market share development in Russia in 2010–2015



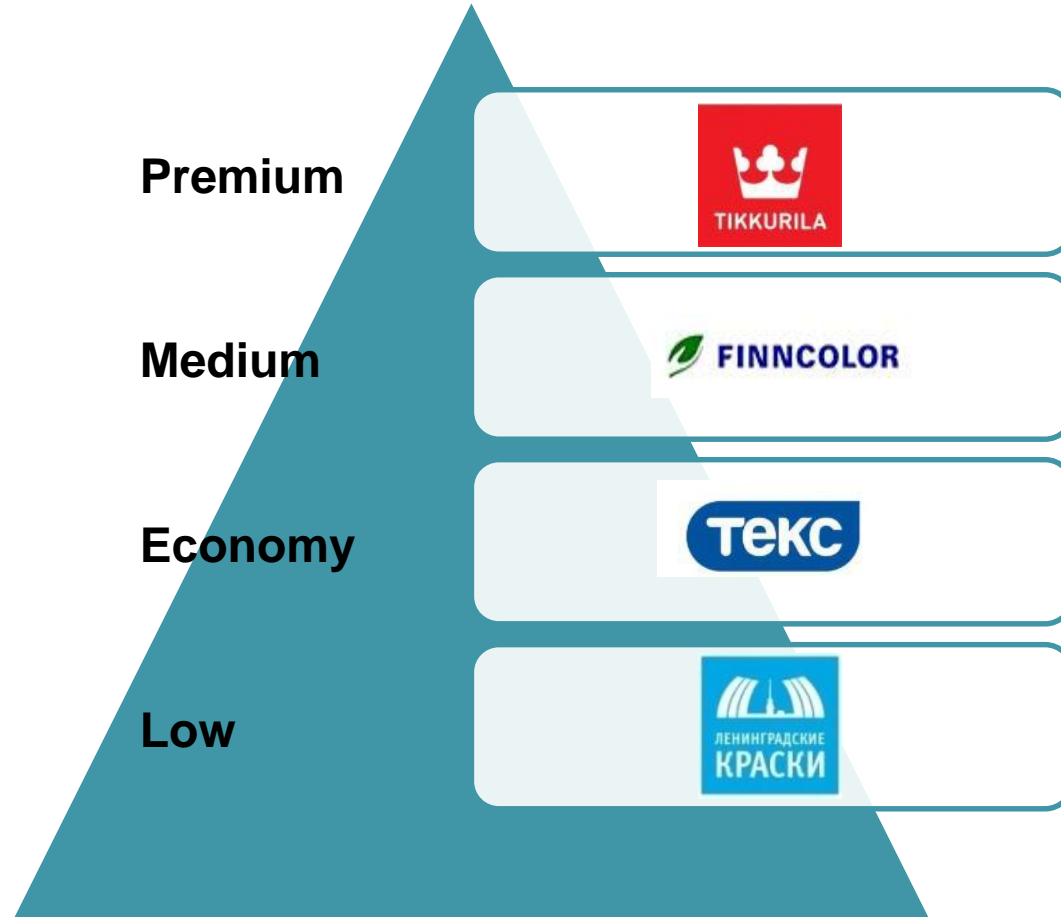
# Good coverage of operations



Tikkurila sales function has regional structure with more than 200 employees  
Tikkurila has established long term partnerships with local customers



