



# Transforming Kesko

Jukka Erlund, CFO  
4 June 2019

# K Group and Kesko Today



**Biggest in Finland**,  
#3 in Northern Europe  
with retail sales of  
nearly **€13bn**



Profitable growth  
strategy in **3** core  
divisions



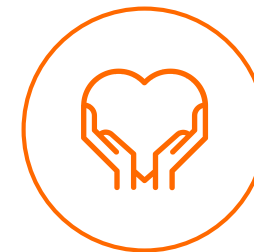
**41,000** employees,  
approx. **1,800 stores** and  
comprehensive **digital**  
services in **8** countries



**Strong financial  
position** with good  
dividend capacity



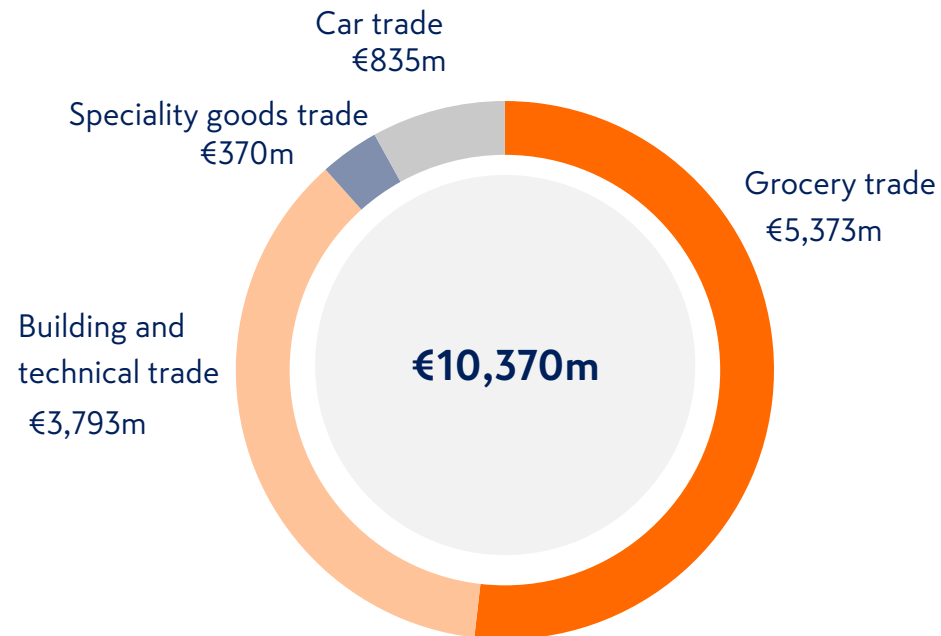
Market cap approx.  
**€4.6bn** with over  
**41,000** shareholders



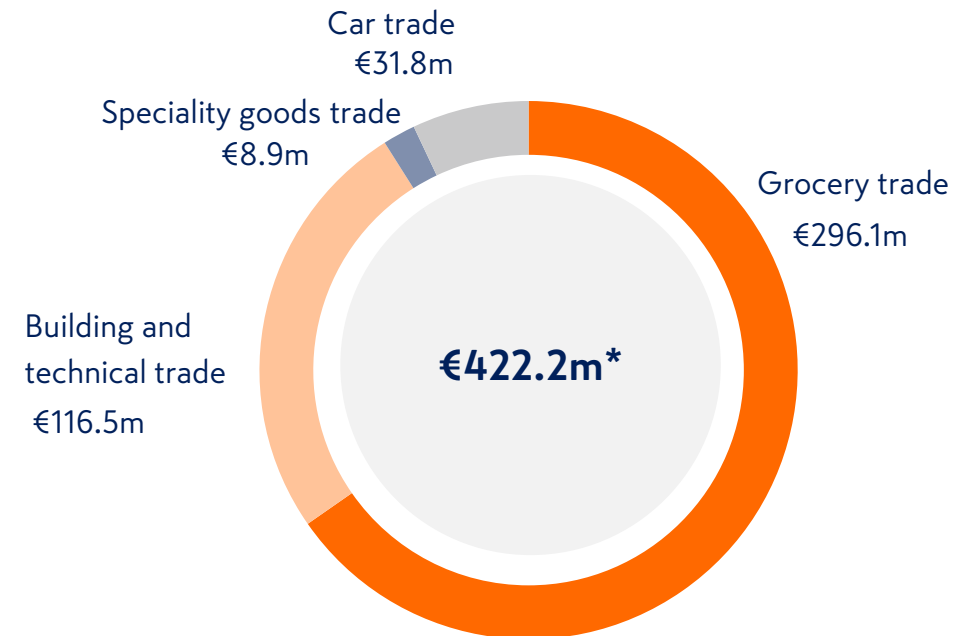
**World's most  
sustainable** trading  
sector company

# Net Sales and Operating Profit by Division

## Net sales



## Comparable operating profit



Rolling 12 months Q1/19

\* Incl. common functions and eliminations €-31.1m, IFRS 16 impact €95.2m



# 1. Creating Value Through Growth

# Continuing Our Growth Strategy Implementation

## VISION

We are the customers' preferred choice and the quality leader in the European trading sector

## STRATEGIC FOCUS AREAS

Profitable growth

Business focus

Quality and customer orientation

Best digital services

Sustainability and combating climate change

One unified K

## DIVISION PRIORITIES



### Grocery trade

- Most customer-oriented and inspiring food stores with store-specific business ideas
- Profitable development of store network
- Seamless multi-channel customer experience
- Development of the retailer business model as a competitive advantage
- Significant growth in the foodservice business



### Building and technical trade

- Country focus with specified strategic actions
- Three customer segments served according their specific customer needs
- Synergies – within individual countries and between the operating countries
- Organic growth and profitability improvement
- Selected acquisitions to win a chosen country and segment



