



# Financial Statements Release 2018

## 6 February 2019

Mikko Helander, President and CEO

# Our Growth Strategy Is Working

## Targeting profitable growth



### Grocery trade

Growth in grocery trade in Finland



### Building and technical trade

Growth in building and technical trade in Northern Europe

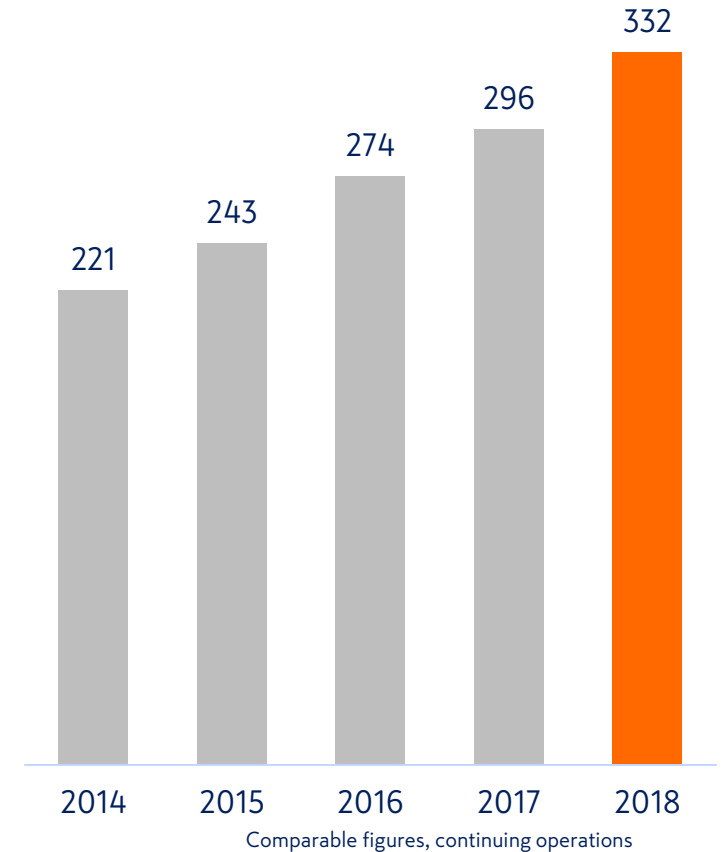


### Car trade

Growth in car trade especially in Finland

One unified

## Operating profit, €m



# Record Profit in 2018

- Net sales grew and operating profit rose to a record level, return on capital employed reached the target level of 14%
- Further improvement in market share and profit for the grocery trade
- Profitability improved in the building and technical trade and the execution of country-specific strategies proceeded as planned
- Strong profit in the car trade, new services introduced to the market
- We continued acquisitions and divestments in line with our growth strategy
- Proposed dividend €2.34



# Highlights Q4/2018

- Net sales growth 3.1%
- Operating profit €90.5m, growth €10.1m
- In the grocery trade, sales and market share strengthened and profitability improved
- In the building and technical trade, sales grew and profit improved especially in the Baltics and Finland
- In the car trade, profitability was good, new car deliveries delayed by WLTP implementation



# Net Sales and Operating Profit Grew

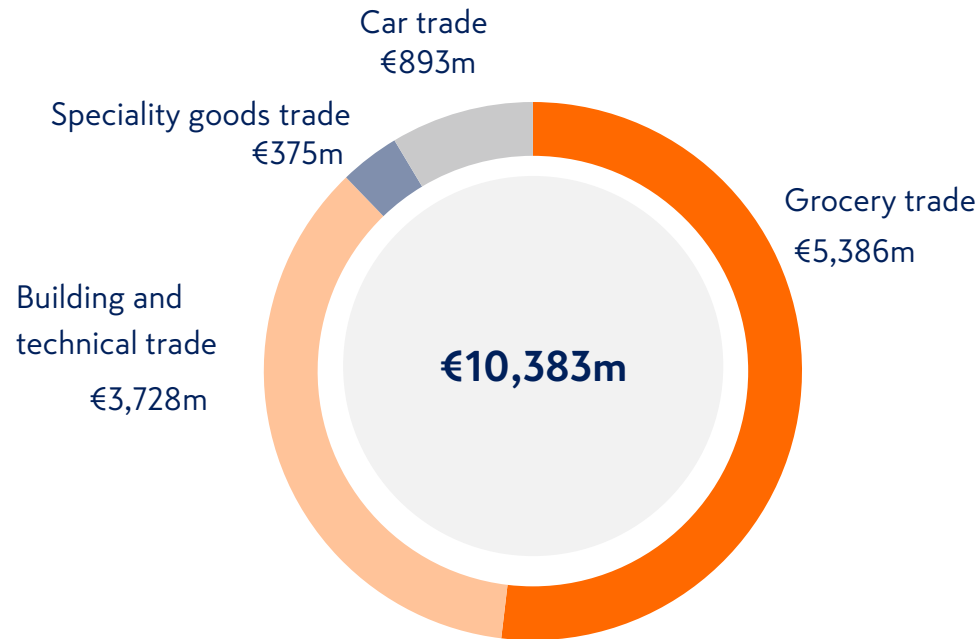
	Q4/2018	Q4/2017	1-12/2018	1-12/2017
Net sales, €m	2,655	2,575	10,383	10,492
Change in net sales, comparable, %	+3.1	+2.5	+3.5	+1.9
Operating profit, €m	90.5	80.4	332.2	296.2
Operating margin	3.4	3.1	3.2	2.8
Profit before tax, €m	89.8	81.6	327.5	300.3
Earnings per share, €	0.70	0.65	2.47	2.29

