



TIKKURILA

Business Review

Q1/2021

Revenue and profitability continued to improve significantly

Tikkurila Oyj
Business Review Q1
April 28, 2021 at 9.00 a.m. (EEST)

January-March highlights

- Revenue increased by 9.3 percent compared to 2020, amounting to EUR 145.4 million (1-3/2020: 133.0). Comparable revenue increased by 12.9 percent, excluding currency effects.
- Adjusted operating result increased by 105.8 percent to EUR 17.6 (8.5) million and amounted to 12.1 (6.4) percent of revenue.
- Operating result (EBIT) increased by 88.5 percent to EUR 16.1 (8.5) million and was 11.1 (6.4) percent of revenue.
- Earnings per share (EPS) increased by 258.6 percent to EUR 0.31 (0.09).
- Regarding the voluntary recommended cash tender offer for all the shares in Tikkurila Oyj by PPG Industries, Inc., PPG announced on April 14 that it has extended the tender offer period to continue until May 11, 2021.

Elisa Markula, CEO

Tikkurila's financial performance during the first quarter was strong, revenue increased by 9 percent and revenue without currency effects close to 13 percent. The adjusted operating result reached EUR 17.6 million, which is more than double compared to the same period a year ago. High demand for decorative paints and premium quality brands continued, and our customers prepared actively for the upcoming peak season. Volume development was +10 percent.

Tikkurila experienced a strong revenue growth particularly in Sweden and Poland, and revenue increased also in Finland. Excluding the impact of the weakening Ruble, our paint sales grew by double-digits in Russia. Across all key markets, our sales and price mix continued to develop positively and the demand both for interior and exterior paints was high in all decorative channels and markets. In industry paints, revenue was slightly below the previous year's level, and performance varied from country to country. We saw growth in wood industry paints, while at the same time, demand decreased in the metal industry paint market.

The demand for decorative paints continued on a healthy level, and despite the Covid-restrictions imposed in some countries such as in the Baltic countries, Poland and Denmark, the impact on paint sales remained minor as home improvement shops were allowed to operate. Many customers discovered new ways to serve their customers in home improvement activities safely with an increased focus on online and click & collect activities.

Tikkurila expects the Do-It-Yourself (DIY) -trend to continue solid throughout the coming months as travel restrictions are still valid in many countries. People tend to stay extensively at home and spend their excessive spare time by renovating their homes and other premises.

The paint industry has recently experienced constraints in raw material supply causing availability issues and cost inflation globally. The impact of raw material disruption is expected to be visible from Q2 onwards.

PPG Industries, Inc. made a voluntary recommended public cash tender offer for all outstanding shares in Tikkurila in December 2020. PPG has decided to extend the offer period for the Tender Offer to expire on May 11, 2021.

Key figures for the Group

EUR million	1-3/2021	1-3/2020	Change %	1-12/2020
Revenue	145.4	133.0	+9.3%	582.0
Excl. currencies and closures		+17.2	+12.9%	
Operating result	16.1	8.5	+88.5%	61.1
Operating result margin, %	11.1%	6.4%	+4.6%-p*	10.5%
Adjusted operating result	17.6	8.5	+105.8%	63.8
Adjusted operating result margin, %	12.1%	6.4%	+5.7%-p	11.0%
Net result for the period	13.5	3.8	+258.6%	43.1
Earnings per share (EPS), EUR	0.31	0.09	+258.6%	0.98
Interest-bearing net liabilities (at period-end)	48.8	95.6	-49.0%	12.1
Cash and cash equivalents	37.9	70.5	-46.2%	92.0
Total equity (at period-end)	195.4	166.3	+17.5%	181.4
Total assets (at period-end)	454.0	486.5	-6.7%	441.6
Gearing, %	25.0%	57.5%		6.7%
ROCE, %, rolling	27.6%	15.8%		24.0%
Cash flow after capital expenditure	-32.2	-17.4	-85.2%	92.0

*percentage points

Main drivers (Q1)

The demand for **decorative paints** remained high during the first quarter. The sales of premium quality products, Tikkurila, Alcro and Beckers, increased and price/mix impact was positive. Our customers also prepared actively for a coming paint peak season.

In **industry paints** the total revenue slightly declined, but performance varied between countries and segments. The revenue declined in metal industry paints but increased in wood industry. Especially Poland was growing in industry paints.

Currencies had a clear negative impact on the revenue during the quarter. The weakening of the Russian Ruble impacted negatively on the revenue in SBU East, whereas in local currency the revenue growth was strong. In SBU West, the weakening Polish Zloty had a negative impact on the revenue, which however, was compensated by the strengthening Swedish Krona.

Operating result improved significantly driven by the healthy demand for decorative paints and positive development on all core markets. The turn-around efficiency improvements also boosted the financial result. Items affecting comparability during Q1 were related to the on-going PPG's tender offer.