### Car trade

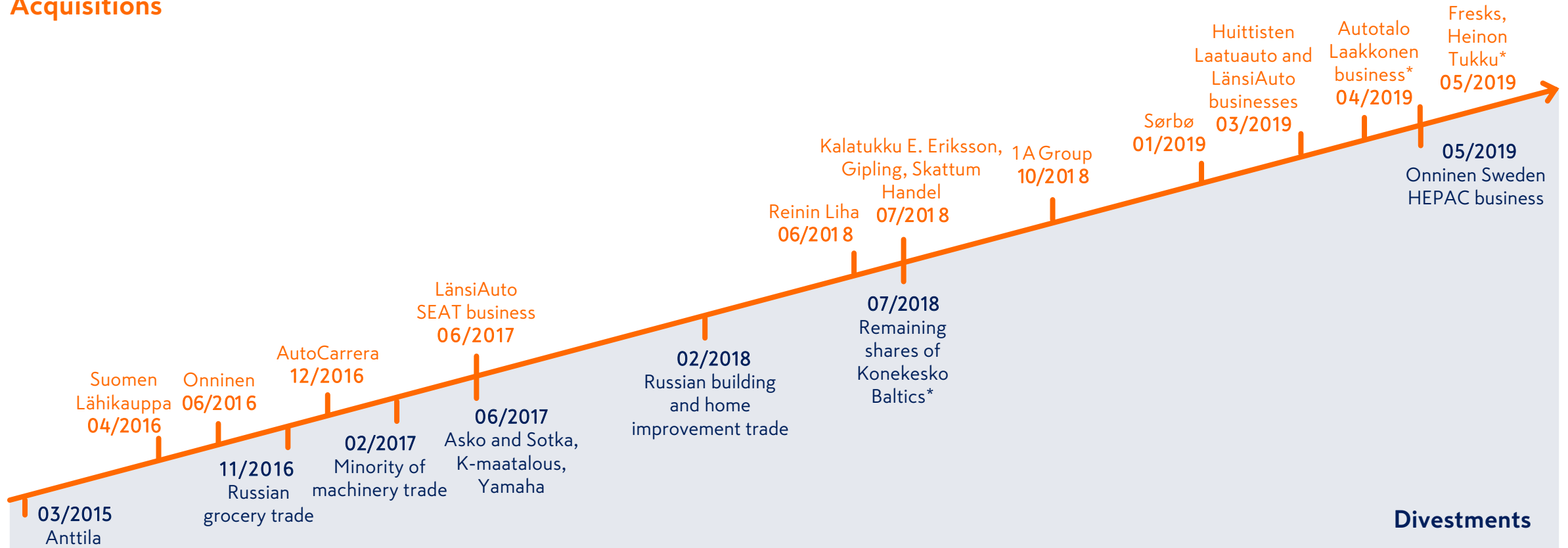
- Increasing business in cooperation with the Volkswagen Group
- Increasing own service and mobility business
- Best customer experience – in all channels

## VALUE

The customer and quality – in everything we do

# A Strong and More Focused Company Through Successful Portfolio Transformation

## Acquisitions



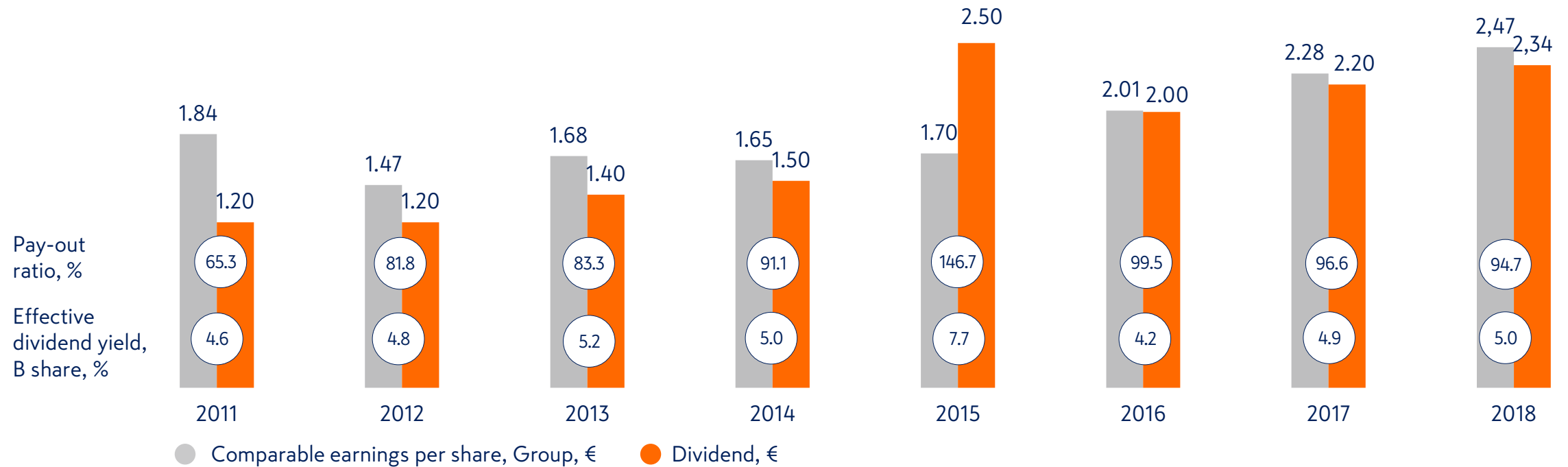
\*Transaction announced, waiting for closing

# Kesco's New Financial Targets

	2018	New target level
Operating margin	4.1	5.0
Return on capital employed, %	9.8	11.0
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.4	<2.5

# Steady Growth Targeted in Dividends

**Dividend policy updated in Q1:** 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. Dividends will be paid in two instalments, starting with the dividends paid for 2018.







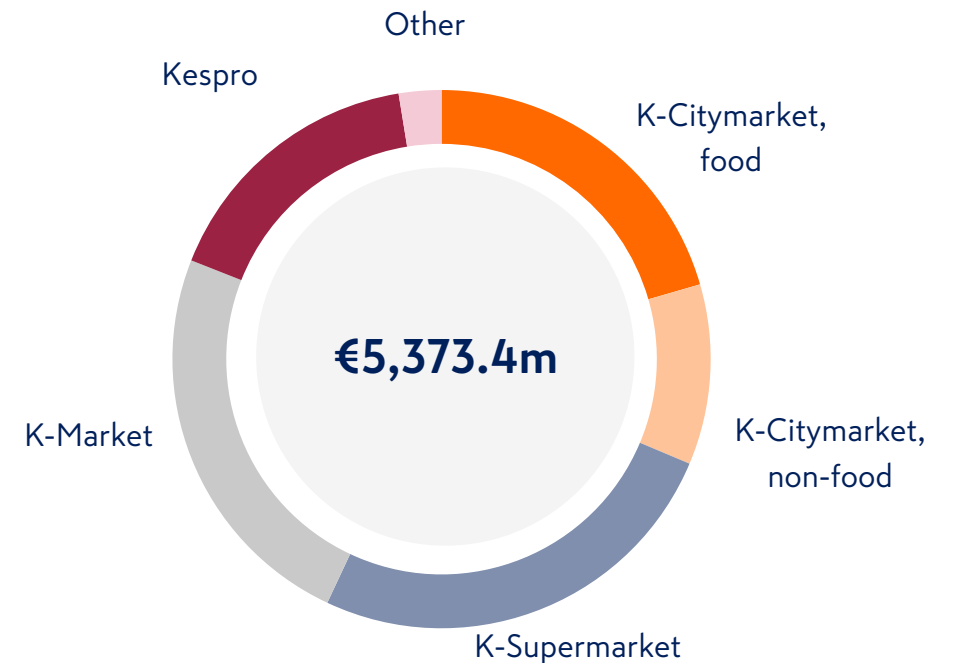
## 2. Grocery Trade Continuing Profitable Growth in All Channels

