



# Financial Statements Release January–December 2018

## *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.*

Elisa Markula, CEO  
February 12, 2019

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- Progressing of the efficiency program
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# Financial performance in 2018

# Full-year highlights

- Euro-denominated revenue decreased by 3.6%, grew by 3.1% when excluding currency effects and divestments.
- Sales volumes increased in all of the main markets, especially in Poland.
- Adjusted operating profit increased significantly to EUR 38.8 million (28.8), up 34.8%.
- Insurance compensation of EUR 6 million improved the adjusted operating profit
- **Fixed expense savings of EUR 30 million**

Fixed expense savings of EUR30m

Sales volumes

Sales prices

Cash flow and profitability

Raw material price inflation

Currency effects -27,5 M€ to revenue

Divestments effects to revenue -11,3 M€

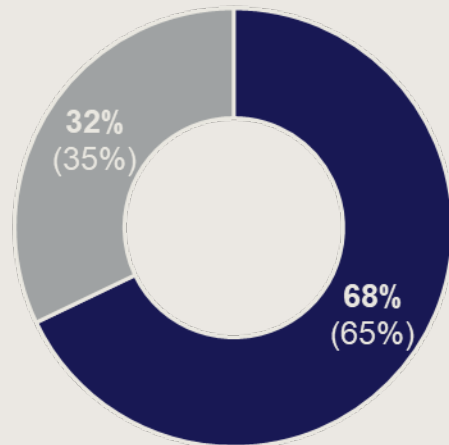
# Key figures 2018

- Profitability improved, strict fixed expenses savings offset increased raw material prices and adverse currency effects.
- EUR 6 million insurance compensation was received, which is included in the adjusted operating result.
- Cash flow clearly improved thanks to the better operating result as well as improved net working capital and lower income taxes paid.

EUR million	1–12/2018	1–12/2017	Change %
Revenue	<b>561.5</b>	582.4	-3.6%
Adjusted operating result	<b>38.8</b>	28.8	34.9%
Adjusted operating result, %	<b>6.9%</b>	4.9%	
Operating result (EBIT)	<b>26.5</b>	19.3	37.4%
Operating result (EBIT), %	<b>4.7%</b>	3.3%	
EPS, EUR	<b>0.33</b>	0.24	37.5%
ROCE, % rolling	<b>9.3%</b>	6.3%	
Cash flow after capital expenditure	<b>36.3</b>	4.4	720%
Net interest-bearing debt at period-end	<b>85.5</b>	90.1	-5.1%
Gearing, %	<b>57.0%</b>	50.2%	
Equity ratio, %	<b>37.6%</b>	42.0%	
Personnel at period-end	<b>2,717</b>	3,037	-10.5%

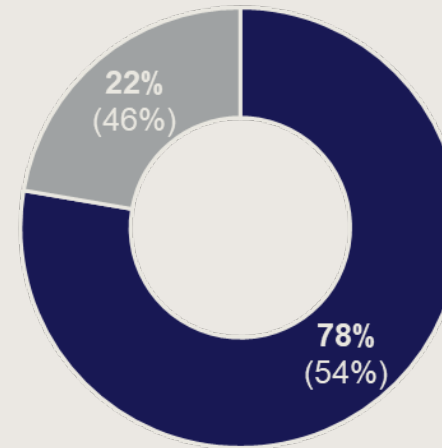
# Revenue and operating profit split in 2018

Revenue by reporting segment



■ West ■ East

Operating profit\* by reporting segment



■ West ■ East

■ West  
■ East

\* Adjusted operating profit, excl. Group items

Decorative paints accounted for 82% (82) and industrial coatings for 18% (18) of revenue.

