

## Press release

4 March 2019 – 10:00

### Key messages

- Hempel continues its industrial transformation in 2018 and delivers robust performance with growth and continued strong profitability
- Hempel takes a leading role in the consolidation of the global coatings industry with the acquisition of J.W. Ostendorf
- Negative organic growth of 1.4% considered satisfactory when taking into account the challenging global market conditions
- Hempel has released EUR 166 million in net working capital improvements since beginning of 2016, giving it the resources to acquire other businesses in the next few years
- Hempel has agreed to pay a fine of DKK 220 million for illegal practices to SØIK and the Prosecution Authority in Kiel, Germany. The amount was partly expensed in Hempel's financial statements for 2016
- 2019 will be a year of progress, and Hempel expects to bring more new companies into the Hempel family.

### Positive development for Hempel in 2018: Industrial transformation to continue unabated in 2019

**Global coatings company Hempel delivered strong organic growth in the final quarter of 2018 and doubled its decorative business in Europe by acquiring J.W. Ostendorf. It is now well-placed to lead the consolidation of the global coatings industry.**

*"2018 was a very satisfying year and marks the half-way point for Hempel's major transformational journey. We delivered positive organic growth of 4 per cent in the final quarter, turned around our business in Asia-Pacific and welcomed J.W. Ostendorf to the Hempel family. This puts us in a strong position to push on in 2019 and beyond,"* says Henrik Andersen, Group President & CEO of Hempel.

Hempel's revenue grew by 1.5 per cent in fixed currencies in 2018 and its EBITDA margin ended the year at 10.8 per cent. When excluding J.W. Ostendorf, underlying organic growth was -1.4 per cent and EBITDA margin was 11.8 per cent. This is a satisfactory result in the challenging global market conditions.

Hempel maintained its focus on freeing up working capital. Since the beginning of 2016, it has released EUR 166 million in cash by optimising its net working capital processes. When adjusting for the effect from the acquisition of J.W. Ostendorf, Hempel became debt free in 2018 and now has the freedom to pursue its ambitious growth targets through major acquisitions and strong organic growth.

### Doubling the decorative business in Europe

In 2018, Hempel welcomed J.W. Ostendorf to the Hempel Group, a decorative coatings company with operations primarily in Germany and France. The acquisition doubled Hempel's decorative business in Europe and contributed with EUR 39 million in sales in the fourth quarter of 2018.

Following the acquisition, Hempel created Decorative Europe, a new business unit that combines J.W. Ostendorf and UK & Ireland-based Crown Paints. Decorative Europe will become a true leader in the decorative coatings market for both branded and private labelling, ultimately serving all of Europe, both retail customers and homeowners.

### Demonstrating the strong Hempel culture

Hempel completed a turn-around of its business in Asia-Pacific and a restructuring in North America in 2018 – and both regions ended the year in significantly better shape than they began. In the fourth quarter,

North America delivered robust double-digit organic growth, while Asia-Pacific had a solid foundation for growth, as demonstrated by a strong improvement in earnings in the second half of 2018.

Henrik Andersen comments: *“The turnaround in Asia-Pacific has been achieved by installing completely new leadership teams and working hard on the ground to instil the winning Hempel culture, one with strong ties to our customers and employees engaged in our customer-focused vision. This is a testament to what a strong culture, vision and leadership can achieve.”*

The customer-centric vision is a key part of the Hempel culture, and in 2018 Hempel took an important step to lead the industry in ‘service management’, essentially taking over responsibility for keeping its customers assets in the agreed conditions over the asset’s life cycle. This was done by creating a new globally aligned service organisation, Hempel Services.

### **Hempel has resolved the SØIK case by paying a fine of DKK 220 million**

In April 2017, Hempel self-reported a number of uncovered illegal sales practices found in Germany, other countries in Europe and in Asia to SØIK, the Danish State Prosecutor for Serious Economic and International Crime\*.

