

# Tikkurila Capital Markets Day

Strategy

Erkki Järvinen, President and CEO



**TIKKURILA**

# Disclaimer

*In this presentation, all forward-looking statements in relation to the company or its business are based on the management estimates, and actual results may differ from the expectations and beliefs such statements contain. Macroeconomic or general industry data are based on third-party sources. Tikkurila related figures in this presentation are based on internal accounting data. The information disclosed is unaudited except for some whole year 2011 figures. In addition, the market information presented is based on Tikkurila management estimates unless an external source is mentioned. All management estimates are suggestive.*

# Global megatrends and corporate actions

## Changes in demographics

- Focus on growth regions
- Adapt to the 60+ age group
- Use trend labs; smart solutions are needed

## Globalization

- Exploit the market potential of the middle class
- Apply scenario techniques

## Scarcity of resources

- Reduce consumption
- Reduce dependency
- Appeal to consumers

## Technological changes & Innovations

- Establish cooperative partnerships and networking
- Watch the latest technology trends
- Think divergently and convergently

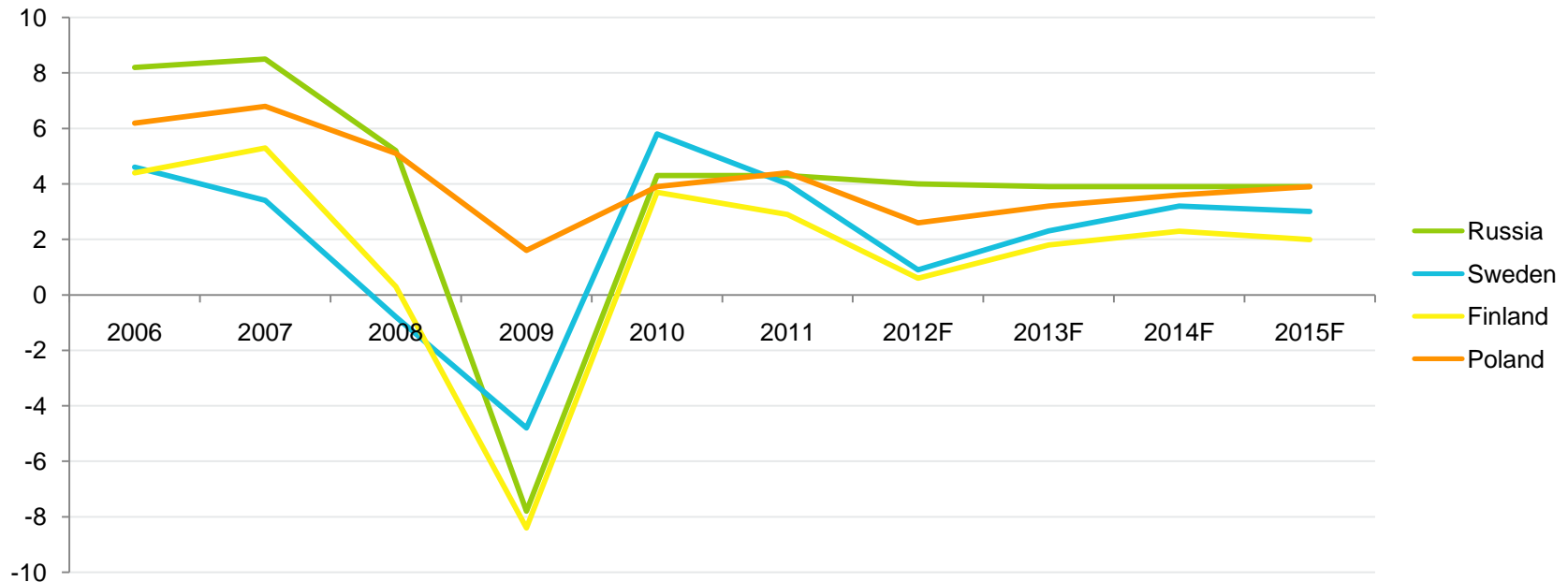
## Competition for scarcer resources

- Seize new business opportunities
- Reduce CO<sub>2</sub> emissions
- Manage climate risk

Source: Roland Berger Strategy Consultants

# Current macro environment is challenging

GDP growth, %



It seems that we are entering a world of low economic growth with high volatility for the next years to come.