# Highlights of Q4/2018

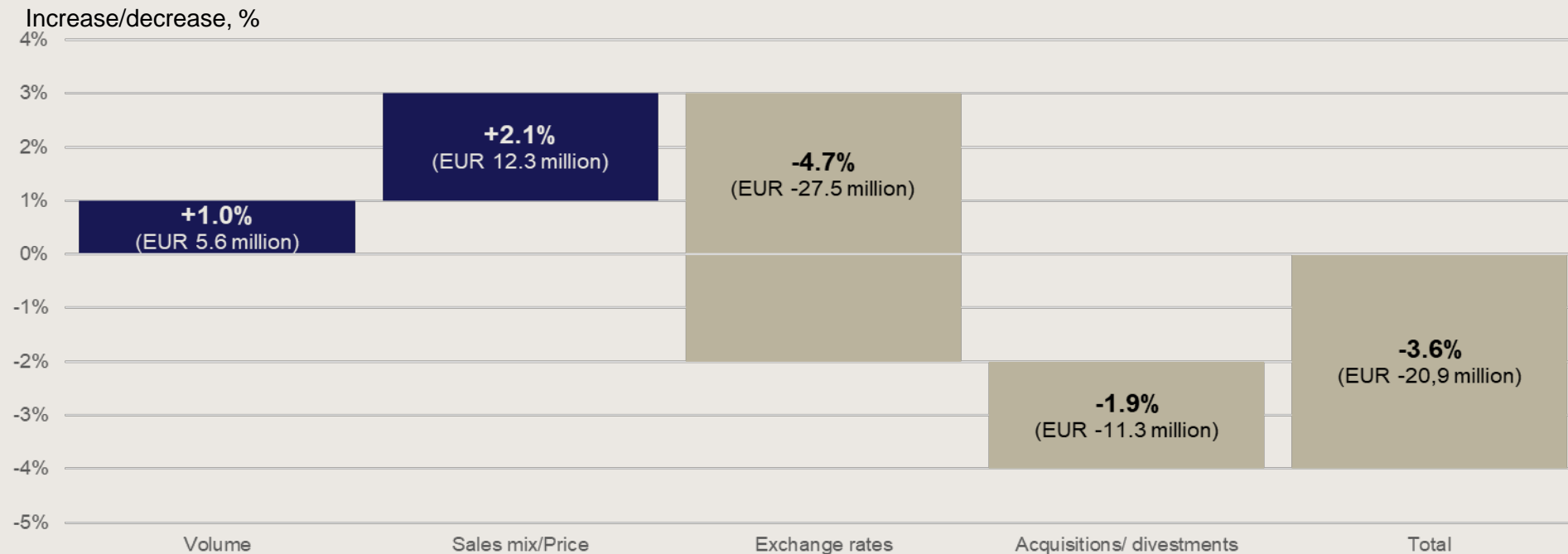
- Revenue increased by 3.2%. Excluding currency effects and divestments, revenue increased by 9.3%.
- Volume effect on revenue was +3% in SBU West and -6% in SBU East, totally -1 %.
- Sales/product mix was favorable and the price increases had a positive impact on the revenues.
- Profitability was clearly better than Q4/2017 thanks to the fixed costs savings as well as insurance compensation (EUR 4.75 million booked in Q4/2018).

EUR million	10-12/2018	10-12/2017	Change %
Revenue	105.5	102.2	3.2%
Adjusted operating result	-5.5	-18.3	69.9%
Adjusted operating result, %	-5.2%	-17.9%	
Operating result (EBIT)	-8.6	-26.5	67.5%
Operating result (EBIT), %	-8.2%	-25.9%	
EPS, EUR	-0.19	-0.53	64.2%
Cash flow after capital expenditure	26.2	11.0	137%

# Revenue increased 3.1% excluding currency effects and divestments

EUR million	10-12/2018	10-12/2017	Change %	1-12/2018	1-12/2017	Change %
Revenue	105.5	102.2	3.2	561.5	582.4	-3.6

