



JOTUN: INTERNATIONAL STRATEGY

"The pace of Jotun's long term growth will be determined by how quickly we seize emerging opportunities in existing and new markets."

– Morten Fon, President and CEO, Jotun (2015)

Since its establishment in 1926 in the town of Sandefjord in South Eastern Norway, the Jotun Group has become one of the world's leading manufacturers of paints, coatings and powder coatings, with annual total sales surpassing USD 2,0 billion (16,3 bill NOK, 2015). The group is present in over 100 countries.

Over the last decades, the company's geographic expansion has _____ has success in the future?

2. Where and how can Jotun grow in the future?

INDUSTRY

The paints and coatings industry is highly fragmented into numerous market segments. They fall into either decorative paints or

industrial coatings. The products include wet and dry types of paints and coatings.

The decorative segment, which targets households, accounts for 45% of the global paint and coatings market. In the most industrialised markets such as Western Europe, Scandinavia and North America, the industry is considered to be mature, with customers demanding high customization and superior quality. In Scandinavia, the household market started to mature as early as the 1960s, when Norway had, and continues to have, one of the highest levels of paint consumption per capita in the world. The consumption of paint per capita in developing markets is expected to grow in line with the improvement in economic prosperity. The decorative market tends to be local, both in terms of customer preferences reflecting climate characteristics and cultural tastes.

Coatings for industrial use include segments such as the automotive industry, metal industrial, (original equipment manufacturers OEM), light metal industry, Powder Coatings, coil, packaging, marine industry and, industrial maintenance and protection (onshore and offshore construction). Like the decorative segment, the market for protective coatings used in industry is largely local. Increases in demand come mainly from either developing markets that are becoming industrialized or from projects such as new oil rigs and pipelines. The latter represents a high growth market, demanding premium anti corrosion coatings with a long lifespan. An example of this is the more than 200,000 km of pipelines passing through Siberia to deliver liquefied natural gas. A small hole caused by corrosion can lead to significant financial losses and environmental damage. To give some indication, authorities in Dubai recently spent USD 10 billion to renew pipelines.

Moreover, the need for different types of protection vary from industry to industry which offers niches for differentiation, with distinct technologies being used for different purposes. For instance, the protection required for the hulls of ships is quite different from the waterline protection for offshore oil and gas rig construction. Moreover, the characteristics of each industry also play a role. The marine industry is largely global and cyclical with uniform needs around the world, whereas coatings for construction are highly fragmented and local. Although the marine segment accounts for only a small share of worldwide market consumption (3 – 4%), it is highly demanding in terms of the quality levels and is a financially lucrative segment in which to be involved.

The value chain generally varies based on the specifics of each segment, with some common raw materials. These are a mix of commodities and rare materials such as copper, titanium dioxide and epoxy that go into the production. The suppliers are largely global and concentrated. A major concern is the volatile nature of raw material prices, which could have a significant impact on the bottom line. There are only a few substitutes for these coatings, including cathodic coating and stainless steel. In the distant future, some paint and coating niches could be replaced by

INTERNATIONAL MARKETS

The global paint and coatings market was estimated to total sales of USD 126 billion in 2015 (Jotun's own figures). Jotun is targeting around \$ 75 billion of this market. In 2015, the split between industrial coatings and decorative paints output was 49% and 51% respectively, but decorative accounted for only 44% of total sales value due to pricing.

Markets are generally regional. In 2015, the global market grew by nearly 5%, driven by increased demand in Asia Pacific.

The Asia Pacific region is the world's largest regional market for paint, accounting for 40% in terms of revenue. China accounted for more than half of this market. Europe is the second largest market, accounting for 30%. The dynamics in the European market vary, with most growth coming from Eastern Europe. The Middle East and Africa are generally viewed as part of the European market. There is uncertainty regarding the largely untapped markets on the African continent that represent potentially high rewards. North America is a mature market that accounts for 19% of global sales, with expected moderate growth potential in coatings as the infrastructure is expected to be renewed. Finally, the South American and Latin American regions accounted for 7% of the global market and are expected to continue to grow, given China's continuous growth. Africa is the other growth engine of this market. (See below)

The global market for Paints and Coatings is today valued at around 135 bill USD, expected to grow around 5 % YOY to a doubling by 2030¹.

Historically, increased per capita income has led to an upward trend in consumption, with paint market growth 2-3%

points above GDP growth. Globally, the industrial market (non Deco) is growing faster than architectural. Jotun holds a 3% share of the global market, a top 10 position among direct competitors and has shown strong growth over the last 10 year period.

The paint industry has been characterized by traditional business models, but this could change the next 5-10 years. Three main factors behind such a development are:

1. Asian growth – The market will be driven mainly by growth in Asia, accounting for over 70% of total increase in value. œ

Kansai's has strong focus on responding to environmental concerns and the company is making significant efforts along all phases of the supply chain, from responsible purchasing and production to innovative products, with a dedicated committee overseeing this process. For example, one of the outputs of such a process was ALES COOL, a high performance solar radiation reflective coating for roofs that can reduce the heat energy penetrating into a building from a sun exposed roof during hot summer days.

