



TIKKURILA

# Welcome to Tikkurila's Mid Quarter Call with Danske Bank

*The lines will be opened at 14.30.*

17 September 2020



# Tikkurila in brief

Tikkurila is a leading Nordic paint company with expertise that spans decades. We operate in eleven countries and have 2,700 dedicated professionals. We have seven production sites in six countries. In 2019, our revenue totaled EUR 564 million. The company is listed on Nasdaq Helsinki. Nordic quality from start to finish since 1862.

## KEY FIGURES (2019)

<b>Revenue</b> EUR 564 M +0.4% yoy
<b>Adj. EBIT</b> EUR 46 M +19.5% yoy
<b>ROCE</b> 15.4% +6.1%-p yoy
<b>Gearing</b> 45.6% -11.4%-p yoy

## REVENUE BY REGION (2019)

<b>RUSSIA</b> (EUR 144M, +7%)
<b>SWEDEN</b> (EUR 119M, -7%)
<b>FINLAND</b> (EUR 91M, -3%)
<b>POLAND</b> (89M, +6%)
<b>OTHER</b> (121M, +0%) 40+ countries

## REVENUE BY MARKET SEGMENT

<b>DECORATIVE</b> (83%)
<b>INDUSTRIAL</b> (17%)

## CORE PREMIUM BRANDS



## EXAMPLES OF CUSTOMER CHAINS



TOP10 customers equal 1/3 of revenue

# We have focused on the customer segments where we are the strongest

Consumers



Professional painters



Wood industry



OEM



Protective coatings



Decorative paints

83% of revenue\*

Industrial paints

17% of revenue\*

Core brands  
in decorative



Core brand  
in industry



# Tikkurila has been the consolidator in the Baltic Sea region



COUNTRIES WITH  
TIKKURILA'S OWN  
OPERATIONS

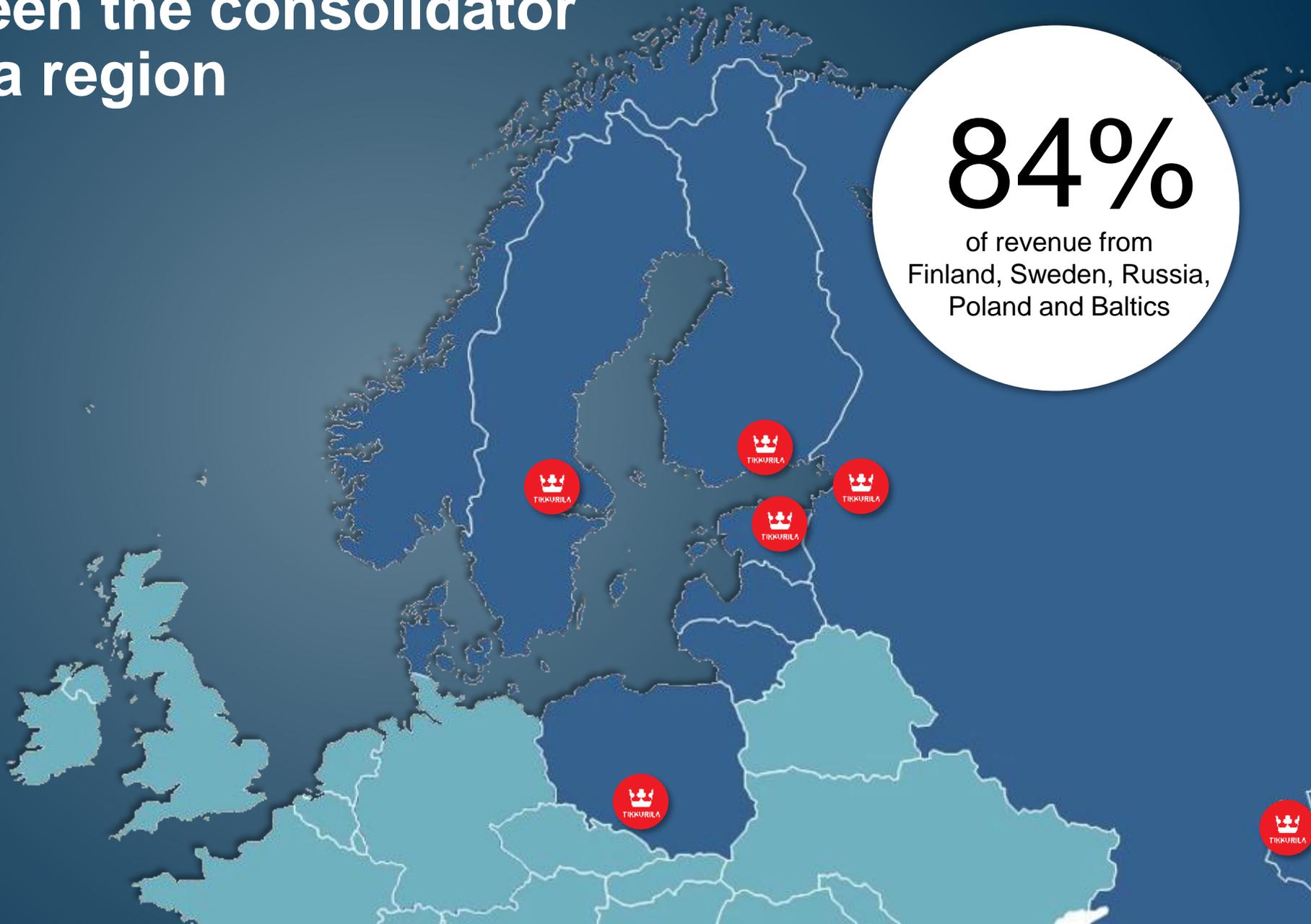


TIKKURILA  
PRODUCTION UNITS  
(7 sites in 6 countries)

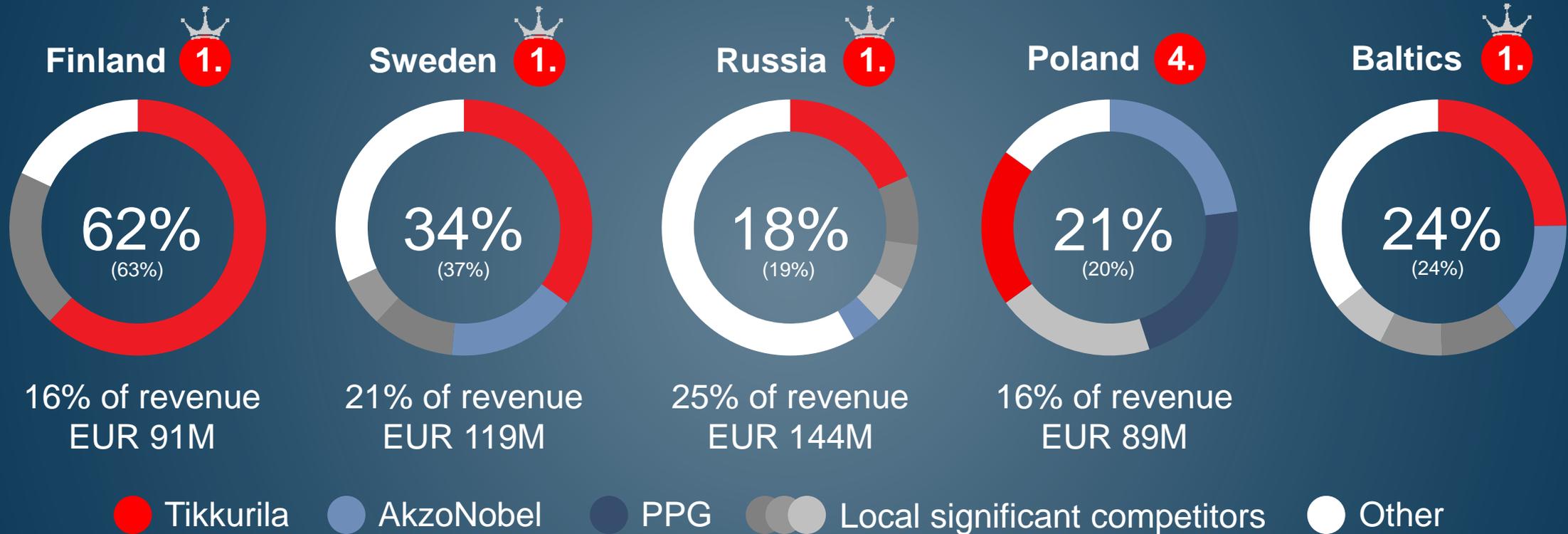
*In total Tikkurila's  
products are sold  
to 40+ countries*

