



# Half year financial report January-June 2018

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.*

# Contents

- Tikkurila in brief
- Development during the review period
- Strategic Business Units
- Proceeding of the efficiency program and strategic actions
- Conclusions and outlook
- Appendix

# Tikkurila in brief

# Tikkurila – Sustainable Nordicism

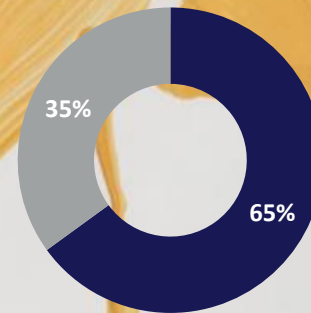
Tikkurila is a leading Nordic paint company with expertise that spans decades. We develop premium products and services that provide our customers with quality that will stand the test of time and weather.

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.

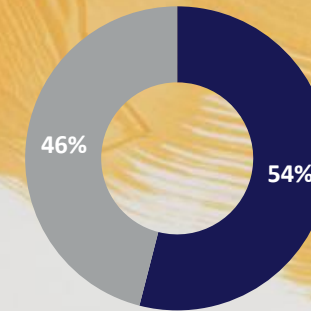
Nordic quality from start to finish since 1862.

Revenue by segment



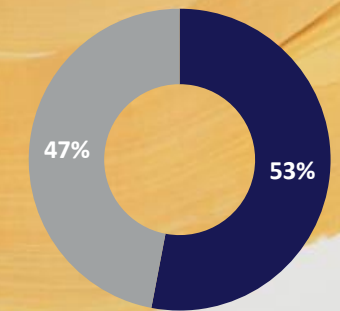
■ SBU West ■ SBU East

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



# Our end-customers

CONSUMERS **50%\***



PROFESSIONALS **35%\***



INDUSTRY **15%**



\*Tikkurila estimate

# Our locations

Production units in 8 countries

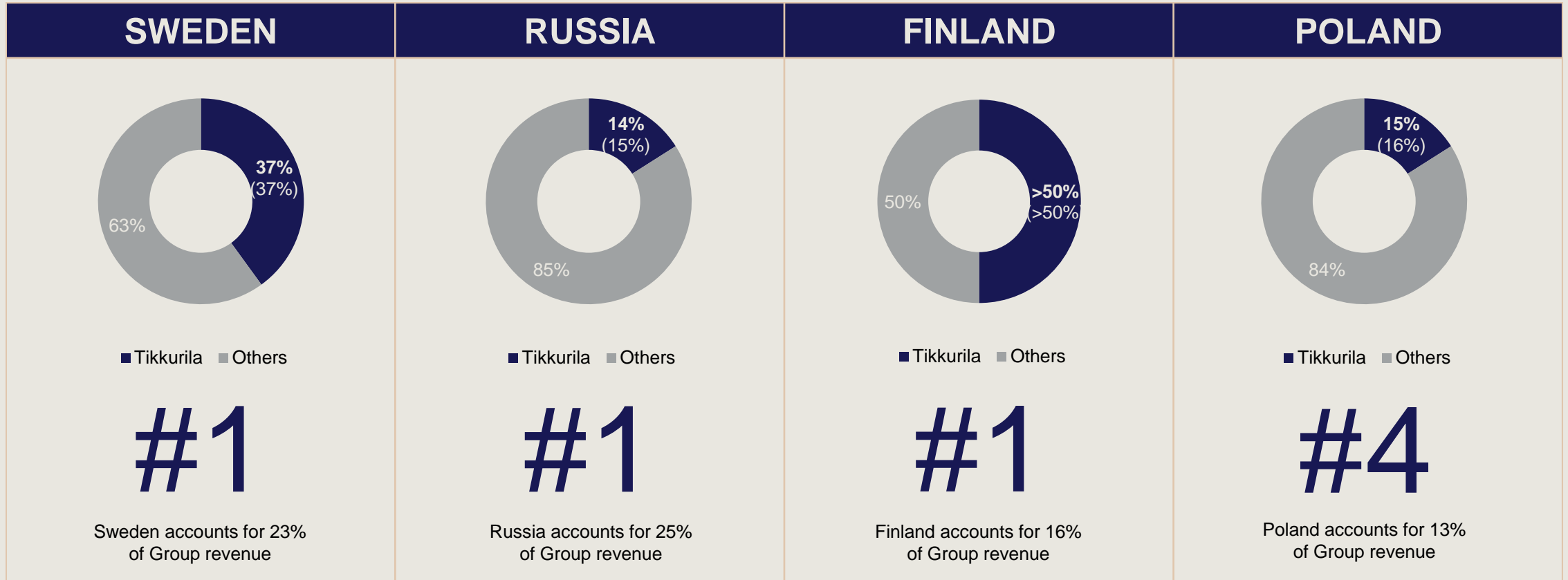
Sales units in 12 countries

Training centers in 10 countries

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



# Tikkurila is the market leader in decorative paints



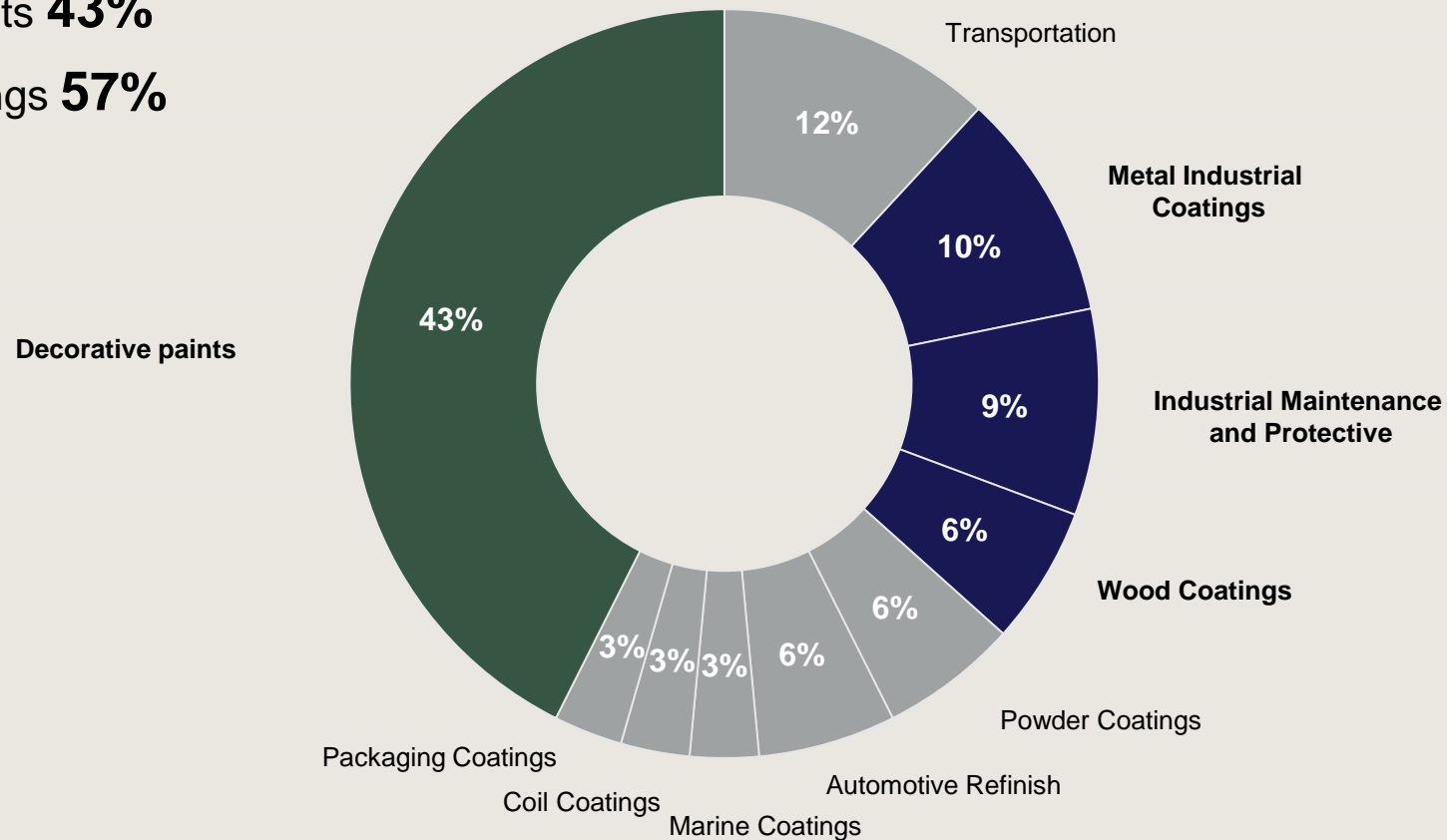
Source: SVEFF (Sweden, value), Chem-Courier (Russia, volume), Association of Finnish Paint Industry (Finland, value), IBP Research (Poland, volume)