## Good brand coverage

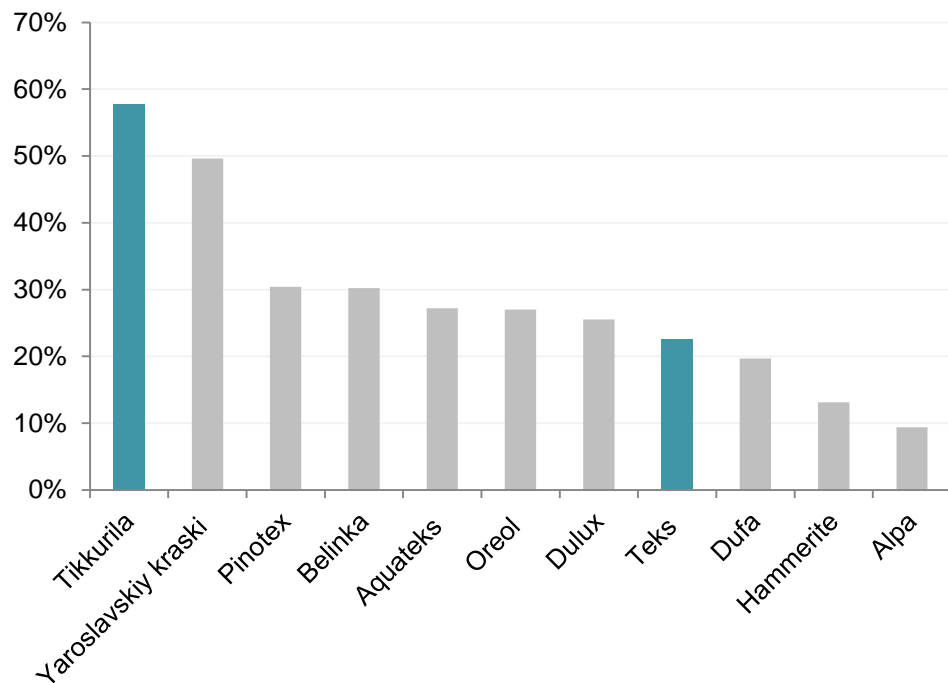


- Tikkurila premium products are produced in Finland and exported to Russia, other brands are produced locally
- Tikkurila and Teks are the main brands (volume and value)
- In recent years, the volume development of Tikkurila's high end products has been better; more pressure at the lower end

