



TIKKURILA

# Financial Statement Release January–December 2014

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
- Conclusions and outlook
- Appendix



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# Tikkurila in brief

# Tikkurila in brief

## Tikkurila in a nutshell

### Customers:

Consumers and professionals

### Market position:

Leading market position in decorative paints in Finland, Sweden, Russia and the Baltic countries, one of the leading in Poland

### Market area:

Northern Europe, Central Eastern Europe, Russia and other CIS countries, Ukraine

### Products and services:

Decorative paints, industrial wood and metal coatings, customer training, comprehensive advisory service (e.g. Customer hotline), Designer and Contractor Pool etc.

## Tikkurila's locations

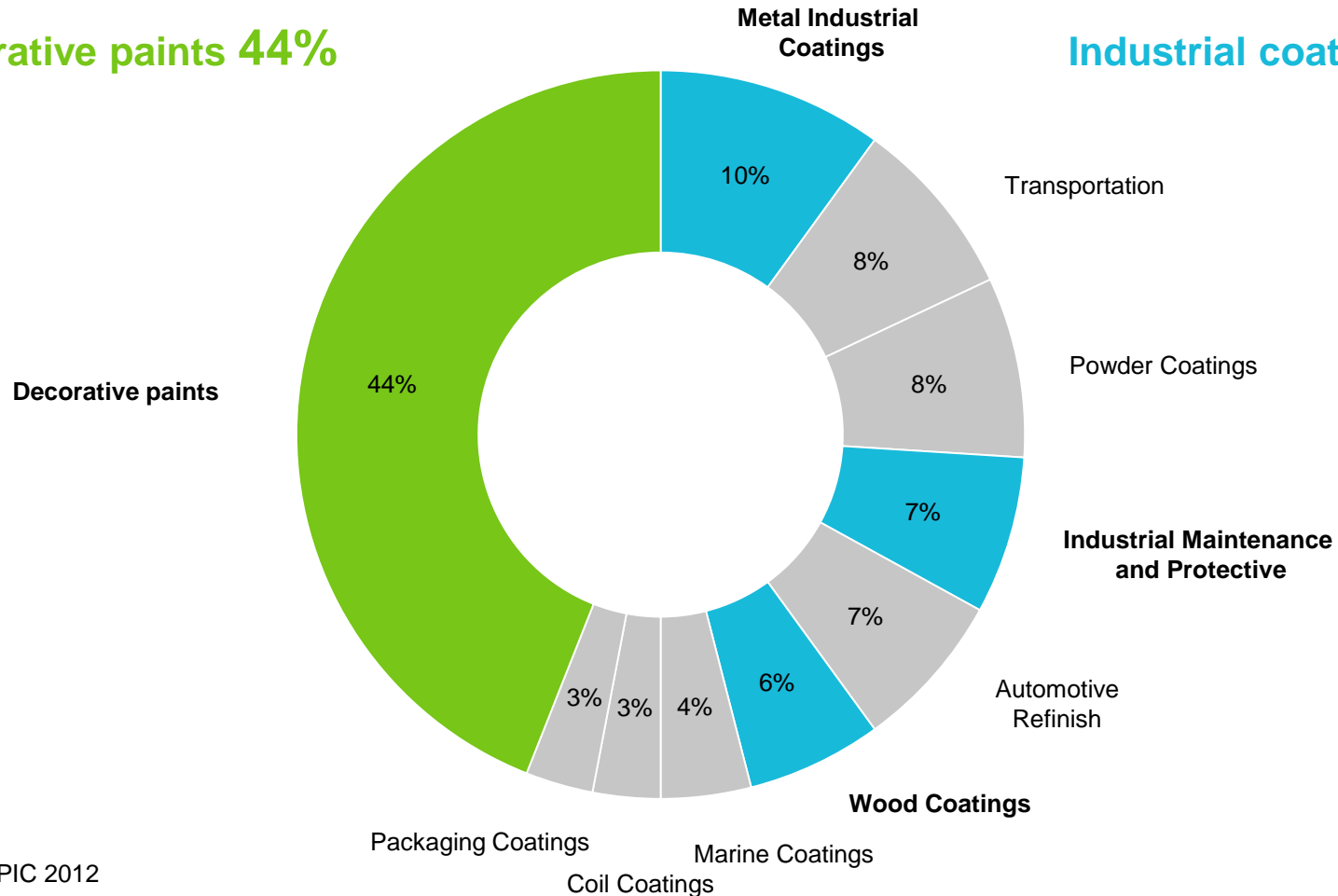