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

Decorative paints **43%**

Industrial coatings **57%**



Industrial segments where Tikkurila is present

Source: IPPIC 2015

# Paint consumption and demand structure

## Estimated paint consumption per capita\*



- = High
- = Medium
- = Low

\* Paint consumption source: Management estimates, IPPIC

## 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

# Long term financial development

## Development of sales and profitability 2000–2017

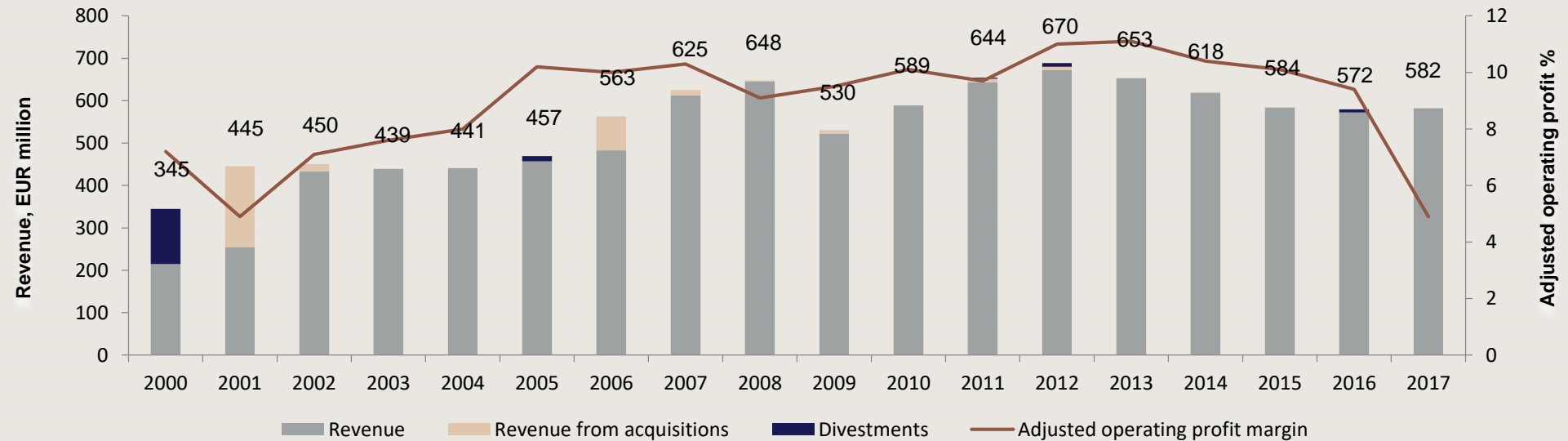
### Major acquisitions and divestments

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

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

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

Acquisition of Zorka Color in 2011  
(Revenue ~MEUR 16)



## MEGATRENDS

- Urbanization
- Climate change
- Growing middle class
- Digitalization

# Tikkurila strategy 2022

## MISSION

Nordic quality from start to finish.



## STRATEGY

We offer competitive surface treatment solutions, and are committed to improving the overall user experience and efficiency of our customers.



## FOCUS AREAS

Pleasant and professional customer journeys.

Unified customer segment specific portfolio.

More efficient use of resources.



## VISION

Surfaces that make a difference.



## SUSTAINABILITY PROMISES

We drive our portfolio towards maximized performance with minimum environmental impact.

We improve and protect air quality.

We drive at better resource efficiency.

We are an active partner in our communities.

## VALUES

We are trustworthy.

We are innovative.

We are professionals.



# Strong and well-established brands

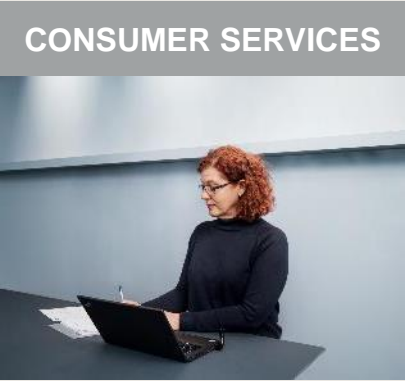
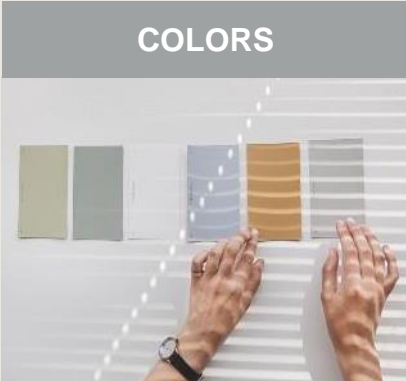


Strategic international brands

Strategic regional or local brands

Tactical regional or local brands

# We help our customers to succeed in surface protection



# Distribution channels

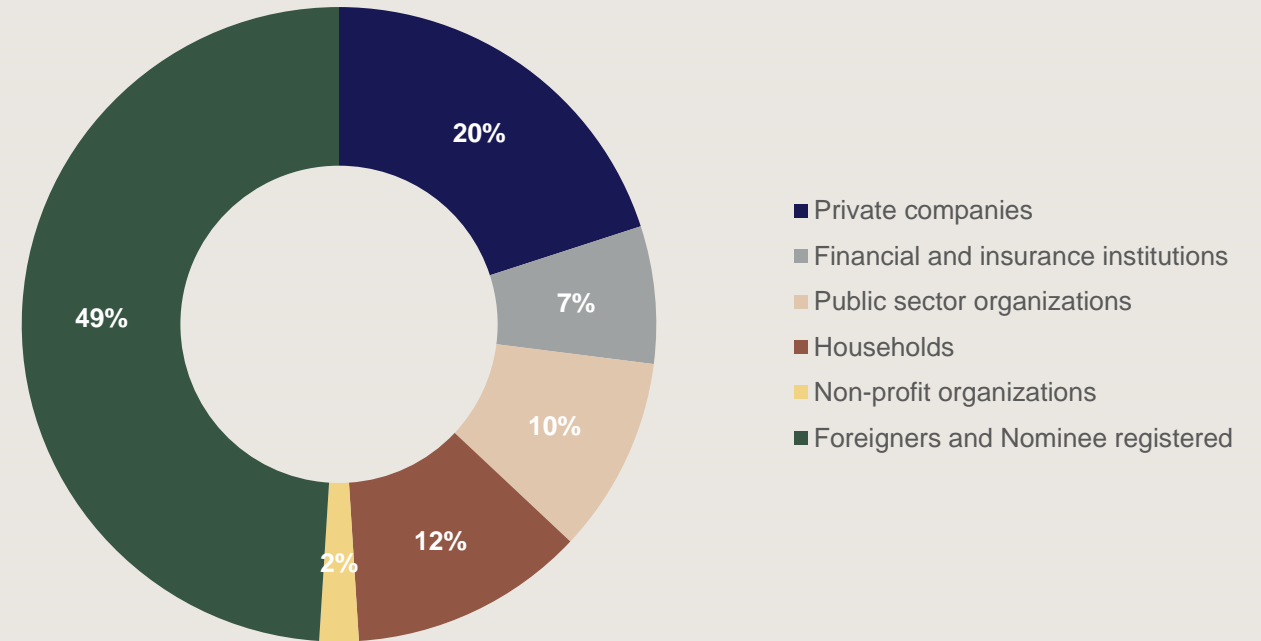


\* Only in some markets  
\*\* Big boxes, specialized paint shops



# Tikkurila's ownership on June 30, 2018

- Number of shareholders ~20,000
- Foreign ownership in Tikkurila has increased
- Largest registered shareholders: Oras Invest Oy (18.1%), Varma (5.7%), and Mandatum (3.7%)





## Development during the review period

# Second quarter highlights

- Euro-denominated revenue decreased by 5%, but grew by 3%, excluding currency effects and divestments.
- Sales volumes increased in all key countries.
- Adjusted operating profit increased by 8%. Fixed expenses decreased. Sales price increases were not sufficient to compensate for the higher raw material costs.
- Efficiency program is proceeding as planned. Additional actions are coming for the latter year-half.