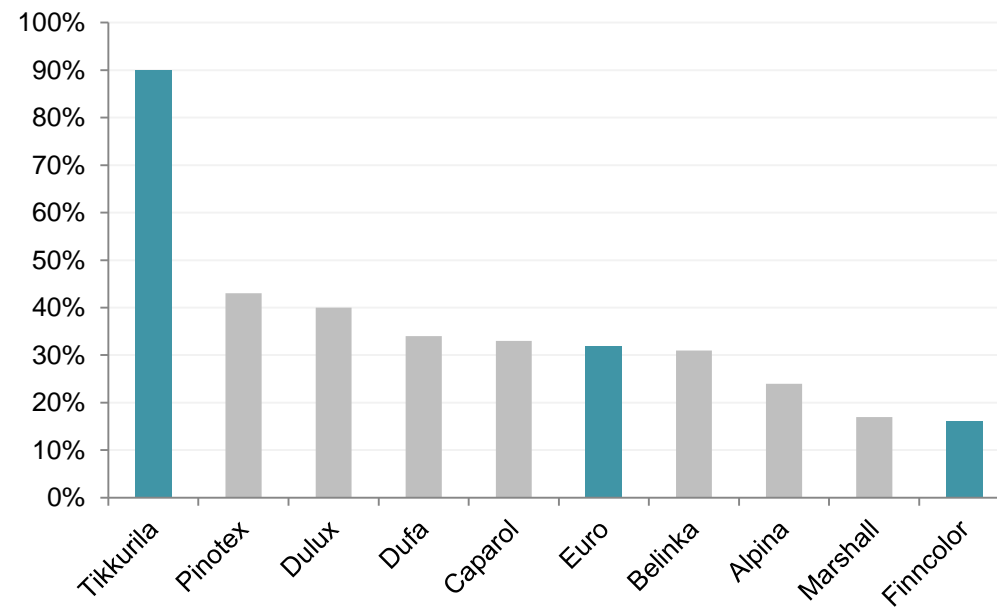


# Tikkurila is the most well-known paint brand in Russia

Brand awareness in 2014, non-aided



Brand awareness in 2014, aided



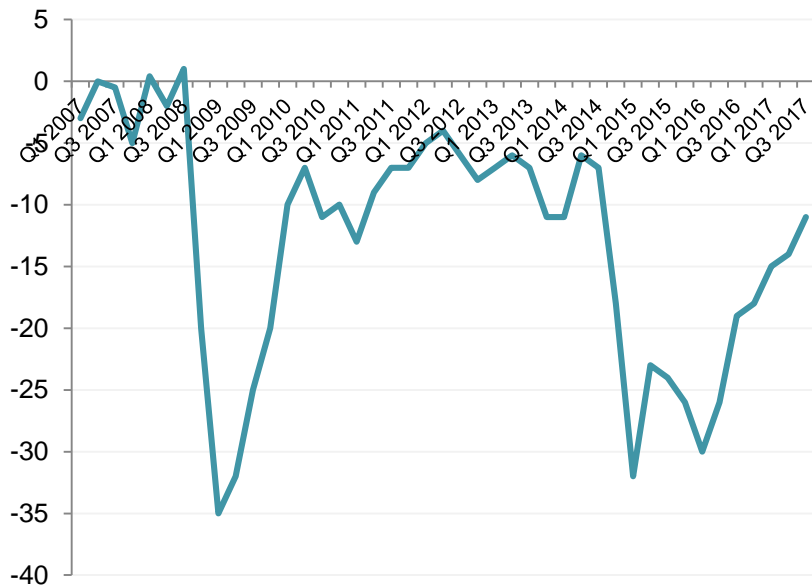
Source: TNS Gallup (Russia 2014)





# Macro environment more stable in Russia

## Russian consumer confidence



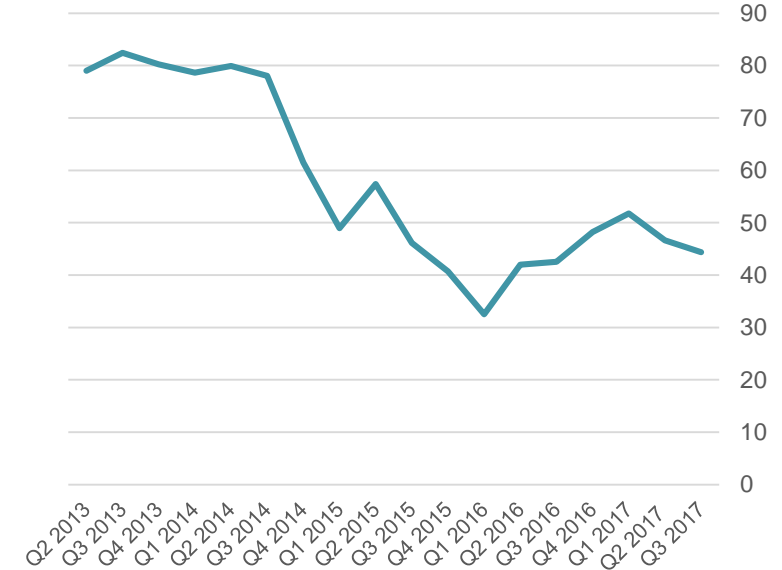
- Consumer confidence is gaining strength

## EUR RUB exchange rate



- In January-September 2016, the EUR/RUB average exchange rate was approximately 76 (vs. average approximately 65 in 1-9/2017)

## Oil price, EUR



- Oil price increased last year, but took a slight downward turn during Q2 2017



# Focus areas for our Russian operations

- Stepping up the use of local manufacturing and local raw materials in Russia
- Making maintenance and development investments in production in order to improve productivity as well as to optimize production set-up and material flows
- Developing our commercial operations
  - To strengthen our sales organization for industrial and professional customers
  - To develop our product management and marketing department
  - To ensure strict cost management and the optimization of our product range and formulas
- Meeting customer requirements and purchasing power development
  - To improve our competitiveness
  - To increase our shelf space and market share



# OPTIMIZING PRODUCTION SET-UP IN RUSSIA

## **NEW FACTORY TO BE BUILT NEAR ST. PETERSBURG**

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.