# Value of the global paints and coatings market EUR ~76 billion

Decorative paints 44%

Industrial coatings 56%



Source: IPPIC 2012

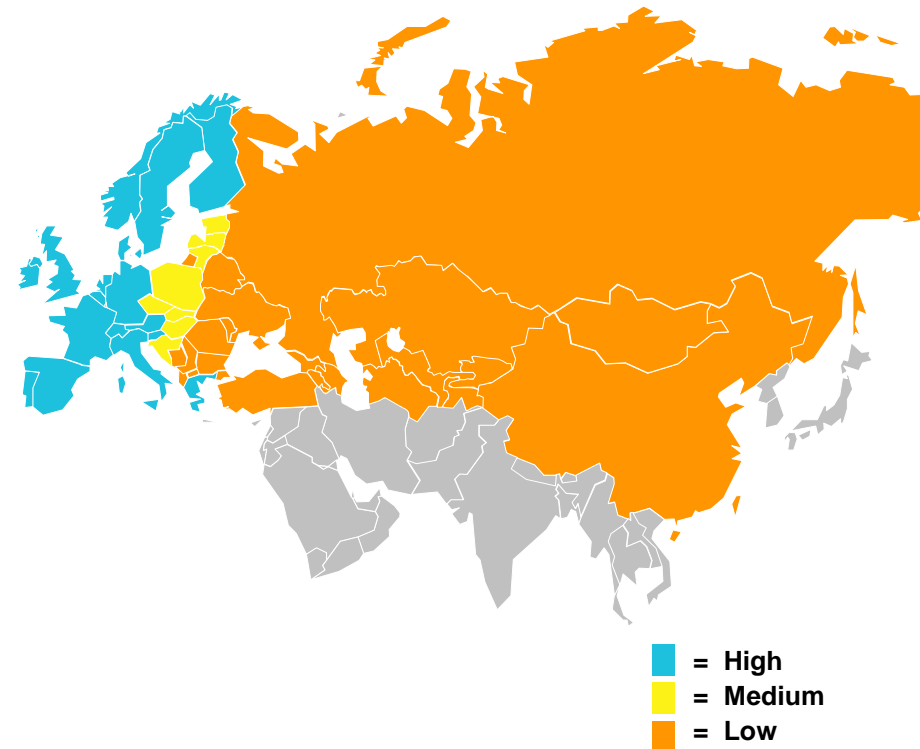
February 2015

# 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\*



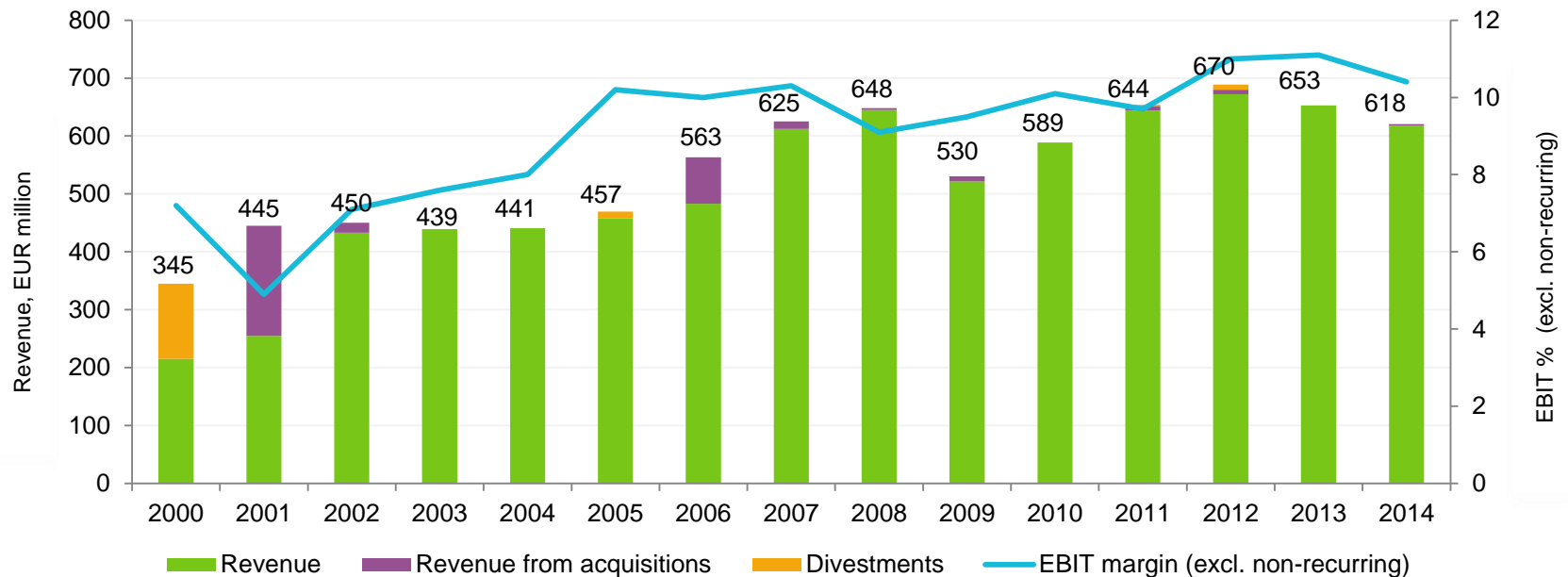
\* Paint consumption source: Management estimates, IPPIC

# Long term financial development

## Development of sales and profitability 2000–2013

### Major acquisitions and divestments

<p>Sale of tinting business in 2000 (Revenue ~MEUR 130)</p>	<p>Acquisition of Alcro-Beckers in 2001 (Revenue ~MEUR 190)</p>	<p>Acquisition of Kraski Tekes in 2006 (Revenue ~MEUR 80)</p>	<p>Acquisition of Zorka Color in 2011 (Revenue ~MEUR 16)</p>
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# Tikkurila's strategy