Cost discipline

Volumes

Sales prices

Delivery reliability

Raw material  
inflation

Currencies

## Review period key figures

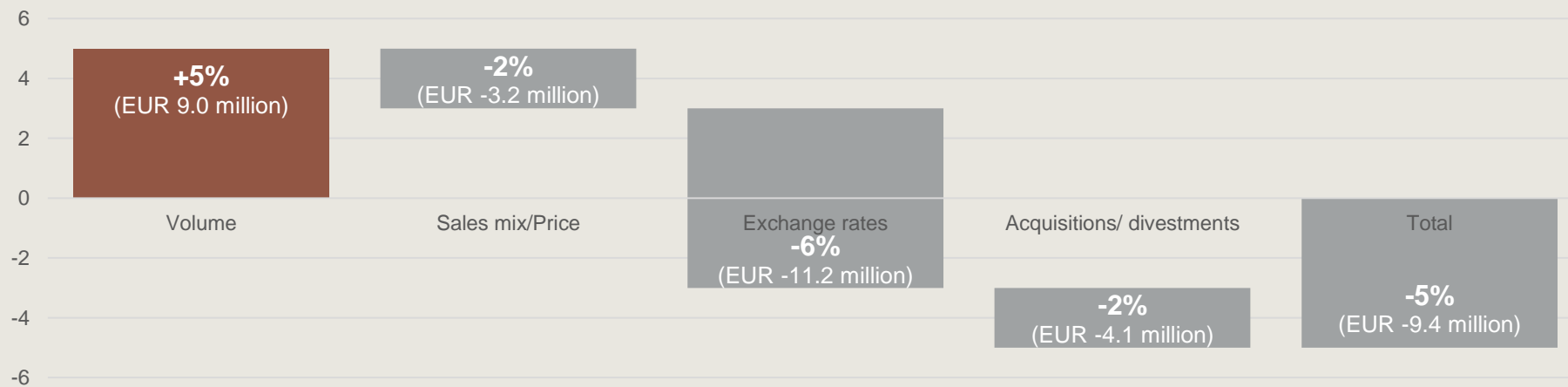
EUR million	4-6/2018	4-6/2017	Change %	1-6/2018	1-6/2017	Change %	2017
Revenue	<b>173.7</b>	183.2	-5.1%	<b>303.8</b>	320.2	-5.1%	582.4
Adjusted operating profit	<b>21.5</b>	20.0	7.8%	<b>25.1</b>	25.2	-0.2%	28.8
Adjusted operating profit, %	<b>12.4%</b>	10.9%		<b>8.3%</b>	7.9%		4.9%
EBIT	<b>21.2</b>	20.0	6.0%	<b>21.1</b>	25.2	-16.1%	19.3
EBIT, %	<b>12.2%</b>	10.9%		<b>7.0%</b>	7.9%		3.3%
EPS, EUR	<b>0.35</b>	0.28	22.9%	<b>0.30</b>	0.41	-26.7%	0.24
ROCE, %, rolling	<b>5.0%</b>	12.9%		<b>5.0%</b>	12.9%		6.3%
Cash flow after capital expenditure	<b>-6.5</b>	-33.4	80.6%	<b>-52.1</b>	-63.9	18.5%	4.4
Net interest-bearing debt at period-end				<b>157.3</b>	157.2	0.0%	90.1
Gearing, %				<b>104.6%</b>	83.3%		50.2%
Equity ratio, %				<b>28.1%</b>	34.8%		42.0%
Personnel at period-end				<b>3,030</b>	3,228	-6.1%	3,037

# Revenue: clear headwind from currencies

EUR million	4-6/2018	4-6/2017	Change %	1-6/2018	1-6/2017	Change %
Revenue	173.7	183.2	-5.1%	303.8	320.2	-5.1%