## **CLOSING DOWN A SMALL UNIT IN STARY OSKOL**

As part of the program to boost profitability, we have decided to discontinue manufacturing and warehousing operations in Stary Oskol in Russia and to move the unit's production to our St. Petersburg site during the next year



# Tikkurila as an investment

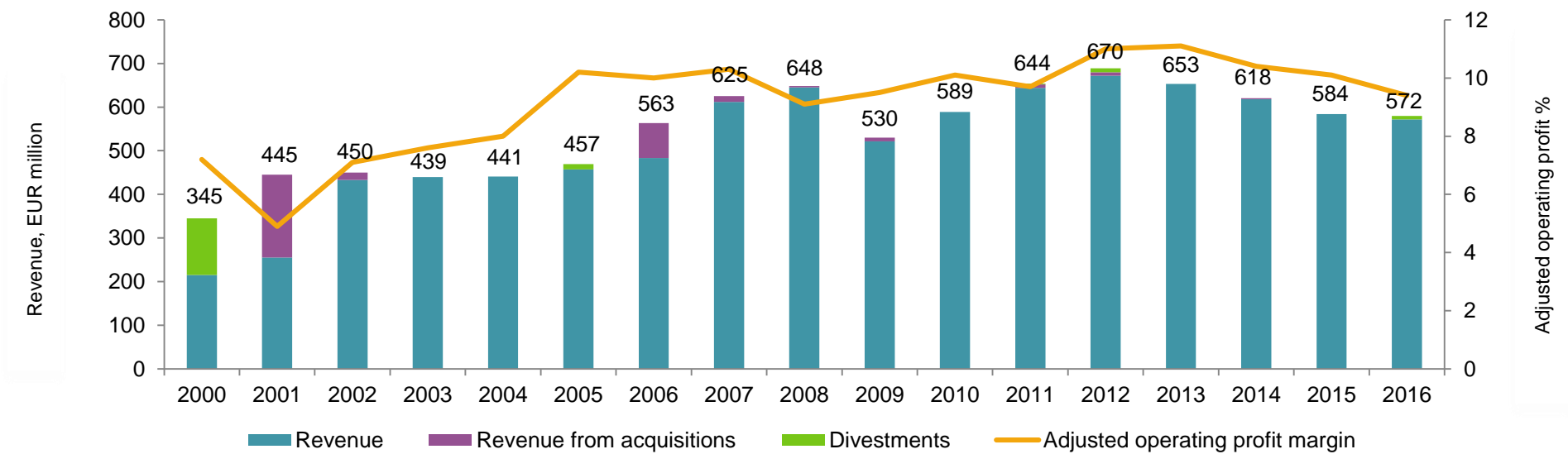


# Long term financial development

## Development of sales and profitability 2000–2016

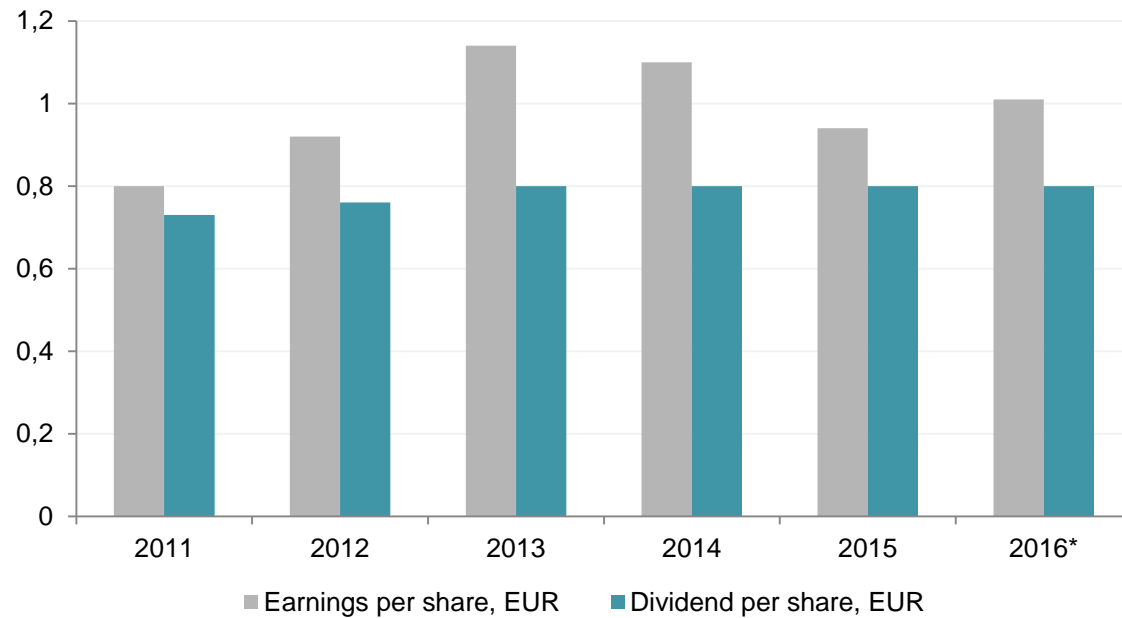
### Major acquisitions and divestments

|   |   |  |  |
|---|---|--|--|