# Grocery Trade in Brief

- Over 1,200 stores in the retailer business model
- Market share 36.1%
- Some 1.2m customers visit K-food stores daily
- K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations
- Kespro is the leading foodservice provider in Finland

## Net sales

Rolling 12 months Q1/19



# Success Stories in Grocery Trade Strategy Execution



K-retailer entrepreneurship and store-specific business ideas, multi-store model



Rebranding and store modernisations



Acquisition of Suomen Lähikauppa



New digital services and food online

**PÍRKKA**

Differentiation through own brand products



Market share growth



Developing foodservice business

# Seamless Omnichannel Customer Experience Driving Sales and Loyalty

<b>0.4%*</b>	Share of online sales of the total grocery market is still small, but growing fast
<b>18</b>	People/sq. km, low population density in Finland affecting choice of viable solutions
<b>180</b>	K-food stores offering online services
<b>+110%</b>	Our online sales growth in Q1/2019
<b>73</b>	NPS, high customer satisfaction
<b>5x</b>	Higher average purchase than in physical stores
<b>€50m</b>	Our online net sales target for 2019

\*€18.2bn (incl. VAT) in 2018



The background of the slide shows a kitchen scene with a person in a white shirt working at a counter. In the foreground, there are several plates of fresh ingredients: a purple onion, a plate of green herbs, a plate of red chili peppers, and a large bunch of fresh green basil leaves. A white circular text box with an orange border is overlaid on the left side of the image.

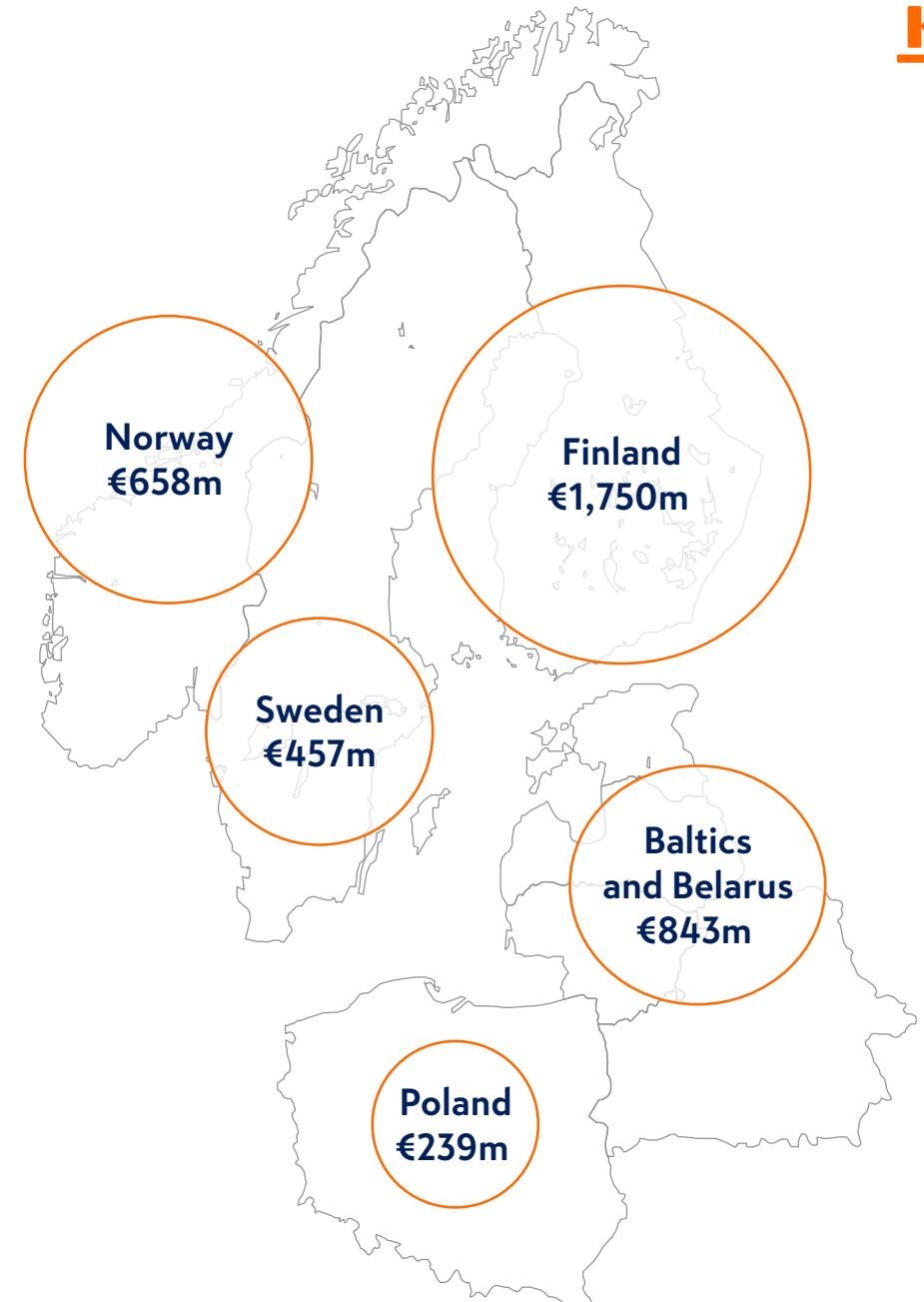
**Kespro to acquire  
foodservice wholesaler  
Heinon Tukku, which  
complements our service  
offering and network**