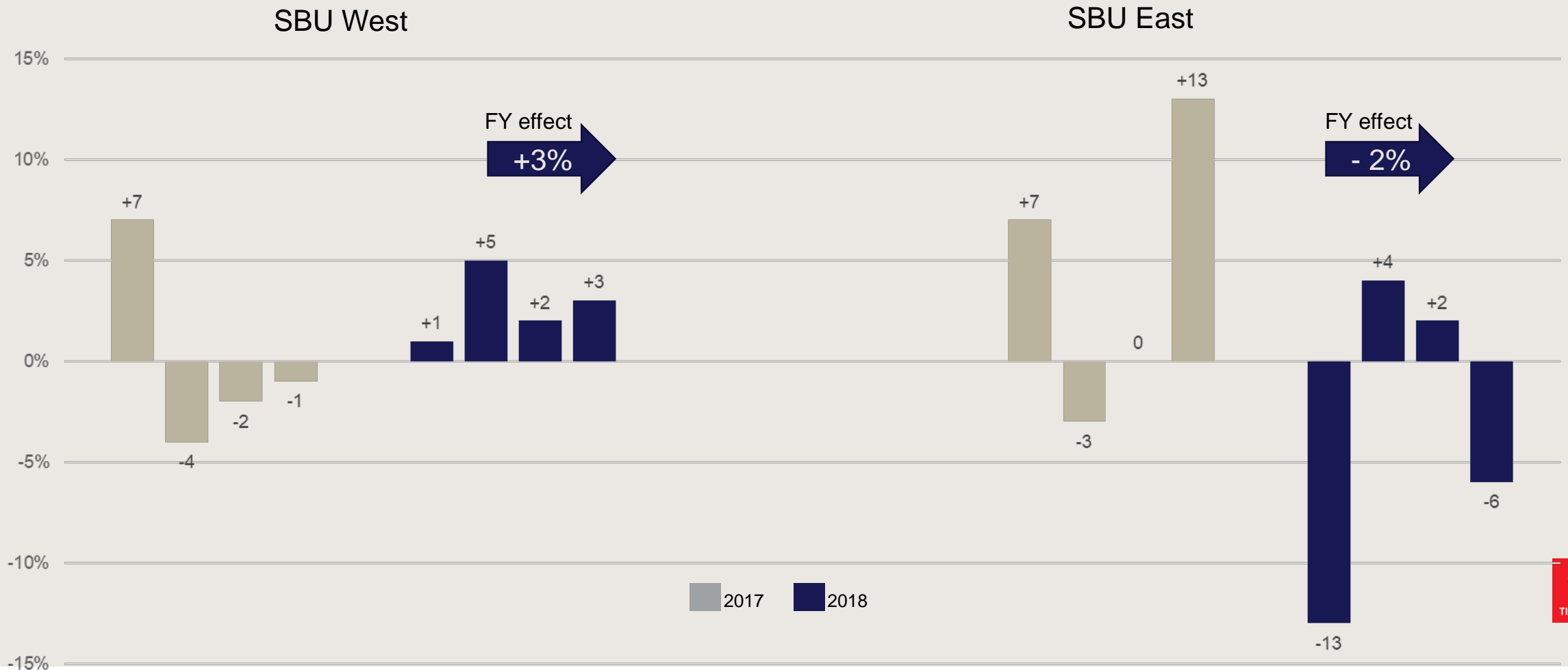
Group's revenue development full-year 2018 vs. 2017





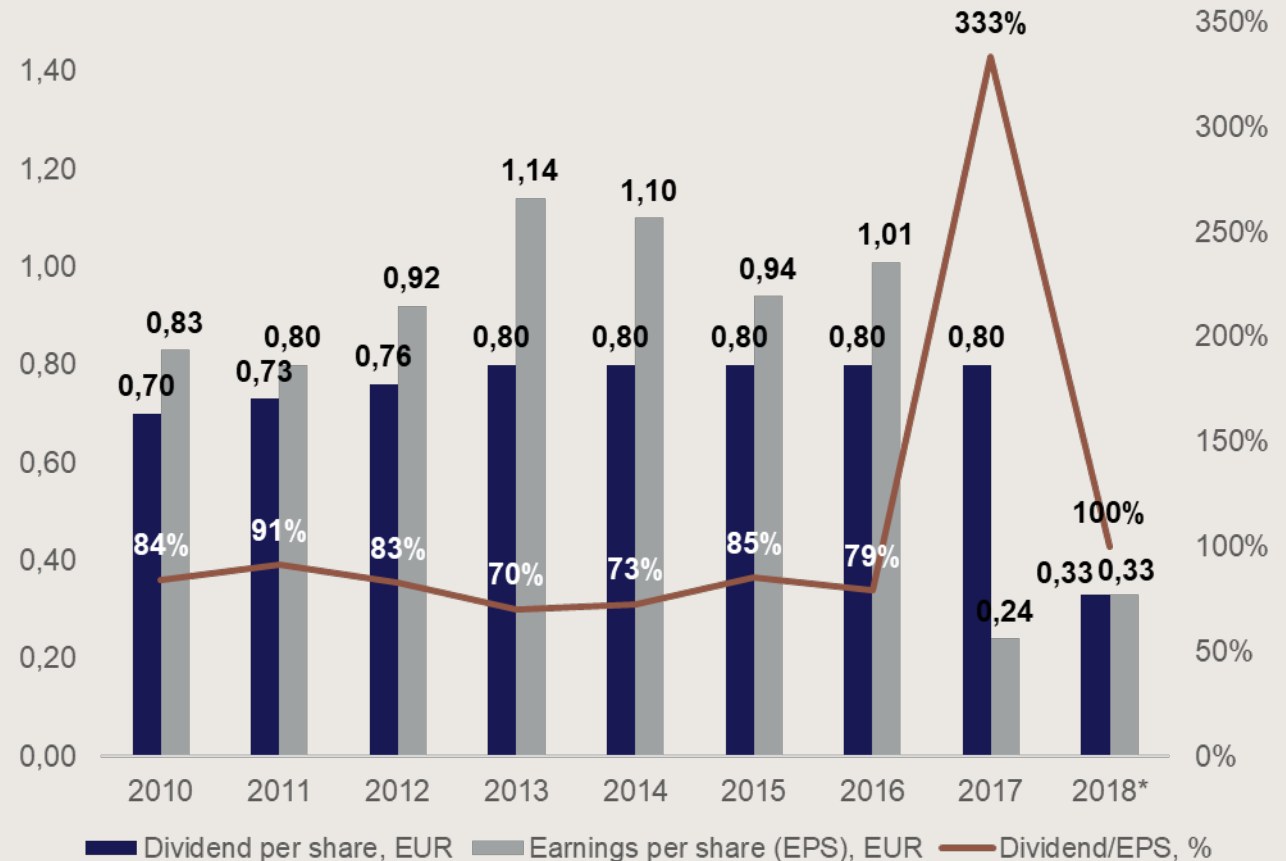
# Sales volumes' effect on revenue in 2018 was 1 %