Group's revenue development Q2/2018 vs. Q2/2017

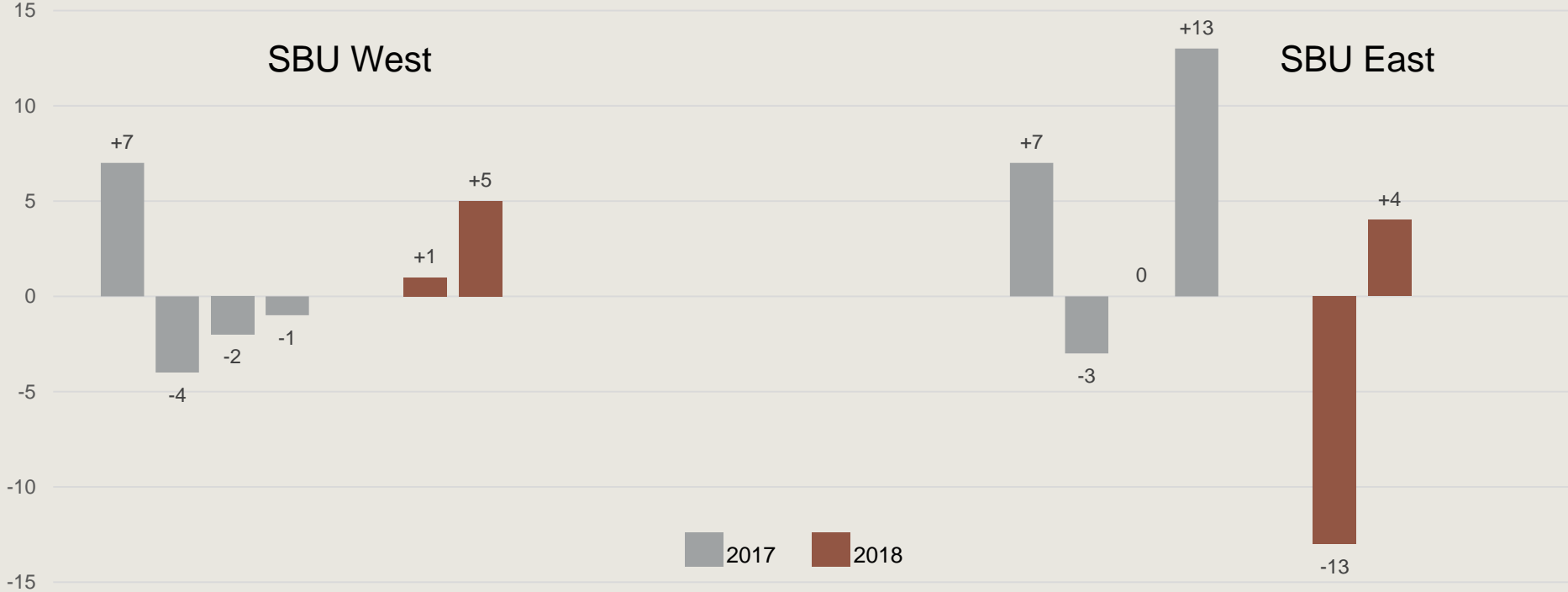
Increase/decrease, %





# Volumes are increasing

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



# Delivery reliability improved, new ERP system brings benefits

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

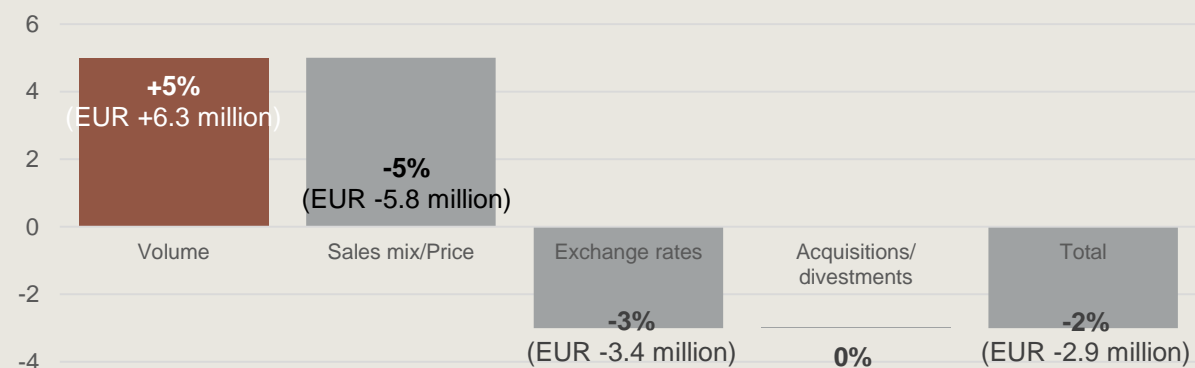
# Strategic Business Units

# SBU West Q2/2018

EUR million	4-6/2018	4-6/2017	Change %	1-6/2018	1-6/2017	Change %	1-12/2017
Revenue	115.1	118.0	-2.5%	215.5	216.9	-0.6%	379.8
Adjusted operating profit	16.2	15.5	4.5%	23.5	22.6	4.1%	18.1
Adjusted operating profit %	14.1%	13.2%		10.9%	10.4%		4.8%

## Revenue development Q2/2018 vs. Q2/2017

Increase/decrease %



## Q2/2018 highlights

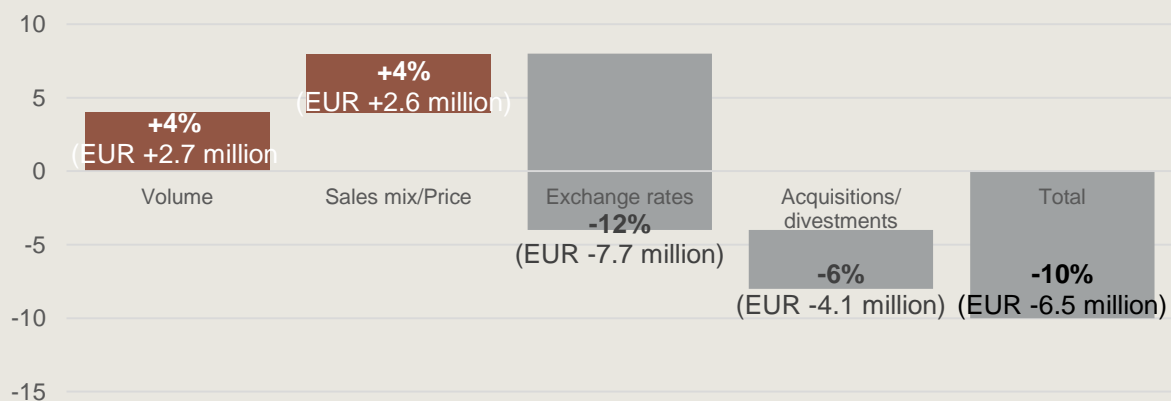
- Revenue remained unchanged excluding the currency effect
- Sales prices were increased but not enough to compensate the raw material inflation
- The unfavorable sales mix was due to distribution channel changes in Sweden and growth of the relative share in professional and industry customers
- Reduced fixed expenses improved profitability