84%

of revenue from  
Finland, Sweden, Russia,  
Poland and Baltics



# We are the market leader in decorative paints in most of our key markets



**In industrial paints our market share is ~15-17 %**

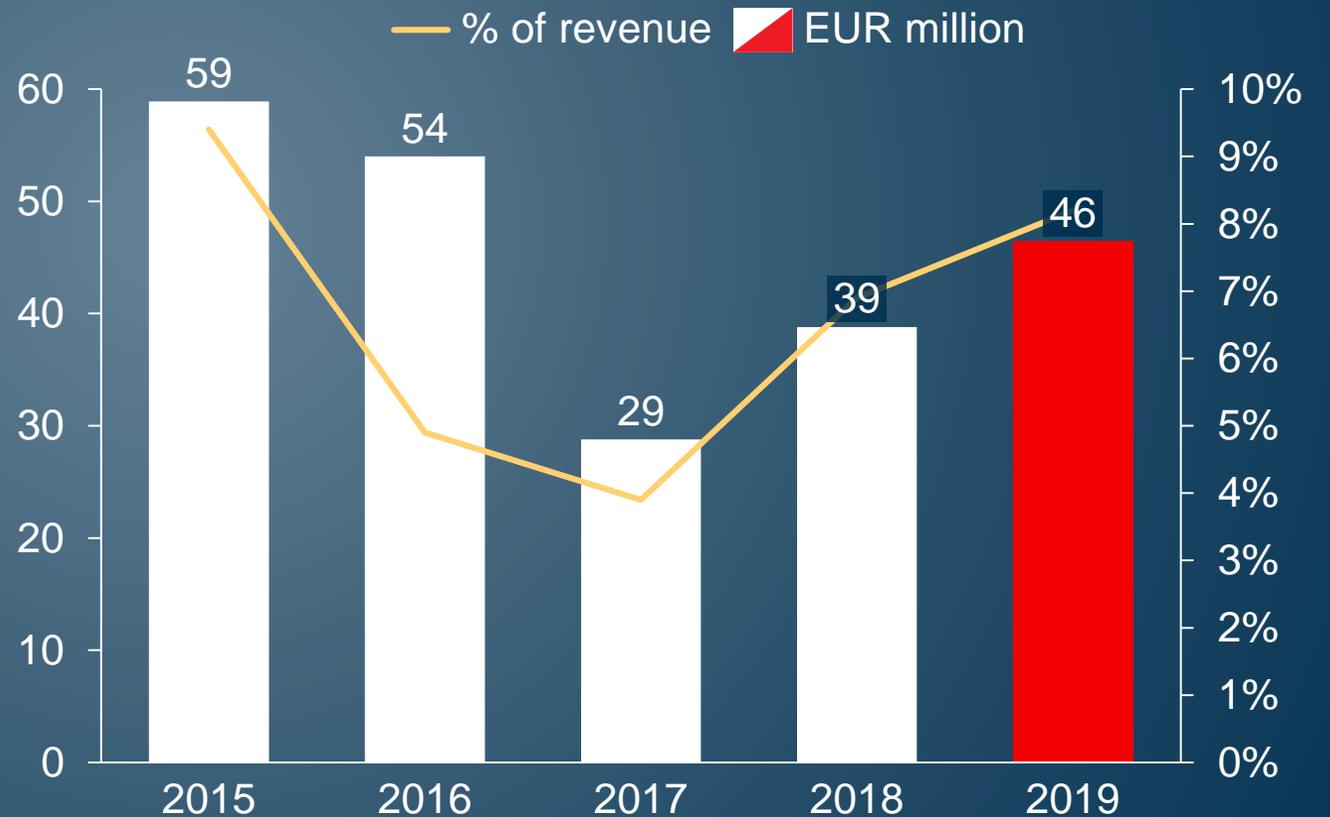
Sources: VTY, SVEFF, Chem Courier, GFK, company financials  
 Data: Market shares in value for 2019 (comparison 2018)

# Tikkurila has made a clear turnaround

## Challenges faced in 2017-2018

- Global raw material inflation 
- Increasing currency fluctuation in key markets 
- Failed ERP implementation 
- “Holding company” style management culture 

## Adjusted EBIT (MEUR)



# Tikkurila is committed to creating value by improving efficiency and accelerating organic growth

## This is Tikkurila

Market leader in North-Eastern Europe. Among TOP20 globally.