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



# Dividend development and dividend proposal

- The Board proposes to the Annual General Meeting that a dividend of EUR 0.33 per share will be distributed for the year ended on December 31, 2018, and that the rest be retained in the unrestricted equity.
- The proposed dividend totals about EUR 14.6 million, which corresponds to 100 percent of the Group's net profit for 2018.



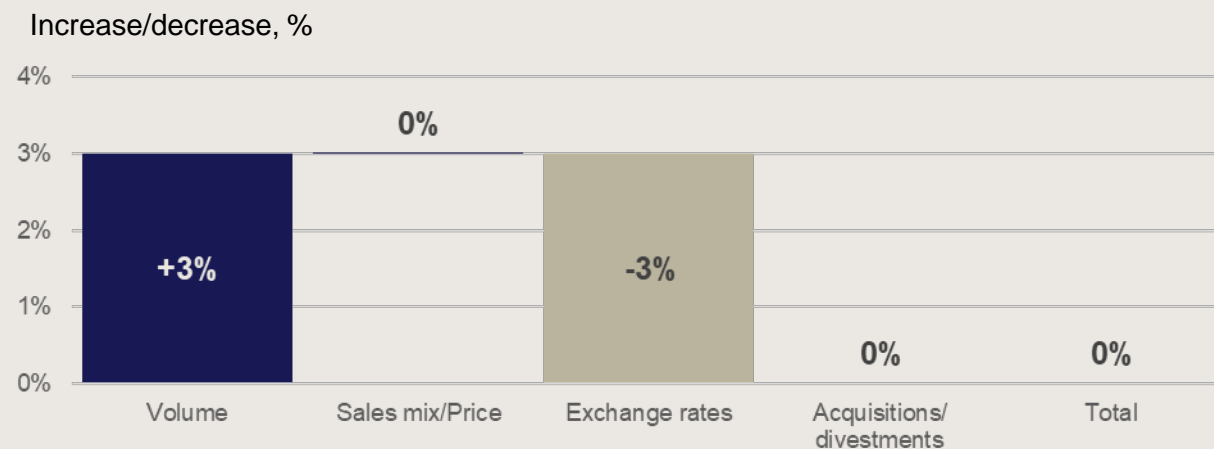
\*Board of Directors' proposal for the Annual General Meeting.

# Strategic business units

# SBU West 2018

EUR million	10–12/2018	10–12/2017	Change %	1–12/2018	1–12/2017	Change %
Revenue	67.9	61.3	10.7%	381.2	379.8	0.4%
Adjusted operating result	-3.2	-18.4	82.5%	34.5	18.1	91.1%
Adjusted operating result, %	-4.7%	-30.0%		9.1%	4.8%	