# 3. Building and Technical Trade To the Next Level With Sharper Country Focus

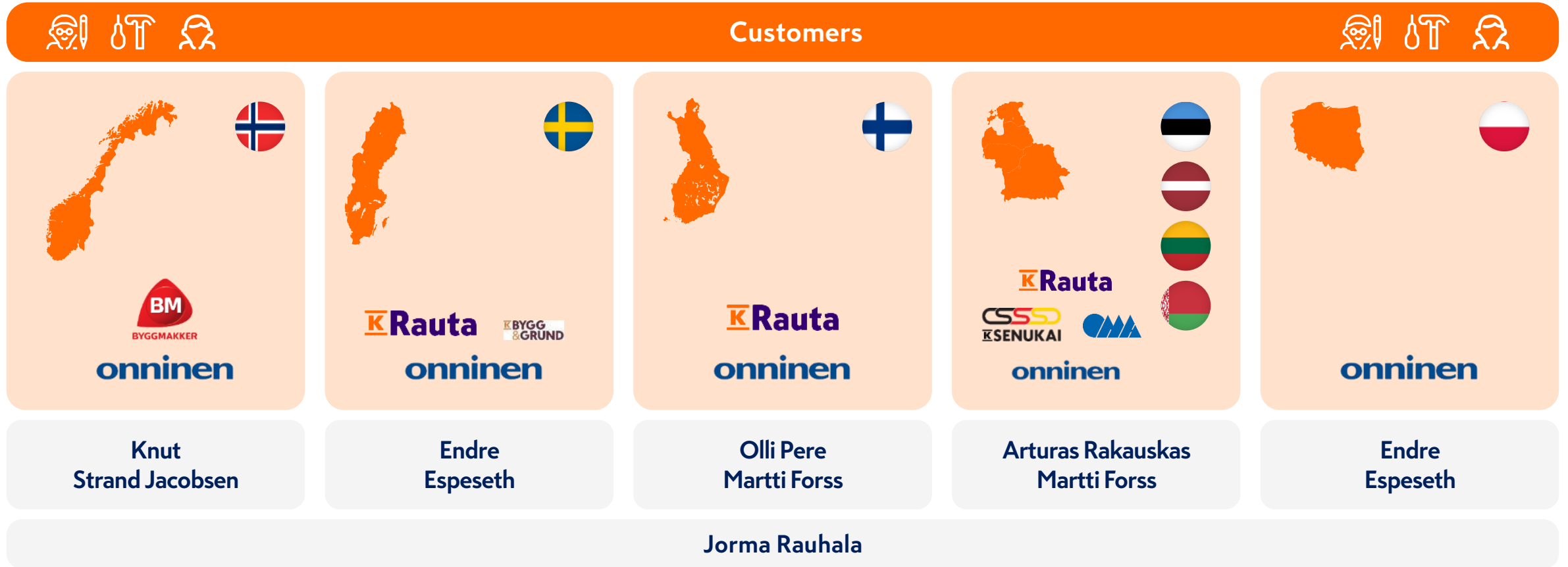
# Building and Technical Trade in Brief

- #1 operator in building and technical trade in Northern Europe
- Net sales pro forma €3.9bn\*
- Approx. 70% of sales from B2B trade and 30% from B2C
- 440 stores in 8 countries
- Comprehensive digital services
- Additionally, speciality goods trade business