Source: IMF

June 13, 2012

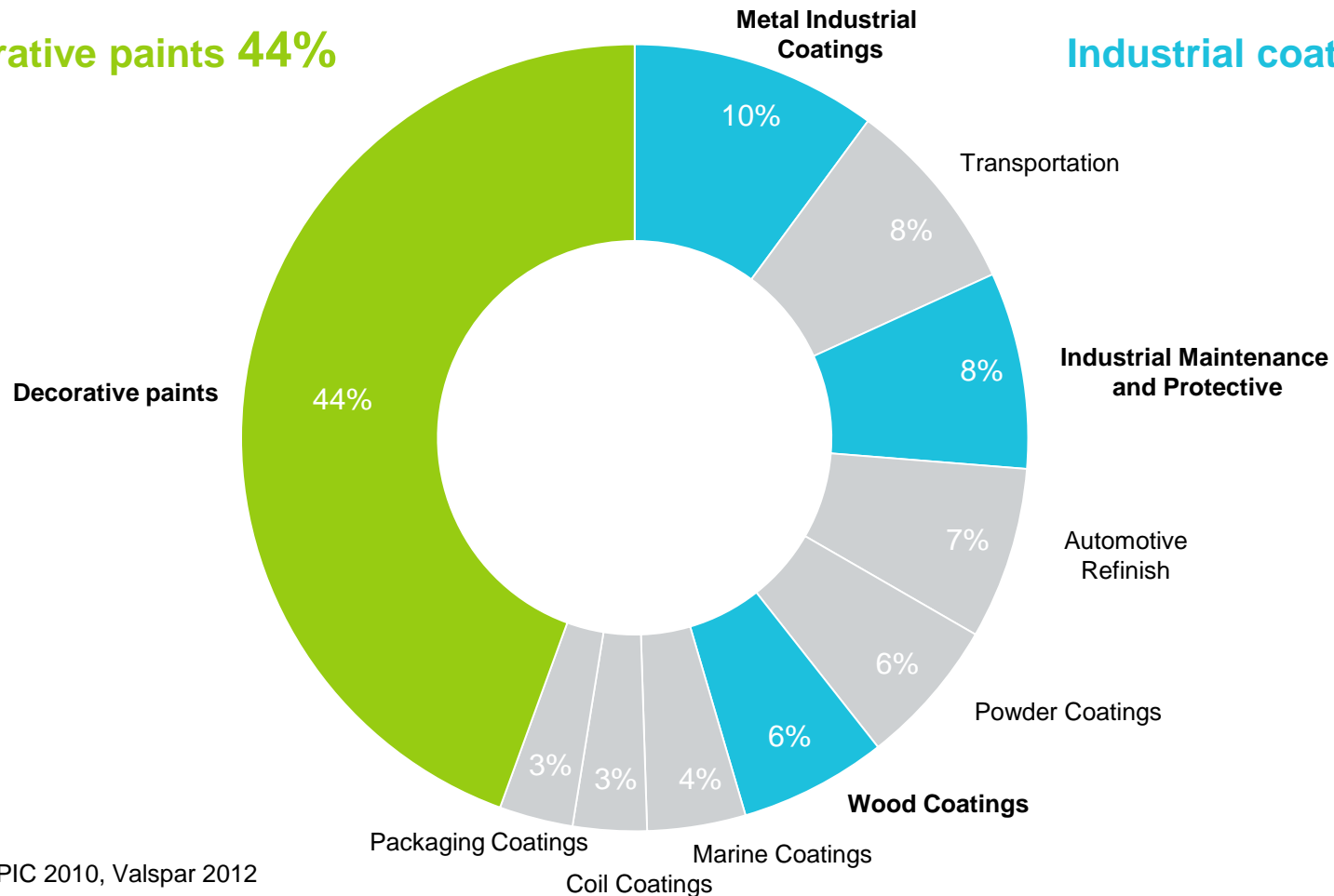
4

TIKKURILA

# Value of the global paints and coatings market EUR ~73 billion

Decorative paints 44%

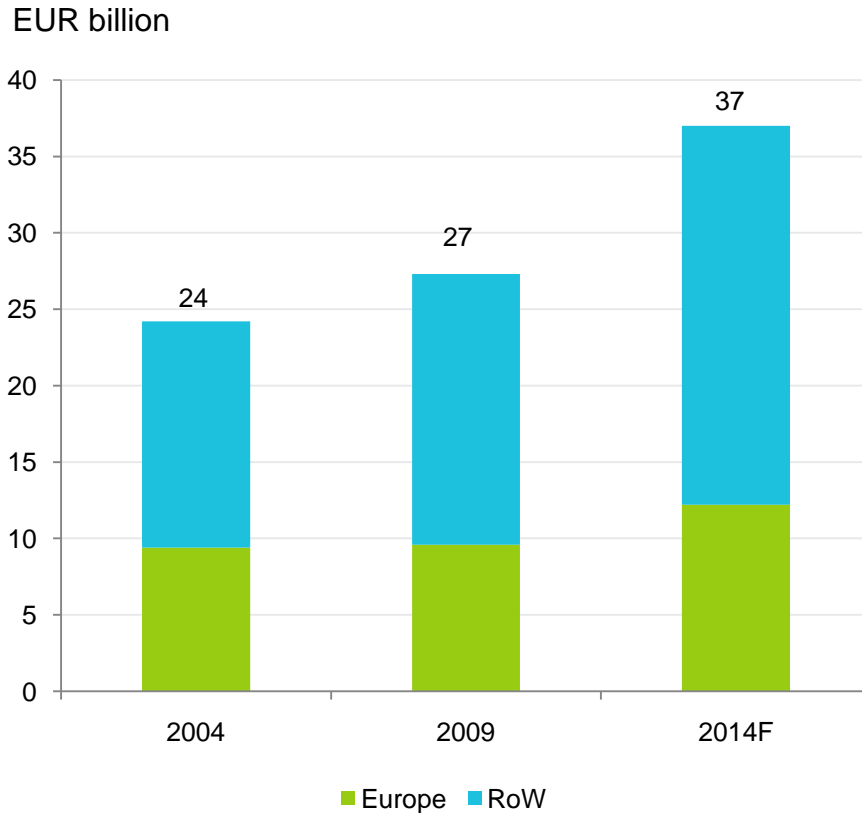
Industrial coatings 56%



Source: IPPIC 2010, Valspar 2012

June 13, 2012

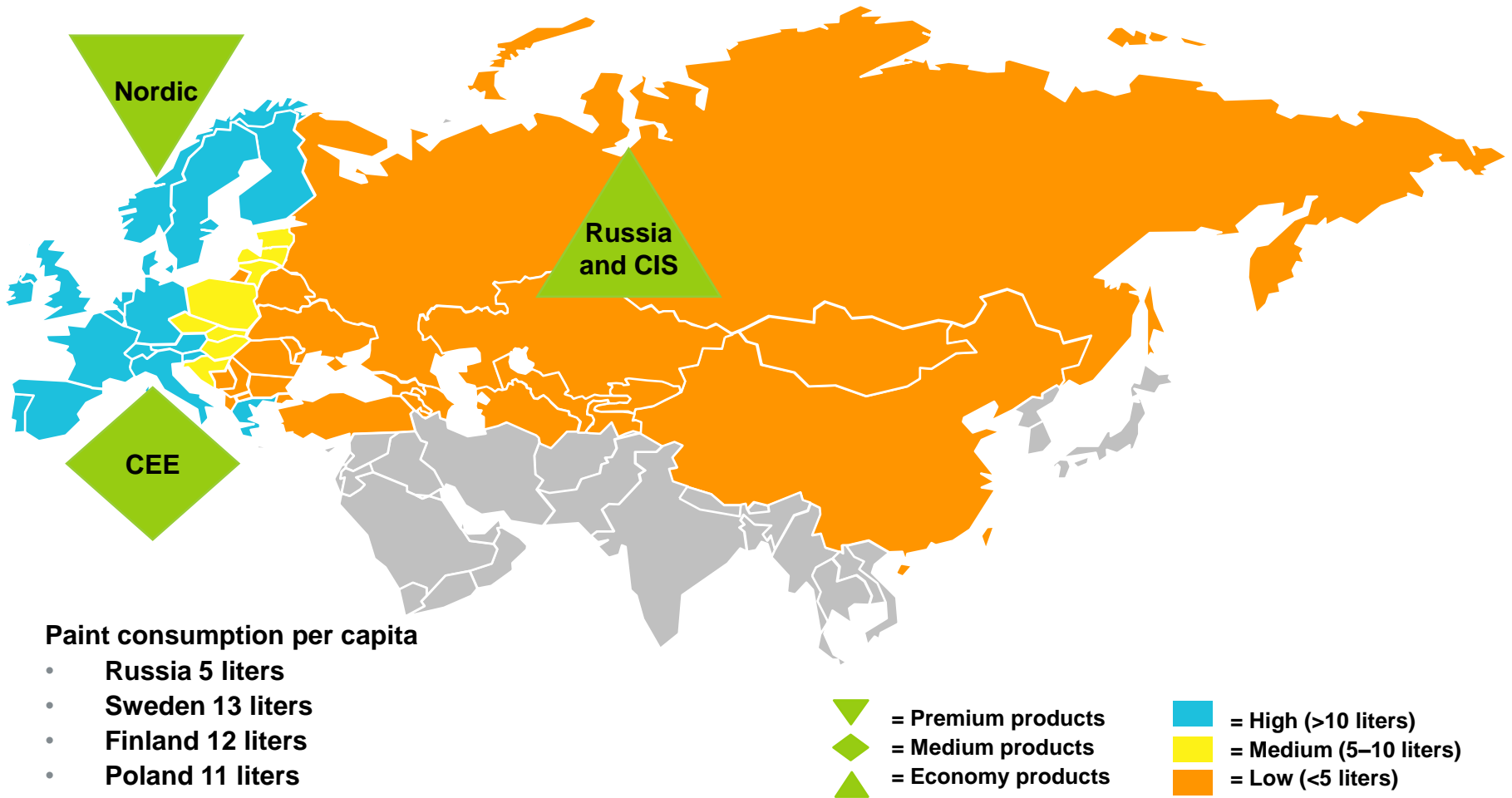
# Historical and forecast sales of decorative paints



- Global decorative paint sales is estimated to total approximately EUR 33 billion in 2012
- Europe represents approximately 30% of the total value
- Demand growth is closely correlated with GDP development

Source: Orr & Boss, IPPIC

# Standard of living and painting habits drive paint consumption



Paint consumption source: Management estimates, IPPIC

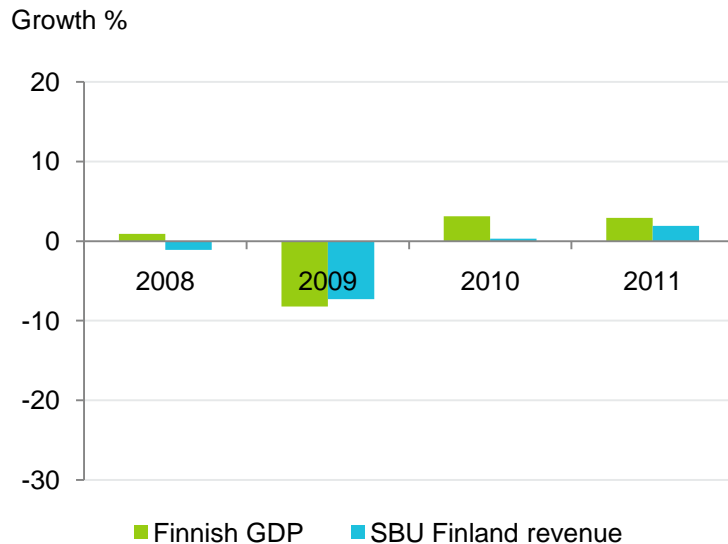
# Drivers for paint demand

	MATURE MARKETS	EMERGING MARKETS
<b>Demand factors in long-term</b>	<ul style="list-style-type: none"> <li>• Construction styles</li> <li>• Trends in interior decoration</li> </ul>	<ul style="list-style-type: none"> <li>• Economic development and improving standard of living</li> <li>• Potential for trading-up</li> <li>• Local habits, e.g. frequency of repainting</li> </ul>
<b>Demand factors in medium and short-term</b>	<ul style="list-style-type: none"> <li>• GDP growth</li> <li>• Consumer confidence</li> <li>• Employment situation</li> <li>• Activity level in new construction and renovation</li> </ul>	<ul style="list-style-type: none"> <li>• GDP growth</li> <li>• Consumer confidence</li> <li>• Employment situation</li> <li>• Activity level in new construction and renovation</li> </ul>
<b>Supply factors</b>	<ul style="list-style-type: none"> <li>• Raw material prices and availability</li> <li>• Changes in regulation</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material prices and availability</li> <li>• Changes in regulation</li> </ul>