Comparable figures, continuing operations

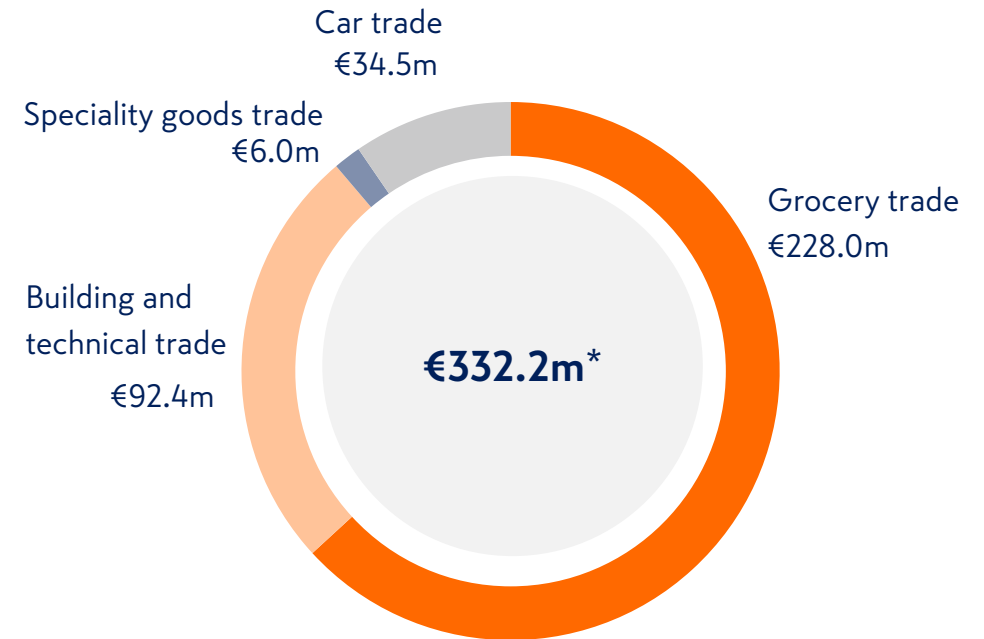
\* Rolling 12 months

# Net Sales and Operating Profit by Division in 2018

## Net sales



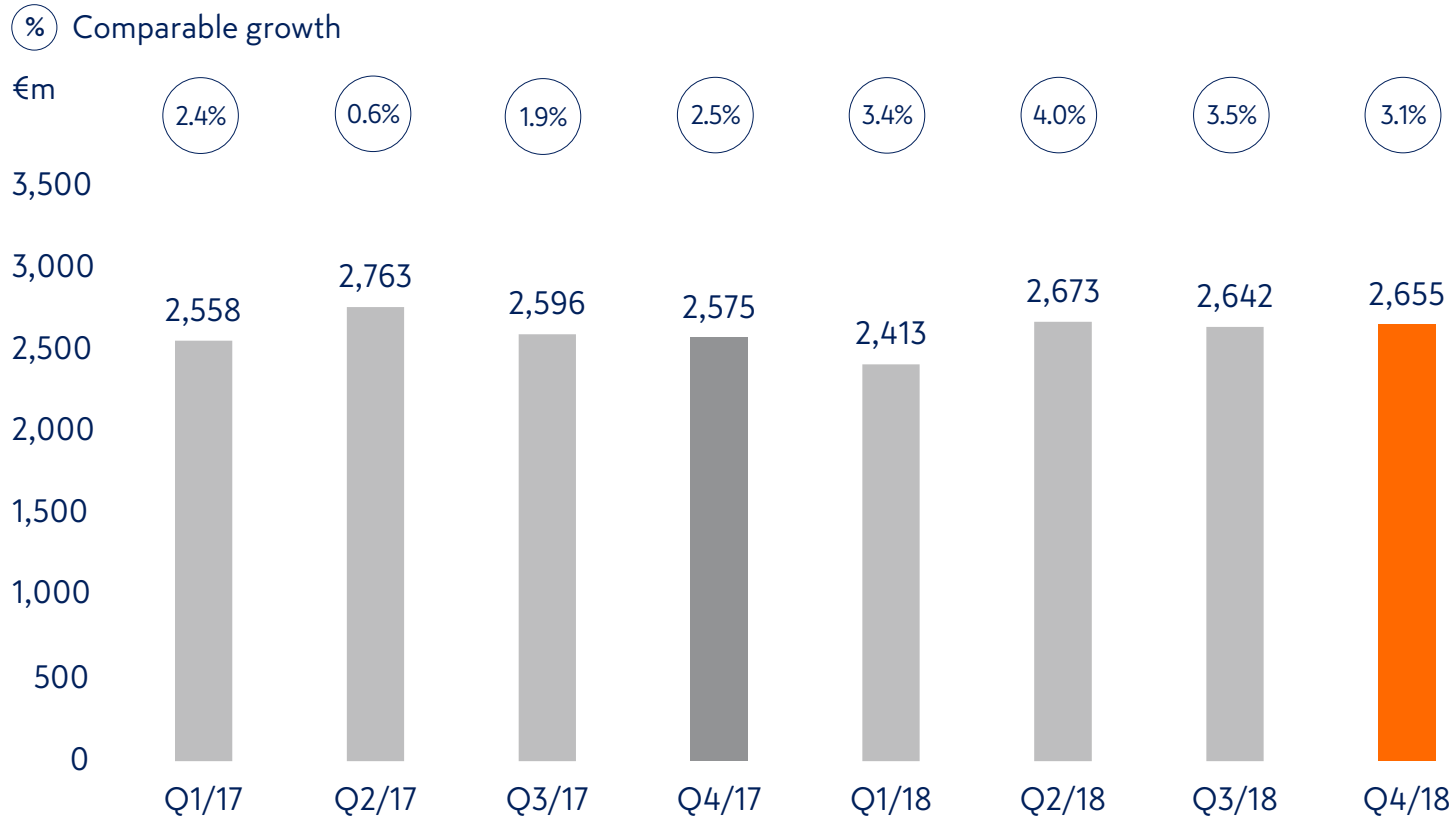
## Comparable operating profit



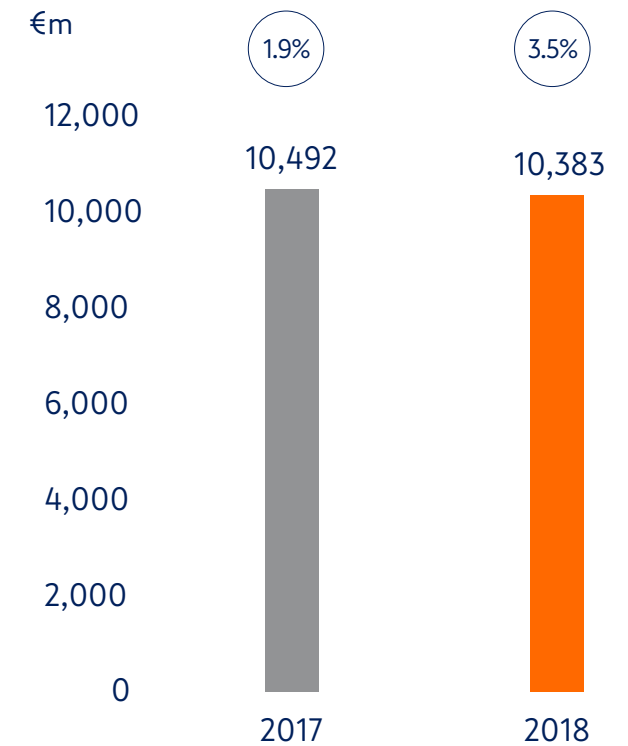
\* Incl. common functions and eliminations €-28.7 million