# SBU East Q2/2018

EUR million	4-6/2018	4-6/2017	Change %	1-6/2018	1-6/2017	Change %	1-12/2017
Revenue	58.7	65.2	-10.0%	88.3	103.3	-14.5%	202.6
Adjusted operating profit	6.8	6.4	6.3%	4.1	5.4	-23.6%	15.2
Adjusted operating profit %	11.7%	9.9%		4.7%	5.2%		7.5%

## Revenue development Q2/2018 vs. Q2/2017

Increase/decrease %



## Q2/2018 highlights

- Revenue increased by 8% excluding the currency effects and divestments
- Sales prices were increased but not enough to compensate the raw material inflation
- The relative share of premium products of sales increased
- Increased sales volumes, hikes in sales prices and favorable sales mix development had a positive effect on profitability

# Proceeding of efficiency program and strategic actions

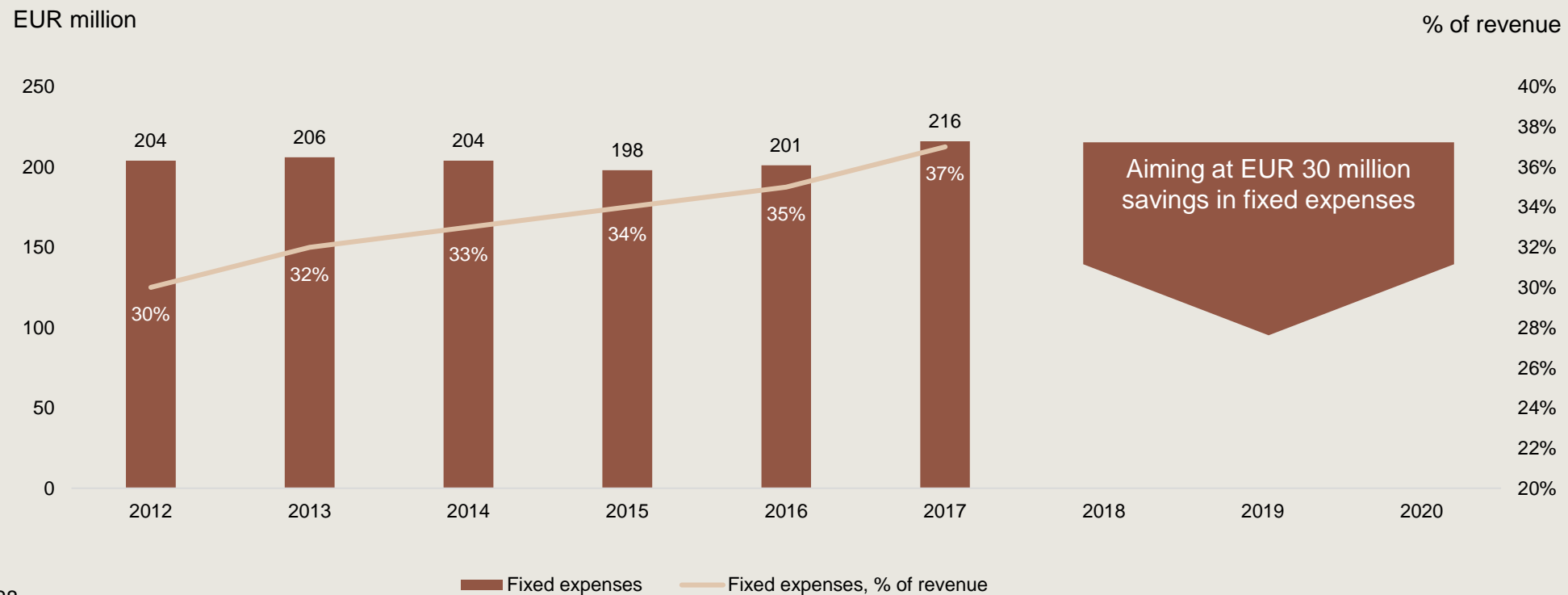


# The way forward: clarity, direction, focus



# Absolute and relative share of fixed expenses of revenue has increased

Development of Tikkurila's fixed expenses and cost savings from the efficiency program



# Program to boost profitability

## 1. Fixed expenses

- Tikkurila's planned headcount reduction will be around 15 percent, i.e. 500 employees, compared to the end of 2017.
- Other fixed expense reduction

## 2. Optimizing the production network

Tikkurila has implemented several actions relating to optimizing production and logistics, and more are planned for the future. The factory project in Russia is progressing according to schedule.

## 3. Harmonizing the portfolio

Optimization of manufacturing formulas, raw materials and SKUs is underway at Tikkurila, the goal is to reduce the number of product titles by half by 2020, including the divestment of business operations.