# Paint demand and GDP development are clearly correlated

Mature market example



Emerging market example

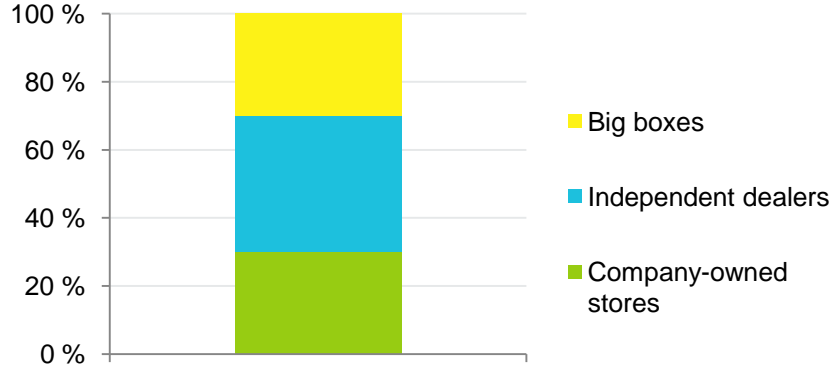


- In mature markets, the GDP growth has slightly exceeded Tikkurila revenue growth
- In emerging markets, Tikkurila revenue growth has clearly outpaced the GDP growth

\*Euro-denominated revenue

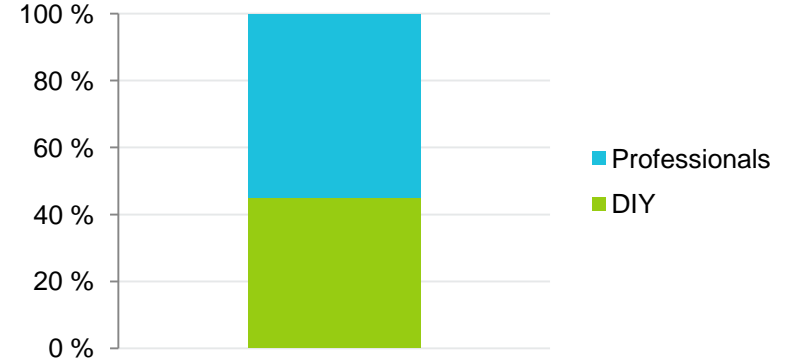
# Key business environment trends in European decorative paint sector

## Distribution



Further structural changes are (slowly) taking place in distribution channels for decorative paints

## Customers

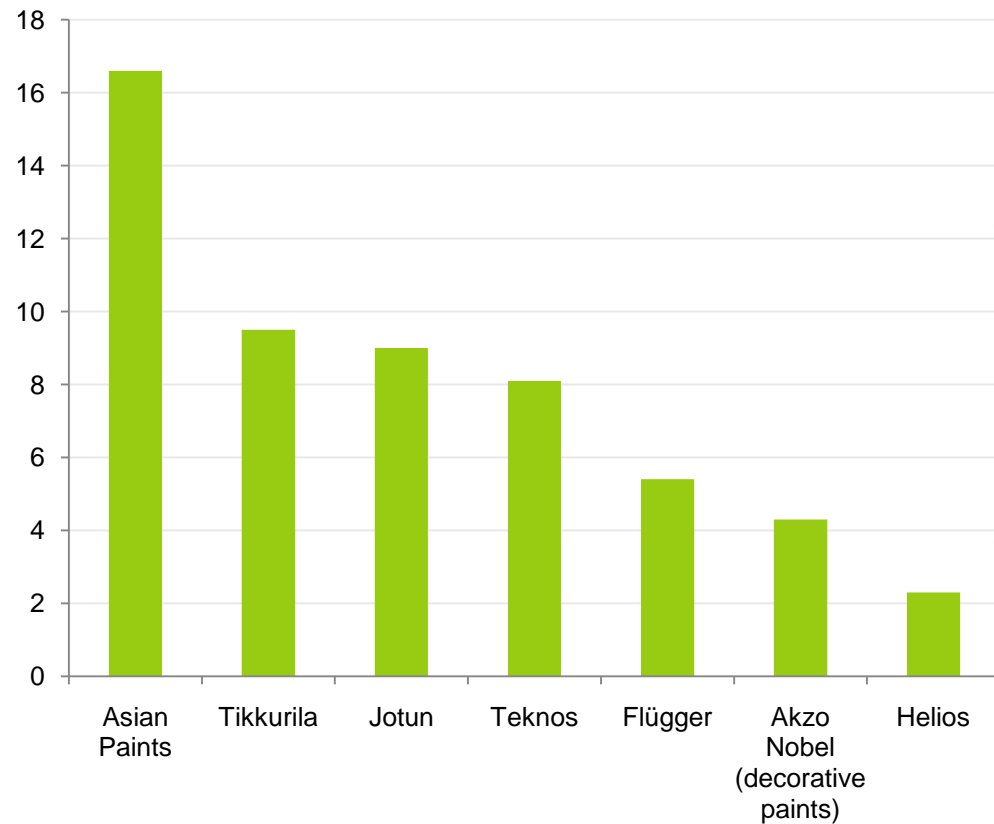


From do-it-yourself (DIY) to buy-it-yourself (BIY) and do-it-for-me (DIFM)