The unlawful practices were stopped immediately and the people responsible were replaced. Hempel has completed internal remediation, invested heavily, and established a robust compliance framework.

Hempel A/S and Hempel (Germany) GmbH have now been fined and agreed to a total settlement of DKK 220 million for these illegal practices. The fine is within the range of expectations and will be paid to SØIK and the Prosecution Authority in Kiel, Germany.

DKK 123 million was expensed in Hempel’s financial statements for 2016, with the remaining part in the financial year 2018.

Hempel has cooperated fully with and had complete confidence in the authorities throughout this process.

*“The unlawful activities were a direct attack on the integrity of Hempel’s customers, culture, values and all our colleagues,”* says Henrik Andersen. *“We are a global company with 6,500 employees and loyal customers, who place their trust in us. We have made substantial investments internally and externally to prevent compliance issues from happening in the future and to re-establish that trust. That is the price we have had to pay for being non-compliant. We have cleaned up and moved on.”*

### **Looking forward to 2019**

2019 will be a year of progress. The global coatings market is expected to pick up, and Hempel anticipates delivering underlying organic growth in line with or slightly better than the market. As a leading company within the global coatings industry, Hempel expects to bring more new companies into the Hempel family, as it continues its journey towards becoming a EUR 3 billion revenue company.

### **Contact**

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\* Please see links to former press releases mentioning the case:

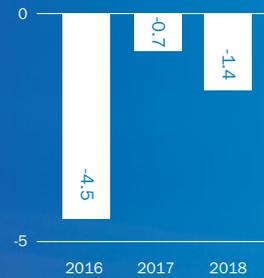
<https://www.hempel.com/en/news/2016/hempel-identifies-and-apologises-for-illegal-practices>

<https://www.hempel.com/en/news/2017/solid-2016-performance-in-a-challenging-environment>

Appendix to the press release



### Organic growth (%)



**-1.4%**  
vs 2017

- Revenue of EUR 1,346 million equal to organic growth of -1.4%
- Growth negatively impacted by the turnaround of our Asia-Pacific region and market challenges in the Middle East
- Currency fluctuations impacted revenue by EUR -10 million

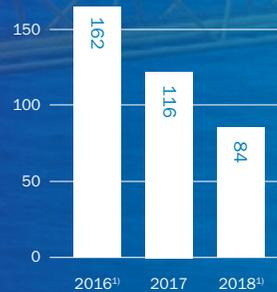
### EBITDA margin (%)



**10.8%**

- Solid EBITDA margin considering the raw material price increases, Asia-Pacific turnaround and one-time post-merger integration costs
- Substantial investments made to accelerate the execution of our *Journey to Excellence* strategy plan
- Excluding J.W. Ostendorf and one-time integration costs, the EBITDA margin was 11.8 per cent in fixed currencies - slightly lower than last year, but mitigated by management's determination to adjust the operating model and cost base when needed

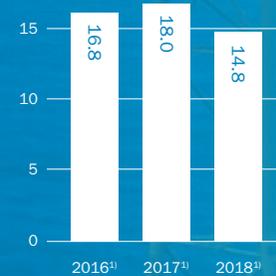
### Cash conversion (%)



**84%**

- Lower cash conversion driven by strong top-line growth in Q4
- EUR 166 million in cash released from working capital since 2016
- Net debt increased to EUR 97 million. Hempel is cash positive when excluding the EUR 101 million effect from the J.W. Ostendorf acquisition in Q4

### ROIC (%)



**14.8%**

- ROIC excluding J.W. Ostendorf and special items was 18.0% and similar to 2017
- Average net working capital days improved by 5 days to 72 days in 2018
- 3.2pp decrease in ROIC driven by the acquisition of J.W. Ostendorf; high raw material prices further negatively impacted ROIC

1) Excluding special items.