## 4. Streamlining sourcing

Tikkurila has many opportunities to streamline both direct and indirect purchases. Other goals include reducing committed capital and seeking alternative raw materials and suppliers to boost competitiveness.

## 5. Sales management

The efficiency of sales management will be improved by introducing digital sales monitoring and management solutions, and through the automation of services.

# Difficult actions are needed to improve competitiveness

## Planned personnel reductions

As the result of closing down and divesting certain business operations and other headcount cuts, Tikkurila estimates that its personnel will be reduced by 15 percent, i.e. by 500 employees, compared to the end of 2017.

- Divestments and closing down of businesses -250 employees
- Estimated additional headcount reduction need -250 employees

The reductions are planned for 2018.

Tikkurila will begin the processes relating to the planned reduction in headcount in the forthcoming weeks. Different procedures and schedules will be used depending on the country in question.

# EUR 30 million efficiency program will be implemented in 2018 – benefits will be visible in total in 2019

EUR 10 million in savings, to be realized in 2018 and 2019	EUR 20 million in savings, to be realized in 2019	Continuous improvement
<p>Initiative:</p> <ul style="list-style-type: none"> <li>• Divestment of the Balkan business operations</li> <li>• Closing down the German business operations</li> <li>• Closing down the factory in Sary Oskol, Russia</li> </ul> <p>Costs:</p> <ul style="list-style-type: none"> <li>• Closing down the operations in Germany and planned headcount reductions are estimated to amount to approximately EUR 10 million costs affecting comparability in 2018</li> </ul>	<p>Initiative:</p> <ul style="list-style-type: none"> <li>• All in all around 15% lower headcount in comparison to the year-end 2017, incl. divestments</li> <li>• Other fixed expense reduction</li> <li>• Improved sales management efficiency</li> <li>• Streamlining sourcing</li> <li>• Optimization of the portfolio (raw materials, formulas, SKUs)</li> </ul>	<p>Initiative:</p> <ul style="list-style-type: none"> <li>• Optimization of the production network</li> <li>• Improved sales management efficiency</li> <li>• Streamlining sourcing</li> <li>• Optimization of the portfolio (raw materials, formulas, SKUs)</li> <li>• Process development and enhanced automatization</li> </ul>



# Efficiency program and strategy progressing

1. Structural and organizational change
2. Plan to construct a new factory in the St. Petersburg
3. Initiating the efficiency program
4. Updated strategy

**2017**

1. Divestment of the Balkan business operations
2. Initiating the optimization process of raw materials, formulas and SKUs
3. Clarification of roles and responsibilities

**H1 2018**

1. Closing down the German business operations
2. Closing down a factory in Russia (Stary Oskol) and other optimization of the production network
3. Planned Group-wide headcount reductions
4. Streamlining sourcing
5. Improving sales management efficiency
6. Unified culture

**H2 2018**

**STRATEGY**  
“Surfaces that make a difference”

1. Strategic choices (taking changes in the operating environment into account)
2. Innovations
3. Continuous improvement
4. Sustainability in the core of our operations

**2019 →**



# 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.

# Focusing on improving customer experience, differentiating with successful end-result

Customer segment	Share of revenue <sup>1</sup>	Key market trends	actions conducted in 2018
<b>CONSUMERS</b> 	<b>50%</b>	<ul style="list-style-type: none"> <li>• Simplicity, easiness, digital solutions</li> <li>• Sustainability</li> <li>• Share of private labels increasing</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing customer understanding</li> <li>• Updating brand strategies</li> <li>• Integrated marketing campaign to support exterior paint growth</li> <li>• Positioning and packaging renewal (Beckers)</li> <li>• Developing and implementing new retail concepts</li> </ul>
<b>PROFESSIONALS</b> 	<b>35%</b>	<ul style="list-style-type: none"> <li>• Volume growing due to urbanization and growing middle class</li> <li>• Higher price sensitivity</li> <li>• New generation painters, digital solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing customer understanding through customer segmentation</li> <li>• Clarifying ProClub service concept</li> <li>• Launching renewed mineral façade products</li> <li>• Launching new façade 760 color collection</li> </ul>
<b>INDUSTRY</b> 	<b>15%</b>	<ul style="list-style-type: none"> <li>• Metal infrastructure, PC (protective coatings) and power generation demand growing</li> <li>• Certified painting systems required</li> <li>• High price competition and complex customer needs in general Industry</li> <li>• OEM and interior wood segments</li> </ul>	<ul style="list-style-type: none"> <li>• Developing distribution network</li> <li>• Developing key accounts</li> <li>• New functional coatings (fire protection, anti-corrosion, weather durability)</li> </ul>