Segment data

EUR million	1-3/2021	1-3/2020	Change %	1-12/2020
SBU West revenue	107.1	96.9	+10.5%	398.0
Excl. FX and closures		+9.3	+9.6%	
SBU West operating result (EBIT)	15.2	10.4	+47.8%	49.0
SBU West adjusted operating result	15.4	10.4	+47.8%	49.2
SBU East revenue	38.3	36.0	+6.3%	184.1
Excl. FX and closures		+7.9	+21.9%	
SBU East operating result (EBIT)	3.5	-0.9	+475.4%	20.4
SBU East adjusted operating result	3.6	-0.9	+483.5%	21.8
Group Common operating result	-2.6	-0.9	-176.3%	-8.3

Effects of various factors on revenue

	Group		SBU West		SBU East	
	EUR million	%	EUR million	%	EUR million	%
Revenue in Q1/2020	133.0		96.9		36.0	
Volume	13.0	9.8%	7.1	7.3%	5.9	16.5%
Price/mix	4.2	3.1%	2.2	2.3%	2.0	5.5%
Currencies	-4.7	-3.6%	0.9	0.9%	-5.6	-15.5%
Divestments	-		-		-	
Revenue in Q1/2021	145.4	+9.3%	107.1	+10.5%	38.2	+6.3%

Revenue by region

EUR million	1-3/2021	1-3/2020	Change %	1-12/2020
Russia	26.0	27.7	-6.0%	133.6
Sweden	36.6	31.0	+18.1%	131.3
Finland	29.1	27.6	+5.5%	97.9
Poland	24.2	21.4	+12.9%	92.6
Other countries*	29.4	25.2	+16.6%	126.6

* Tikkurila's products are available in over 40 countries.

Main drivers (Q1)

In **Russia** (SBU East), euro-denominated revenue declined due to the weakening Russian Ruble, but the revenue in local currency was in double digit growth, driven by decorative paints. Sales mix continued to develop positively, as demand increased for premium brands.

In **Sweden** (SBU West), revenue increased driven especially by decorative paints. The growth was driven by the continued strong demand for all paints. The strengthened Swedish Krona impacted positively on revenue.

In **Finland** (SBU West), revenue increased in decorative paints, driven by exterior paints. Revenue decreased in industry paints whereas metal industry has been impacted by the generally lower demand in our customers' businesses.

In **Poland** (SBU West), revenue increased both in decorative and industry paints driven by the strong growth in premium quality brands. The weakened Polish Zloty had a negative impact on the euro-denominated revenue.

The revenue increase in Other countries was driven by Denmark and China. China recovered against the relatively weak comparison period.

Income statement

EUR million	1-3/2021	1-3/2020	Change %	1-12/2020
Revenue	145.4	133.0	9.3%	582.0
Other operating income	0.6	0.8	-25.8%	2.7
Expenses	-124.0	-119.4	3.9%	-499.1
Depreciation, amortization and impairment losses	-5.9	-5.8	1.2%	-24.4
Operating result	16.1	8.5	+88.5%	61.1
Total financial income and expenses	0.4	-3.8	+109.9%	-6.6
Share of profit or loss of equity-accounted investees	0.1	0.1	+63.7%	0.4
Result before taxes	16.6	4.8	+242.7%	54.9
Income taxes	-3.0	-1.1	+185.9%	-11.8
Net result for the period	13.5	3.8	+258.6%	43.1

Reconciliation of adjusted operating result to EBIT

EBIT by segment	1-3/2021	1-3/2020	1-12/2020
EUR million			
SBU West	15.2	10.4	49.0
SBU East	3.5	-0.9	20.4
Tikkurila common	-2.6	-0.9	-8.3
Eliminations	-	-	-
Total	16.1	8.5	61.1
Items affecting comparable EBIT by segment	1-3/2021	1-3/2020	1-12/2020
EUR million			
SBU West	-0.2	-	-0.2
SBU East	-0.1	-	-1.4
Tikkurila common	-1.2	-	-1.1
Eliminations	-	-	-
Total	-1.5	-	-2.7
Adjusted operating result by segment	1-3/2021	1-3/2020	1-12/2020
EUR million			
SBU West	15.4	10.4	49.2
SBU East	3.6	-0.9	21.8
Tikkurila common	-1.4	-0.9	-7.2
Eliminations	-	-	-
Total	17.6	8.5	63.8
Items affecting comparable EBIT			
Group total	1-3/2021	1-3/2020	1-12/2020
EUR million			
Divestments, changes in Group structure	-	-	0.0
Costs related to public tender offer	-0.5	-	-0.9
Personnel related *)	-1.0	-	-0.5
Impairment losses	-	-	-1.3
Total	-1.5	-	-2.7
SBU West	1-3/2021	1-3/2020	1-12/2020
EUR million			
Divestments, changes in Group structure	-	-	0.0
Personnel related *)	-0.2	-	-0.0
Impairment losses	-	-	-0.2
Total	-0.2	-	-0.2
SBU East	1-3/2021	1-3/2020	1-12/2020
EUR million			
Divestments, changes in Group structure	-	-	0.0