# Key figures

In EUR million (unless otherwise stated)

	2018	2017	2016	2015	2014		2018	2017	2016	2015	2014
<b>Income statement</b>						<b>Working capital</b>					
Revenue	1,346	1,378	1,424	1,563	1,298	Net working capital (NWC) days	59	59	89	122	113
EBITDA	145 <sup>1)</sup>	171	188 <sup>1)</sup>	220	166	<b>Employees</b>					
Amortisation, depreciation and impairment	55	56	58	62	37	Average number of employees	5,882	5,740	5,787	5,661	5,134
Operating profit	90 <sup>1)</sup>	115	130 <sup>1)</sup>	158	129	Number of employees, end of period	6,259	5,676	5,768	5,758	5,285
Share of net profits of associates	-	-	2	2	2	Employee Net Promoter Score (Scale: -100 to +100)	21	20	25	N/A	N/A
Net financials	-5	-23	-18	-22	-17	<b>Ratios (%)</b>					
Profit before tax	72	92	78	138	114	Organic growth	-1.4	-0.7	-4.5	5.5	5.2
Net profit for the year	48	55	47	108	82	Gross margin	38.2	40.9	43.7	41.7	41.0
<b>Financial position</b>						EBITDA margin	10.8 <sup>1)</sup>	12.4	13.2 <sup>1)</sup>	14.1	12.8
Total assets	1,295	1,144	1,265	1,377	1,162	Operating profit margin	6.7 <sup>1)</sup>	8.3	9.1 <sup>1)</sup>	10.1	10.0
Equity	408	442	458	488	421	Return on invested capital	14.8 <sup>1,2)</sup>	18.0 <sup>1)</sup>	16.8 <sup>1)</sup>	21.4	21.0
Net interest-bearing debt	97	21	119	272	146	Equity ratio	31.5	38.6	36.2	35.4	36.2
<b>Cash flows</b>						Cash conversion	84 <sup>1)</sup>	116	162 <sup>1)</sup>	83	81
Total cash flow from operating activities	86	155	250	131	88	Leverage ratio (Net interest-bearing debt/EBITDA)	0.7 <sup>1)</sup>	0.1	0.6 <sup>1)</sup>	1.2	0.9
Total cash flow from acquisitions / divestments of enterprises	-16	14	-	-141	-13	<p>1) Excluding special items.                  2) Including acquisitions for the year. The impact from acquisitions on operating profit is 3 months whereas the balance sheet is fully impacting invested capital.</p>					
Total cash flow from net investments in property, plant and equipment and intangible assets	-34	-23	-36	-47	-23						
Free cash flow	23	144	216	-56	53						



Our transformation  
into an industry-leading  
company continues.

# Letter to stakeholders



Hempel is now almost halfway through its major transformational journey, which we started back in 2016. We are strengthening our organisation and culture significantly, building a company that will become one of the leaders in the consolidation of the global coatings industry. Our goal is clear: To become a true industry leader in our core business areas. Like any major change, our transformation will take time. However, 2018 has confirmed that we are making very strong progress in all of the most important areas and now have the necessary foundation to start making the desired acquisitions. We will of course continue full speed ahead in 2019 to pursue our opportunities to strengthen Hempel even further globally.

With reference to the formerly announced and necessary thorough improvement of compliance in Asia-Pacific and despite challenging market conditions in the region, it is positive to see that we are now through the worst part of the full-scale turnaround in our Asia-Pacific businesses. This has been achieved by installing completely new leadership teams and by working hard on the ground to create a winning Hempel culture, one with strong ties to our customers that ensures all employees are engaged in our customer-focused vision. Our successful turnaround in these

markets is a testament to what a strong culture, vision and leadership can achieve, and shows that our organisational setup and processes are vital for running Hempel as a global company.

We recognise that there is still much work to do. However, we are excited and encouraged by the fact that our new and strong leadership team understands our tasks and challenges. 2019 will be a year of progress and acceleration of our key priorities, when we engage the power of the full Hempel team across the globe to increase momentum in all our business units and continue our transformation into a true industry leader.