Well-known and preferred premium brands

Skillful employees with close to 160 years knowledge in surfaces

## This is our strategy

**INCREASING EFFICIENCY**

**ACCELERATING PROFITABLE GROWTH**

**CREATING A STRONG "ONE TIKKURILA" CULTURE**

## This is our target

### Revenue Growth

Faster than home market growth

### Profitability

EBIT > 12%

### ROCE

> 20%

### Gearing

< 70%

# We continue to systematically execute our strategy action plan towards long-term financial target Adjusted operating profit >12%

Adjusted operating profit,  
% of revenue



<p><b>Portfolio</b></p> <ul style="list-style-type: none"> <li>Tikkurila continued to reduce complexity, targeting a 50% reduction in sales articles by the end of this year, compared to 2016. Target will be achieved by the end of this year.</li> </ul>	<p><b>Growth</b></p> <ul style="list-style-type: none"> <li>New product's share of revenue increased.</li> <li>Marketing campaigns refocused in all markets to support the recovery of demand.</li> </ul>	<p><b>Sales</b></p> <ul style="list-style-type: none"> <li>Focus premium products and mix.</li> <li>Price increases continued as planned.</li> <li>Active margin management in each business.</li> <li>Sales split in two: West and East divisions.</li> </ul>	<p><b>Operations</b></p> <ul style="list-style-type: none"> <li>As announced on 29 April 2020, a small solvent-borne industrial paint production unit to be closed in St. Petersburg, as Tikkurila continues to focus on water-borne paints</li> </ul>	<p><b>Fixed costs</b></p> <ul style="list-style-type: none"> <li>From cost reduction to active cost management.</li> <li>Successful implementation of temporary savings related to the Covid-19 pandemic.</li> </ul>	<p><b>Raw materials</b></p> <ul style="list-style-type: none"> <li>Successful negotiations with raw material and packaging suppliers, as the company continued to seek for cost savings in sourcing.</li> </ul>
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# The share of **water-borne** paints grows especially in decorative paints



SHARE OF **ECO-LABELED\***

43%  
(2019)