\*2018 pro forma net sales, current portfolio and excl. speciality goods trade

# Sharper Country Specific Focus to Drive Profitable Growth





# Three Customer Segments Served According Their Specific Customer Needs



## Technical professionals



- Technical contractors
- Infrastructure
- Industry
- Retailers



## Professional builders



- Construction companies
- Renovation contractors
- Decoration contractors



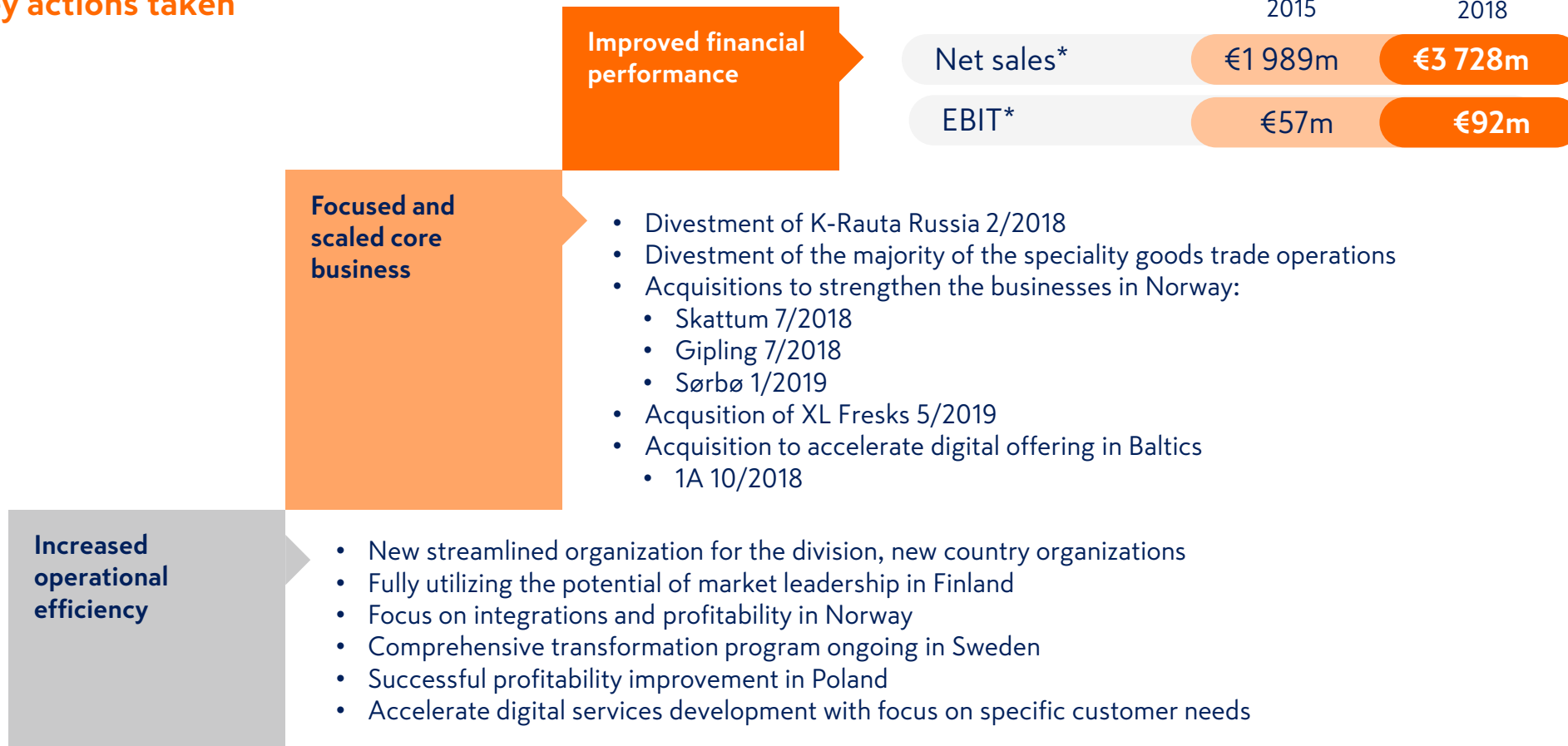
## Consumers



- Renovators
- Home and garden builders
- Decorators
- Gardeners

# Strong Strategy Execution in Building Technical Trade

## Key actions taken



\*Continued operations excl. speciality goods trade, excl. IFRS16

**Fresks acquisition  
is a game changer  
for us in Sweden – and  
highly complementary  
to our current K-Rauta  
operations**





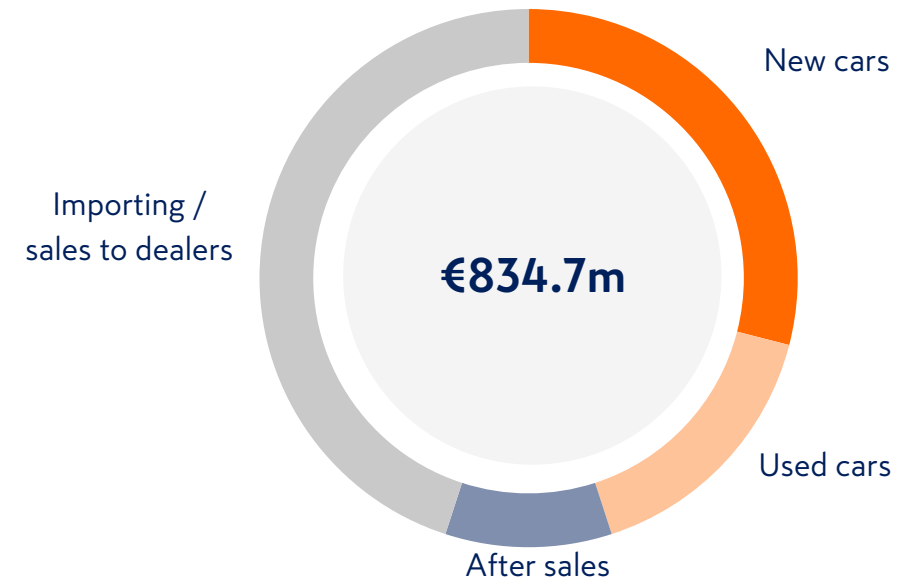
# 4. Fast Developing Car Trade

# Car Trade in Brief

- Operating the Volkswagen Group's business in Finland: Audi, Volkswagen, SEAT, Porsche and MAN as well as Bentley from autumn 2019
- K-Auto is the market leader in Finland
- Value chain includes importing, retailing and after sales as well as an extensive dealer and servicing network
- Various service concepts developed under the K-Caara platform

## Net sales

Rolling 12 months Q1/19



# Growing Our Volume with VW Group – Focus On Electric Cars

Volkswagen Group Invests Heavily in Future Mobility  
Targets 2025

**Over €34bn** investments in e-mobility, digitalisation, autonomous driving and mobility services

**Over 80** new electrified models to customers

**~3 million** units of e-cars sold annually

**Every 4<sup>th</sup>** new Volkswagen Group vehicle battery powered



**New business services off to a good start: K-Caara leasing, car sharing, nationwide K-Charge network for electric cars**



**K Lataus**

Paikka varattu vain sähköautoille



# Six Reasons to Invest in Kesko

-  **1 Growth strategy**
-  **2 Strong market positions**
-  **3 Long-term profitability improvement**
-  **4 Attractive dividend yield**
-  **5 Ability to increase shareholder value**
-  **6 Responsibility**





# 5. Appendix: Q1/2019

# Highlights Q1/2019

- Good performance continued in Q1, strategy execution proceeded in all divisions
- Comparable operating profit decreased due to acquisitions that increased seasonal fluctuations and due to market disturbances in the car trade division
- Growth in grocery trade division continued to outpace the market
- Acquisitions in line with growth strategy in Swedish building and home improvement trade and Finnish car trade
- Financial reporting changed to comply with new IFRS 16 Leases
- New financial targets set