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





# Strong and well-established brands are the key to achieving our strategic intent

Strategic brands

Tactical brands

International brands

Regional or local brands





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



Inspiration



Ideas



Colors



Stores



Helpline



Internet



Training

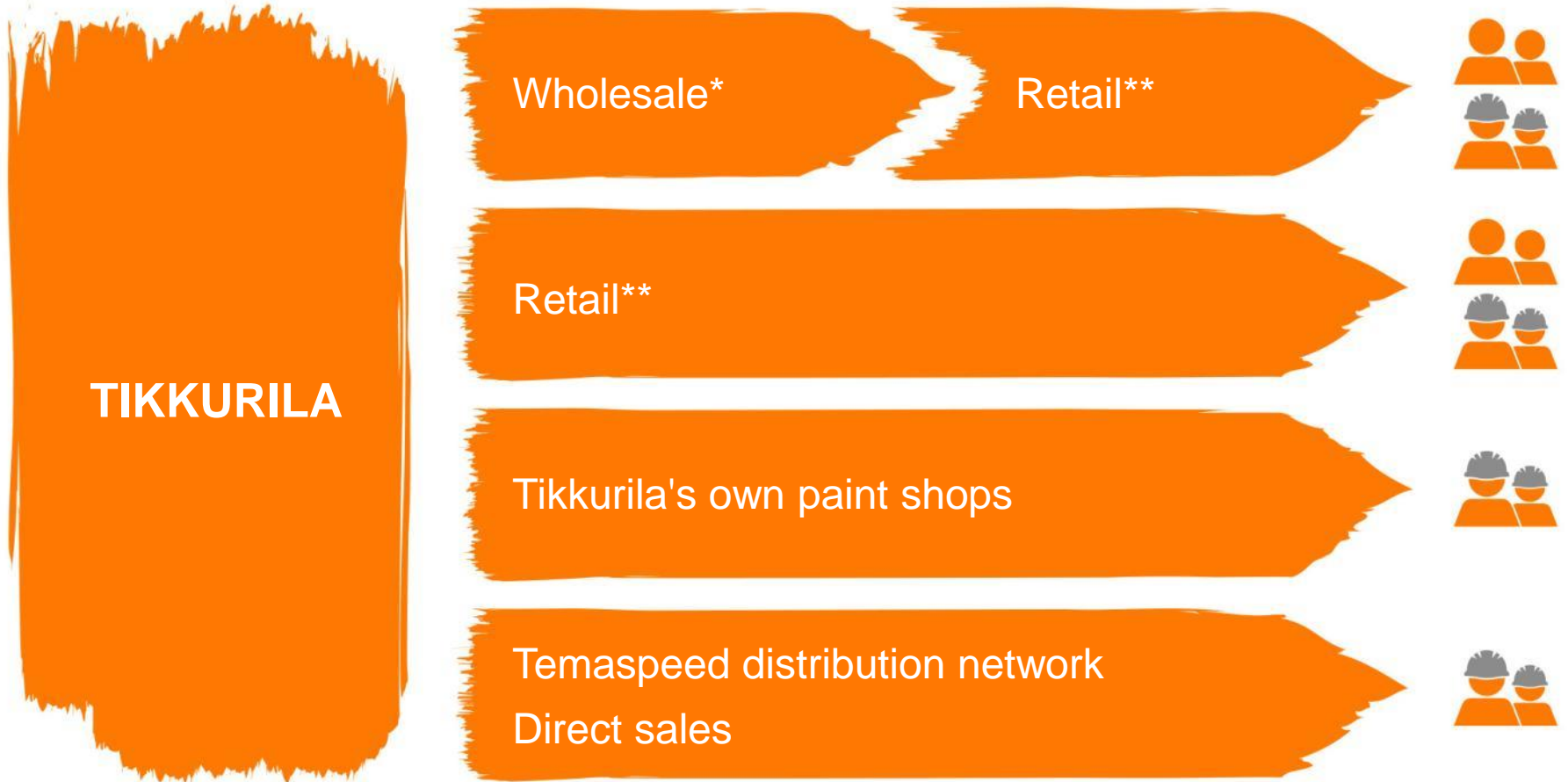


Designer Pool  
Contractor Pool



Professional  
services

# Distribution channels



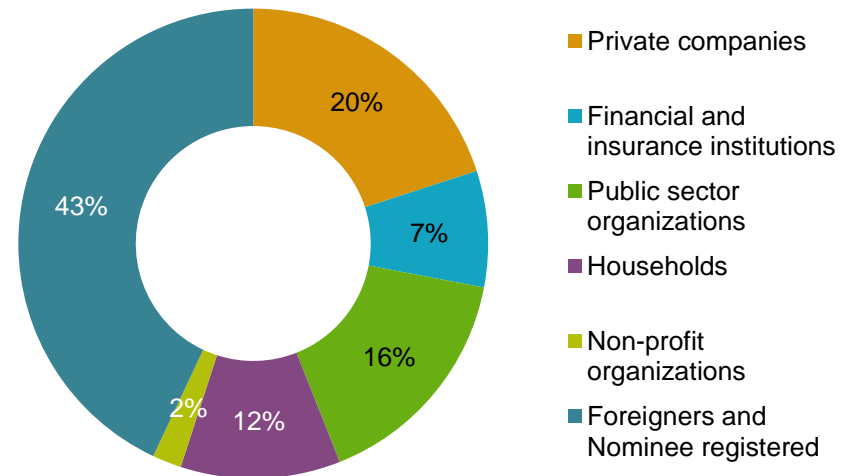
\* Only in some markets

\*\* Big boxes, specialized paint shops

# Tikkurila's ownership at the end of 2014

- Number of shareholders ~21,700
- Foreign ownership in Tikkurila has increased strongly
- Largest shareholders: Oras Invest Oy (18.1%), Ilmarinen (9.1%) and Varma (5.7%)
- 50 largest shareholders holding ~45%

Tikkurila's ownership structure on December 31, 2014





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# Development during the review period

# Highlights of Q4/2014

## Development Q4/2014 vs. Q4/2013

- Weakening of the currencies decreased revenue
- Operating loss excl. non-recurring items increased due to decrease in revenue, weak currencies, and higher sales and marketing expenses
- Market environment turned from challenging to difficult

## Key figures

EUR million	10-12/2014	10-12/2013	Change %
Revenue	<b>104.4</b>	116.7	-10.5%
EBIT excluding non-recurring items	<b>-13.2</b>	-4.2	-211.3%
EBIT excluding non-recurring items, %	<b>-12.6%</b>	-3.6%	
EBIT	<b>-13.9</b>	-5.2	-167.5%
EBIT, %	<b>-13.3%</b>	-4.4%	
EPS, EUR	<b>-0.19</b>	-0.11	-69.9%
Cash flow after capital expenditure	<b>7.6</b>	11.4	-33.1%

# Full year highlights

## Development 2014 vs. 2013

- Revenue decreased mainly due to the weakening of key currencies
- Decline in revenue and weakening of the key currencies had a negative impact on profitability
- Acquisitions weakened the cash flow
- Good net income kept the dividend distribution capability stable

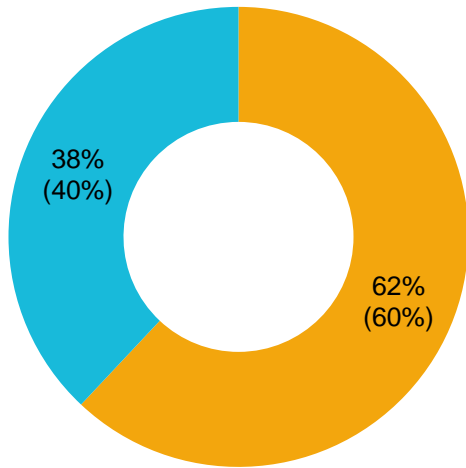
## Key figures

EUR million	1-12/2014	1-12/2013	Change %
Revenue	<b>618.4</b>	653.0	-5.3%
EBIT excluding non-recurring items	<b>64.2</b>	72.6	-11.6%
EBIT excluding non-recurring items, %	<b>10.4%</b>	11.1%	
EBIT	<b>63.7</b>	71.5	-10.9%
EBIT, %	<b>10.3%</b>	10.9%	
EPS, EUR	<b>1.10</b>	1.14	-3.5%
ROCE, %, rolling	<b>22.9%</b>	23.5%	
Cash flow after capital expenditure	<b>49.9</b>	66.9	-25.5%
Net interest-bearing debt at period-end	<b>47.4</b>	48.6	-2.6%
Gearing, %	<b>24.6%</b>	23.4%	
Equity ratio, %	<b>49.5%</b>	50.1%	
Personnel at period-end	<b>3,142</b>	3,133	0.3%



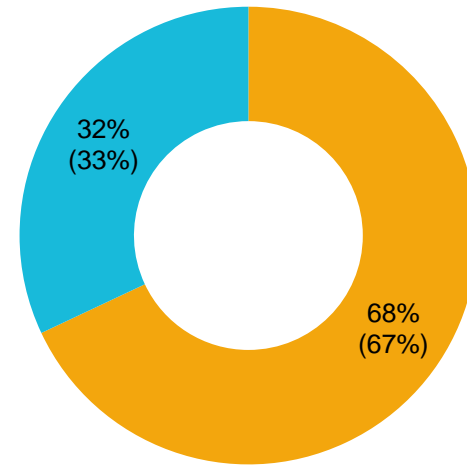
# Revenue and EBIT split January–December 2014

Revenue by reporting segment



■ West ■ East

EBIT\* by reporting segment



■ West ■ East

Decorative paints accounted for 83.4% (84.1) and industrial coatings for 16.6% (15.9) of revenue