| <p>Sale of tinting business in 2000<br/>(Revenue ~MEUR 130)</p> | <p>Acquisition of Alcro-Beckers in 2001<br/>(Revenue ~MEUR 190)</p> | <p>Acquisition of Kraski Teks in 2006<br/>(Revenue ~MEUR 80)</p> | <p>Acquisition of Zorka Color in 2011<br/>(Revenue ~MEUR 16)</p> |
|---|---|--|--|





# Stable dividend outflow



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

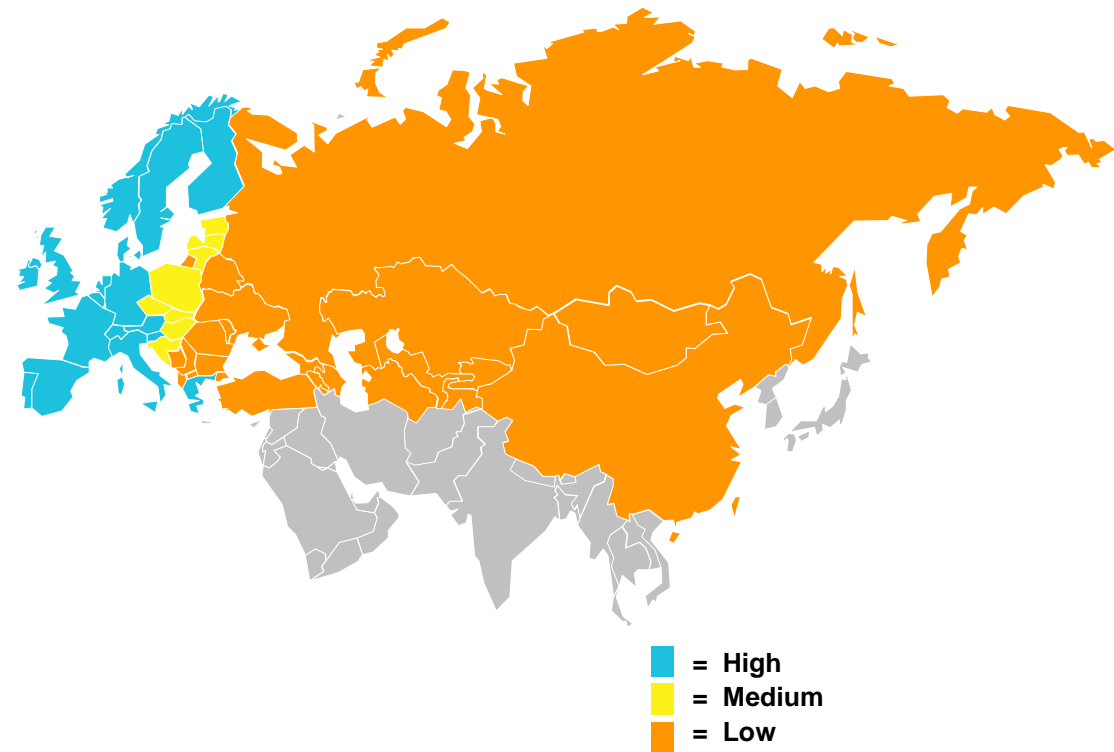
- Dividend policy: Target is to pay at least 40 % of annual adjusted net income as dividends
- Historical dividends have corresponded to approximately 70-90% of the adjusted net income