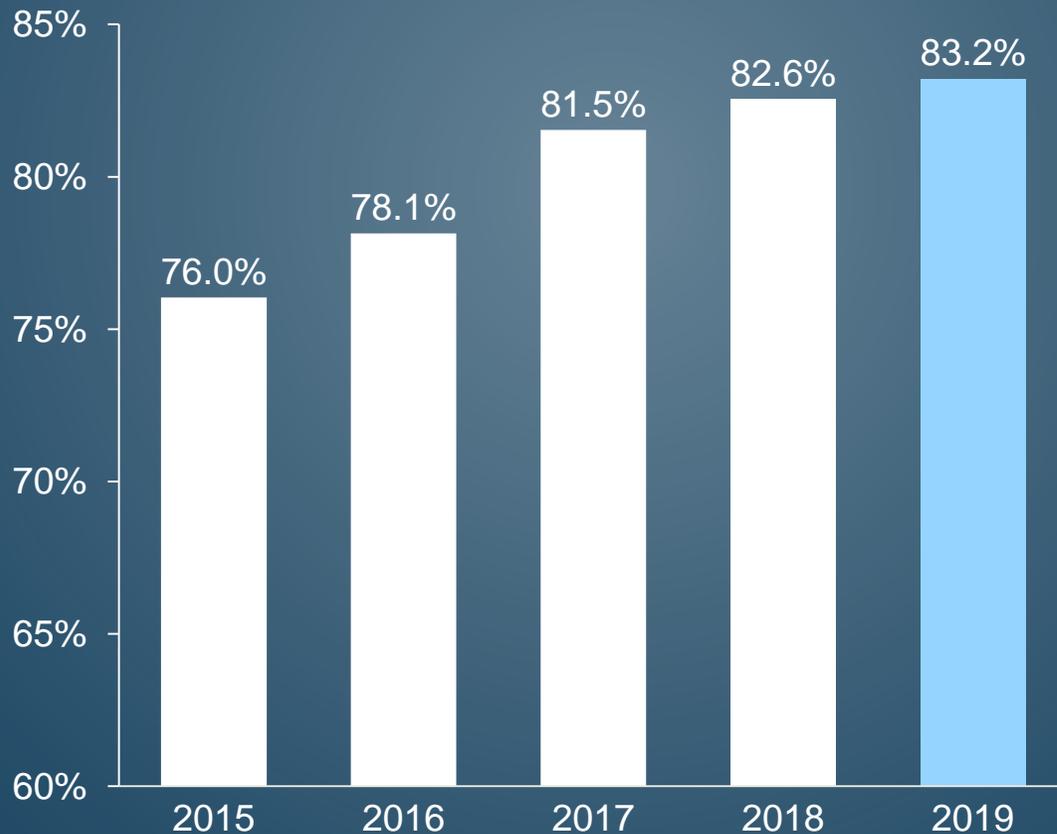


SHARE OF **WATER-BORNE\***

83%  
(2019)



The share of water-borne paints as a % of Tikkurila's revenue from decorative paints



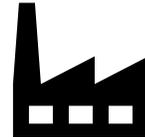
\* % of decorative paint revenue

# How has Covid-19 impacted Tikkurila so far?

*Overall, Tikkurila's second quarter was strong, despite Covid-19.*



**Demand fluctuated rapidly**  
between April-June



**Tikkurila remained  
fully operational\***

Exceptionally  
high sales in  
**consumer**  
driven by DIY  
business

**Professional  
and industry**  
businesses  
were impacted,  
still less than  
expected



**Continued focus on  
health & safety of  
employees, customers  
and partners**

HYVÄ  
OLLA  
KOTONA



The "Stay at home" impact boosted consumer sales towards the end of the quarter, and Tikkurila's marketing efforts were focused to support the trend.

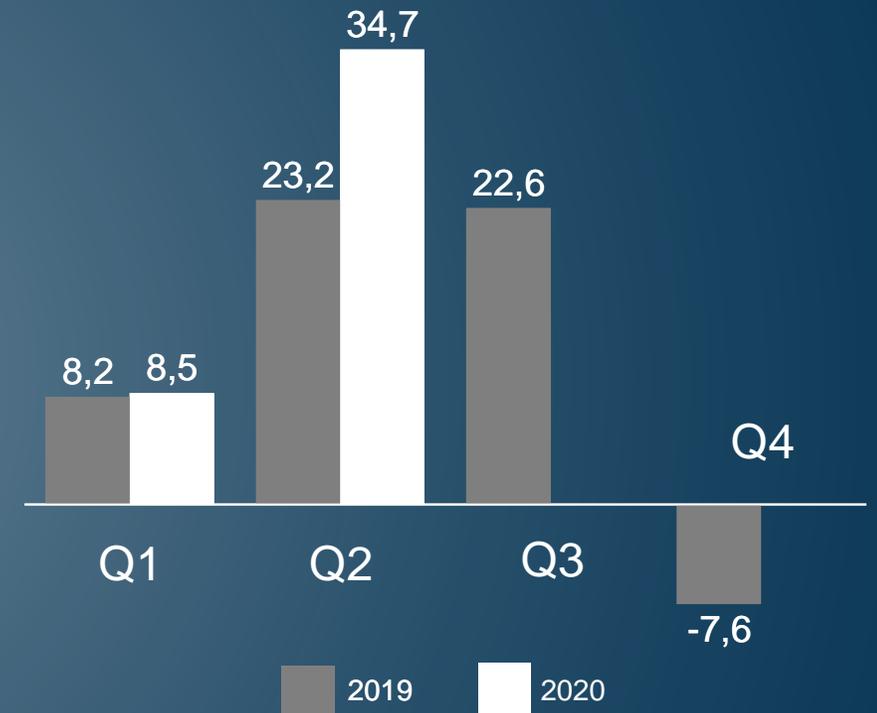
# Demand clearly recovered after the initial Covid-19 related decline



# Key financial takeaways from Q2/2020

- **Revenue increased by +1.3%, and by +4.6% in comparable currencies**
  - Strong growth in Finland, Sweden and Poland
  - Decline in Russia was due to stricter and longer local Covid-19 restrictions
  - In June, revenue was in strong growth in all main markets: +24%, also Russia in clear double-digit growth
  