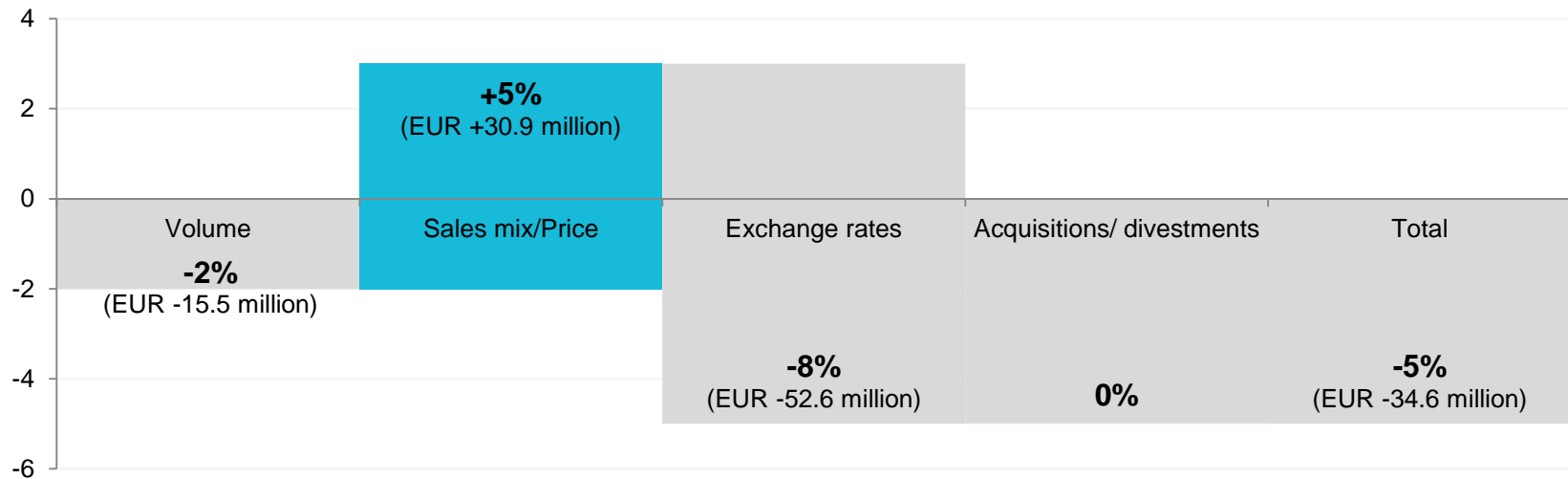
\* Excluding non-recurring and Group items

# Weak currencies had a significant negative impact on the euro-denominated revenue

EUR million	10–12/2014	10–12/2013	Change %	1–12/2014	1–12/2013	Change %
Revenue	<b>104.4</b>	116.7	-10.5%	<b>618.4</b>	653.0	-5.3%

## Group's revenue development 2014 vs. 2013

Increase/decrease, %





# Balance sheet

## Assets

EUR million	Dec 31, 2014	Dec 31, 2013
Goodwill	72.5	66.4
Other intangible assets	18.4	20.8
Property, plant and equipment	90.3	104.2
Other non-current assets	16.1	19.3
<b>Total non-current assets</b>	<b>197.3</b>	<b>210.8</b>
Inventories	73.7	79.7
Current receivables	93.1	95.6
Cash and cash equivalents	25.8	29.2
<b>Total current assets</b>	<b>192.6</b>	<b>204.5</b>
<b>Total assets</b>	<b>389.8</b>	<b>415.3</b>

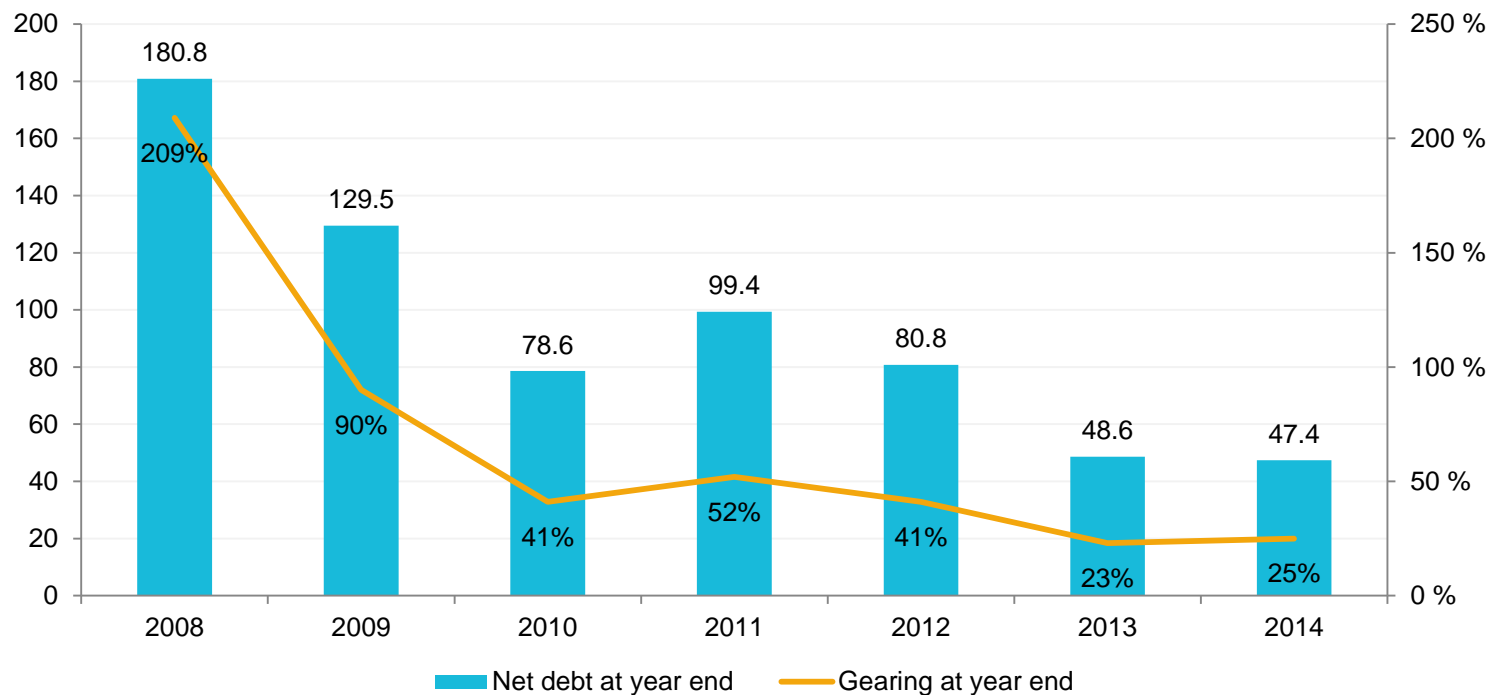
## Equity and liabilities

EUR million	Dec 31, 2014	Dec 31, 2013
Share capital	35.0	35.0
Reserves	41.9	42.2
Treasury shares	-1.6	-
Translation differences	-39.6	-16.4
Retained earnings	157.0	147.4
<b>Total equity</b>	<b>192.7</b>	<b>208.1</b>
Interest-bearing non-current liabilities	60.3	60.3
Non-interest-bearing non-current liabilities	36.2	35.0
Interest-bearing current liabilities	12.8	17.5
Non-interest-bearing current liabilities	87.8	94.5
<b>Total liabilities</b>	<b>197.2</b>	<b>207.2</b>
<b>Total equity and liabilities</b>	<b>389.8</b>	<b>415.3</b>

# Net debt and gearing

EUR million

Gearing, %



Due to the intra-year seasonality in Tikkurila's business, gearing is typically at its lowest at the end of the year



# Cash flow statement

## Cash flow from operating activities

EUR million	1-12/2014	1-12/2013
Net profit	48.3	50.1
Adjustments	38.1	46.8
<b>Funds from operations before change in net working capital</b>	<b>86.4</b>	96.9
Change in net working capital	6.2	6.4
Interest and financial items, net	2.6	-3.9
Income tax paid	-19.3	-20.1
<b>Cash flow from operations</b>	<b>75.9</b>	79.2