# Net Sales

Q4 comparable growth 3.1%



## Rolling 12 months

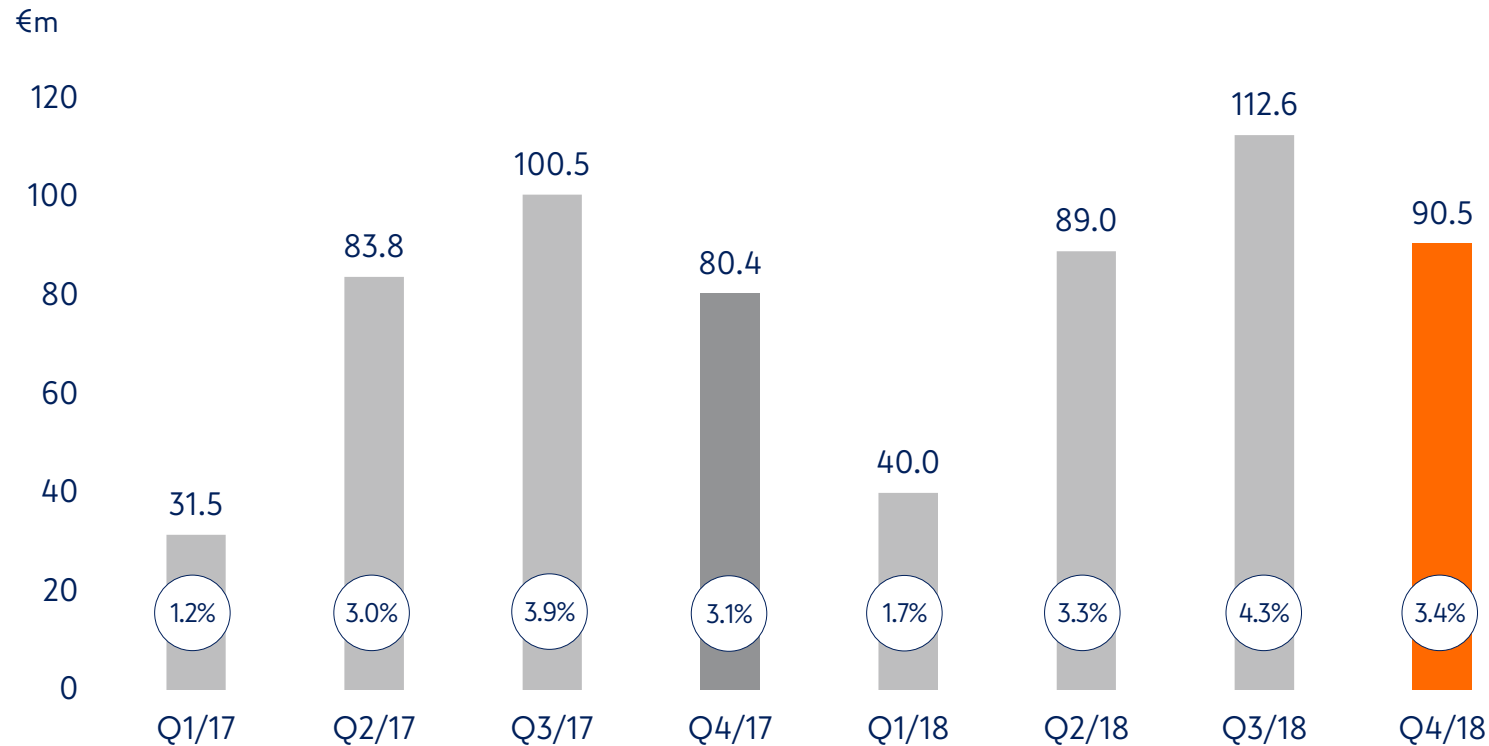


Continuing operations

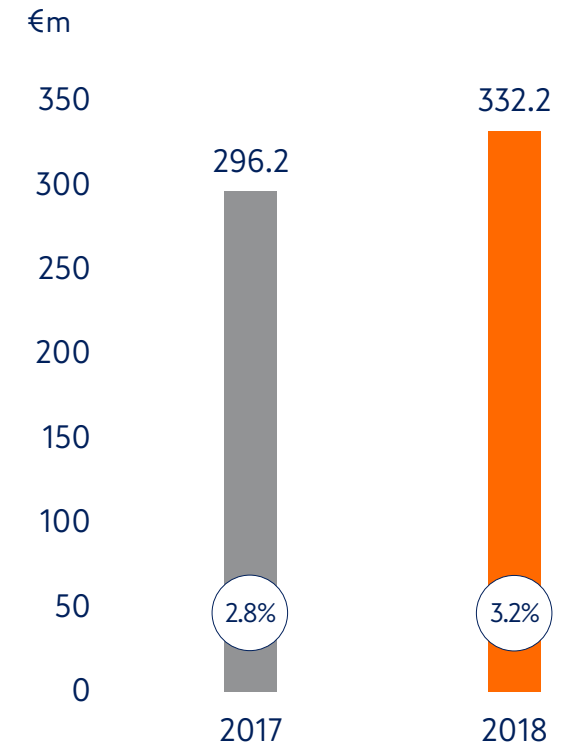
# Operating Profit

Q4 profit improvement €10m, full-year growth €36m

⊘ Operating margin



Rolling 12 months

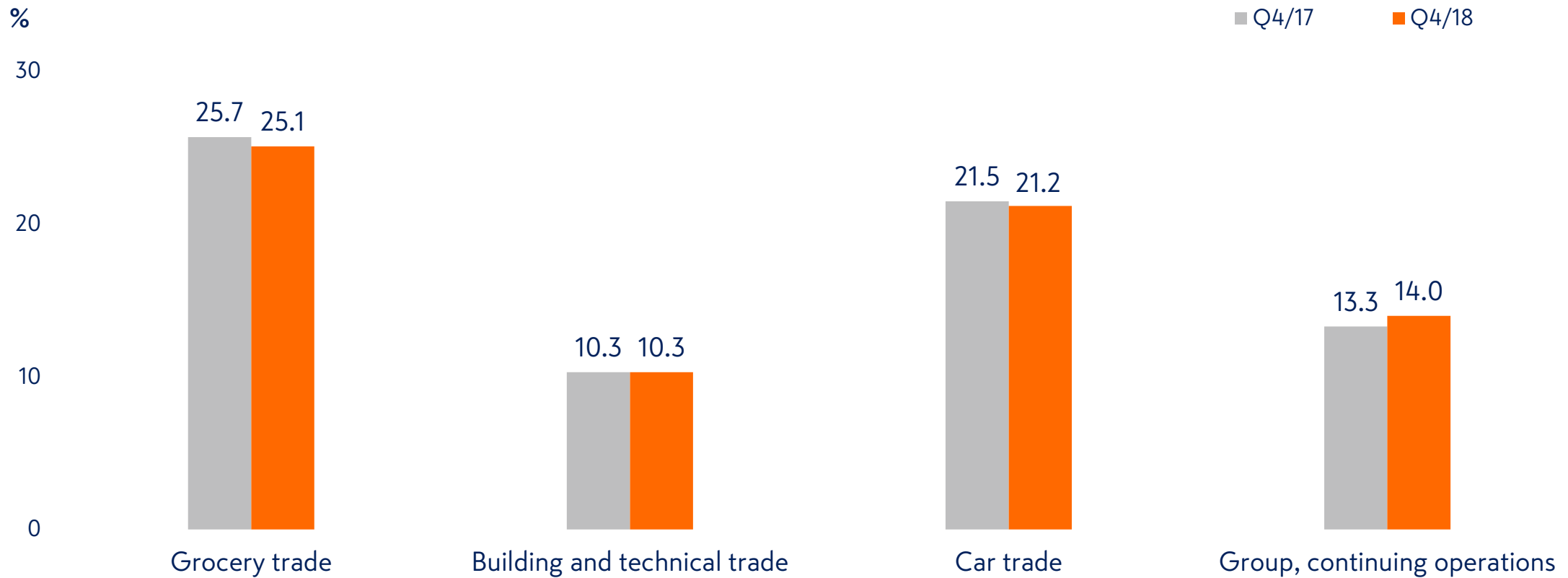


Comparable operating profit, continuing operations  
 Impact of the divested Asko and Sotka, K-maatalous and Yamarin businesses, Yamaha representation and Baltic real estate on operating profit €5.8m in Q2/17, €4.6m in Q1/17



# Return on Capital Employed Reached the 14% Target Level

## Comparable, rolling 12 months



# Strong Financial Position

	31.12.2018	31.12.2017
Equity ratio, %	51.4	50.4
Liquid assets, €m	250	398
Interest-bearing net debt, €m	162	136
Interest-bearing net debt / EBITDA	0.4	0.3
Continuing operations Q4:		
Cash flow from operating activities, €m	127.4	110.6
Cash flow from investing activities, €m	-57,6	-99,3