#### **Welcoming J.W. Ostendorf**

To reach our ambitious growth targets, our appetite for acquisitive scaling has never been higher and we continue to actively seek out new family members of the right fit, both commercially and culturally. In 2018, we were pleased to welcome J.W. Ostendorf to the Hempel family, a family-run decorative coatings company with approximately 650 employees and operations primarily in Germany and France. J.W. Ostendorf shares many of our values, not least a strong commitment to the customer and a constant desire to improve, and we are already seeing

the benefits of bringing J.W. Ostendorf into the Hempel Group.

The acquisition doubled our decorative business in Europe and contributed EUR 39 million in sales in 2018. Going forward, it will increase our decorative business by more than EUR 200 million in sales annually. It also brought us a cutting-edge production facility in Coesfeld, Germany, and skilled and knowledgeable new colleagues. Not least, J.W. Ostendorf has given us the breadth of operations required to introduce a strong new business unit to the Hempel Group: Decorative Europe. Combining Crown Paints and J.W. Ostendorf, Decorative Europe will be a true leader in the decorative coatings market for both branded and private labelling, capable of serving customers across the region with excellent coating solutions, knowledge and service. Decorative Europe will also be aspirational for other companies, an organisation they want to join. Ultimately, it will serve all of Europe, both retail customers, who are increasingly consolidating across the region, and homeowners.

#### **Performance in 2018**

As expected, the coatings market remained very competitive in 2018. Raw material prices

increased more than anticipated, which affected the entire industry and put immediate pressure on our profitability. In addition, the marine and oil & gas markets remained in a recessionary state and the political and macro-economic situation in the Middle East made business tougher than anticipated. Finally, we saw our businesses in Asia-Pacific pass through the first tough stages of their major turnaround, which has ensured that we conduct business the Hempel way.

When taking these challenges into consideration, Hempel delivered a satisfactory performance in 2018. Revenue grew by 1.5 per cent in fixed currencies, driven by the acquisition of J.W. Ostendorf and a strong fourth quarter. When excluding J.W. Ostendorf, negative underlying organic growth was 1.4 per cent. However, the year ended strongly with positive organic growth of 4 per cent in the final quarter, and we expect to see positive growth continue into 2019. The reported EBITDA margin excluding special items ended at 10.8 per cent and 11.7 per cent when excluding J.W. Ostendorf. We see this as a satisfactory result when considering the negative impact from the increase in raw material prices and challenges to our performance in Asia-Pacific and the Middle East.



We continued to improve our net working capital days and ended the year at 59 days, with a yearly average of 72 days – 5 days better than in 2017. Since 2016, we have released EUR 166 million in cash by optimising our net working capital process. When adjusting for the effect from the acquisition, Hempel's net interest-bearing debt was eliminated in 2018. We will continue to strive for excellence in this area to free up working capital, as it will give us the freedom to pursue our ambitious growth targets through major acquisitions and strong organic growth.

#### **Driving our strategy forward with the House of Priorities**

The goal of our *Journey to Excellence* strategy remains to improve profitability and growth by striving for organisational excellence. We have come a long way on this journey, supported by the two-dimensional operating model that we introduced in 2016. The model enables our regions to focus on business execution and serving customers, while our global functions drive best practice across the globe. The word agile is used often. For Hempel, agile simply means that our leaders can speed up decision-

making processes, while our employees globally can drive group-wide practices and are close to our daily business and operations.

With this foundation in place, we focused on accelerating our strategy in 2018. We realise that, with many strategy initiatives ongoing, an organisation can lose focus. Therefore, we introduced the House of Priorities, a simple tool to give our leadership teams and employees a clear overview of our key priorities for the current period to ensure we remain focused on the most important tasks in our strategic journeys, with the clear aim of completing and sustaining each change.