## Cash flow from investing and financing activities

EUR million	1-12/2014	1-12/2013
Acquisitions	-14.4	-0.4
Capital expenditures	-16.3	-14.3
Disposals	3.3	1.6
Other investment items, net	1.4	0.9
<b>Net cash used in investing activities</b>	<b>-26.1</b>	-12.3
<b>Cash flow before financing</b>	<b>49.9</b>	66.9
EUR million	1-12/2014	1-12/2013
Change in non-current debt	-2.4	-
Change in current debt	-5.9	-18.4
Dividend payout	-35.3	-33.5
Other financing items, net	-9.6	-1.2
<b>Net cash used in financing activities</b>	<b>-53.2</b>	-53.1
<b>Net change in cash and cash equivalents</b>	<b>-3.3</b>	13.9



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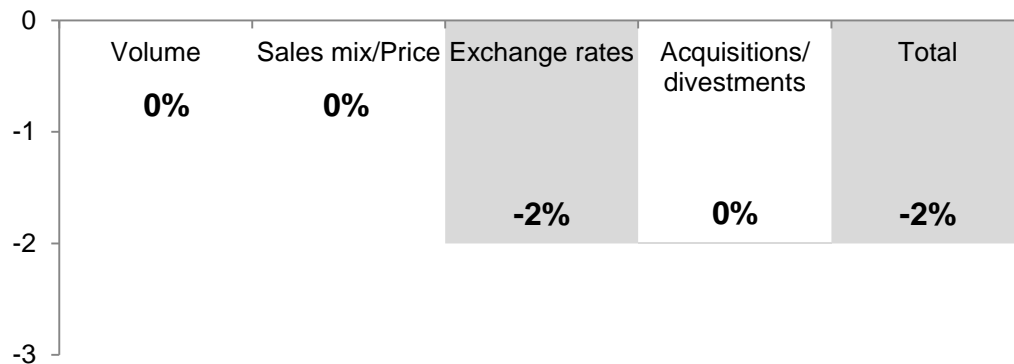
# Strategic Business Units

# SBU West 2014

EUR million	10-12/2014	10-12/2013	Change %	1-12/2014	1-12/2013	Change %
Revenue	<b>68.3</b>	68.2	0.1%	<b>382.5</b>	388.6	-1.6%
EBIT*	<b>-8.1</b>	-4.6	-75.4%	<b>45.8</b>	50.9	-10.1%
EBIT*, %	<b>-11.9%</b>	-6.8%		<b>12.0%</b>	13.1%	

## Revenue development 2014 vs. 2013

Increase/decrease, %



\* Excluding non-recurring items

## 2014 highlights

- Weak currencies decreased revenue
- Weak currencies and higher fixed costs hampered profitability
- Development of business operations was good in Poland and the Baltic countries



# Tikkurila to introduce a new brand in Scandinavia

- Limited assortment of interior and exterior paints
- All products are in ready-made shades
- Economic alternative for price-conscious consumers
- Launch to take place in early 2015

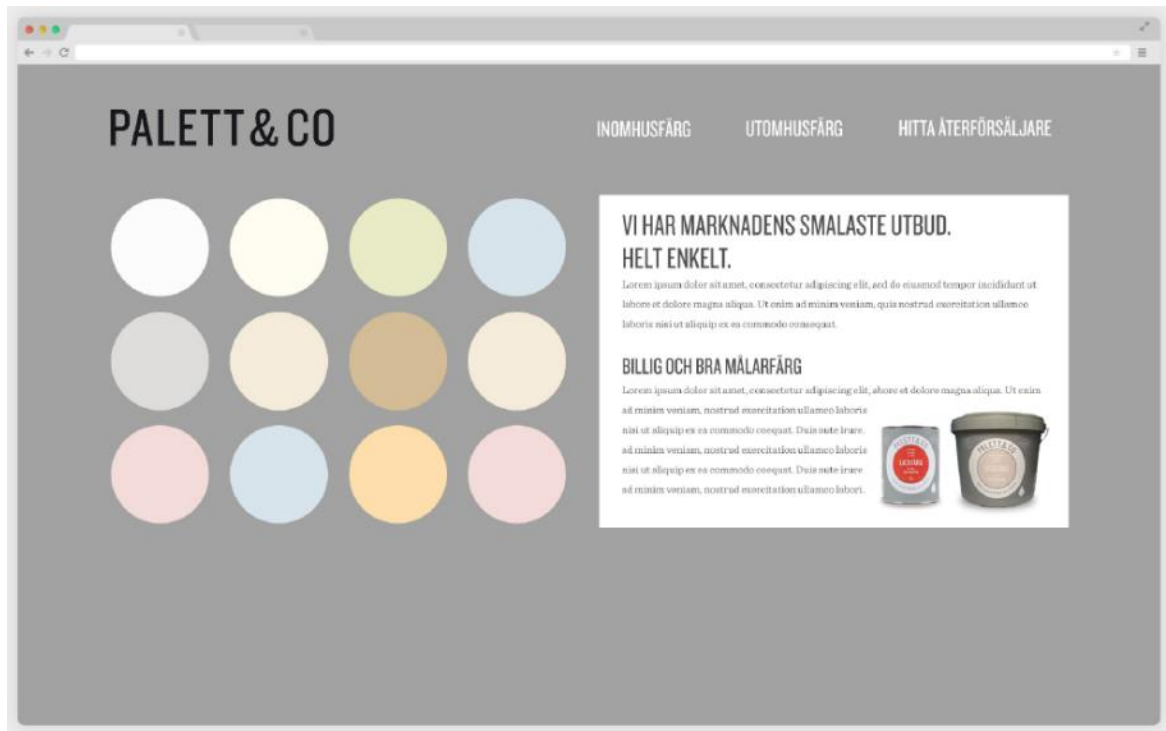
# PALETT & CO



# HELT ENKELT.



# Success defines the future steps

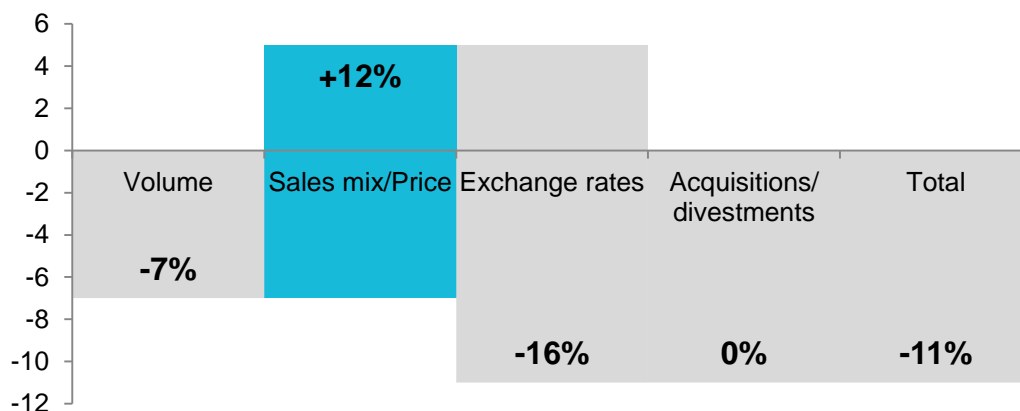


# SBU East 2014

EUR million	10-12/2014	10-12/2013	Change %	1-12/2014	1-12/2013	Change %
Revenue	<b>36.2</b>	48.4	-25.3%	<b>236.0</b>	264.4	-10.7%
EBIT*	<b>-4.9</b>	1.1		<b>21.3</b>	24.7	-13.7%
EBIT*, %	<b>-13.7%</b>	2.2%		<b>9.0%</b>	9.3%	