# Key Performance Indicators

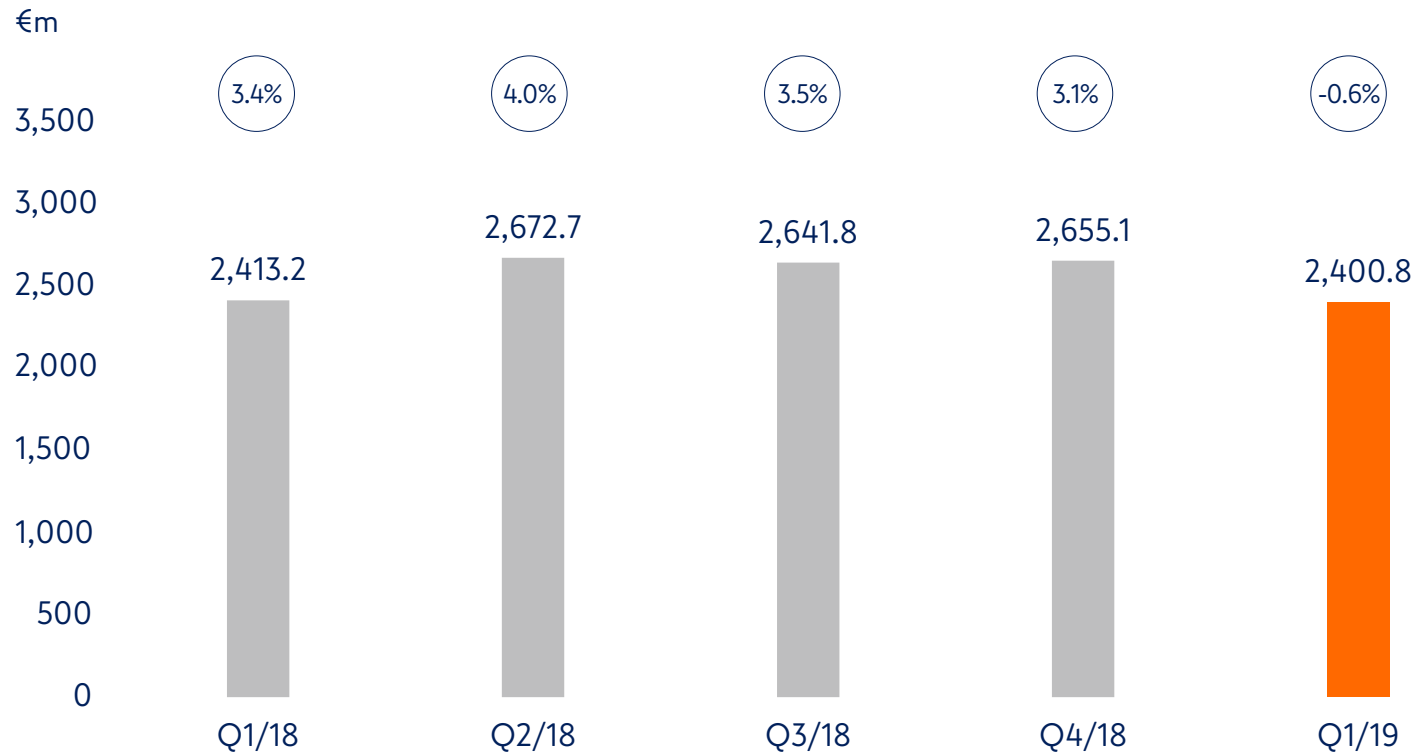
	Q1/2019	Q1/2018
Net sales, €m	2,400.8	2,413.2
Change in net sales, comparable, %	-0.6	+3.4
Operating profit, €m	57.5	63.8
Operating margin	2.4	2.6
Finance net, €m*	-23.7	-25.3
Profit before tax, €m	34.6	38.3
Earnings per share, €	0.33	0.34

\* Includes interest expenses for lease liabilities of €24.6m (€25.4m)  
Comparable figures, continuing operations

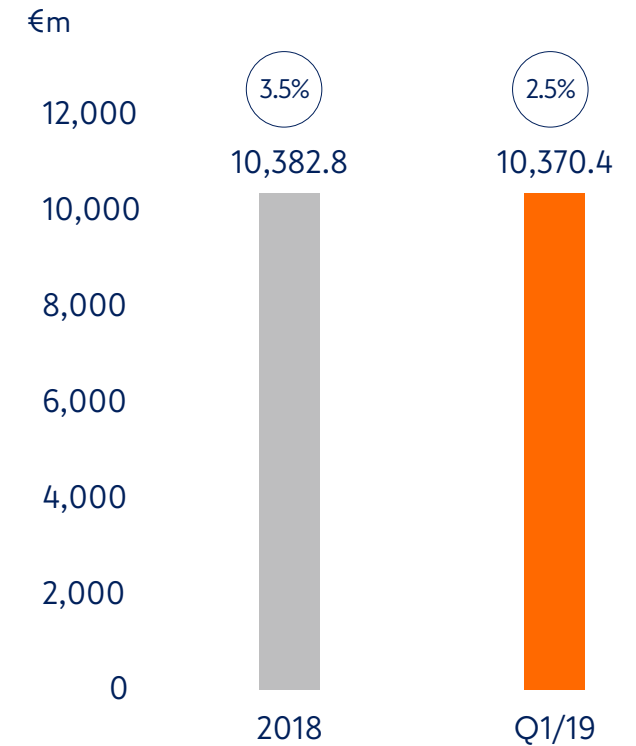
# Group Net Sales

Q1 net sales were decreased by the timing of Easter and decline in sales in the car trade