- **Adjusted operating result clearly improved to EUR 34.7 million (23.2)**
  - Positive price/mix development
  - Continued efficiency actions and temporary savings contributed
  
- **Liquidity and funding position is good**
  - Interest-bearing net liabilities improved to EUR 96.9 million (151.8)
  - Operative cash flow improved

Adjusted operating profit (EUR million)



# Key figures – Tikkurila Group

EUR million	4-6/2020	4-6/2019	Change%	1-6/2020	1-6/2019	Change%	1-12/2019
Revenue	171.8	169.7	+1.3%	304.8	298.8	+2.0%	563.8
Comparable revenue growth <sup>1)</sup>			+4.6%			+4.2%	+1.4%
Operating result (EBIT)	33.1	21.2	+56.2%	41.7	29.1	+43.3%	43.9
Operating result margin, %	19.3%	12.5%		13.7%	9.7%		7.8%
Adjusted operating result	34.7	23.2	+49.2%	43.2	31.4	+37.6%	46.4
Adjusted operating result margin, %	20.2%	13.7%		14.2%	10.5%		8.2%
Net result for the period	27.0	16.1	+67.5%	30.8	23.5	+30.9%	33.2
Earnings per share (EPS), EUR*	0.61	0.37	+67.6%	0.70	0.53	+30.9%	0.75
Interest-bearing net liabilities at period-end				96.9	151.8	-36.2%	78.4
Cash and cash equivalents				100.8	34.2	+194.9%	47.0
Gearing, %				55.8%	94.2%		45.6%
ROCE, %				20.5%	12.2%		15.4%
Cash flow after capital expenditure	11.4	-12.0	+194.9%	-5.9	-30.1	+80.2%	52.7

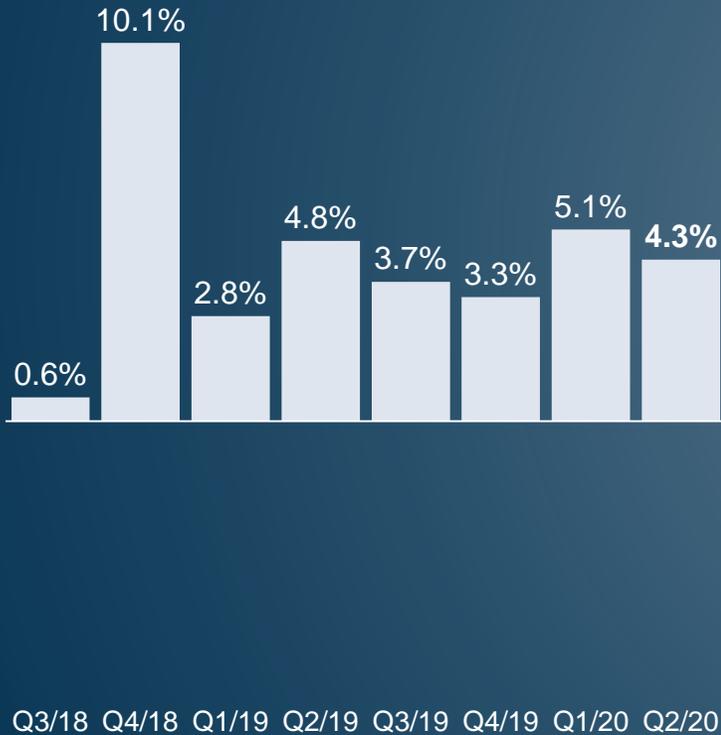
The effects of various factors on revenue, Q2/20 vs Q2/19



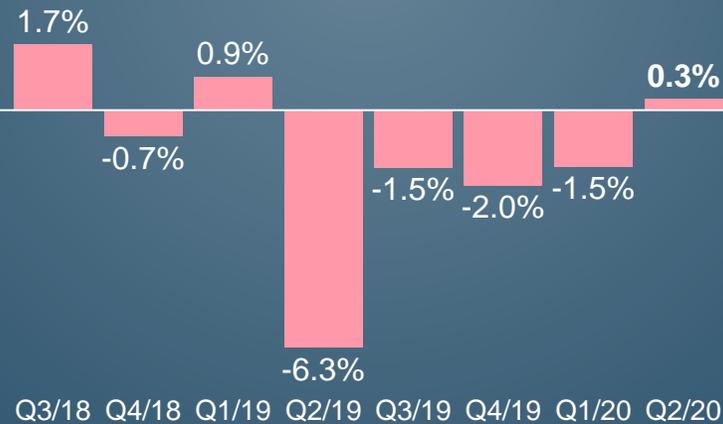
1) Comparable revenue excludes currency effects, divestments and closures.