Organic

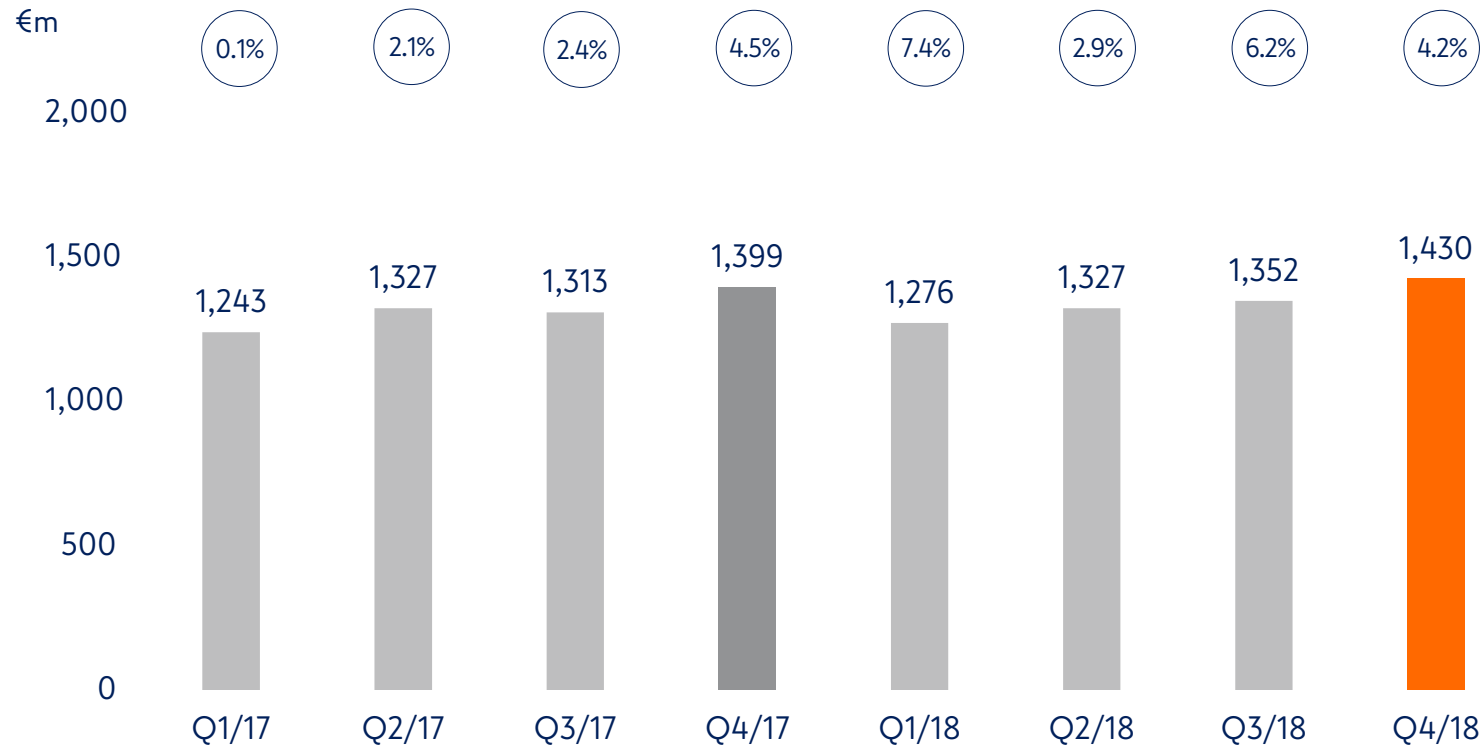


# Grocery Trade

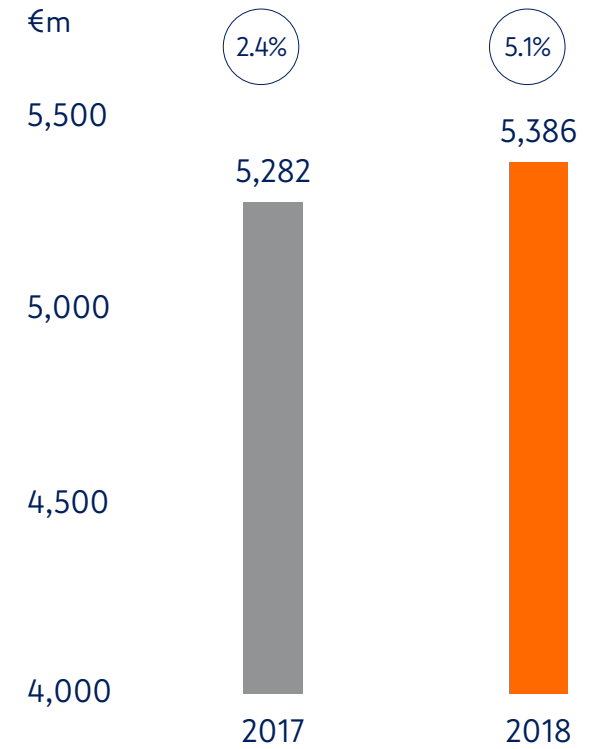
# Grocery Trade Net Sales

Q4 comparable growth 4.2%

(%) Comparable growth



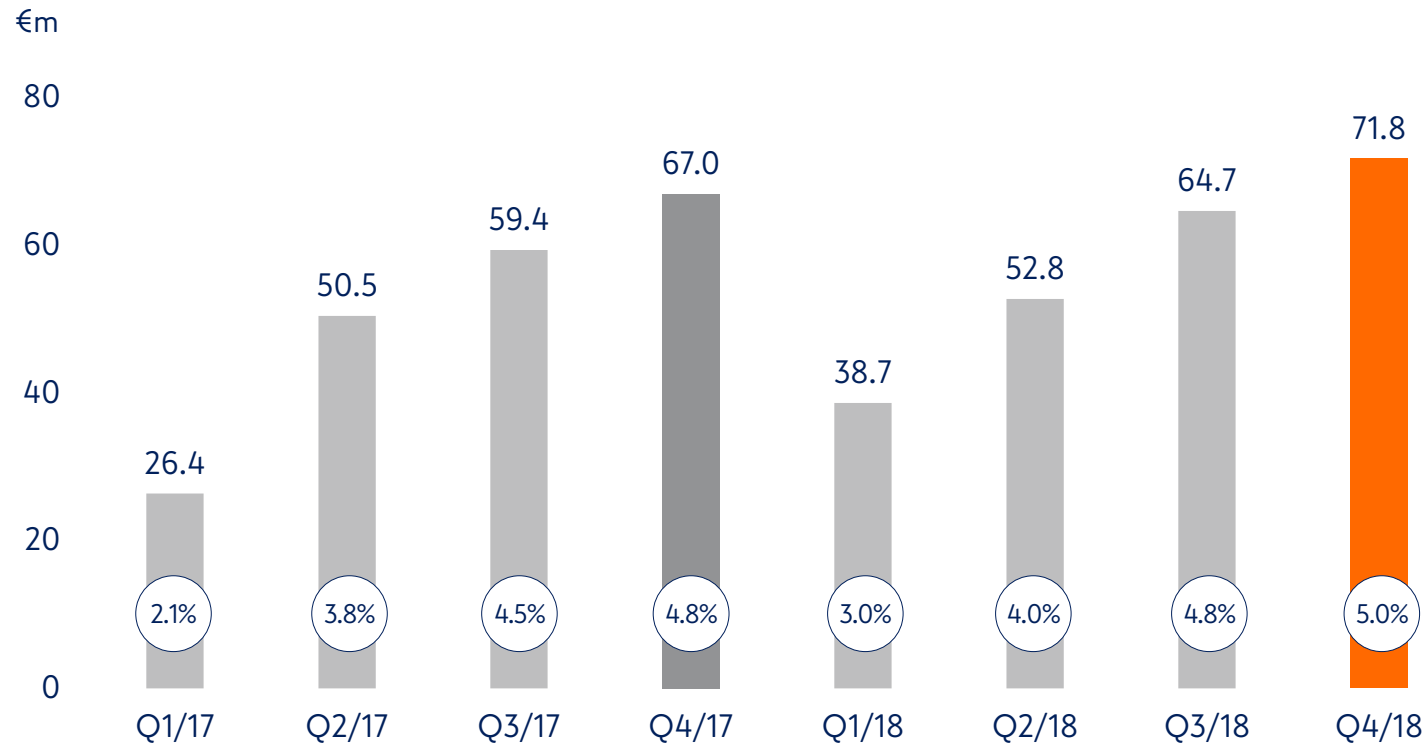
Rolling 12 months



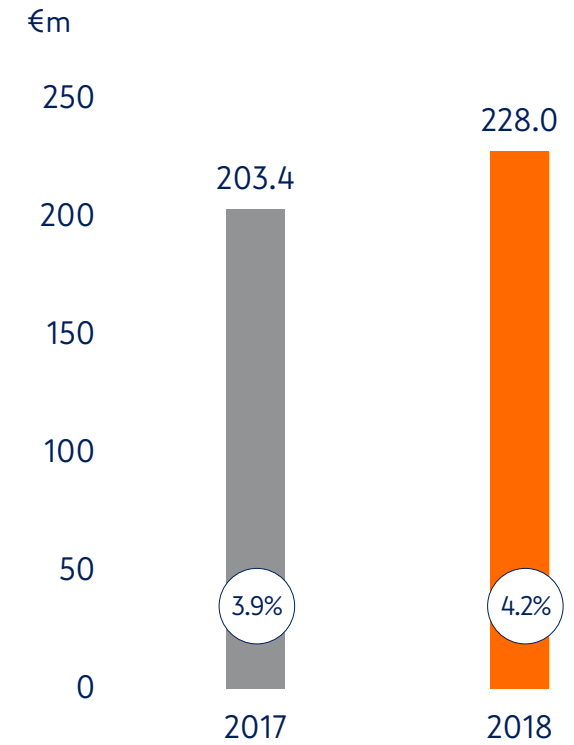
# Grocery Trade Operating Profit

Q4 growth €5m, full-year growth €25m

⊘ Operating margin



Rolling 12 months



Comparable operating profit

# Grocery Trade

## Market

- Growth in the grocery retail market 3.5% in Q4, approx. 4.0% in 2018
- Price inflation approx. 2.4%, of which slightly over one-third attributable to the increase in alcohol and tobacco taxes
- Increased emphasis on quality and selections, price still also important
- The growing trend of eating out increases demand for foodservice wholesale

## 2018

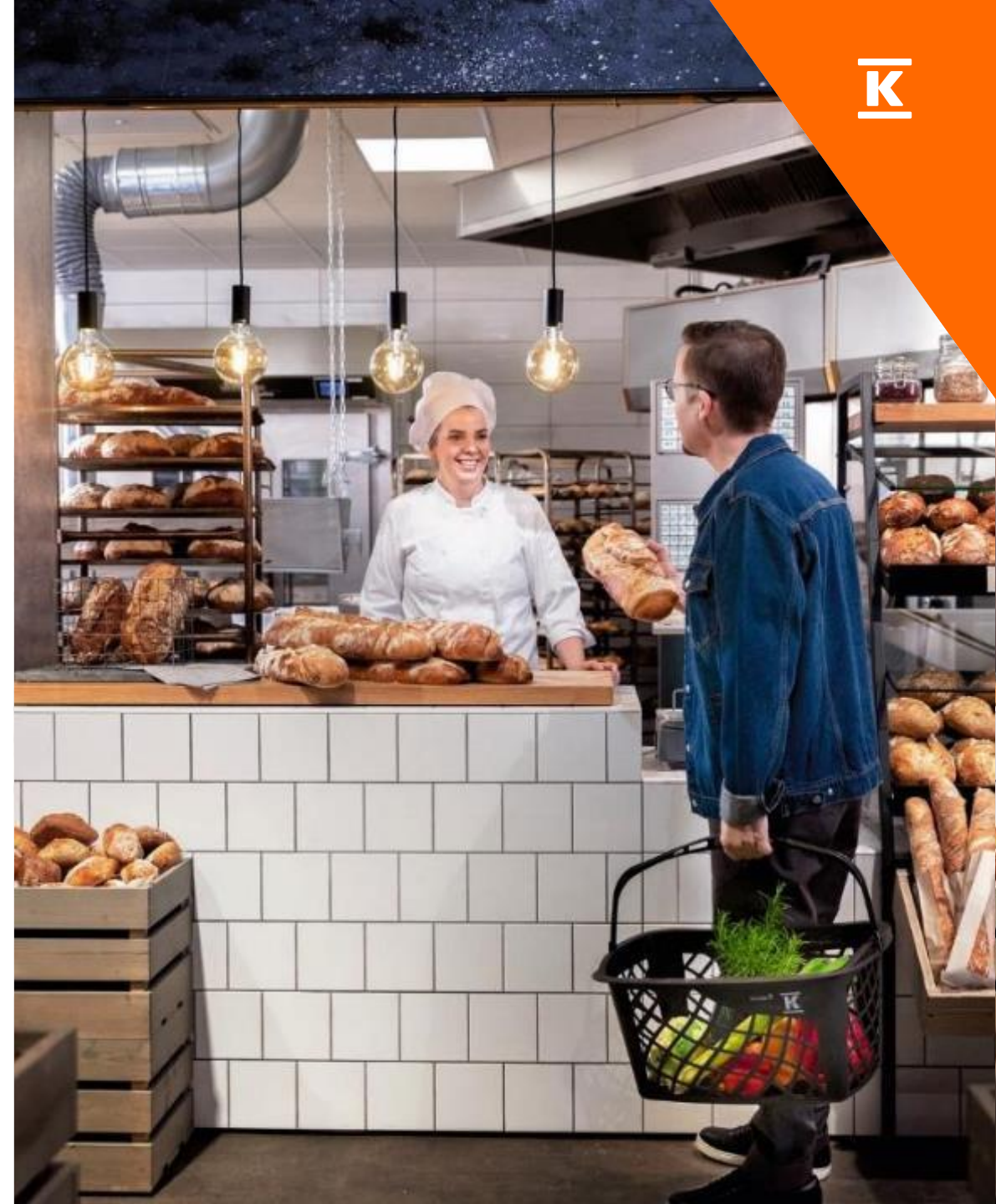
- Growth in customer numbers and market share
- Improved profitability thanks to sales growth and successful integration of Suomen Lähikauppa
- Continued investments in store redesigns
- Kespro's competitiveness improved by acquisitions

