

# A Detailed Look at Hempel and Jotun Growth Strategies

by PCN Editor  
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With the recent release of company annual reports, it is worth considering the performance of Hempel and Jotun alongside each other here because the two companies are both in the Scandinavian region, participate in broadly similar coatings sectors and participate in many of the same regions around the world, yet differ widely in their growth strategies.

Jotun very rarely makes acquisitions and instead tends to work on direct investments, bold entries into markets and organic growth. This approach has always meant that Jotun has been able to have greater control over how it develops its business. But its history has also been peppered with some joint ventures and partnerships that have assisted it in its entry into new markets.

Hempel on the other hand, has a history of making astute acquisitions from time to time but is by no means the industry's biggest acquirer of business. In recent years, Hempel's main targets for acquisitions have been the European and Australian decorative sectors with a view to building up a much more lucrative decorative paints business (e.g. with Farrow & Ball and Wattyl), and in corrosion under insulation (CUI) technology as part of its Double Impact strategy, which runs until 2025 with the aim of doubling both its revenues relative to 2020 and its impact on industry and environment.

## Hempel Turns in a Strong Year Overall

Hempel's most important sector has always been marine paints and in 2023 this area grew by 26%, making it the fastest-growing one. Growth in all the individual

subsegments that comprise this sector pointed up especially good performance for the newbuild sector, as conditions in the global market for the marine paints proved more favourable.

Hempel is active in the silicone hull coatings business, which it describes in its annual report as a low-volume business. Marine paints are Hempel's second-largest business (now just behind decorative paints) and its annual sales totaled €725 million last year.

Energy is one of Hempel's newer divisions, reflecting the move in some companies to have more purely "environmental protective" segment that is focused on cleaner energies. Here a strong focus on service, solutions and specification-oriented work yielded almost 19% organic growth with strong performances measured both in terms of volume and value around the world. Sales in this segment grew to €364 million in 2023.

The bigger brother of Hempel's Energy division is its Infrastructure division, which enjoyed a growth spurt of nearly 10%, with sales reaching € 470 million. The company made gains here by harnessing the possibilities of its premium technologies around the world, although geopolitical instability and investment confidence on the parts of clients worked against the segment more generally.

Growth was achieved by increasing prices parallel to raw material price increases and the decorative operations performed positively in the UK and Australia, and especially well in the Middle East where there were strong double-digit percentage gains. This is now Hempel's largest segment and its revenues reached €792 million in 2023.

## **Jotun Enjoyed a Bumper Year Too**

Jotun experienced an extraordinary year in 2023. Every single aspect of its basic financial data was higher in 2023 amounting to a record high, and of all the Jotun Group's key figures summarized in its 2023 annual report, only the company's investments in intangible and fixed assets were lower than at any other point in the last ten years.

Operating revenues at Jotun – NOK 31,861 million (\$2.9 billion) in 2023 – have more than doubled in the last seven years and rose by 14% over 2022. Operating profits – NOK 6,430 million (\$585 million) last year – have more than doubled in the last two years and were 72% higher than in 2022. Pre-tax profits (NOK 5,879 million in 2023) also more than doubled in the last two years and leapt by 84% in comparison to 2022.

Operating margins climbed to 20.2% last year - another record high and the highest since 2020 when they stood at 16.6%. Net cash flow from operations almost trebled between 2022 and 2023 to reach NOK 5,236 million (\$477 million).

All of this was achieved in a year where there were a lot of geopolitical jitters in the regions where Jotun has special strengths.

Jotun Protective Coatings (33% of sales and 17% growth in sales in 2023) appeared

to flourish in all areas of infrastructure, oil & gas and especially so in the Middle East and Northeast Asia. Also in the protective sector, Jotun has continued to reap the rewards of its experience in protecting offshore facilities, and this plays into recent growth in the renewable energy segment.

The company's performance in marine coatings (22% of sales) was buoyed by demand in Turkey, Europe and Northeast Asia and the main drivers were increased newbuilding and drydocking activity.

Growth in this segment was the largest of all the company's segments at 19% in 2023. Part of the growth in this area originates from the tight regulatory framework that surrounds marine paints and Jotun has invested significantly in technology over the years to build awareness of the relationship between customer investment in hull coatings with a view to subsequent emissions reduction. In September, Jotun launched its aerial drone inspection technology in Greece, which boast the advantage of surface scanning for hard-to-reach coated areas.

To conclude, it is worth noting that Jotun now secures 92% of its turnover outside Norway – yet another performance and globalization record for the company 2023.

