

## Q&A with President and CEO Mikko Helander at Kesko's 2018 financial statements media and analyst briefing on 6 February 2019

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**Pirkko Tammilehto, Kauppalehti:** Could you elaborate on the Hehku chain, which turned out a failure? You had big expectations – what happened and what were the costs for Kesko?

**Mikko Helander:** As has been stated publicly, co-determination negotiations with Hehku's personnel have been concluded, and Hehku's operations will be discontinued. Kesko and K Group are rapidly transforming, we have carried out nearly 20 acquisitions and divestments over the past four years and successfully executed our strategies across the board. The fact that we are a growth company means we must have the courage to initiate new ventures, and some of those don't always turn out the way we've planned. I think it is important to be able to react fast in such situations. When it became evident Hehku would not be meeting the objectives set for its operations, it was important to make decisions fast, which we did.

The resulting financial losses for Kesko are very minor considering the size and profitability of Kesko overall. So the financial losses were fairly small. I want to once again emphasise that you should not be afraid to make mistakes. How could a company grow and transform if you play it safe and don't have the courage to try new things? So we are not overly sad about the situation.

**Pirkko Tammilehto, Kauppalehti:** Were you anticipating faster deregulation of the pharmacy market? That apparently was the idea behind the chain.

**Mikko Helander:** Maybe we were, but that was not the primary issue here. It had more to do with the fact that we were unable to execute the store concept and selections for Hehku that we originally planned and hoped. Why we could not establish the kind of selection for Hehku that we had hoped would be a discussion on its own.

**Pirkko Tammilehto, Kauppalehti:** Which products were you missing?

**Mikko Helander:** I'm not going to specify the products. Products and selections are the key thing for all trade. When we were planning and started building Hehku, I think we had a good clear vision of the type of selections we should have, and thought those selections would be quite unique in Finland. However, for various reasons, we could not make them a reality. At that point, we had to consider the market dynamics in Finland, and that would be a long separate discussion. That would be a discussion that would need to involve the pharmaceutical industry and a wider selection of participants. In the end, it also has to do with legislation and the timetable for deregulation of the pharmacy market and more open competition.

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**Pirkko Tammilehto, Kauppalehti:** In the grocery trade, both S Group and you have boasted gains in market share last year. Is this growth in market share for both groups based on further market consolidation?

**Mikko Helander:** I don't have the figures for S Group, so I can't and won't comment on our competitor. What we have are the sales figures for K Group for the whole of 2018 and for Q4, and based on those and the figures for overall market development, we know for sure our commercial

success has been excellent, in all chains. That is also reflected in our sales and profitability figures. To repeat, commercial success for our grocery trade operations is currently better than it has been for decades. Consequently, we are happy that we have also been widely able to take over market share.

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**Ossi Rajala, Lännen Media:** Are you planning on any changes in the grocery trade, any launches or big changes?

**Mikko Helander:** No, we are not planning and have no need for any big changes. As I said, we established a new strategy for Kesko and K Group in 2015, and in the spring of 2018 further specified the strategy outlines for all divisions and actions to be taken. If you look at how our sales and profitability have since grown in all divisions, including the grocery trade, it's natural that we will continue to do what we are doing. Our strategies are working really well and we strongly believe that if we continue to do the things we do, in the grocery trade led by Ari, we are very confident the good progress will continue.

What we saw in 2015 is that is important that there are different types of stores in Finland and different types of trading sector operators. Kesko and K Group together with the retailers have established a model in which "every K is different" and every store has its own store-specific business idea that takes into account the specific needs of local customers. We emphasise that we are a different type of operator than the other two big operators, and that is yielding results. Our strategy is heavily based on K-retailer entrepreneurship, which makes it very difficult for our competitors to challenge us on our strengths. I think it is also a great thing for Finnish consumers, as we now have more and more different stores and store services. The transformation of Kesko and K Group has enriched store services in Finland, and will continue to do so going forward. Siwa and Valintatalo stores are now K-Markets, and it is widely recognised they are now completely different kinds of stores for consumers, brilliant food stores compared to how they use to be. That's a good example.

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**Pirkko Tammilehto, Kauppalehti:** What trend do you expect in food prices? It is forecasted that prices will go up by a couple of percent this year. Do the increases go straight to your store prices? How will competition affect prices?

**Mikko Helander:** As you well know, competition is truly fierce in the Finnish grocery trade market, and that's good. The fact that we are engaged in intense price competition does not change the fact that rising food prices are a global trend. We had a few exceptional years when food prices globally came down, but that was temporary, and now we are back to normal. Food prices are slightly on the rise and we expect that to continue. Store prices are a completely different matter. All I can say is that price competition is very intense. However, if you look at our commercial success, we have fared well. Ari can elaborate on this.

**Ari Akseli, President, grocery trade:** With the strategy work done in 2015, and the specifications made last spring, we feel we've establish a position in which we have a fairly good, permanent competitive advantage, related to our structure, retailer model, store-specific business ideas and effective background operations. We have been able to latch onto market trends fast. For example, our sales of premium products are in a class of their own compared to the overall market. The

same goes for local food and Fairtrade products, and so on. This shows our offering meets current needs, and each one of our stores agilely adapts to the specific needs of its clientele, while we enjoy economies of scale. This seems to be working, and if it ain't broke, don't fix it.

**Mikko Helander:** No holding back.

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**Mikko Helander:** If there are no more questions, I want to thank everyone here and online for participating. Thank you.