## Q4

- Market share growth continued
- Record Christmas sales for K-Citymarket and K-Supermarket
- Operating profit €72m, growth €5m
- Growth in online grocery sales nearly 100%

# Retailer Entrepreneurship as a Competitive Advantage

- The **most customer-oriented** food stores on the market
- Operations, selections and look of **1,109 stores** out of 1,200 redesigned
- Store-specific business idea implemented in **1,012 stores**
- A good retailer can operate multiple stores: **555 stores** and **225** retailers operating under the multi-store model
- **156** stores offering online sales of groceries
- **Opening hours** extended to respond to customer needs



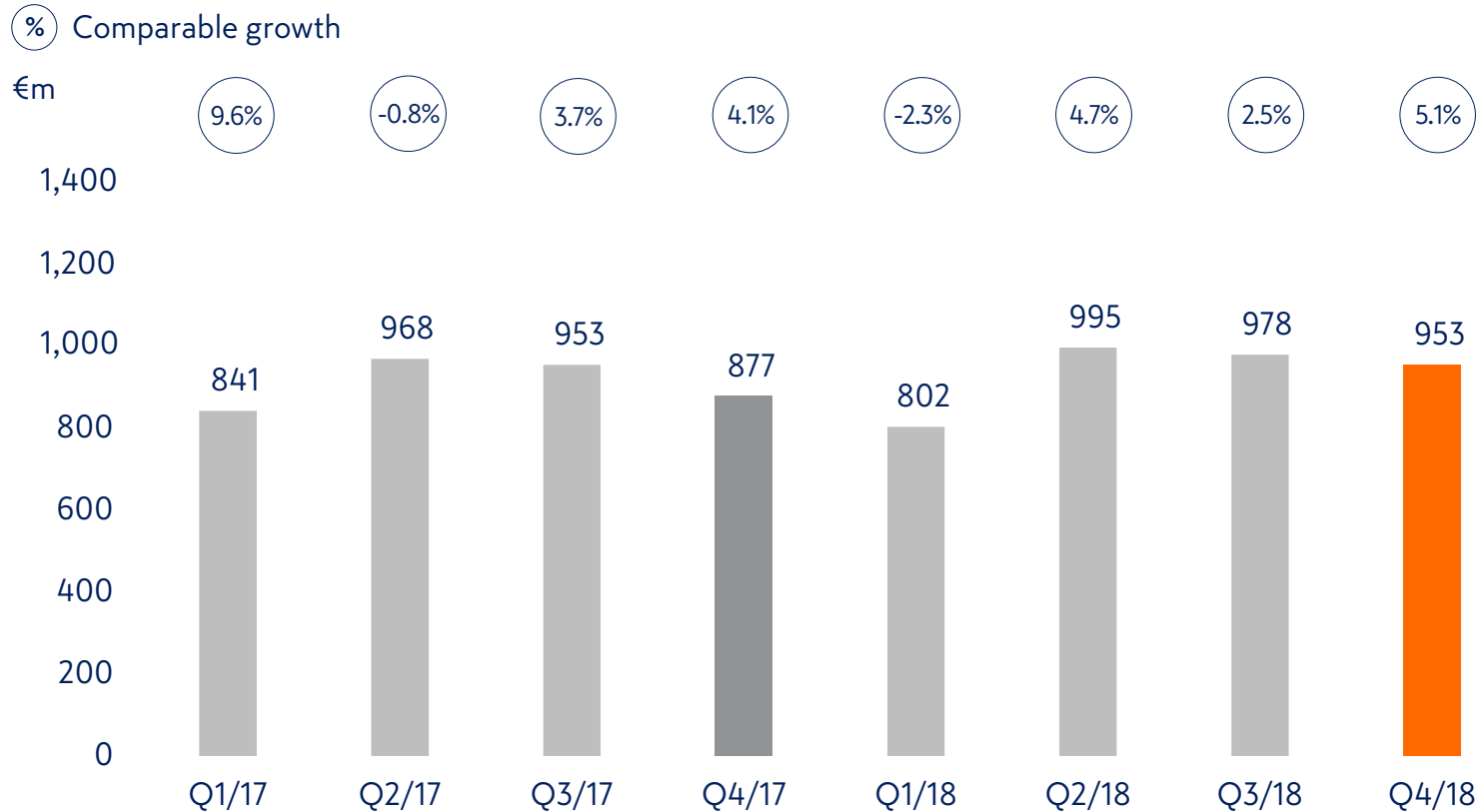


# Building and Technical Trade

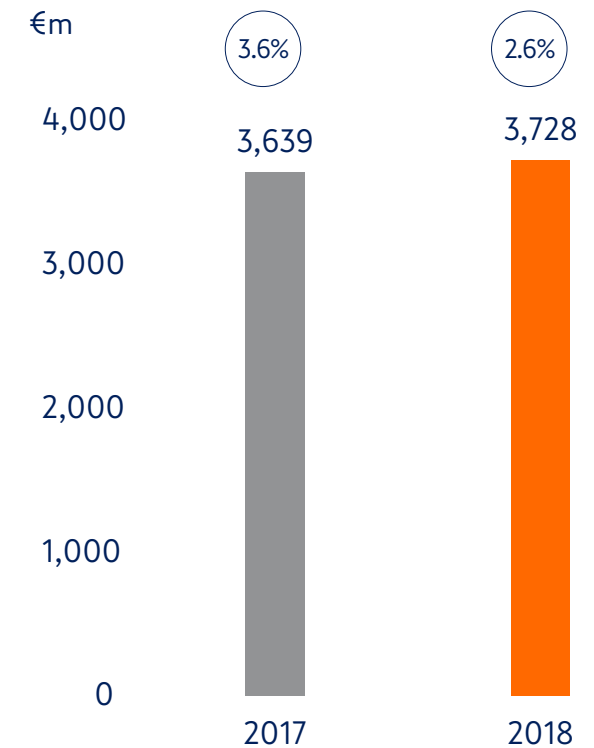


# Building and Technical Trade Net Sales

Q4 comparable growth 5.1%, figures excluding speciality goods trade



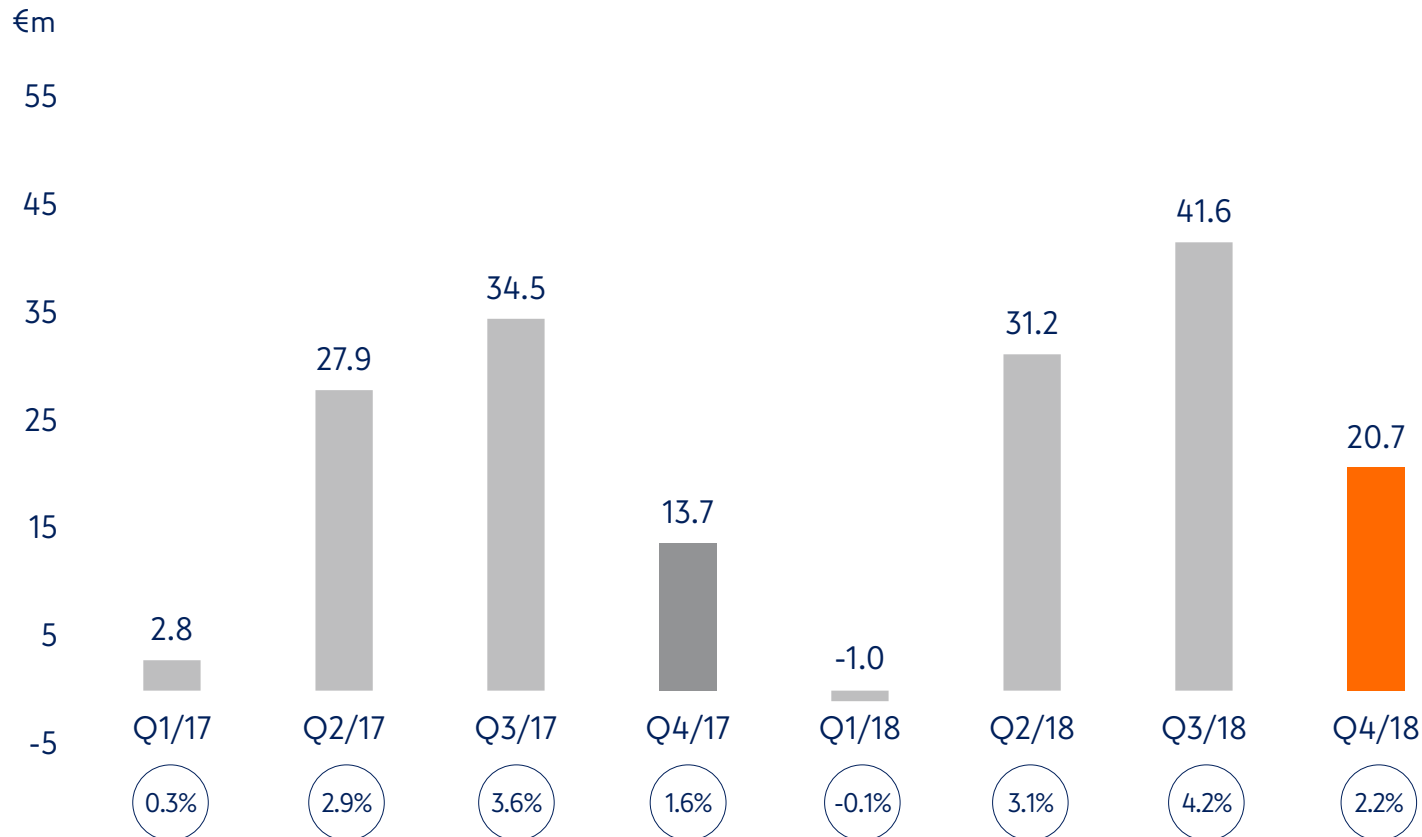
## Rolling 12 months



# Building and Technical Trade Operating Profit

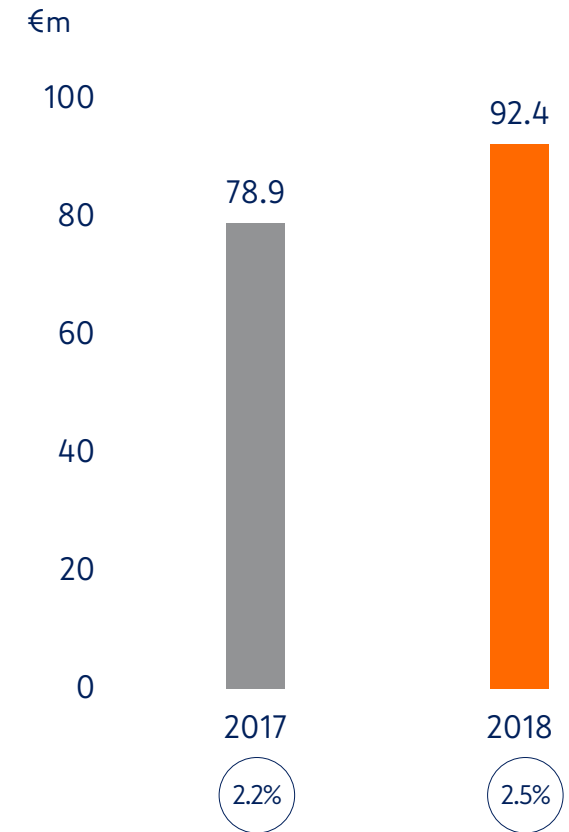
Q4 growth €7m, full-year growth €13m, figures excluding speciality goods trade

⊘ Operating margin



Comparable operating profit

Rolling 12 months



# Building and Technical Trade

## Excluding speciality goods trade

### Market

- Market situation in Northern Europe favourable despite decelerating growth