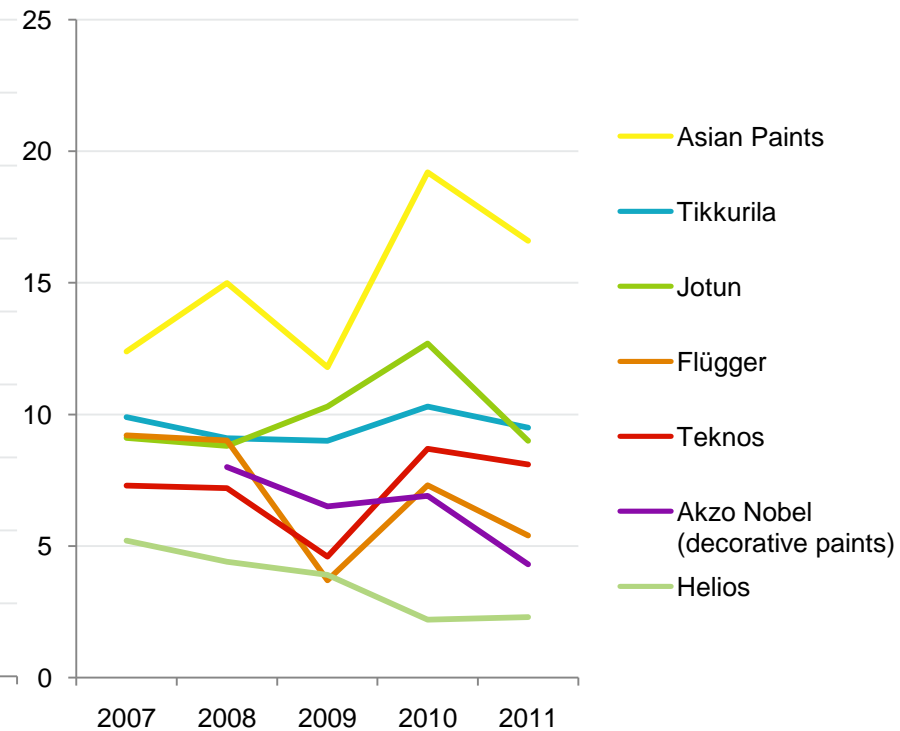
Source: Orr & Boss, IPPIC

# Peer group profitability comparison

EBIT % in 2011



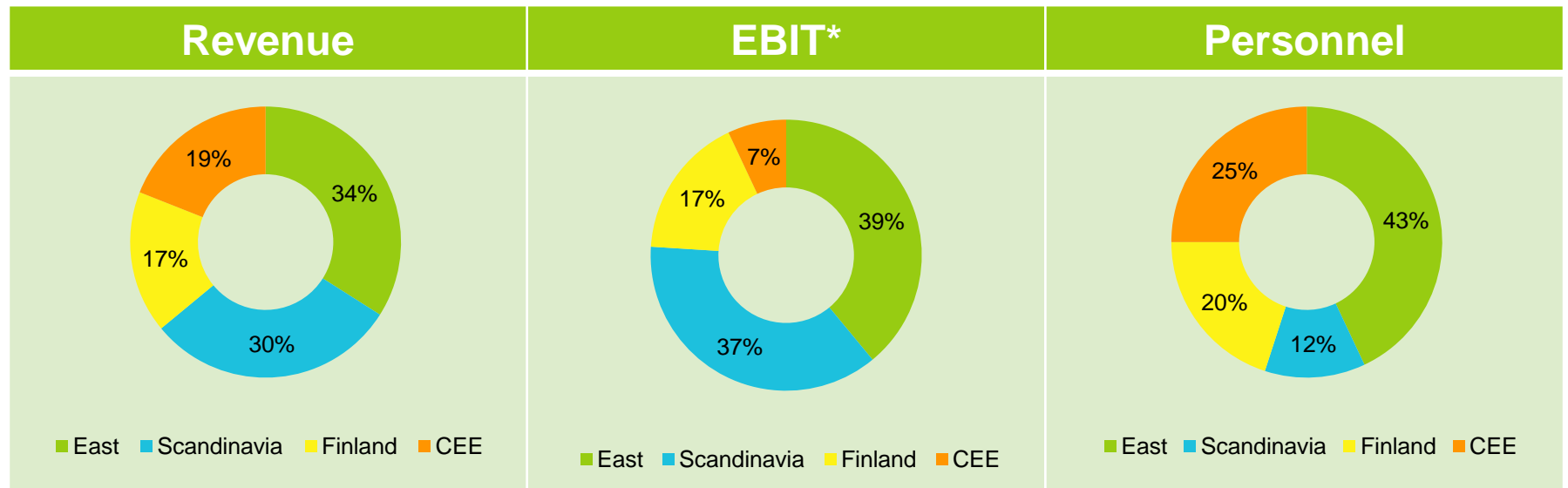
EBIT % 2007–2011



Source: Data published by the companies

Note: Companies may apply different reporting standards, financial periods and currencies