#### **Customers and innovation in all we do**

Through our products and services, we help our customers protect their valuable assets, reduce costs, improve efficiency and limit emissions. Our preferred way of working is as our customers' innovation partner, as this is the best way to add value to our customers and ensure that the solutions we develop are well-suited to the market. This demands that we truly understand a customer's business, that our entire global organisation works to develop solutions that address the customer's business needs, and we test and refine these solutions in collaboration with the customer. Our global key account managers play an important role in this, acting as quarterbacks to orchestrate the collaboration between the customer and our global organisation.

As many of our customers are global, they demand global solutions and service, delivered globally but adapted to local requirements. Therefore, we introduced a new commercial organisation in 2017 to drive best practice among our sales teams across the globe. In 2018, our Group Commercial function rolled out important new programmes to improve our commercial excellence, including a new sales operating model that will ensure we spend more time with our customers and better align the whole value chain in solving customer challenges.

As well as leading customer-focused innovation in the areas in which we choose to compete, we want to lead the industry in 'service management', essentially taking over responsibility for keeping our customers' assets in the agreed condition over the asset's life cycle. This is a new way of thinking for the industry and we understand that it will take time. In 2018, we took an important step on this road when we created Hempel Services, a new globally aligned service organisation that will contribute to strengthening our customer relationships, ensure consistency and quality in our services across the globe and contribute to Hempel's earnings. Hempel Services launched eight globally standardised service products for marine and protective customers that give transparency to our services offer and make it easier for customers to see the value in what we do.

Over 1,300 customers gave us valuable feedback on our work and relationship with them in our Customer Engagement Survey in 2018. The survey showed that in most regions 'trust in products' is the most important driver of customer loyalty, and that we are performing well in this area. Other important loyalty drivers include complaint handling, logistics and the relationship with the account manager. Our net promoter score was 52, roughly the same as last year. This indicates that our customers remain very satisfied with our work, but that there is still room to improve. Although we still have pockets of absolute excellence, there are also areas that need immediate improvements.

#### **Major investments in our customers and the future of Hempel**

In 2018, we made many important decisions and investments regarding our future. We continued to expand our site in Lyngby, Denmark for what will be the future Hempel Campus, including our headquarters and R&D facilities. This investment is being made to support our location in Denmark and also to highlight the importance of our proximity to and collaboration with the Technical

University of Denmark. Further, we opened our new R&D Centre of Excellence in Barcelona, Spain in the autumn. Focused on coatings for passive fire protection, the centre will enable us to further enhance our capabilities, expertise and product offering in what is an increasingly important area for our customers.

We also reviewed our manufacturing footprint in our strategically important region of China and Korea, and decided to expand our footprint in the region by improving our existing production facilities and building new sites – a total investment of more than EUR 100 million. We believe that this major investment is required to meet our global customers' future needs for manufacturing in and servicing the Chinese market. It also sends a strong signal to our colleagues in China and Korea that Hempel supports and is investing in the region. Overall, these investments illustrate our commitment to use capital efficiently and reinvest for the long-term good of the business.

#### **Working with sustainability in mind**

We are in a global industry, and we establish trust through our delivery of trusted solutions. As a company, we are committed to running our business in a way that supports the United Nations Sustainable Development Goals and so contributes to solving some of the most pressing challenges in the world today. As a signatory to the UN Global Compact, we promote the United Nations' principles on human rights, labour, environment and anti-corruption, and integrate these in our sustainability programmes. This commitment extends through our entire value chain from how we source raw materials to our employee development programmes.

Please take some time to read about our initiatives and progress in this area in the Corporate responsibility section of this report.

