

## **Q&A with President and CEO Mikko Helander at Kesko's Q2/2018 media and analyst briefing on 25 July 2018**

**Harri Paakkola, Nordea:** What is the impact of the acquisitions made in the building and technical trade in Norway on Kesko's figures? You did give the net sales and EBIT figures for Gipling and Skattum, but what is their impact on the Group's figures?

**Mikko Helander:** The most important figure here is the operating profit. The acquired companies have made an operating profit of some €10 million, and this will improve the profitability of our Bygghälsan chain to a notable extent. It will also set us up better for further developing our building and technical trade operations in Norway.

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**Harri Paakkola, Nordea:** How much has the exceptionally good weather in July slowed down sales in the building and technical trade? Can a notable impact be seen in early Q3?

**Mikko Helander:** Of course we can't comment on or report July's sales figures at this point, but what I can say is that our sales development has been good for some time, and we are very happy about that. I'm also very pleased about the fact that all our divisions have managed to increase their sales and have fared well relative to their competition. Our outlook guidance reflects these factors and clearly indicates that we estimate that we will fare well in the market also in upcoming months.

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**Kimmo Lunden, Maaseudun tulevaisuus:** A few questions about the grocery trade. You said that the warm weather at the beginning of summer had an impact on Q2. Has the impact been positive or negative and which product segments have seen their sales go up or down?

**Mikko Helander:** Ari can elaborate on this. I can't speak for other operators in the field, but again I note that in all divisions, also in the grocery trade, our commercial performance has been good. Some of that is due to good weather, some to our own actions. What is clear is that our strong position today, partly thanks to successful acquisitions and changes in the K-Market chain, makes us very well positioned to do well also under these weather conditions. Ari, please elaborate on the product groups that are particularly popular in this weather.

**Ari Akseli:** In particular, the weather has affected ice cream sales, which are up overall, including sales of single portions, where average litre prices and margins are better. Beverage sales overall are particularly strong. Prices are also higher for shopping baskets for barbecuing than for regular cooking.

**Mikko Helander:** I'm sure we could have sold even more cooling and air conditioning equipment, but we too have run out of them now.

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**Kimmo Lunden, Maaseudun tulevaisuus:** What is your grocery trade market share now? What is the difference between the "neighbourhood market" and "grocery trade"?

**Mikko Helander:** When we talk about the neighbourhood market, we refer to neighbourhood stores, which are an important part of the total grocery trade market. Neighbourhood stores for us include mainly the K-Market chain stores – and to some extent Neste K service stations, although their importance is less significant. Some K-Supermarkets are also part of the neighbourhood market. We are the clear market leader in the neighbourhood market today.

As for the grocery trade in total, our position as the second biggest operator in the market has grown even stronger. Our market share currently hovers at around 37-38%, although calculation methods vary, so we need to be careful when citing exact figures. Perhaps the most important point is that K Group has been able to increase its market share by more than 5% in recent years. This is clearly reflected in our current profitability.

It's worth remembering that grocery trade is one part of food trade. If we look at food trade as a whole, we are an even bigger operator, as Kespro is the market leader in the HoReCa segment. Of all food and drink consumed in Finland, K Group supplies, in one form or another, close to 40%.

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**Maria Wikström, Danske Bank:** I also have a question about food trade. You say that you estimate that the market in Q2 grew by 3.1%, while Kesko's comparable growth was 2.9%. In such a strong consumer cycle, one would imagine that Kesko's growth would have exceeded that of the market. Would you care to comment on that?

**Mikko Helander:** Following the acquisition and integration of Suomen Lähikauppa, we have been in a phase that is somewhat challenging in terms of coverage. We have been integrating former Suomen Lähikauppa stores into our K-Market chain and also our K-Supermarket chain, while at the same time we have closed down some stores. The fact that stores have been removed from our network, as planned, makes comparisons challenging.