1) Management estimate

# 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.



# Conclusions and outlook

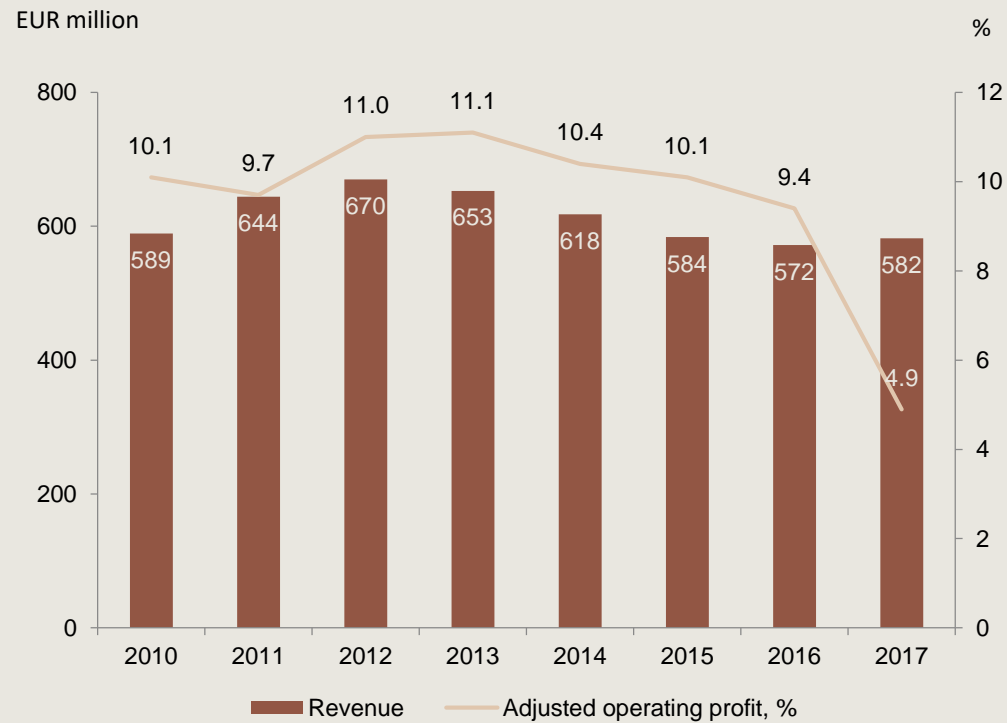


# Conclusions

- Program to boost profitability is proceeding as planned, significant actions planned for the latter year-half
- Market outlook is fairly good for the rest of the year, positive volume development is expected to continue
- Raw material prices are anticipated to continue to rise, we will continue to increase our own sales prices

# Guidance for 2018 intact

## 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 housing market. Economic growth is anticipated to continue in Tikkurila's key markets and consumer confidence is high. The importance of professional segment is on the rise which will affect the sales split of the Tikkurila Group. 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 during the remainder of 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.

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



# Appendix

# Tikkurila Strategic Business Units (SBU)

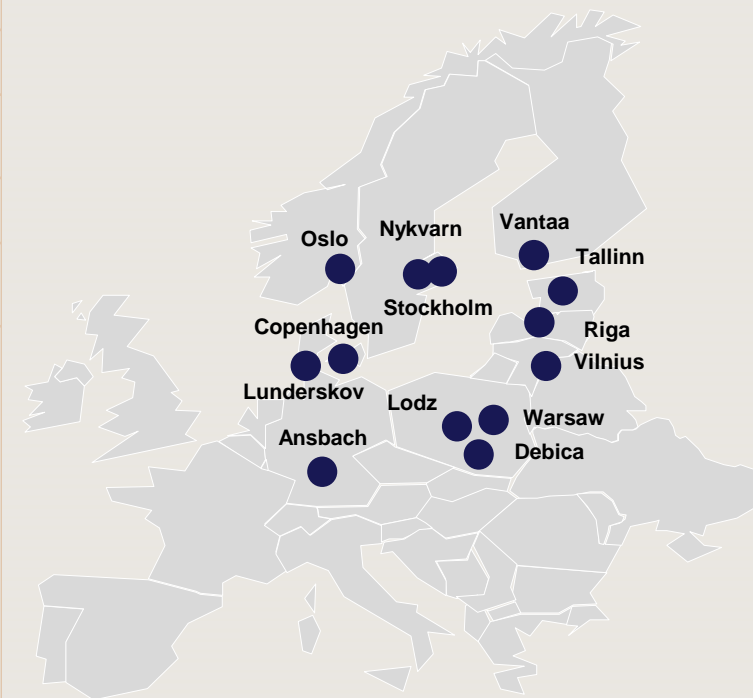
	SBU West	SBU East
Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania	Russia, Central Asian countries, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
Production sites	Nykvarn, Sweden      Lunderskov, Denmark Vantaa, Finland Debica, Poland Ansbach, Germany Tallinn, Estonia	St. Petersburg, Russia Stary Oskol, Russia Almaty, Kazakhstan
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

<b>Operational area</b>	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania
<b>Revenue 2017</b>	EUR 379.8 (395.2) million, 65% of Group
<b>Adjusted operating profit 2017</b>	EUR 18.1 (45.3) million, 54% of Group*
<b>Employees</b>	1,605 (at year-end)
<b>Production sites</b>	Nykvarn, Sweden; Vantaa, Finland; Debica, Poland; Ansbach, Germany; Tallinn, Estonia; Lunderskov, Denmark
<b>Development in West</b>	<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

<b>Operational area</b>	Russia, Central Asian countries, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
<b>Revenue 2017</b>	EUR 202.6 (176.8) million, 35% of Group
<b>Adjusted operating profit 2017</b>	EUR 15.2 (13.4) million, 46% of Group*
<b>Employees</b>	1,409 (at year-end)
<b>Production sites</b>	St. Petersburg, Russia (3) Stary Oskol, Russia 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
<b>2018</b>	Divestment of Serbia and Macedonia

\* Excluding Group items



# Investor and media contacts



**Elisa Markula**  
CEO



**Jukka Havia**  
CFO



**Minna Avellan**  
Director, Communications  
and Investor Relations  
[minna.avellan@tikkurila.com](mailto:minna.avellan@tikkurila.com)  
Tel. +358 40 533 7932





NORDIC QUALITY FROM START TO FINISH SINCE 1862.