# 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

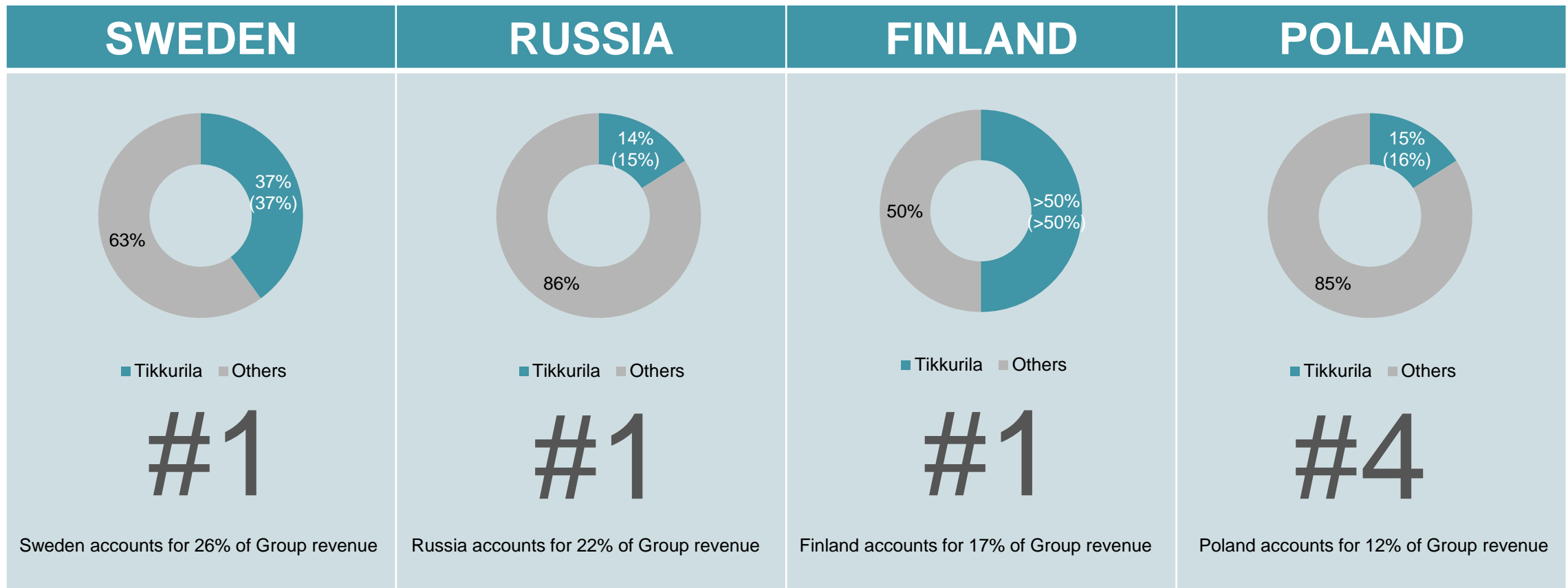
## Estimated paint consumption per capita\*