## Revenue development 2018 vs. 2017



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

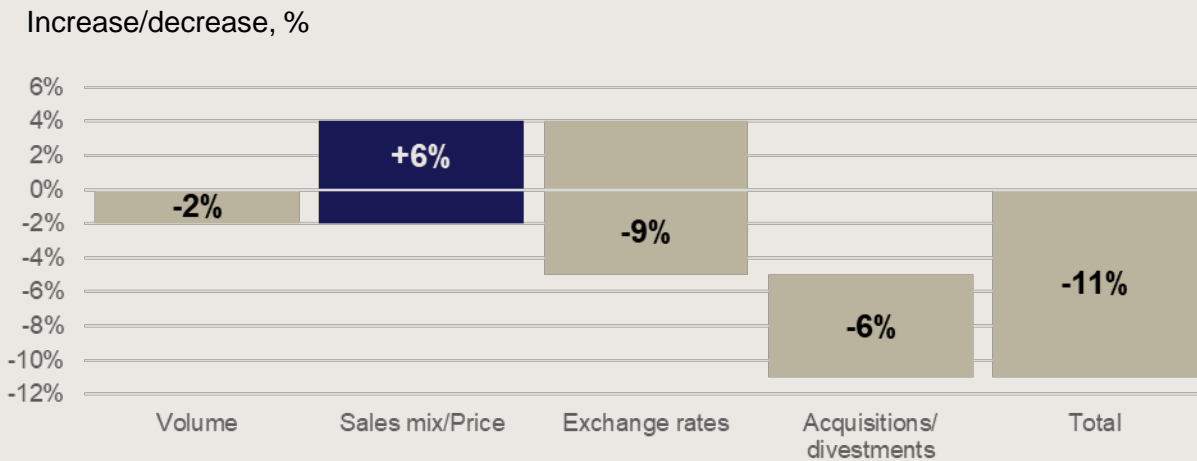
## 2018 highlights

- SBU West's euro-denominated revenue increased by 0.4% from the comparison period while increased by +3.0% in comparable currencies.
- Profitability improved by lower fixed expense level.
- Unfavorable sales mix was due to paint distribution channel changes in Sweden, and a growth in the relative share of professional customers.

# SBU East 2018

EUR million	10–12/2018	10–12/2017	Change %	1–12/2018	1–12/2017	Change %
Revenue	37.6	40.9	-8.2%	180.3	202.6	-11.0%
Adjusted operating result	0.0	1.1	-96.3%	9.9	15.2	-34.9%
Adjusted operating result, %	0.1%	2.6%		5.5%	7.5%	

## Revenue development 2018 vs. 2017



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

## 2018 highlights

- SBU East's euro-denominated revenue decreased by 11% from the comparison period. Excluding currency effects and divestments however the revenue increased by 3.2%.
- Sales mix developed favorably due to the shift to premium products from economy segment products.
- Profitability weakened due to the higher raw material cost level.

# Balance sheet

## Assets

EUR million	Dec 31, 2018	Dec 31, 2017
Goodwill	69.8	72.0
Other intangible assets	21.0	26.5
Property, plant and equipment	70.9	81.2
Other non-current assets	18.1	16.9
Total non-current assets	179.8	196.6
Inventories	78.8	96.0
Current receivables	104.3	108.9
Cash and cash equivalents	35.5	17.0
Non-current assets held for sale	1.6	9.3
Total current assets	220.2	231.2
Total assets	400.0	427.7

## Equity and liabilities

EUR million	Dec 31, 2018	Dec 31, 2017
Share capital	35.0	35.0
Reserves	40.0	40.0
Treasury shares	0.0	0.0
Translation differences	-46.0	-39.3
Retained earnings	121.1	143.9
Total equity	150.1	179.5
Interest-bearing non-current liabilities	50.0	50.1
Non-interest-bearing non-current liabilities	30.7	32.8
Interest-bearing current liabilities	71.0	57.0
Non-interest-bearing current liabilities	98.1	108.4
Total liabilities	249.9	248.2
Total equity and liabilities	400.0	427.7

# Cash flow statement

## Cash flow from operating activities

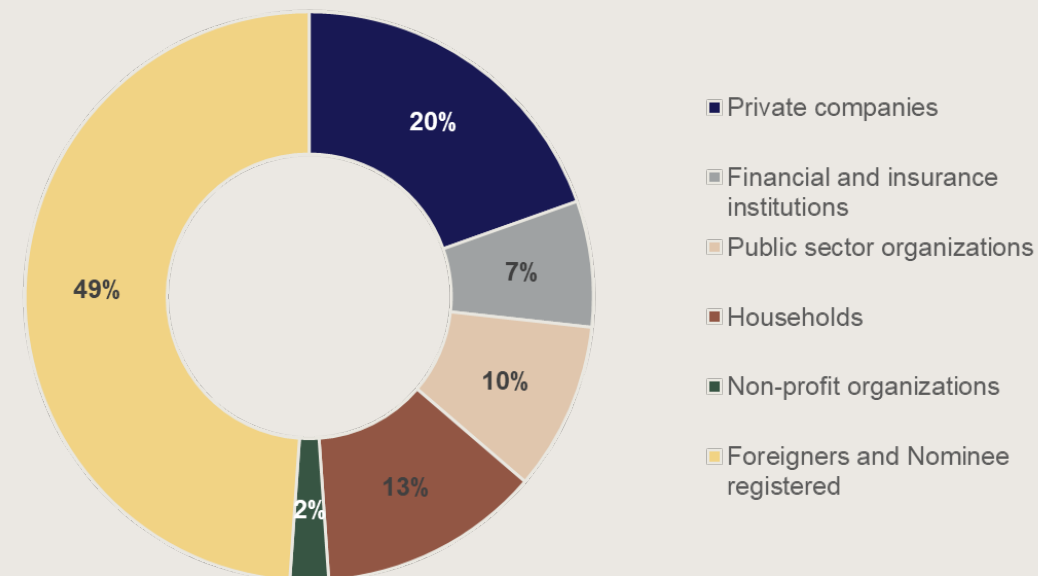
EUR million	1-12/2018	1-12/2017
Net profit	14.6	10.7
Adjustments	42.5	37.0
Funds from operations before change in net working capital	57.1	47.6
Change in net working capital	1.5	-13.9
Interest and financial items, net	-5.3	-2.8
Income tax paid	-5.6	-12.8
Cash flow from operations	47.6	18.1