⊖ Comparable growth

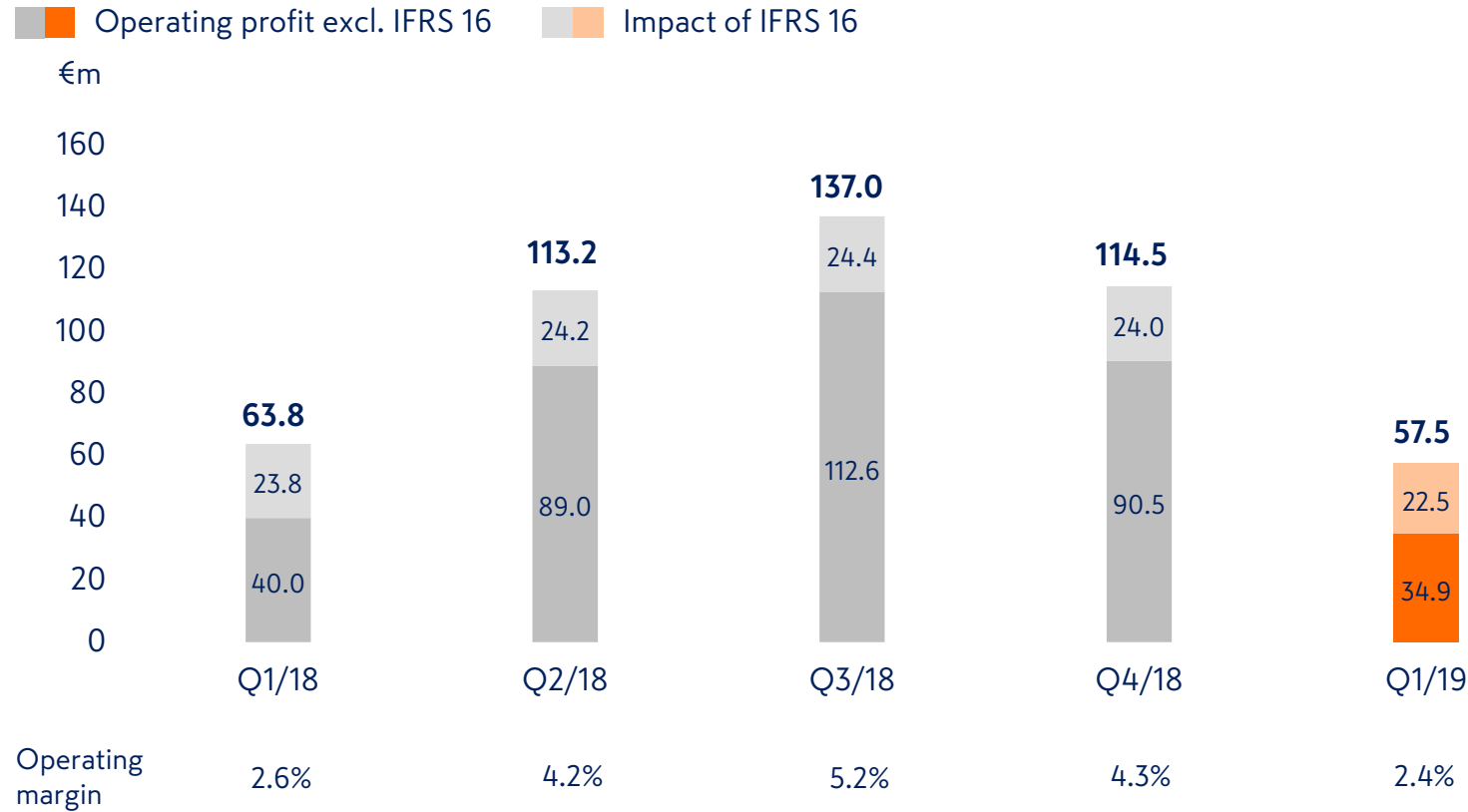


Rolling 12 months

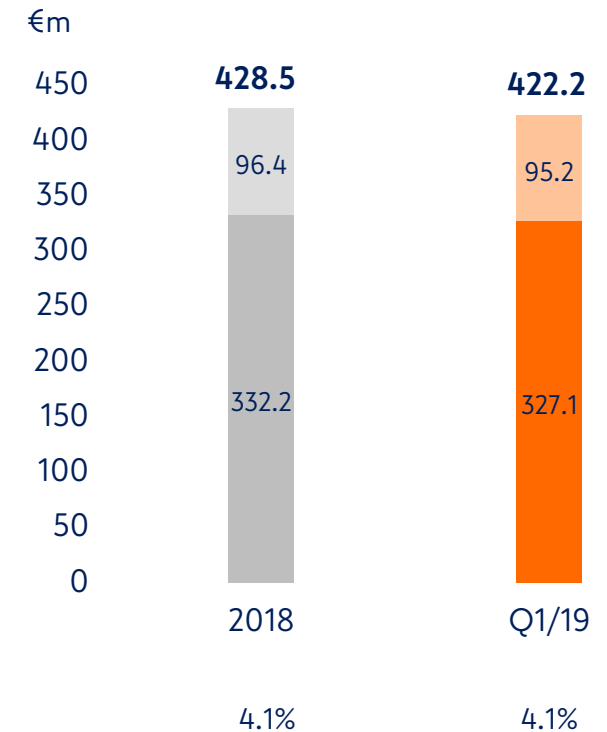


# Group Operating Profit

Q1 performance affected by acquisitions increasing seasonality and decline in car trade sales



## Rolling 12 months



Comparable operating profit, continuing operations

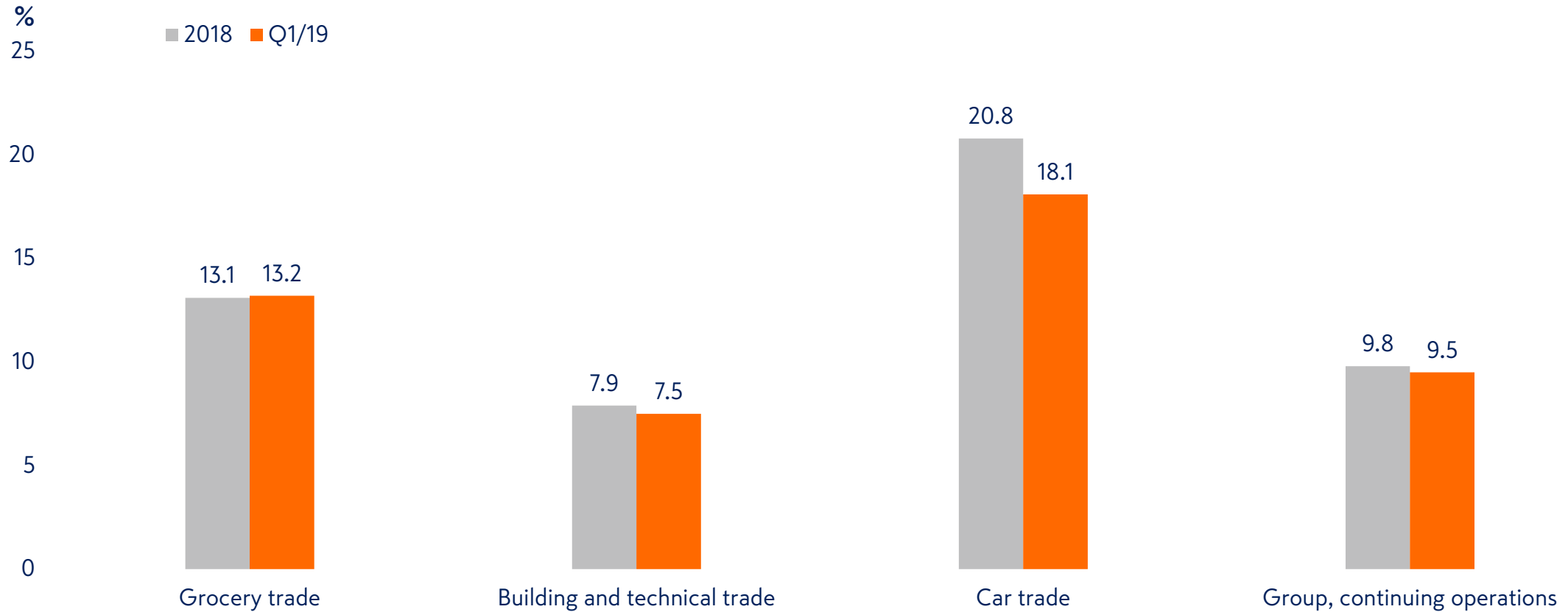
# Strong Financial Position

	31.3.2019	31.3.2018
Liquid assets, €m	237.6	599.2
Interest-bearing net debt excl. lease liabilities, €m	174.6	-59.0
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.4	-0.1
Lease liabilities, €m	2,287.1	2,233.9
Continuing operations Q1:		
Cash flow from operating activities, €m*	157.0	116.0
Cash flow from operating activities (excl. IFRS 16 impact), €m	77.9	39.3
Capital expenditure, €m	**97.3	54.5

