

Q&A with President and CEO Mikko Helander at Kesko's Q3/2018 media and analyst briefing on 24 October 2018

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Harri Paakkola, Nordea: In building and technical trade, the pace has slowed down, but apparently renovation building is compensating for some of this. How much does renovation building compensate for the slowdown and can you elaborate on how much of your net sales currently come from renovation building versus new construction?

Mikko Helander: We do not have exact figures and coming up with them would be challenging. For example, when Onninen sells products to construction sites, we really have no way of knowing whether the products will be used for renovation or for new construction.

As for the growth in renovation building, our understanding is that currently in almost all of our eight operating countries for building and technical trade, there is a chronic shortage of skilled labour. In countries where new construction may be slowing down, we believe the labour will move over to renovation building, and activity there will grow. This is the case in Finland and we believe it is also the case in many other countries. Therefore, we are not anticipating any major changes to demand in building and technical trade.

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Harri Paakkola, Nordea: Also a question about the car trade: how are the delays in deliveries affecting you? How long will they last, over Q4 or into next year?

Mikko Helander: The situation is constantly improving, especially with our high-volume products. While we can't say that the situation is back to normal, it is significantly better than in early September. But there are some car brands and models where the problems will persist for the remainder of the year, and there will also be delays and disturbances in deliveries in early 2019. But in terms of bigger volumes, the situation has already clearly improved.

Harri Paakkola, Nordea: Thank you.

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Kimmo Lunden, Maaseudun tulevaisuus: Your online food sales have grown significantly, by 76%, and you anticipate net sales of some 40 million euros next year. What are your 2018 net sales for online food trade?

Mikko Helander: I do not have the exact figure here. Ari, isn't it close to 25 million euros?

Ari Akseli: Yes, last year the total market was worth some 50 million euros. With the growth, 25 million euros for us this year is a good estimate.

Mikko Helander: Of course on a national scale and in terms of our operations and total sales, we are still talking about fairly small numbers. There is valid reason to criticise the online food sales services that have been available in Finland before. Now we offer good services, which Finns have decided to utilise. That enforces our view that Finns are no different from people elsewhere in Western Europe when it comes to buying food online. Clearly, when you have good products and services, there is a demand. Ari would like to add something.

Ari Akseli: The Finnish ecommerce market has been clearly underdeveloped, and that has partly been due to lack of offering. Finland's growth figures for this year are bigger than they have ever been in Sweden, our growth is clearly higher at the moment.

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Kimmo Lunden, Maaseudun tulevaisuus: A year ago you announced your cooperation with Alibaba. What is happening there?

Mikko Helander: Things are going well. As we said at the time, the cooperation is a start-up project for us. There has been growth, but the cooperation is not and will not become large-scale business for us. Like I said, we are very happy with how our online food trade is developing with our new services and products, and the Alibaba collaboration has been one channel that has helped and will continue to help us develop even better ecommerce services.

Kimmo Lunden, Maaseudun tulevaisuus: Can you name some good examples of learnings you have implemented in Finland?

Mikko Helander: Ari can elaborate further, but we are constantly learning good practices there.

Ari Akseli: One important area where they are much more advanced is the visual side, how the products are presented in the online store. In addition, they are more advanced in the ways they are constantly shortening the delivery times to customers and tightening the delivery window, so the customer knows when the delivery will take place. These are examples of key learnings. The ecommerce market there is very advanced.

Mikko Helander: They also use incentives to encourage and spur the customers to buy, those are interesting applications.

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Olli Herrala, Kauppalehti: You said Porsche sales are good, that must be a sign of good times. Do you disclose the number of Porsche cars sold?

Mikko Helander: Am I right, Johan, in thinking we are close to 500 Porsche cars sold in Finland this year?

Johan Friman: We might come in a little bit under that.

Mikko Helander: Please stand up.

Johan Friman: Our Porsche sales will come in at some 500 cars this year, but the big change is the fact that a much larger percentage of these cars will remain in Finland. The volume of cars sold last year was roughly the same, but a larger percentage of the cars went abroad. This year, approximately 300 of the cars sold will remain registered in Finland, and the rest will go abroad. Last year 181 cars stayed in Finland, this year it will be some 300. That's significant growth.

Mikko Helander: It's an interesting question: how much does the economy affect the sales? Of course it always has an impact, but Porsche also has a very interesting range at the moment. There's the new Porsche Panamera, the new Cayenne and now the new Macan. I also want to believe that the magic K sign has helped to increase Porsche sales in Finland.

Johan Friman: It's very important for us that a larger share of these cars will remain in Finland. That means that the aftersales - servicing and repair - will take place in Finland, and that's a positive development for the future.

Olli Herala, Kauppalehti: Did the cars go to Russia before?

Johan Friman: No, the cars have gone to countries across Europe. Finns who partly live in another country have been buying the cars, that's the main channel.

Mikko Helander: I don't think any cars have gone to Russia.

Johan Friman: I haven't heard that any of the cars would have gone to Russia, maybe a few have. Most go to Central Europe, to Finns who have homes also outside Finland.

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Kimmo Lunden, Maaseudun tulevaisuus: Can you elaborate on the WLTP testing? Is it conducted by the Finnish Transport Safety Agency here, or in the country of manufacture?