#### **Engaging the full team**

Hempel is a truly global company, and with the acquisition of J.W. Ostendorf, we are now around

6,500 employees across more than 80 countries. Our ability to deliver value relies on our ability to attract, retain and develop the best people in the business – and we need all of our employees to be engaged and committed to our strategy and work. In 2018, our Employee Engagement Survey showed that we have made progress in terms of engagement, but also that there is still great variation across our business units and employee groups. Some units made great leaps forward in 2018; for others, the gap increased. We must continue to improve so that every employee in Hempel has the possibility to realise their full potential. This is our most visible leadership challenge in this area. Therefore, engaging every Hempel colleague in our strategy and transformational journey is an overriding theme for 2019. This work begins with our leaders, so in 2018 we defined the 10 essential leadership competencies that our leaders must take to heart and develop. These leadership competencies typify the Hempel culture and spirit, and they make it clear what we expect from our leaders and how we expect them to lead. Both these things – engaging the full team and developing our leaders – were central themes at the Hempel Leadership Summit, which was held in Houston, US in 2018.

Finally, we continued in our push to reaffirm and solidify our compliance culture. We updated our Code of Conduct, completed Code of Conduct eLearning for almost 4,000 employees worldwide and launched special Code of Conduct eLearning for people in customer-facing positions. We also introduced a new Business Partner Code of Conduct. We appreciate that no company works in isolation, and we expect our suppliers and other business partners to work with the same high ethical standards that we do. We have now defined a compliant foundation for future growth, and know how to play by these rules.

#### **Hempel has resolved the SØIK case**

In April 2017, Hempel self-reported a number of uncovered illegal sales practices found in Germany, other countries in Europe and in Asia

to SØIK, the Danish State Prosecutor for Serious Economic and International Crime. The unlawful practices were stopped immediately and the people responsible were replaced. Hempel has completed internal remediation, invested heavily, and established a robust compliance framework. Hempel A/S and Hempel (Germany) GmbH have now been fined and agreed to a total settlement of DKK 220 million for these illegal practices. The fine is within the range of expectations and will be paid to SØIK and the Prosecution Authority in Kiel, Germany. DKK 123 million was expensed in Hempel's financial statements for 2016, with the remaining part in the financial year 2018. Hempel has cooperated fully with and had complete confidence in the authorities throughout this process.

We want to be clear: Our focus on compliance is ongoing. We will continue to send a strong message from the Board of Directors and Executive Management Board that compliance is non-negotiable. Hempel has zero tolerance for inappropriate practices and violations of law. Any such behavior is in conflict with what we stand for. It is a direct attack on the integrity of Hempel's customers, culture, values and all our colleagues. Our business is built on trust and a robust compliance framework will always be central to it.

#### **Looking forward to 2019**

We anticipate that the coatings market will regain strength in 2019 and, with a fully customer-focused organisation, we expect to deliver underlying organic growth in line with or slightly better than the market. From an earnings perspective, we expect flat margin development in percentage terms and an increase in absolute terms.

Again, 2019 will be a year of strategy execution. Internally, we will use the House of Priorities to ensure focus and commitment on our excellence journeys. Externally, we will look to build closer relationships with our customers, driving innova-

tion and co-creation together in order to find new solutions and technologies that add value to their businesses. We will also look for new companies to bring into the Hempel family, as we continue our journey towards our goal of becoming a EUR 3 billion revenue company and one of the global leaders in the coatings industry.

#### **Thank you**

Overall, 2018 was a satisfactory year. Despite a challenging market, we finished the year well, with strong organic growth in a number of important regions and businesses. We welcomed a new addition to the family, made strong progress on our transformational journey and defined a compliant foundation that is ready for future growth.

This work was only possible with the commitment of our highly skilled and hard-working employees across the globe. On behalf of the Executive Management Board and the Board of Directors, we would like to thank you all for your dedication in 2018. We would also like to extend our thanks to you, our customers, shareholder and other stakeholders, for your ongoing support and trust.



Henrik Andersen  
Group President &  
Chief Executive Officer



Richard Sand  
Chair of the  
Board of Directors of Hempel A/S