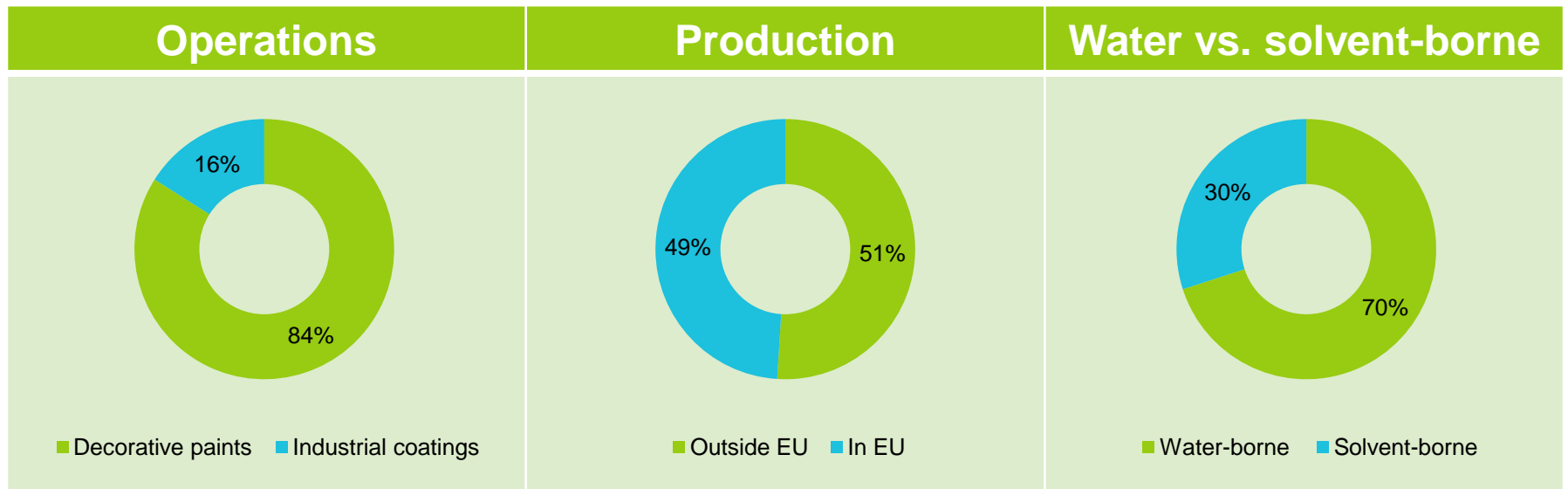
# Tikkurila key facts 2011



- Revenue EUR 643.7 million
- EBIT (excl. non-recurring items) EUR 62.7 million
- Personnel at year-end 3,551