# Value continues to drive Tikkurila's revenue, while currencies had a clear negative impact

Impact of price/mix on revenue



Impact of volume on revenue



Impact of currencies on revenue



# The initial impact of Covid-19 restrictions clearly differed regionally, but recovery was strong in all main countries



## Impact on society & commerce

- Very tight restrictions
- **Curfews** imposed in major cities, and most retail **stores closed** until **end of May**
- GDP 2020 forecast: -6%

- No tight restrictions, **voluntary recommendations**
- GDP 2020 forecast: -5%

- Tight restrictions, but **shops remained open** and consumer mobility allowed
- GDP 2020 forecast: -6%

- Tight restrictions, but **shops remained mostly open**, with **limitations** (opening hours, number of customers)
- GDP 2020 forecast: -5%

## Impact on Tikkurila

Q2 revenue, growth, %

-17%

+8%

+18%

+8%

H1 revenue, growth, %

-3%

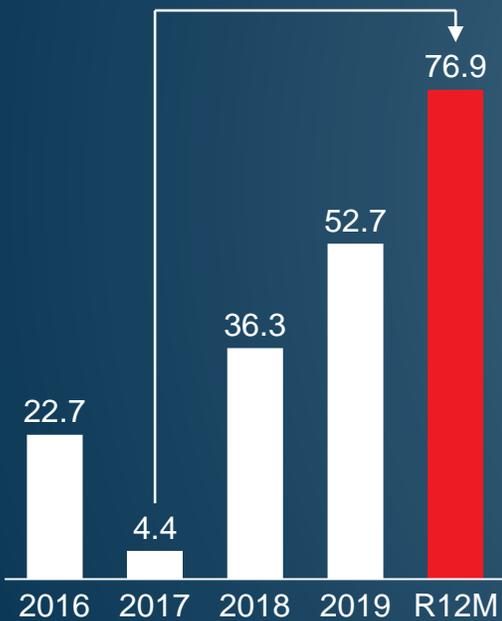
+4%

+11%

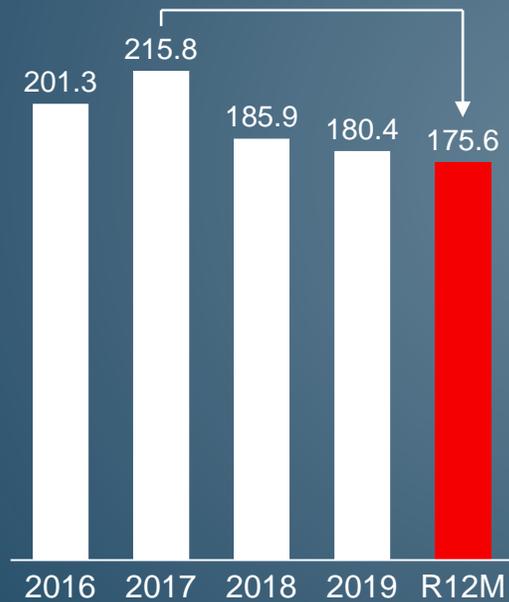
-0%

# Key indicators continued to develop positively

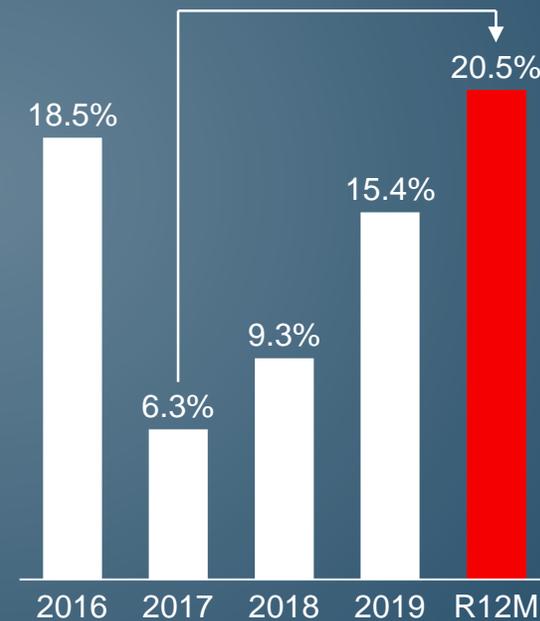
**Cash flow after capital expenditure**  
EUR million, Rolling 12m