## Cash flow from investing and financing activities

EUR million	1-12/2018	1-12/2017
Business combinations	-	-
Other capital expenditure	-12.2	-15.2
Proceeds from sale of assets	0.6	1.4
Other investment items, net	0.3	0.2
Net cash used in investing activities	-11.3	-13.7
Cash flow before financing	36.3	4.4
Change in non-current borrowings	-	-
Change in current financing	14.0	29.7
Dividend payout	-35.3	-35.3
Other financing items, net	-	-
Net cash used in financing activities	-21.3	-5.6
Net change in cash and cash equivalents	15.0	-1.2

# Breakdown by shareholder category on December 31, 2018

10 Largest shareholders	Number of shares	% of share capital
Oras Invest Oy	7,969,552	18.1
Varma Mutual Pension Insurance Company	2,493,525	5.7
Mandatum Life Insurance Company Ltd.	1,668,681	3.8
Ilmarinen Mutual Pension Insurance Company	1,136,036	2.6
Kaleva Mutual Insurance Company	650,000	1.5
ODIN Finland	514,693	1.2
The State Pension Fund	507,000	1.2
Nordea Nordic Small Cap Fund	452,648	1.0
Pekka Paasikivi	195,241	0.4
Esr Seligson & Co Phoebus	155,000	0.4
10 largest shareholders total	15,742,376	35.7
Nominee registered shares	21,074,256	47.8
Other shares	7,291,620	16.5
<b>Total</b>	<b>44,108,252</b>	<b>100.0</b>





# Production sites today



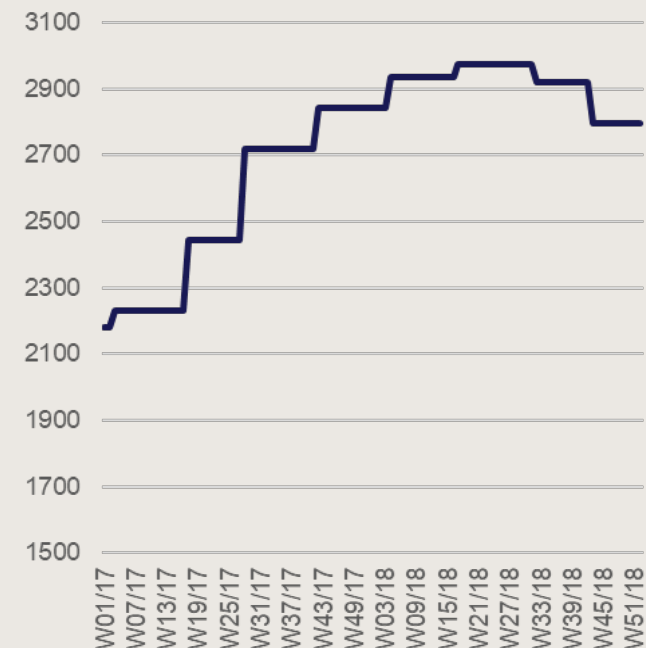
- In 2018, operations were closed down in Balkan, Germany, small production sites in Denmark and Russia
- Investment in Russia is still in the planning phase.
- Production sites in 6 countries: Finland, Sweden, Poland, Russia, Kazakhstan and Estonia.

# Prices of raw material continued increased until the end of 2018

Price development of oil (Brent), EUR/tn



Price development of titanium dioxide, EUR/tn



- The prices of raw materials continued to rise in the fourth quarter, in particular the prices of raw materials connected to oil prices, such as binders and solvents.
- Rise in the titanium dioxide prices seems to be stabilizing.

# New products launched



## Alcro bio-based

Tikkurila's first bio-based product introduced in Sweden: lower carbon footprint and packaged in recycled plastic can – Alcro A1

In this wall paint, a third of the raw materials that usually are fossil-based have been replaced with bio-based ingredients.



## Sustainably packaged Vivacolor paints in the Baltics

New eco-labeled interior paints with recycled plastic cans.