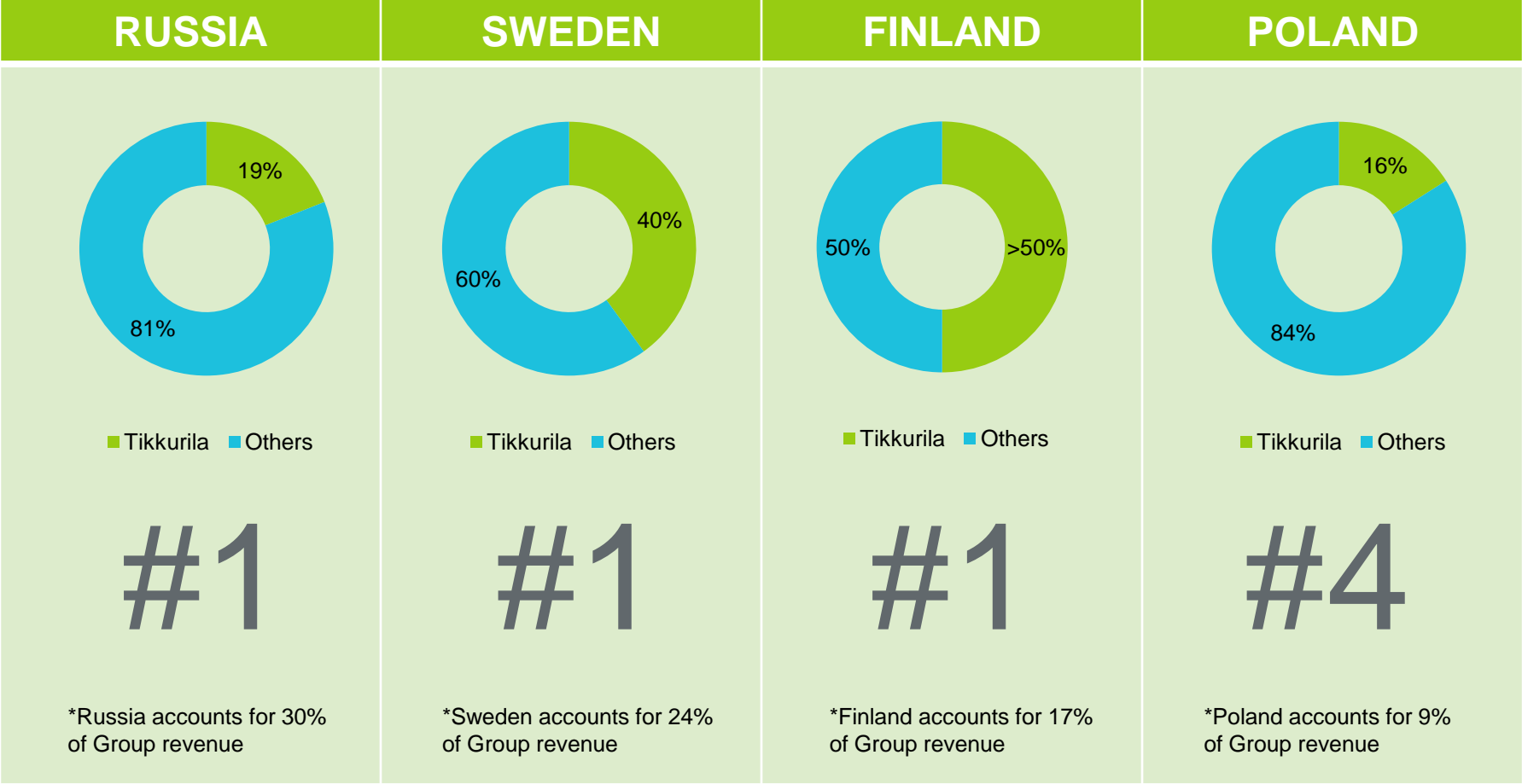
\*Excl. non-recurring and Group items

# Tikkurila key facts 2011



- Focus on decorative paint business
- Total production capacity ~300 million liters
- Water-borne paints account for two thirds of total production

# Tikkurila market shares and positions in decorative paints in key markets\* in 2011

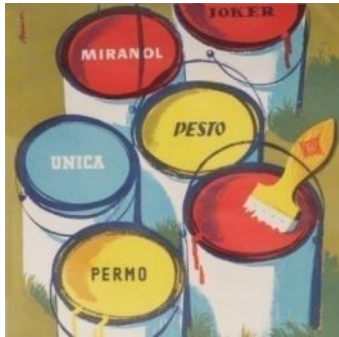


Sources: Chem-Courier (Russia, volume), SVEFF (Sweden, value), Association of Finnish Paint Industry (Finland, value), IRP Research (Poland, volume)

# 150 years of decoration and protection

## 1920s

The manufacture of paints and lacquers began in Tikkurila in 1919. Extensive enlightenment and course activities began in the 1920s.



## 1960s

Entering the Scandinavian market through Sweden. A clear leading position was obtained through the acquisition of Alcro-Beckers in 2001. Tinting technology was introduced.



## 2010s

Tikkurila listed on the stock exchange. Tikkurila turns 150 years. The introduction of the Social Responsibility program "Sustainable Beauty".

1862

1950

1960

1970

1980

1990

2010

## 1862

An oil press was founded on the banks of the Keravanjoki River in Tikkurila.

## 1950s

Tikkurila introduced its first water-borne product, the Joker paint. Tikkurila's coloring service was led by designer Yki Nummi.



## 1970s

Entering the Eastern trade. Tikkurila was known as "Firma Miranol" in Soviet Union. The acquisition of Kraski Teks in 2006 made Tikkurila the leading decorative paint company in Russia.

## 1980s

To the Eastern European market and the Baltics through Poland.

# Tikkurila is focused on Northern and Eastern Europe





# Supply Chain Management key themes

**Production  
set-up**

**Logistics  
set-up**

**Outsourcing  
of non-core  
operations**

**Complexity  
reduction  
in all  
operations**

# Examples of efficiency improvement measures

## RESTRUCTURING

- Headcount reductions and improved resource planning
- Reorganizing of areas and sales organizations in Russia and the Baltics
- Sale of the subsidiaries in Hungary, Slovakia, the Czech Republic and Romania

## LEAN MANAGEMENT

- Lean is a systematic approach to identifying and eliminating waste through continuous improvement
- Optimizing production planning and processes, improving product quality and occupational safety, reducing production and transportation costs, reducing the amount of material waste and paint waste



## SKU MANAGEMENT

- Measures to optimize product and raw material portfolios and to create formula, raw material and product portfolio management models for the future
- Measures to create transparency in formulas and raw materials on Group level; implementation of new IT applications in order to support and increase the efficiency of R&D and Product Safety work

# Growth example: the Balkan area

## Tikkurila in the Balkan area

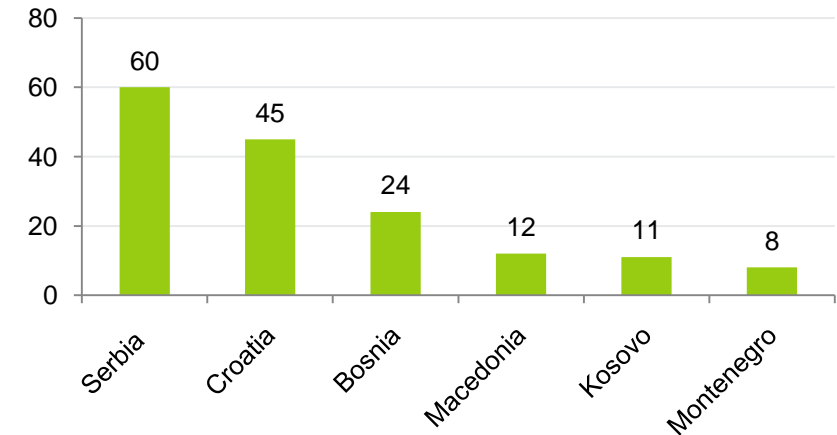
Balkan	Serbia, Macedonia, Bosnia-Herzegovina, Croatia, Slovenia, Montenegro, Kosovo
Tikkurila production sites	Serbia
Tikkurila personnel	150
Market position	#3 in Serbia #1 Macedonia

CATEGORY	BRAND
Premium	—
Medium	
Economy	

Introduction (2012/2013) of Tikkurila brand to high-end/premium category to complement the offering and differentiate from competitors