## Revenue development 2014 vs. 2013

Increase/decrease, %



\* Excluding non-recurring items

## 2014 highlights

- Revenue decreased particularly due to the weakened Russian ruble, but also the steep weakening of the Ukrainian hryvnia
- Retailers increased their inventories at the end of the year in anticipation of price hikes
- Profitability was burdened by the decline in revenue and weak currencies

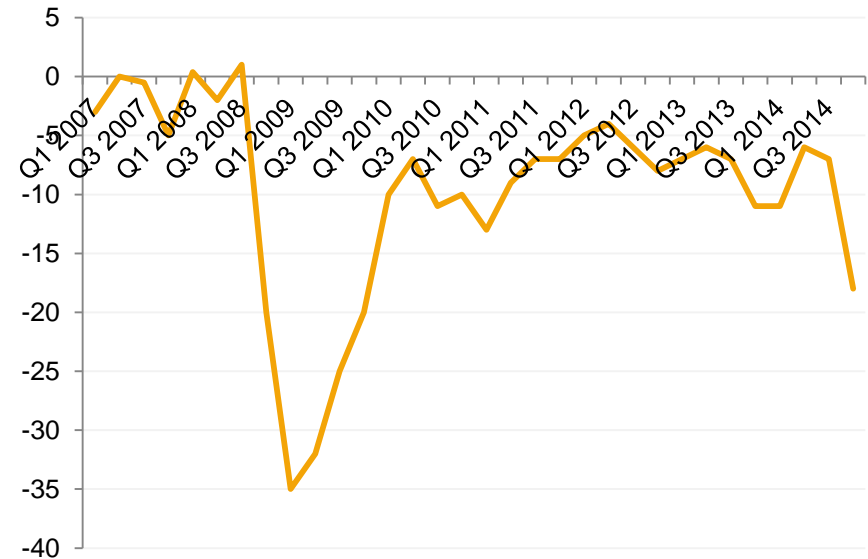
# Operating environment is exceptionally difficult in Russia

EUR RUB exchange rate



- Russian ruble has been steeply depreciating during the past few months due to e.g. decreasing oil price

Russian consumer confidence

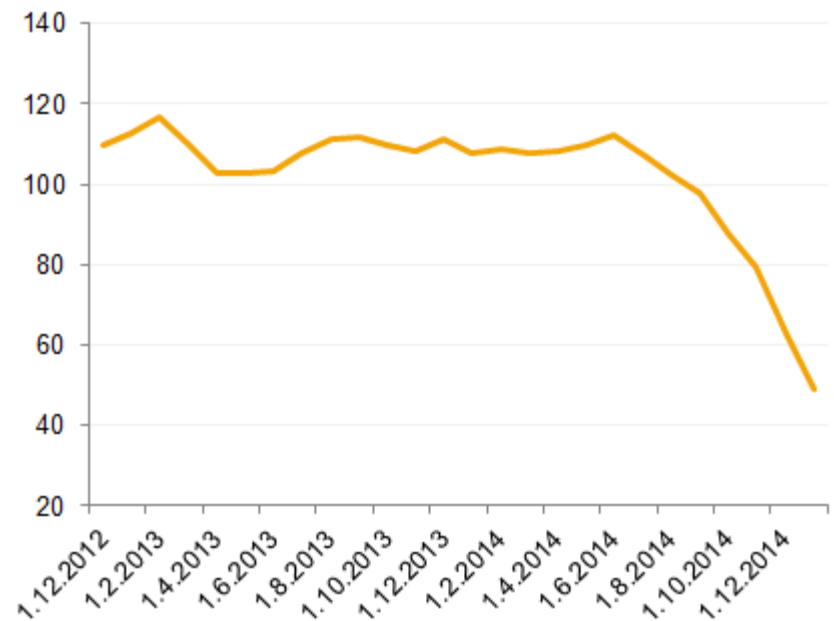


- In the last quarter, consumer confidence weakened clearly

# Impact of oil price changes on Tikkurila

- Changes in oil prices will have a delayed impact on many of the raw materials and packaging materials Tikkurila uses
- The drop in oil prices will reduce our raw material costs, but the lower costs will be partly offset by the stronger dollar
- Falling oil prices will have a significant negative impact on the ruble exchange rate and the Russian economy in particular, and with that, an overall adverse effect on Tikkurila's operations

Oil price development, USD





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# Conclusions and outlook

# Conclusions

- General economic development was weak
- Geopolitical tensions and weak economic situation impacted negatively in the east, more stable development in the west
- Cash flow from operations remained strong and profitability continued at a relatively good level
- Measures to boost sales volumes will be continued in all market areas



# Financial targets for 2018

- 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
Revenue	625	648	530	589	644	670	653	<b>618</b>
EBIT, % <sup>1</sup>	10.3%	9.1%	9.5%	10.1%	9.7%	11.0%	11.1%	<b>10.4%</b>
ROCE	24.5%	18.7%	15.7%	19.2%	19.4%	21.0%	23.5%	<b>22.9%</b>
Gearing	135.3%	208.5%	90.0%	41.4%	51.9%	40.6%	23.4%	<b>24.6%</b>
Dividend payout; share of operative net income, %				84% (EUR 0.70 per share)	88% (EUR 0.73 per share)	72% (EUR 0.76 per share)	69% <sup>2</sup> (EUR 0.80 per share)	<b>73 %<sup>2</sup> (EUR 0.80 per share)</b>