## Exterior Wood

Exterior Wood -campaign focusing on the Valtti range in Russia, Poland and in the Baltics as the other exterior paints Ultra and Vinha in Finland.

The campaign highlighted the long heritage and know-how of Tikkurila as an expert in demanding Nordic weather conditions.



## Climate change threatening building facades – Tikkurila's Finngard Clean is the answer

Due to the superhydrophobic surface, Finngard Clean products repel water and dirt, but allow any structural humidity to evaporate through it.

# Progress of the efficiency program

# Initiatives to improve profitability

## 1. Fixed expenses

Fixed expenses savings of EUR 30 million fully visible in 2019.

## 2. Optimizing the production network

Closing or divesting of operations in Balkan, small production facility in Russia, and relocation of production in Denmark.

## 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. Progressing as planned.

## 4. Streamlining sourcing

Streamlining of both direct and indirect purchases. The targeted variable cost savings have to a large extent been offset by the continued increase of raw material costs in 2018.

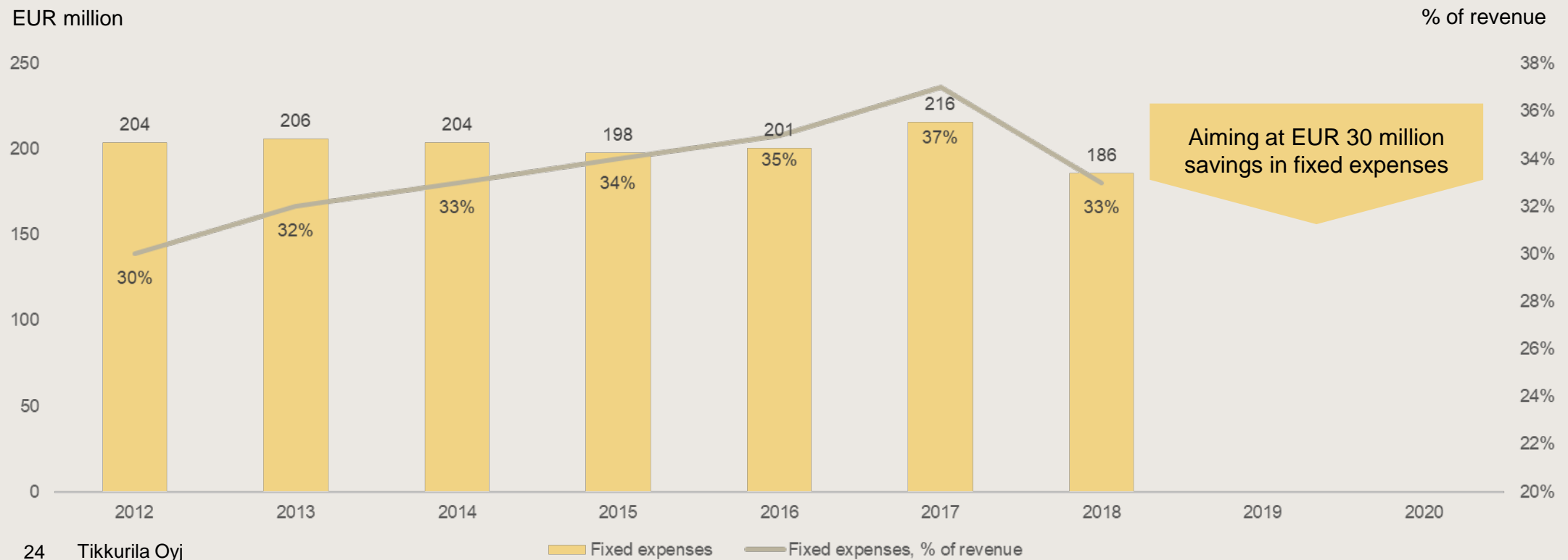
## 5. Net working capital

Numerous initiatives to manage net working capital more efficiently. Activities to be implemented during 2019 with the aim of releasing more cash.




Improved cost competitiveness

# Absolute and relative share of fixed expenses of revenue has clearly decreased

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



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

Customer segment	Share of revenue	Key market trends	Actions conducted in 2018
<b>CONSUMERS</b> 	<b>47%*</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>• Tikkurila brand strategy update</li> <li>• Sustainable product launches: Alcro bio-based paint in Sweden, Vivacolor Green line eco portfolio in Baltics</li> <li>• More focused brand offering and directing investments behind the global brands of Tikkurila and Beckers</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>• Professional services updated: Pro Club concept</li> <li>• Floor products launches to complete the portfolio</li> <li>• Centralizing product portfolio management and commercial brand execution on country marketing teams supported by a global brand team</li> </ul>
<b>INDUSTRY</b> 	<b>18%</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>• Sustainable wood fire protection portfolio strengthened with several launches</li> <li>• Protective coatings: several launches in metal/corrosion protection</li> <li>• Launches in industrially pre-treated materials</li> </ul>