## Balkan paint market

EUR million



Paint market size	EUR 160 million
Paint consumption per capita	~5 liters
Distribution	90% traditional shops 10% big boxes
Biggest paint companies	JUB, Helios, Tikkurila Zorka

Paint market information source: Management estimates

# Difficult to find optimal M&A targets; focus on organic growth

## Strategic fit

- Geographic area
- Product and service portfolio
- Competitive landscape

## Target characteristics

- Leading market position
- Strong brands
- Focus on decorative paints
- Wide and efficient distribution network
- Good quality customer base
- Opportunities for profitable growth
- Strong track record
- Competent management and personnel
- Good governance

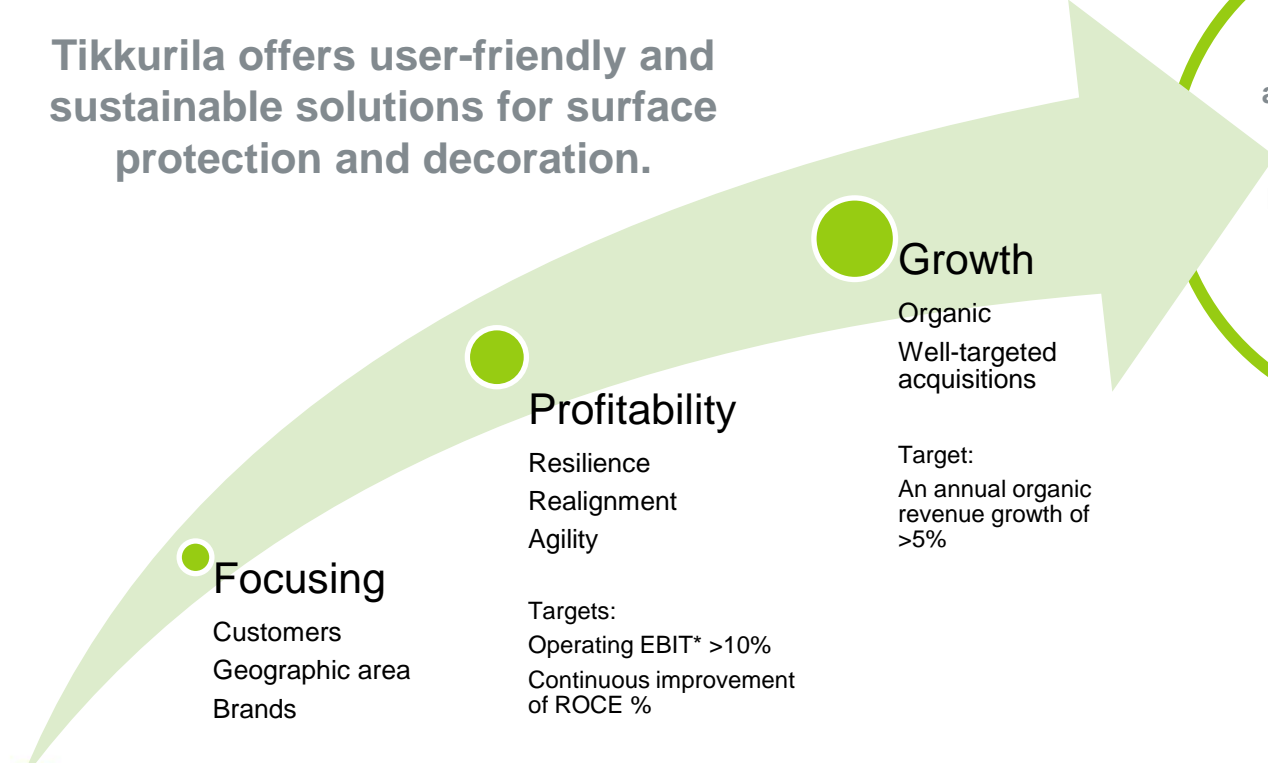
## Valuation

- Key valuation metrics within Tikkurila's target range set internally

# Tikkurila's strategy 2012–2014

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

The leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area as well as in Russia and other selected Eastern European countries.



**Focusing**  
 Customers  
 Geographic area  
 Brands

**Profitability**  
 Resilience  
 Realignment  
 Agility

Targets:  
 Operating EBIT\* >10%  
 Continuous improvement of ROCE %

**Growth**  
 Organic  
 Well-targeted acquisitions

Target:  
 An annual organic revenue growth of >5%

\*Excluding non-recurring items



trustworthy



innovative



professionals

# Tikkurila's key growth drivers

## GDP

Tikkurila's growth outpaces the average GDP growth of its key markets  
Trading-up in paint demand as standard of living improve

## WINNING MARKET SHARE

Constant development of product and service offering with feasible distribution set-up for each market

## DISTRIBUTION

Evaluation of new distribution methods is a key priority for the management

## SERVICES

Services business provides interesting growth opportunities in all markets

# Tikkurila key strengths

**LEADING MARKET POSITIONS IN KEY MARKETS**

**STRONG CASH FLOW GENERATION ABILITY**

**INCREASING SHARE OF SALES IS DERIVED FROM EMERGING  
MARKETS**

**SOLID PERFORMANCE OVER BUSINESS CYCLE**

**PROFITABILITY EXCEEDS THE INDUSTRY AVERAGE**

**COMPETENT AND DIVERSIFIED MANAGEMENT TEAM**

FOCUSED

LEADING

B2C

BRANDS

SOLUTIONS





**Q&A**

**TIKKURILA**