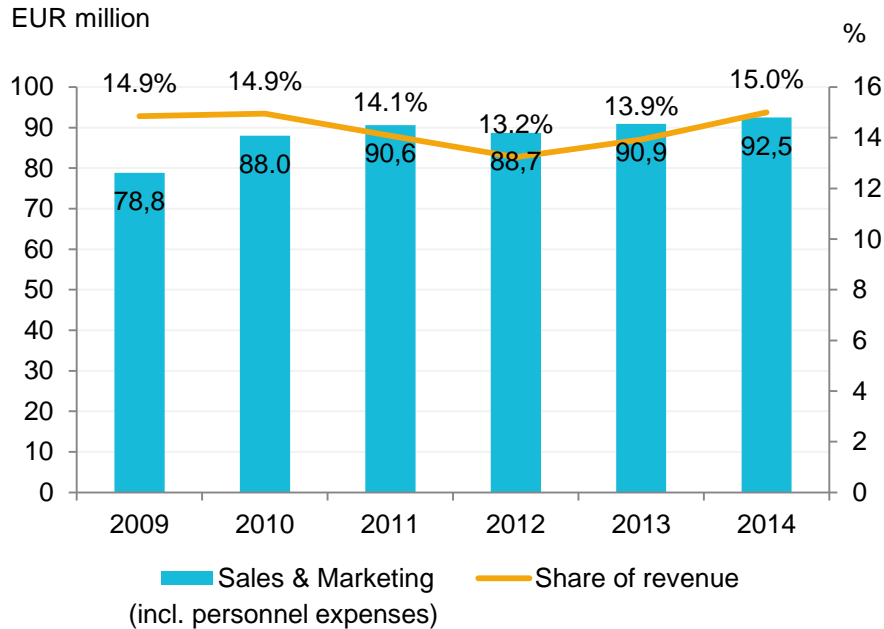
1) Excluding non-recurring items  
2) Board of Directors' proposal

# Outlook for Russia remains weak

- Russian GDP is expected to decrease clearly although there is a wide variation between estimates (decline of 3-15%). Oil price is expected to increase at the end of the year, at the earliest
- Inflation is high (10-12%) and the purchasing power of consumers declines
- Demand for paint will decrease and the market share of cheap paints is likely to increase
- Weak ruble will decrease Tikkurila's euro-denominated revenue clearly (2014 average rate for EURRUB 51.0 vs. 75.0 in January 2015)
- There is a lead-time before Tikkurila's price increases will take effect
- We aim at increasing our visibility and shelf space
- Growth will be sought actively in other markets



# Sales & Marketing



- In 2015, sales and marketing expenses are estimated to remain at the past few years' level as a percentage of revenue



- In China, Tikkurila already has 250 Tikkurila brand stores operated by third parties



# Tikkurila has created a Scandinavian collection of wallpaper and paints

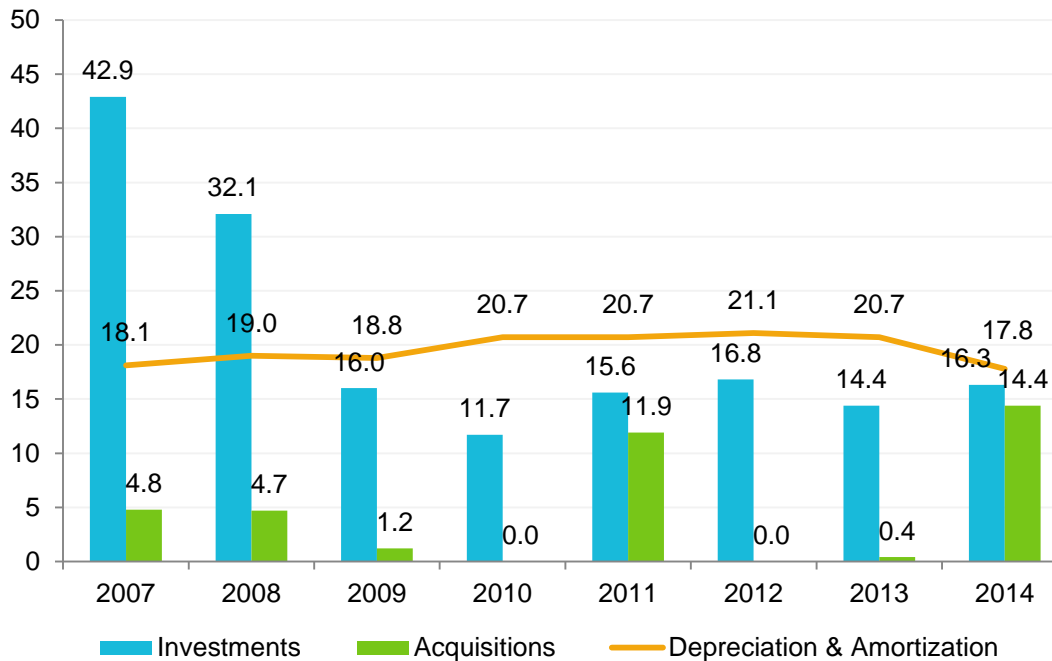
- Modern, inspiring, and colorful wallpaper and paint collection created by Nordic designers
- 6 patterns in 3 coloring versions, each matching with a paint shade from Tikkurila Feel the color collection
- Duett is a full-matt water-borne interior paint and it has the Nordic Swan and EU Ecolabel
- Collection will be available in stores e.g. in Finland, Russia, Poland, and China in Spring 2015



Wallpaper: Woods  
Paint: H484 Mulberry

# Investments and D&A

EUR million

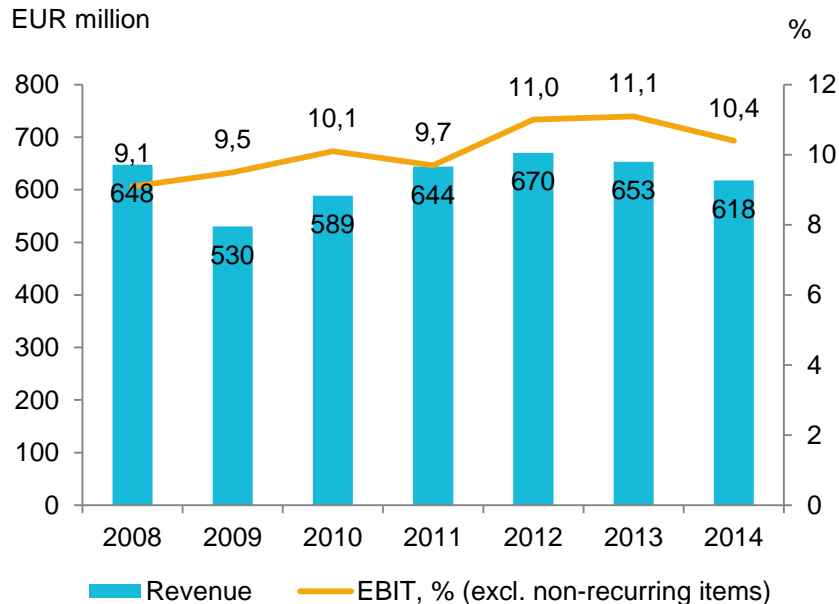


- Various measures to secure production automation, streamlining and continuity continue in various Tikkurila units
- 2015 capital expenditure level is estimated to be close to the annual depreciation and amortization level

Investments and acquisitions are presented on cash flow basis and excluding any impacts of divestments  
 Depreciation and amortization are presented excluding non-recurring impairments

# Guidance for 2015

## Revenue and profitability of Tikkurila 2008–2014



## Outlook and guidance for 2015

The geopolitical tensions, low oil prices and the weak ruble will make a difficult operating environment for 2015. The Russian economy is anticipated to weaken considerably, and the EU region is expected to see a slow recovery. The demand for paint is anticipated to reduce in Russia, with a relative increase expected in the market share of the lower price and quality grade products. Demand in the EU region is expected to remain close to last year's level. Tikkurila will increase sales prices mainly in Russia to partly, not fully, compensate for the effects of the weak ruble. As in the previous years, Tikkurila will continue investing in sales and marketing in order to strengthen its market position. The level of costs is being continuously monitored.