- Need for renovation building and its share are growing, construction focused on growth centres
- Market consolidation expected to continue
- Importance of digital services continues to grow

### 2018

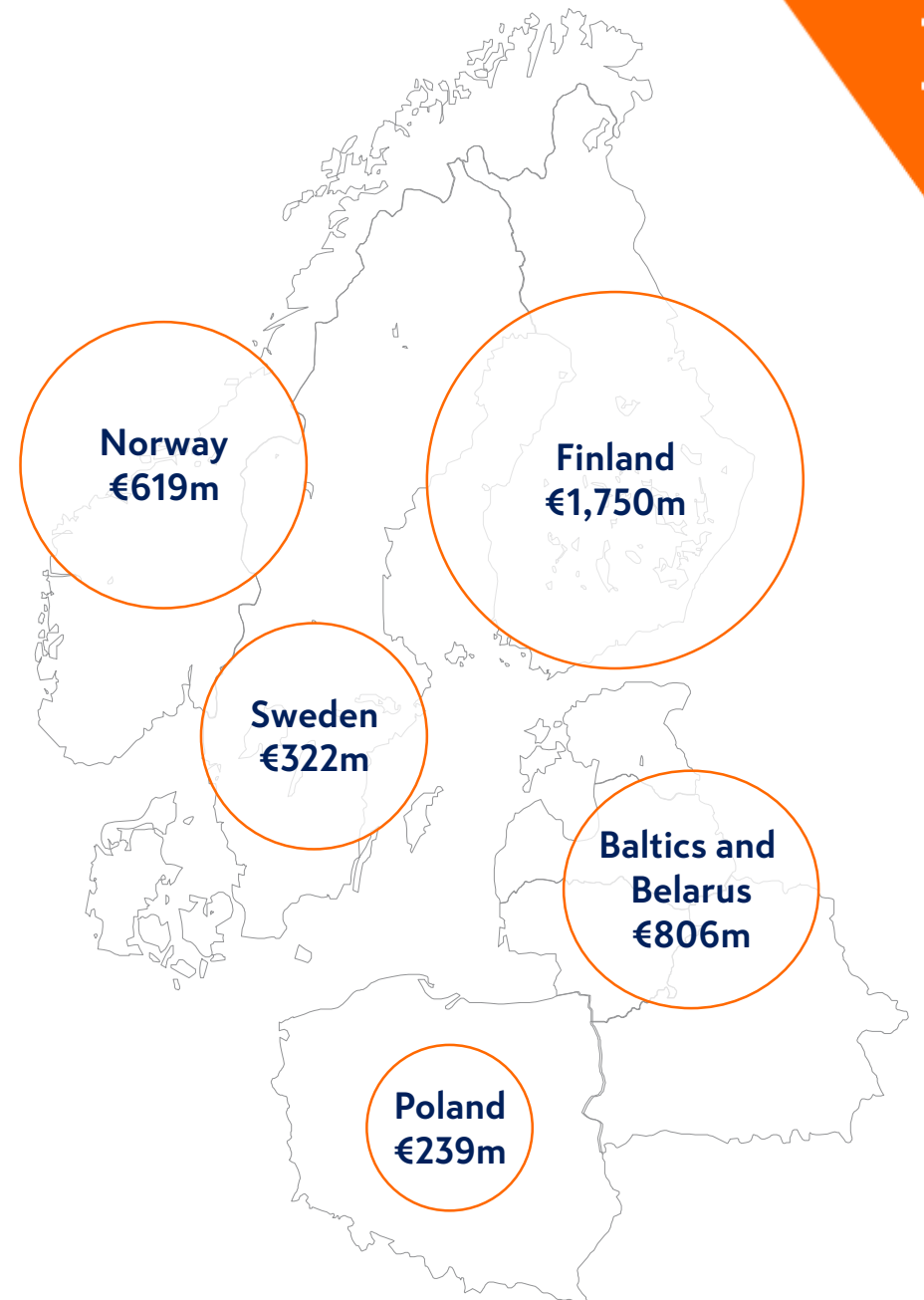
- New country-specific operating model yielded good results
- Acquisitions and divestments in line with strategy continued
- Comparable growth in net sales 2.3% for building and home improvement trade, 1.7% for Onninen
- Operating profit for building and home improvement trade €51.9m, growth €6m; for Onninen €40.5m, growth €8m

### Q4

- Net sales and operating profit grew especially in the Baltics and Finland
- In building and home improvement trade, comparable net sales grew also in Norway and Sweden
- Onninen's growth continued
- Operating profit €21m, growth €7m

# Country-Specific Focus Has Accelerated Strategy Execution

- **Finland:** K-Rauta and Onninen clear market leaders, profitability has improved
- **Baltics:** successful redesigns of stores and selections has led to growth in sales and profit
- **Norway:** share of own retailing for the Byggmakker chain increased with acquisitions
- **Sweden:** comprehensive transformation programme ongoing, comparable Q4 net sales up
- **Poland:** a turnaround in profit
- **Russia:** operations successfully divested



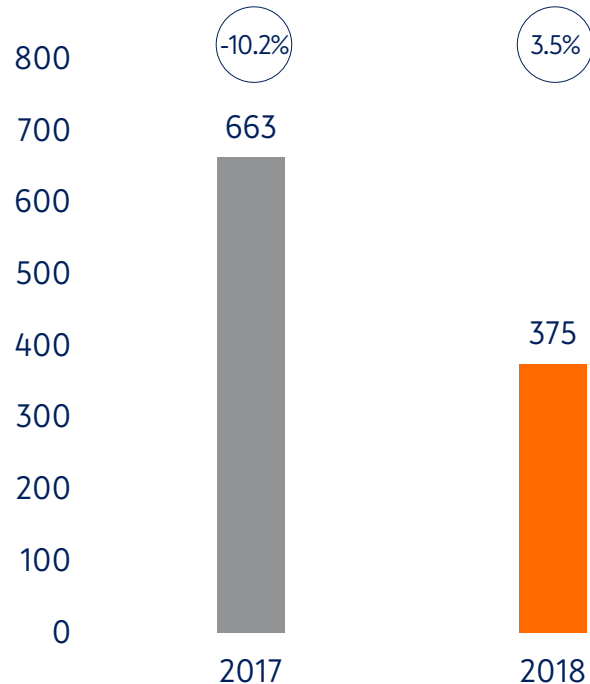
Net sales in 2018 excluding speciality goods trade, continuing operations