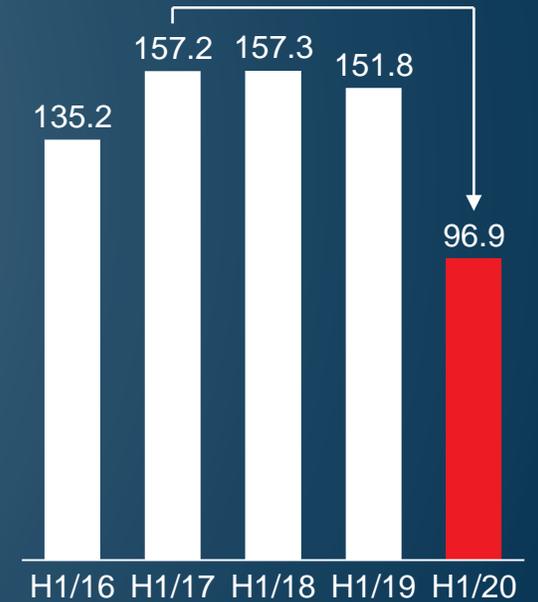
**Fixed costs**  
EUR million  
Rolling 12m



**ROCE**  
%  
Rolling 12m



**Net interest-bearing liabilities**  
EUR million



2016-2018 excluding IFRS 16,  
2019-2020 including IFRS 16

Tikkurila awarded a **silver rating** from EcoVadis: Tikkurila is among the **top 9%** of companies in this industry.

Press release August 8, 2020



# Differing trends in end-customer segments

83% of revenue\*

17% of revenue\*

## Consumers

## Professional

## Industry



- ↑ Consumers spent more time and money at home: **DIY growth**
- ↑ **Online activity and ecommerce**
- ↑ Currently, **no restrictions** on store opening hours in core markets

- ↑ Professional business **also recovered in June**, in most core markets
- ↓ **Mobility of professional painters** within and across borders

- ↓ Weak macroeconomic development has decreased demand in the **metal industry**
- ↑ More local **wood industry** has remained in growth

# Visibility forward remains weak

- Extraordinary demand in consumer paints expected to normalize



**Demand expected to continue to fluctuate**



**Consumer demand expected to normalize after extraordinary Q2**



**New construction projects impacted by uncertainty**



**New Covid-19 waves are coming, until vaccination**

**Macroeconomic uncertainty expected to impact especially our B2B business**

**Forecasted\* GDP decline in 2020**



-6%



-6%



-5%



-5%

\*Sources for GDP growth rates: Russia (World Bank, June 2020, Global Economic Prospects), Finland, Poland and Sweden (European Commission, Summer 2020 Economic Forecast, 7 July 2020)

# Tikkurila restores profitability guidance for 2020 following a strong first half year

- **Adjusted operating result is expected to continue to improve (2019: EUR 46.4 million)**
- **Due to expected fluctuations in demand in all segments, Tikkurila will not give guidance for the revenue for 2020.**

## Assumptions behind the guidance

- Tikkurila withdrew its guidance for 2020 on 27 March 2020 due to increased uncertainty and weakened visibility, as the global coronavirus pandemic (Covid-19) and the related local restrictions were rapidly changing Tikkurila's business environment.
- During the second quarter, demand fluctuated rapidly and significantly in Tikkurila's core markets but, overall, the quarter was strong. The various impacts of Covid-19 on Tikkurila during the second quarter have been described in more detail under relevant segments of this half year financial report.
- However, uncertainties remain concerning the development of demand for paint as well as the general macroeconomic development. Tikkurila expects demand for decorative paints to normalize after the exceptionally strong ending of the second quarter. Also, even if the recovery was also visible in the professional and industry paints at period-end, these businesses are expected to continue to be impacted by the forecasted negative GDP development in all key markets. In decorative paints, customers place their orders at a relatively short notice. Thus, any forecasting can only be done based on current demand and visibility remains weak.

**Thank you! Questions?**