**Tikkurila expects its revenue and EBIT excluding non-recurring items for the financial year 2015 to be below the 2014 level.**



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# Appendix

# Tikkurila Strategic Business Units (SBU)

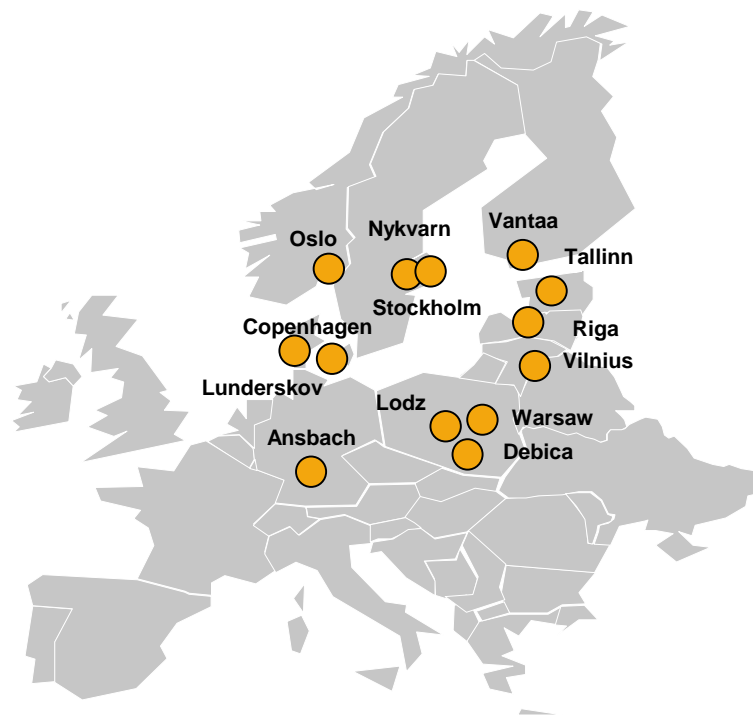
	SBU West	SBU East
Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania	Russia, Central Asian countries, Ukraine, Belarus, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
Production sites	Nykvarn, Sweden Vantaa, Finland Debica, Poland Ansbach, Germany Tallinn, Estonia	St. Petersburg, Russia Stary Oskol, Russia Kiev, Ukraine 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, Temaspeed	<b>Deco:</b> DIY retailers, independent retailers, wholesalers <b>Industry:</b> direct sales, Temaspeed

## SBU West key facts

Operational area	Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania
2014 revenue	EUR 382.5 million, 62% of Group
EBIT 2014 <sup>1)</sup>	EUR 45.8 million, 68% of Group <sup>2)</sup>
Employees	1,606 (at year-end)
Production sites	Nykvarn, Sweden; Vantaa, Finland; Debica, Poland; Ansbach, Germany; Tallinn, Estonia
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> Maailinja 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>

February 2015

## SBU West locations



1 Excluding non-recurring items  
2 Excluding group items

### SBU East key facts

Operational area	Russia, Central Asian countries, Ukraine, Belarus, Serbia, Macedonia, and China. Furthermore, this SBU is responsible for the exports to approximately 20 countries.
2014 revenue	EUR 236.0 million, 38% of Group
EBIT 2014 <sup>1)</sup>	EUR 21.3 million, 32% of Group <sup>2)</sup>
Employees	1,505 (at year-end)
Production sites	St. Petersburg, Russia (3) Stary Oskol, Russia Kiev, Ukraine Šabac, Serbia

### 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



1 Excluding non-recurring items  
2 Excluding group items



# Tikkurila in Russia

2014 revenue	EUR 176 million, 28% of Group
Brands	 <p>The diagram shows two brands, TIKKURILA and ТЕКС, positioned on a horizontal scale. TIKKURILA is on the left, labeled 'PREMIUM', and ТЕКС is on the right, labeled 'ECONOMY'. An arrow points from left to right above the brands. Above the TIKKURILA logo is the FINNCOLOR logo.</p>
Production	<p>Production sites in St. Petersburg (3) and Sary Oskol</p> <p>Majority of the products sold in the area are produced locally, Tikkurila brand is also exported from Finland</p>
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 more than 5,000 retail outlets
Market position in decorative paints	 <p>Legend:</p> <ul style="list-style-type: none"> <li>Tikkurila (18%)</li> <li>Lakra (7%)</li> <li>VGT (5%)</li> <li>Others (70%)</li> </ul> <p>Source: Chem-Courier, 2014 (volume)</p>





# In the long run, many factors support the good development of business operations in Russia

- Approximately half of Tikkurila's production capacity is located in Russia.
- Tikkurila's operations cover the entire nation. Products are sold in more than 5,000 retail outlets in different parts of the country.
- Rise of the middle class increases paint consumption and boosts quality consciousness.
- Brand awareness is high and growing. Tikkurila is by far the most well-known paint brand in Russia.

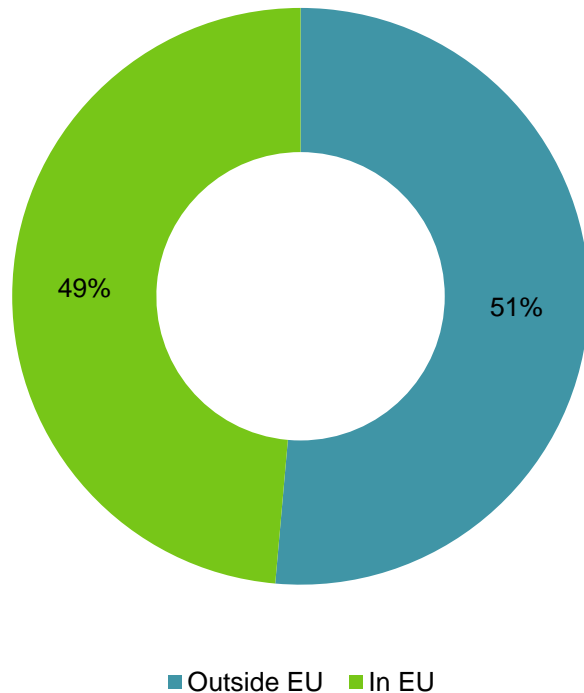
Paint consumption on Tikkurila's markets, liters per capita



Source: Tikkurila, market data

# In good position to grow further in our operating area

## Tikkurila's production capacity



## Production and raw materials

- 13 production facilities in 9 countries
- Local production increases flexibility, clear advantage especially during unstable market conditions
- Production of water-borne products increasing; ~70% of production
- Raw material prices affected mainly by oil prices, supply capacity and currencies
- ~75% of raw materials from western suppliers, in Russia ~50% of raw materials from local suppliers
- Chemical legislation sets restrictions on paint import to the EU region from the third countries

# Investor and media contacts



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President and CEO



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