\* Paint consumption source: Management estimates, IPPIC



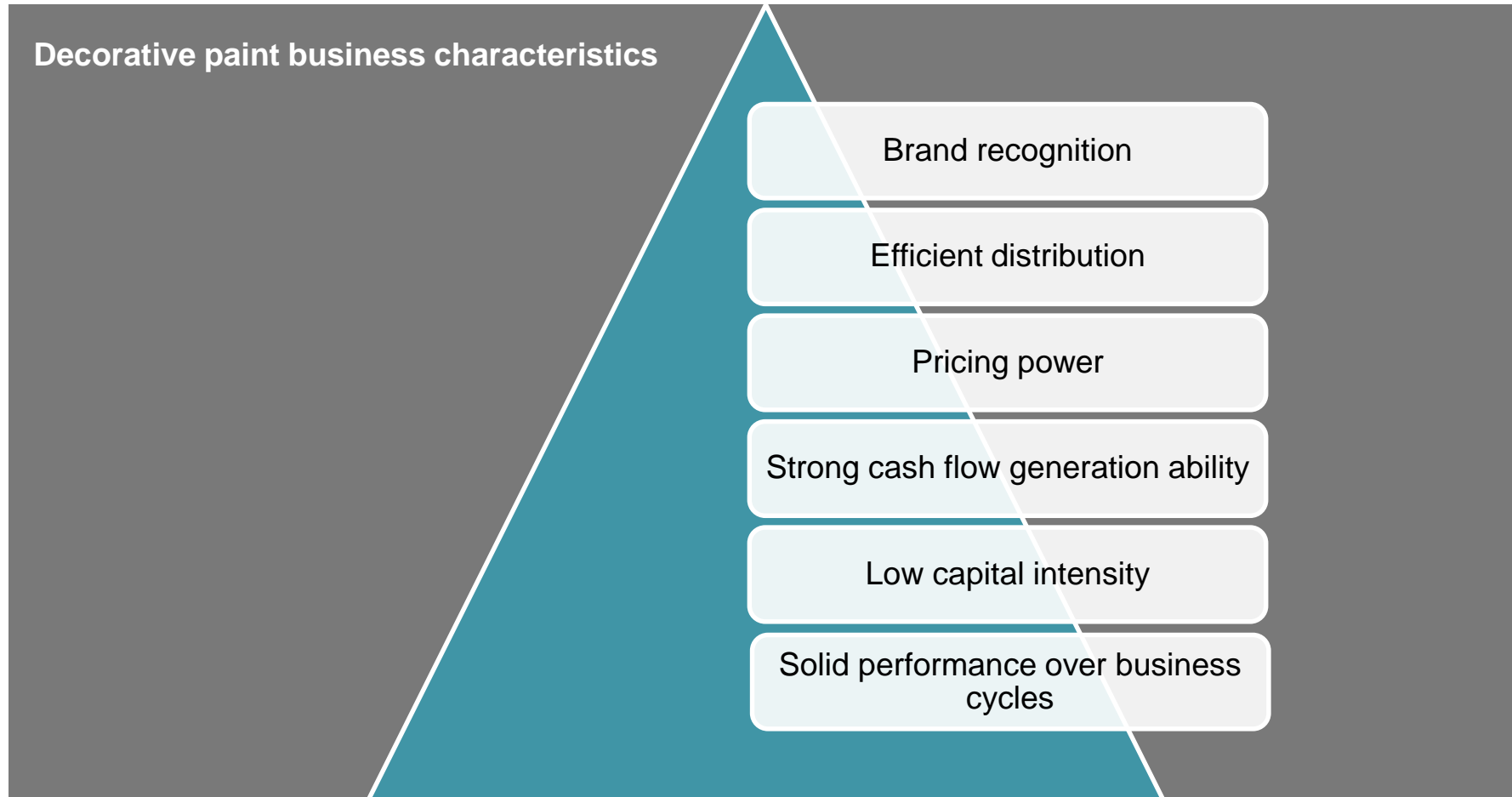
# Tikkurila market shares in decorative paints in key markets in 2016



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



# Market leader position enables solid business performance





# THE POWER OF COLORS