\*) Management estimate

# Conclusions and outlook



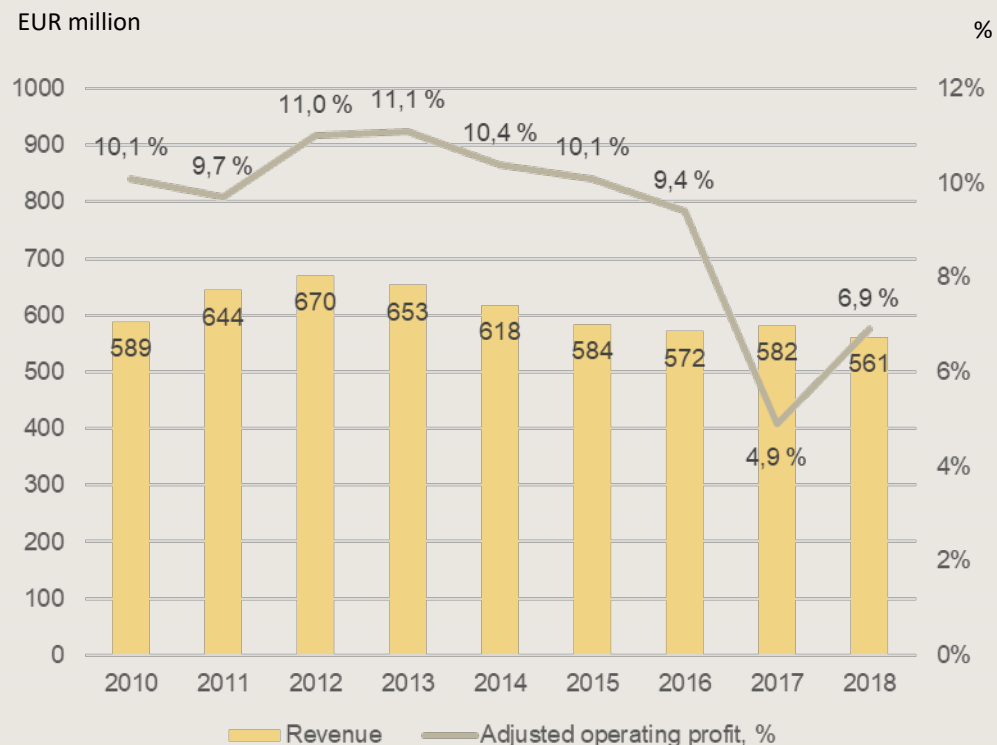
# Conclusions and outlook

- In 2018 Tikkurila's profitability and cash-flow improved and we achieved fixed costs savings of EUR 30 million
- Volume development was positive in many countries, regarding the revenue development also in local currencies. We expect the implemented and planned price increases to further mitigate the major effect of the realized raw material inflation
- In 2019 Tikkurila drives profitable growth
  - enhancing easy-to-use sustainable solutions
  - builds new, digital service channels for a growing segment of paint professionals
  - focus on selected industrial segments
  - developing customer management e.g. by utilizing customer data even better and by digitalizing sales management and customer processes
- We continue our efficiency program, with focus on improving internal efficiency and cost control through transformation programs
- We will share our renewed growth strategy in the near future



# Guidance for 2019

## Revenue and profitability of Tikkurila 2010–2018



## Outlook and guidance for 2019

### Outlook for 2019

- Economic growth is estimated to be modest during 2019 in Tikkurila's key markets. Overall, consumer confidence in Tikkurila's main markets is still expected to be at a good level. Volatility in the exchange rates is expected to continue.
- In the paint and coatings markets, the share of professional and business-to-business customers will continue to steadily increase, which affects the sales mix, and in certain markets, the sales channels as well. Consolidation in the paint market, as well as in the suppliers' and retailers' side is expected to continue. However, the rapid raw material and packaging material cost inflation should stabilize.
- Tikkurila will continue to systematically implement the efficiency program with strict cost control, active pricing and further actions to improve cost competitiveness. Tikkurila will share renewed growth strategy during the first half of 2019. Tikkurila is well positioned to provide its customers with high-quality goods and services in all subsegments where the company operates.

### Guidance for 2019

- Tikkurila's revenue is expected to remain at the same level as in 2018 and the adjusted operating profit will continue to improve.



Thank you !

Be a  
flamingo  
among  
the pigeons





NORDIC QUALITY FROM START TO FINISH SINCE 1862.