Personnel related *)	-0.1	-	-0.2
Impairment losses	-	-	-1.1
Total	-0.1	-	-1.4
Tikkurila common	1-3/2021	1-3/2020	1-12/2020
EUR million			
Costs related to public tender offer	-0.5	-	-0.9
Personnel related *)	-0.6	-	-0.2
Total	-1.2	-	-1.1

*) Related to the public tender offer in Q1/2021

Market review and impact of Covid-19

Similar to 2020, Covid-19 has continued to support demand for decorative paints as consumers increasingly focus on home improvement activities. In industrial paints, the pandemic has led to a weaker demand on some of our operating markets, whereas effects vary between different segments of the paint industry.

For Tikkurila, uncertainties regarding the possible new waves of Covid-19 infections relate to whether the local governments will reinstate restrictions on the mobility of people or access to points of sale. These restrictions might impact customer demand, production and suppliers. We expect less lock-downs due to improving vaccination coverage.

Tikkurila expects Do-It-Yourself (DIY) -trend to continue solid throughout the coming months as travel restrictions are still valid in many countries. People tend to stay extensively at home and spend their excessive spare time by renovating their homes and other premises. The pandemic changed the dynamics of the decorative paints market: during the lockdowns, consumers have turned into Do-It-Yourself (DIY) from Do-It-For-Me (DIFM), but we expect that DIFM will again grow when travel mobility increases.

Raw material constraints

Due to simultaneous downstream raw material supply challenges and heavy global demand for decorative paints, the paint industry has experienced constraints in supply causing availability issues and price pressures globally. The impact is expected to be mainly visible in Q2 onwards. However, we target pricing changes to offset the accelerating raw material cost inflation from the second half of 2021 onwards.

Development of Tikkurila's land area in Vantaa, Finland

The development of the use of land area owned by Tikkurila Oyj and located in Vantaa Finland, progresses according to plan. As informed earlier, Tikkurila Oyj plans to relocate its Finnish business operations and to develop the land area of the company's current facilities. The first phase containing the office building area of Tikkurila Oyj has started with a planning competition, the results of which are expected by the end of 2021. The development in phases and its planning are made in cooperation with the city planning of Vantaa.

Tender Offer by PPG Industries, Inc.

The tender offer by PPG Industries, Inc. for all the shares in Tikkurila Oyj commenced in January 2021. On April 14, 2021, PPG announced its decision to extend the offer period to expire on May 11, 2021 at 4:00 p.m. (Finnish time), unless the offer period is extended further

or any extended offer period is discontinued in accordance with the terms and conditions of the tender offer.

As previously announced, the European Commission, Ministry of Economic Affairs and Employment of Finland and Agency for Protection and Development of Competition of the Republic of Kazakhstan have granted approvals for the completion of the tender offer. The approval for the acquisition of Tikkurila's shares from the Federal Antimonopoly Service of Russia still remains pending. PPG anticipates receiving the approval of the Federal Antimonopoly Service of Russia for the acquisition of Tikkurila's shares within the extended offer period.

Other than the receipt of necessary regulatory approvals, the tender offer is subject to customary conditions to completion set out in the tender offer document, including the valid acceptance of the tender offer with respect to shares representing, together with shares otherwise held by PPG and any of its subsidiaries, more than 66.7% of the shares and voting rights in Tikkurila.

Share-based incentive plans and one-time costs related to the Tender Offer

The costs related to the implementation of the Tender Offer will have an effect on Tikkurila's financial result for 2021. Regarding the share-based incentive plans, as informed earlier, the Board of Directors made a decision in December 2020, pursuant to the combination agreement made with PPG Industries Inc. that the Company will resolve, in case the tender offer is completed and the transaction is closed, to settle in cash all outstanding awards to be paid for the performance periods under the share-based incentive plan. The change in settlement as cash will have a material one-time negative impact on the result for the financial year 2021 as well as a negative one-time impact on the group's equity. In addition, related to the tender offer and transaction there will be material one-off cost items, too, affecting the result for financial year 2021.

Guidance for 2021

Revenue is expected to remain at previous year's level excluding currency effect and adjusted operating result to remain on, or slightly below previous year's level when excluding costs in connection with implementing the public tender offer. (2020: EUR 582 million and EUR 63.8 million).

Annual General Meeting

As announced earlier, Board of Directors will summon the Annual General meeting 2021 at a later date.

Conference call

Regarding the Business Review Q1, no conference call will be arranged this time.

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Sustainable Nordicness

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 2,400 dedicated professionals share the joy of building a vivid future through surfaces that make a difference. In 2020, our revenue totaled EUR 582 million. The company is listed on Nasdaq Helsinki. Nordic quality from start to finish since 1862.

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