The key here, in my view, is to look at food trade as whole. There, as I said, our position has strengthened significantly when including the HoReCa segment. In the grocery trade, our market share has strengthened significantly. We have become the undisputed market leader in the neighbourhood market, and all our chains, including hypermarkets, i.e. K-Citymarkets, have managed to beat competition in their segment almost every month over the past 14 months. That, alongside steadily improved profitability, is a clear signal

that our grocery trade, food trade as a whole, is performing very strongly at the moment. And it's a strong signal that we have been successful in implementing the strategy decisions made in 2015 and the actions taken are very successful in terms of both profitability and commercial performance.

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**Maria Wikström, Danske Bank:** Sales for K-Citymarkets decreased by 2% in Q2. As the figure also includes online sales of food, I would have perhaps expected the strong growth in online to have been reflected in the sales, even if the figures are still fairly small. Are there one-off items or other explanations for this?

**Mikko Helander:** The biggest impact comes from Easter: last year, Easter fell on a different quarter, and that has a considerable impact especially on the K-Citymarket chain.

I would, however, again stress that K-Citymarket has performed very well commercially and the chain's profitability has also developed well.

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**Maria Wikström, Danske Bank:** Finally, I would expand on the question posed by my colleague. You said some €10 million of the acquisitions in Norway can directly be seen in your operating profit. However, you will now be missing retailer payments. I and many of my colleagues are wondering what the impact here will be: you will obtain the total net sales, but some of the net sales and operating profit were already reported before. Could you shed some light on this to help us?

**Mikko Helander:** This is an excellent question, thank you. It is important to note here that our retailer business model in Norway in the Bygghuset chain is very different from the one we have in Finland in e.g. K-Rauta. You can't really compare the two.

Up until now, we have controlled the central unit in Norway, which has been selling, under certain conditions, to the very independent regional "trade groups" rather than "retailer entrepreneurs" that operate several stores in the Bygghuset chain. So the model is not the same as the one we have with K-Rauta retailers.

The operating profit made by Skattum and Gipling will in total come to Kesko now, and will thus significantly improve the profitability of our building and technical trade in Norway.

I would also like to note that the companies have been strong regionally in the Norwegian market, and we are very happy with the arrangements made, as we know that many of our competitors have been attempting to acquire these stores to their networks. So this is an important action to secure the position of the whole Bygghuset chain and ensure very good growth and development possibilities for the chain also going forward.

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**Kimmo Lunden, Maaseudun tulevaisuus:** A question about e-commerce. What is the share of online sales in your three divisions, in terms of euro millions and percentage? Also, what is the latest with your Alibaba endeavour?

**Mikko Helander:** Online sales are growing fast in all our divisions, and all divisions are currently investing in and developing e-commerce services. We have a significant competitive advantage when it comes to online sales: our strong networks of physical stores and strong customer flows. We are combining online services with the physical stores and building a comprehensive service concept, and that is a good model also from a profit perspective compared to just operating online stores, especially considering that Finland is a large and sparsely populated country.

As for the size of our online sales, I cannot give exact figures, but we are talking about hundreds of millions of euros. Onninen's online sales alone amount to hundreds of millions, right Jorma?

**Jorma Rauhala:** Double-digit share of sales, yes.

**Mikko Helander:** Yes, and online sales already play a key role also for Kesko Senukai. Online sales are growing fast also in the car trade. In the grocery trade, I believe our current growth in online food sales is 60%. In euro terms, this year we are closing in on some €50 million, but with this growth pace, it shouldn't take long before we reach hundreds of millions.

So online sales are already a business of hundreds of millions of euros for Kesko, and growth is very strong. However, compared to our other figures, online does account for only a fairly small portion of our overall business. But as Jorma said, in Onninen, for example, online sales account for nearly 20% of total sales.

What was the second question?

**Kimmo Lunden, Maaseudun tulevaisuus:** Alibaba.

**Mikko Helander:** Yes, Alibaba. Ari, please tell us briefly about the latest with our "start-up".

**Ari Akseli:** Indeed, it's a start-up for us and we are using it to learn from the leading e-commerce player in the world. There is steady growth, and we have added new partners and new products, most recently Olvi and its products.

This is a small endeavour in terms of our overall business, and is likely to remain so, but it is constantly opening up new possibilities for us and generating interest among potential new partners.

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**Mikko Helander:** Are there any questions online? If not, I thank you for coming and thank you for your questions.