Nippon was established in 1881, making it

JOTUN GROUP

"Jotun has always been willing to accept risks, but not more than we can handle"

– Executive Group Vice President Geir Bøe

Jotun's history is shaped by the family members who have been at the company's helm for nine decades. In 1920, Odd Gleditsch, a young and talented Norwegian businessman, opened a paint distributor's shop after serving in a shipping fleet where he saw the importance of paint as the protection from corrosion. The whaling industry was prospering and Gleditsch soon worked his way into the business of supplying paints to whaling fleets in the cities of Sandefjord, Tønsberg and Larvik (in southeast Norway).

As sales to the whaling fleet increased, Gleditsch saw the potential in manufacturing the paint himself. In 1926, Gleditsch invited shareholders to invest in the new company which was formed from two entities: a newly founded Jotun Kemiske Fabrik A/S and the plant of Gimle Oljemølle A/S that had been closed due to bankruptcy. Odd Gleditsch was the Managing Director of the new organization. The acquired company was located just outside Sandefjord and had facilities for producing antifouling and marine paints.

From the very start, Odd Gleditsch placed great emphasis on quality. In 1951 a new factory together with a new state of the art laboratory was built in Gimle outside Sandefjord. Rivals considered it madness, but Gleditsch had a vision: *"Our future success depends on an investment in research and development."* These R&D investments led to improved product quality, which in turn had a positive

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particular industries and path dependencies from Jotun's initial business experience shaped the strategic choice of Jotun's segments and its offerings.

Jotun is organised into

Meanwhile in the Middle East and Africa regions, Jotun continued

JOTUN'S STRATEGY

In 2015, Jotun ranked among the top 10 world's leading coating suppliers. The company's strategy consists of three core elements:

- x focus on four main segments (decorative paint, marine coatings, protective coatings and powder coatings),
- x differentiated approach, and
- x organic growth.

Firstly, the company focuses on paint and coating products within four main segments. Any diversification, into other product areas, market segments or along the value segments. Any

"I believe there are more similarities than differences when it comes to culture. Through internal training programs, job rotation and social arenas knowledge and experience is shared, networks are established that strengthen what we call the "Penguin Spirit."

Per Harald Engesæth, Group Vice President Human Resources

There are good reasons to believe that the strong corporate culture along with internal development and career opportunities explains the relatively low turnover of employees in the company.

Vietnam represents a useful example of how Jotun's organic growth model works. Jotun had been active in Vietnam since 1992, with the company serving both marine and protective customers with personnel sourced from Singapore. The company opened its first representative office in Ho Chi Minh City in 1994, which was staffed with five people. As the economy grew, Jotun opened a small factory in 1998 and, over the next few years, established operations in other parts of the country, including the Haiphong maritime hub near the capital, Hanoi. Jotun began marketing decorative paints in 2003 and a year later the company extended the factory with a larger, modern production facility. In 2015, Jotun employed about 296 people and was the market leader in the marine and protective segments. Employees were hired locally and came from the local regions. In addition, experienced expat managers from other Jotun organisations played an important part in the growth.

The Southeast Asian region exemplifies the Jotun's strategy. The total turnover in the region has tripled from 2005 to 2015. The increase in the decorative market is partially explained by locally adapted innovation processes introducing several successful products each year. In addition, the company exploited synergies between subsidiaries. Another factor was the expansion of Multicolor

Decorative paints. This segment offers customers a wide range of interior products, including the premium segment Lady and Jotun Majestic Pearl Silk, the medium segment

appliances, metal furniture and fixtures and general industrial coatings. Jotun Powder Coatings' headquarters is located in Dubai with a large distribution network to cover over 75 countries worldwide. In 2015, the company's powder operations included 10 manufacturing facilities located in the Czech Republic, Turkey, the United Arab Emirates, the Kingdom of Saudi Arabia, India, China, Pakistan, Thailand, Malaysia, and Indonesia. Powder Coatings have been designed to meet the latest industry standards and are developed with sustainability in mind, using the latest technologies. With three decades of experience, Jotun is at the forefront of offering customers products specifically suited to local conditions. Furthermore, the new products cure at a lower temperature, representing a major innovation leading to reduced energy costs and a smaller carbon footprint for customer. The environmental aspect is a growing concern among users and since powder coatings do not contain VOCs, the division offers an alternative to wet paints

Yachting. There is an extensive product portfolio for yachting and mega yachts designed for long lasting protection of boats and to help them achieve their best performance. Products include antifouling design systems, yachting primers and undercoats, topcoats, yachting epoxy fillers, varnishes and a range of advanced products for the maintenance of all areas of boats. This segment is strongest in Scandinavia.

TECHNOLOGY AND R&D

There are clear production synergies between segments since 80% of the paint and coating products are identical or address the same need for rust protection. To a large extent the main differences are between the general classification of wet paint and dry powder and variations in products' base mix (**Exhibit shows the basic production process for wet and dry paints**). There are clear technological synergies being are

In 2015, Jotun had seven R&D laboratories around the world with two labs exclusively devoted to powder coatings. Jotun's research and development is aimed at introducing products that look good, offer simpler preparation, fewer coats and better protection to achieve longer periods between maintenance and cost savings. The laboratory in Sandefjord serves as the centre for and coordinator of all research. Regional R&D departments adopt a market

strongly on close partnerships in the areas of local marketing, the retail/dealer sales and project sales. Outside Scandinavia only one brand is marketed – Jotun. Countries in each region work together in local teams to implement the strategy. This approach is adopted for product launches, distribution concepts, product and price management,