# Speciality Goods Divestments Decreased Net Sales and Profit

Profitability in leisure trade good despite tight competition

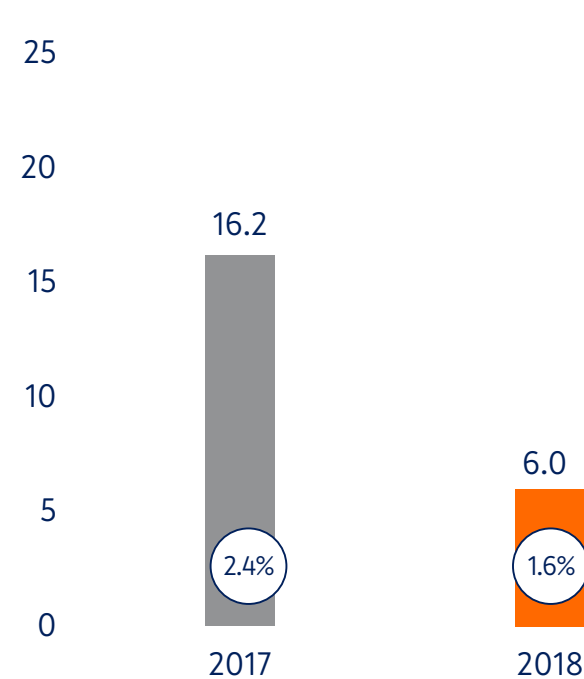
## Net sales, €m

(%) Comparable growth



## Operating profit, €m

(%) Operating margin



## Leisure trade

- Net sales €202m, growth 2.6%
- After start of winter season Q4 +4.6%
- Intersport and Kookenkä maintained their positions as Finland's leading sports and shoe store chains

## Machinery trade

- Net sales €173m, growth 4.5%
- Divestment of Baltic machinery trade and Finnish agricultural machinery trade expected to be completed in H1/2019

Comparable operating profit

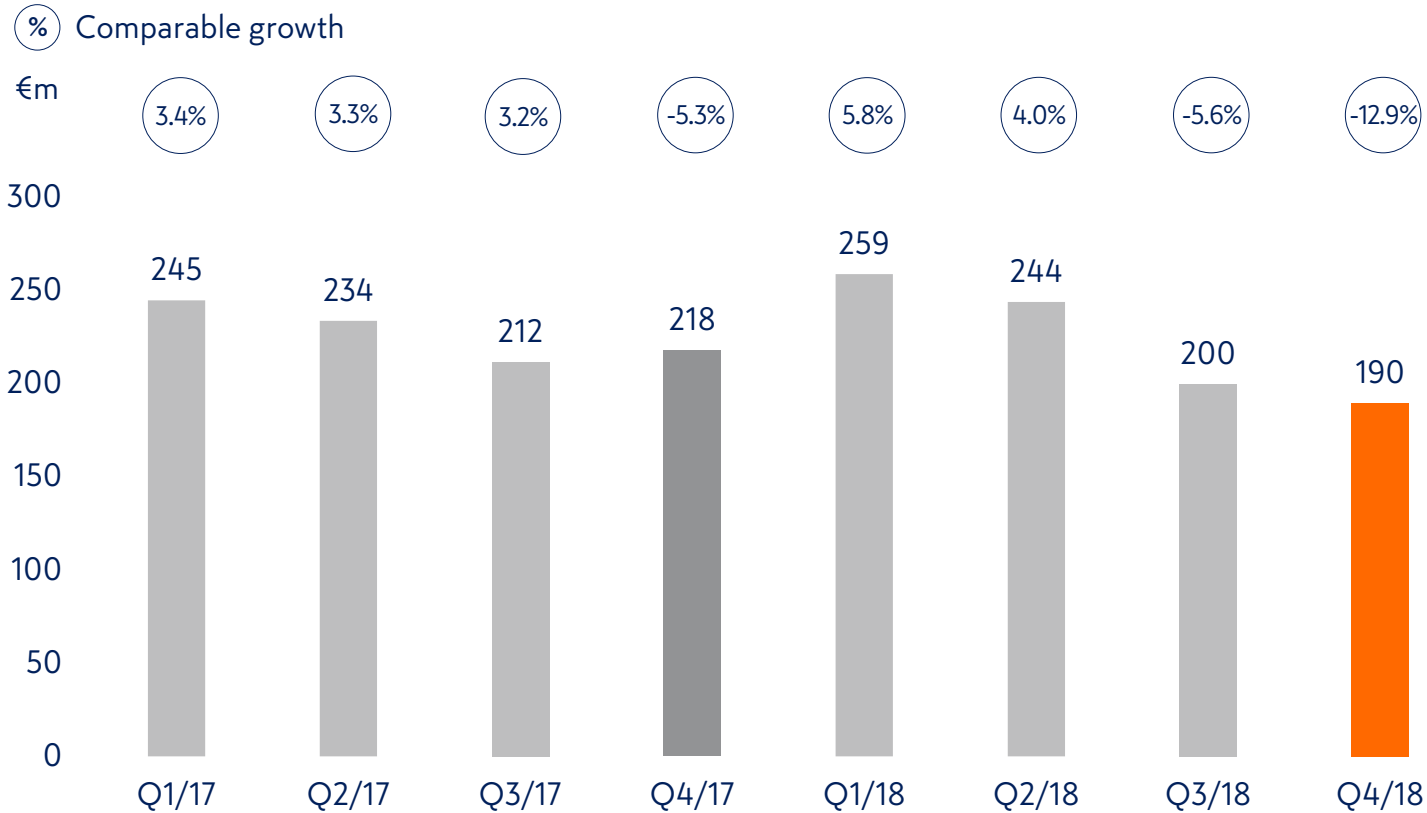


# Car Trade

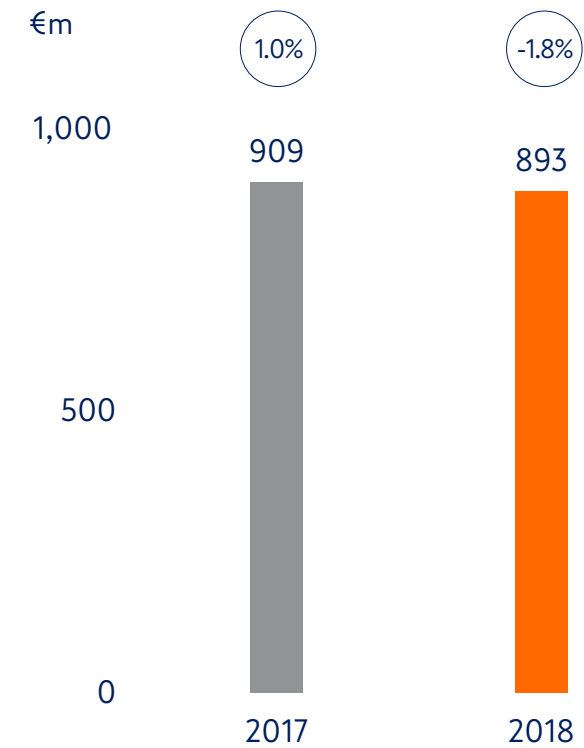


# Car Trade Net Sales

Q4 sales -12.9% due to implementation of WLTP emissions testing and change in car tax