Mikko Helander: As a rule, always in the country of manufacture.

Johan Friman: With WLTP, for us to be able to officially sell a car, it requires type approval in the country of manufacture. Three of our car brands come from Germany and there are many other car brands in Germany as well, which has meant that the type approval process by the authorities was congested this summer and continues to be congested. Also, our main brands have an enormous number of car models, and each must obtain separate type approval. This is the reason why the cars have been coming in and continue to come in at a slightly slower pace than we would hope. With SEAT, the type approvals are obtained in Spain, and those approvals have mostly been obtained already. But with German brands, this is the situation.

Mikko Helander: This is very unfortunate. A new emissions testing method in itself is a good thing, but one has to wonder why there wasn't, for example, a longer period of transition. Instead, we now have a situation where the authorities do not have enough resources and car trade has practically stopped in Europe. When we think about the multiplicative effect on different economies and people, my wish is that the authorities would prepare and implement such changes differently.

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Kimmo Lunden, Maaseudun tulevaisuus: You mentioned the car tax. Now that we have better calculations of the impact of WLTP testing on car taxes and end price, how much would you like the government to cut car tax?

Mikko Helander: Johan can elaborate on this. What we mostly want, and what I think most Finns want, is that the government complies with the decision made by the parliament when it updated the car tax due to WLTP emissions testing.

Johan Friman: The Finnish parliament decided on the matter in late June, and the decision required that when the new WLTP car tax curve was implemented on 1 September, a specific coefficient was used to ensure that the absolute car tax will not rise during 2018 on account of WLTP. But that is not what happened, which is why car sector interest groups are actively communicating with the tax authorities, and providing them with examples. Even the prices of

traditional family cars in the 40,000 euro price range have gone up by 1,000 or 2,000 euros, purely on account of car tax.

Mikko Helander: It is very unfortunate that the tax hike is even bigger for common family cars when you add sensible, climate-appropriate safety-improving accessories such as four-wheel drive. There, the development has been negative. Again, I stress that we trust that the Ministry of Finance and government will carry out corrective measures in line with the decision made by the parliament in June.

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Harri Paakkola, Nordea: One more question about building and technical trade in Sweden. How are things progressing there? When will there be a turnaround, when will you be able to cut losses?

Mikko Helander: I'm sure Jorma will be happy to elaborate on this.

Jorma Rauhala: It is true that our track record in Sweden is not the best, but we are making progress there very much in line with our strategy. We updated our division strategy this spring, we've changed the management in Sweden, our whole division management has changed. We have a very clear strategy in Sweden and we acknowledge there are three distinctly different customer segments there. There's the building services engineering with Onninen, which has both very well-functioning and non-functioning sections. In building, there's both B2B and B2C trade. We have a systematic programme for all three segments, which can entail selections, pricing, logistics, store management and so on. We are systematically executing the strategy and carefully putting the basics in order, so we can build a foundation on which to grow, also through acquisitions when the time is right. Our aim is to significantly strengthen our operations in Sweden in upcoming years.

Mikko Helander: As noted, we have significantly reshaped the organisation and there have been many changes to the management. Endre Espeseth, a very experienced leader, is now the Country Manager. He previously got Onninen in shape in Norway and has now turned around our business in Poland. Now he is leading in Sweden, directly under Jorma.

Harri Paakkola, Nordea: When will you be able to make K-Rautas profitable in Sweden?

Mikko Helander: We are moving towards that goal fast.

Jorma Rauhala: Exactly, we are moving towards that.

Mikko Helander: We will tell you as soon as we've achieved the goal.

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Kimmo Lunden, Maaseudun tulevaisuus: What is your estimate of your market share in the grocery trade?

Mikko Helander: I would guess that we are at around 37%. Ari, can you give another estimate?

Ari Akseli: The method for measuring has changed. Market share is measured based on AC Nielsen's store register, and that changed last year. With the old measuring method, our market share was 37%. Based on the sales reported by the Finnish Grocery Trade Association, in the summer period, we were able to grow our market share - slightly depending on the month - by 0.6% to 1.1%. That is a good result.

Mikko Helander: The change in the measuring method is significant. It decreases the market share of us large operators. It also gives a more accurate picture of the real situation, because now it acknowledges industry...

Ari Akseli: The old method included the sales of kiosks and service stations and such. We think the new method is closer to how the food trade market should be measured. We think it should include all the ways people eat, include the HoReCa market, where we are very strong through Kespro.

Mikko Helander: Market share measuring elsewhere works largely like this, and looks at food trade as a whole, while in Finland, market share is still measured only for the grocery trade, not including the HoReCa segment and direct sales by industry to restaurants and kiosks. This would mean notably lower market shares for both S Group and K Group compared to now.

Ari Akseli: I want to stress that in terms of market share, this summer and Q3 were a brilliant success for us, and I say that as a fairly unassuming guy.

Kimmo Lunden, Maaseudun tulevaisuus: Does the Finnish Grocery Trade Association or do you have an estimate of your biggest competitor and S Group's current market share?

Mikko Helander: We do have estimates, but are not in the habit of commenting on our competitors. We only talk about our figures, which we are happy with.