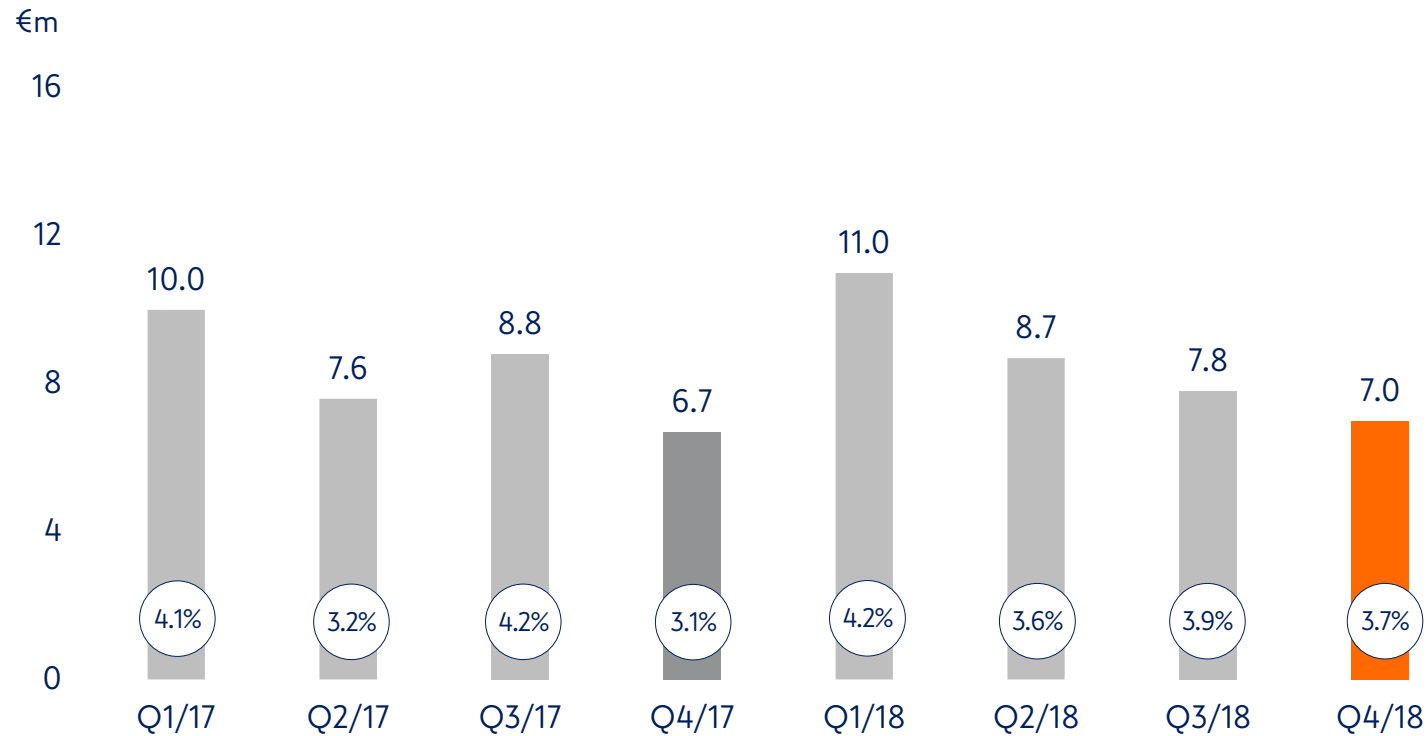
## Rolling 12 months



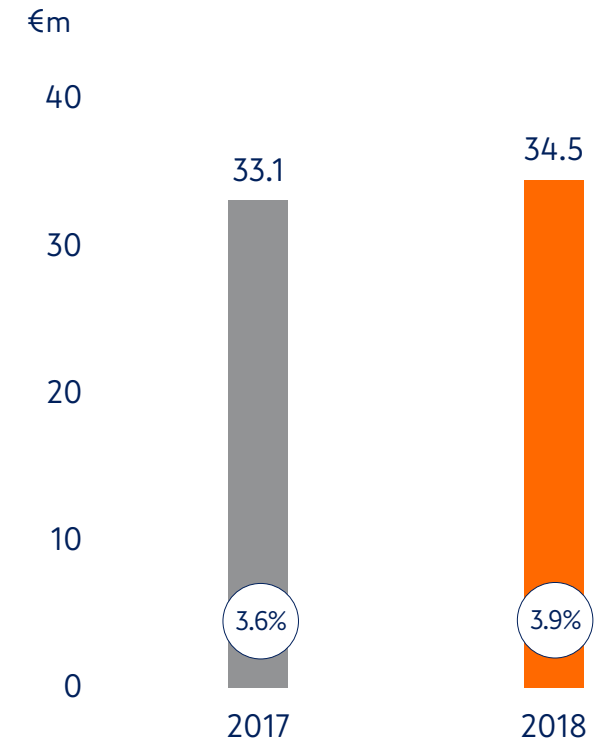
# Car Trade Operating Profit

Q4 profitability good despite the decrease in net sales

⊘ Operating margin



Rolling 12 months



Comparable operating profit



# Car Trade

## Market

- First registrations of passenger cars and vans +1.3% in 2018, -12.1% in Q4
- New WLTP emissions testing implemented since the start of September has caused significant disturbances in car trade
- Uncertainties related to taxation and technological transformation in the car sector

### 2018

- Market share of Volkswagen, Audi, SEAT and Porsche passenger cars and vans 18.5% (18.6%)
- A record year for Porsche, registrations up by 65.7%
- New mobility services off to a good start
- Car trade incorporated more tightly under the K Brand

### Q4

- Operating profit good despite the decrease in net sales
- Operating profit €7.0m, growth €0.3m
- Order book for new cars -12%
- New orders for K-Caara Leasing services approx. 550 in 2018, 194 K Charge charging points

# Tightening Strategic Partnership with the Volkswagen Group

**K-Auto continues to expand its brand portfolio:**

- Kesko started importing Volkswagen and Audi in 1977
- MAN since 1979
- SEAT since 1990
- Porsche since 2016
- Bentley **from autumn 2019 onwards**





# Outlook

# Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (1/2019-12/2019) in comparison with the 12 months preceding the end of the reporting period (1/2018-12/2018). The outlook is based on IFRS in force on 31 December 2018, and does not take account of the impacts of IFRS 16 Leases, which took effect on 1 January 2019.

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow. In the Finnish grocery trade, intense competition is expected to continue, although, as purchasing power increases, the importance of quality will be emphasised more than previously. In the building and technical trade, the growth in B2B sales is expected to continue stronger than the growth in the retail market. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate.

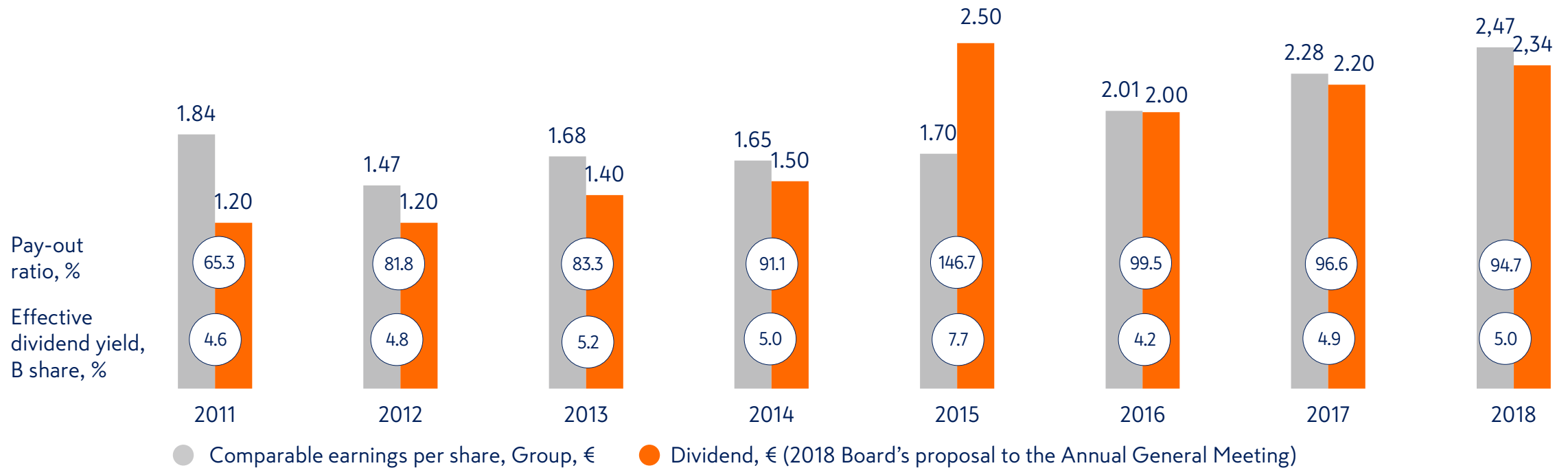
In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months. However, investments in information systems and digital services will burden profitability during the period. In the car trade, profitability is burdened by the shift to WLTP emissions testing, which postpones car delivery times. In the building and technical trade, the share of own retailing has risen following the acquisitions carried out, which increases profit-related seasonal fluctuations.

# Focus Areas for 2019

- Growing sales and further improving customer experience in the **grocery trade**
  - Further strengthening store-specific business ideas and retailer entrepreneurship
  - Growth in foodservice wholesale
- Increasing sales and profitability in the **building and technical trade**
  - Improving profitability in Sweden
  - Supporting growth with acquisitions in Northern Europe
- Growth and tightening strategic partnership with the Volkswagen Group in the **car trade**
- Increasing sales and efficiency further by operating as **one unified K**

# Board's Dividend Proposal to the AGM €2.34

**Kesko's updated dividend policy:** In the long-term, Kesko aims to distribute a steadily growing dividend of some 60-100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko plans to pay its dividends in two instalments, starting with the dividend paid for the year 2018.





## *World's Most Sustainable Trading Sector Company*

Kesko was ranked the most sustainable trading sector company in the world for the fifth time.\* We have systematically engaged in everyday corporate responsibility work for a long time. We have transparent purchasing chains, we are the biggest producer of solar power in Finland, our product safety is world class, we are building the widest network of electric car charging stations in Finland, we support Finnish food production, and our organic waste gets turned into biogas – to name just a few of our efforts.

Every day, we encounter over 1.5 million customers – by choosing K Group, they have the chance to make the world a bit better. We will continue to work together and with our customers towards a sustainable future.

\*Source: Global 100 list (stock exchange listed companies), Corporate Knights Inc.



**One unified K  
will move to the new  
K-Kampus  
this spring**







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