\*Return of surplus assets paid by Kesko Pension Fund €48.3m (€57.8m) \*\*Acquisitions €37.7m

# Return on Capital Employed

Return on capital remained good in grocery trade, return in car trade still at a good level despite the decline in sales



Comparable, rolling 12 months

# Grocery Trade

## Market

- Grocery market growth 0.4%\*
- Market growth weakened by the timing of Easter season, which fell on April this year
- Grocery prices up by approx. 2%
- Continued increased emphasis on quality and selections, price also important

## Q1

- K Group's grocery sales grew by 1.5%
- Retail sales grew in all chains despite the timing of Easter
- Customer numbers and market share up
- Growth in online grocery sales 110%
- Operating profit boosted by good development in all chains and increased operational efficiency

\* Source: The Finnish Grocery Trade Association PTY

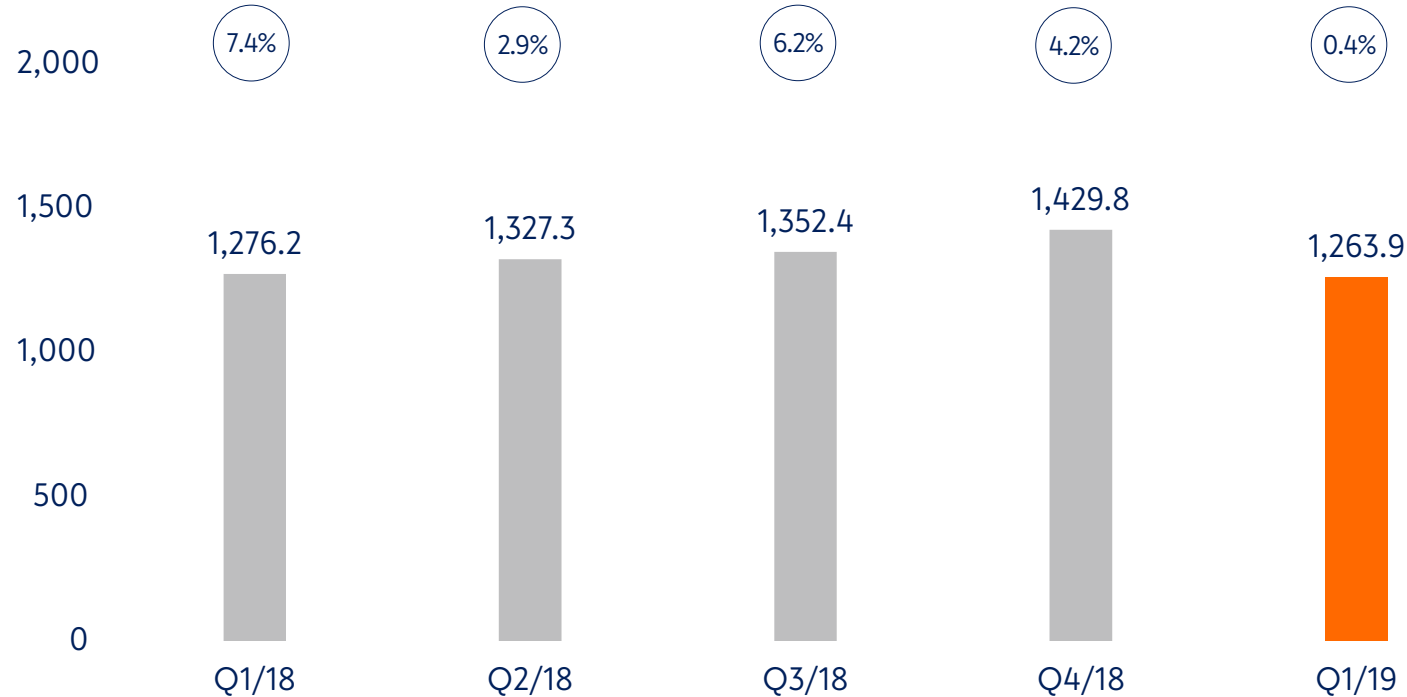


# Grocery Trade Net Sales

Comparable Q1 net sales growth 0.4%, retail sales growth 1.5%

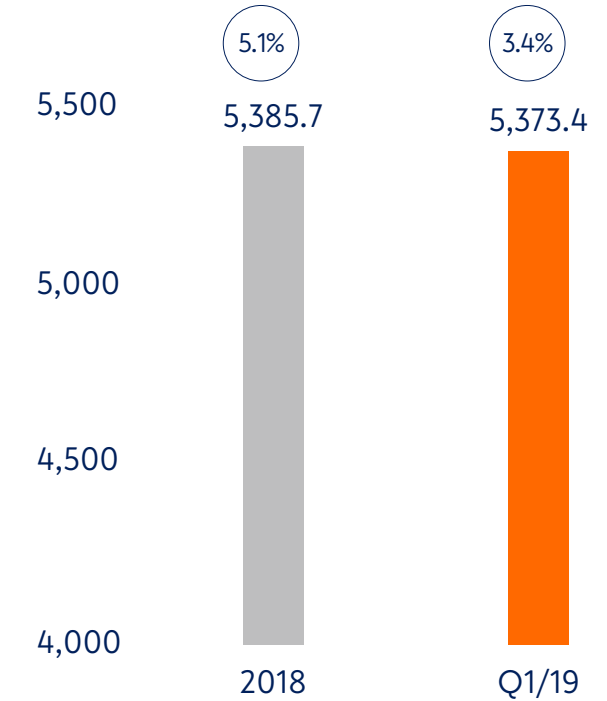
⊙ Comparable growth

€m



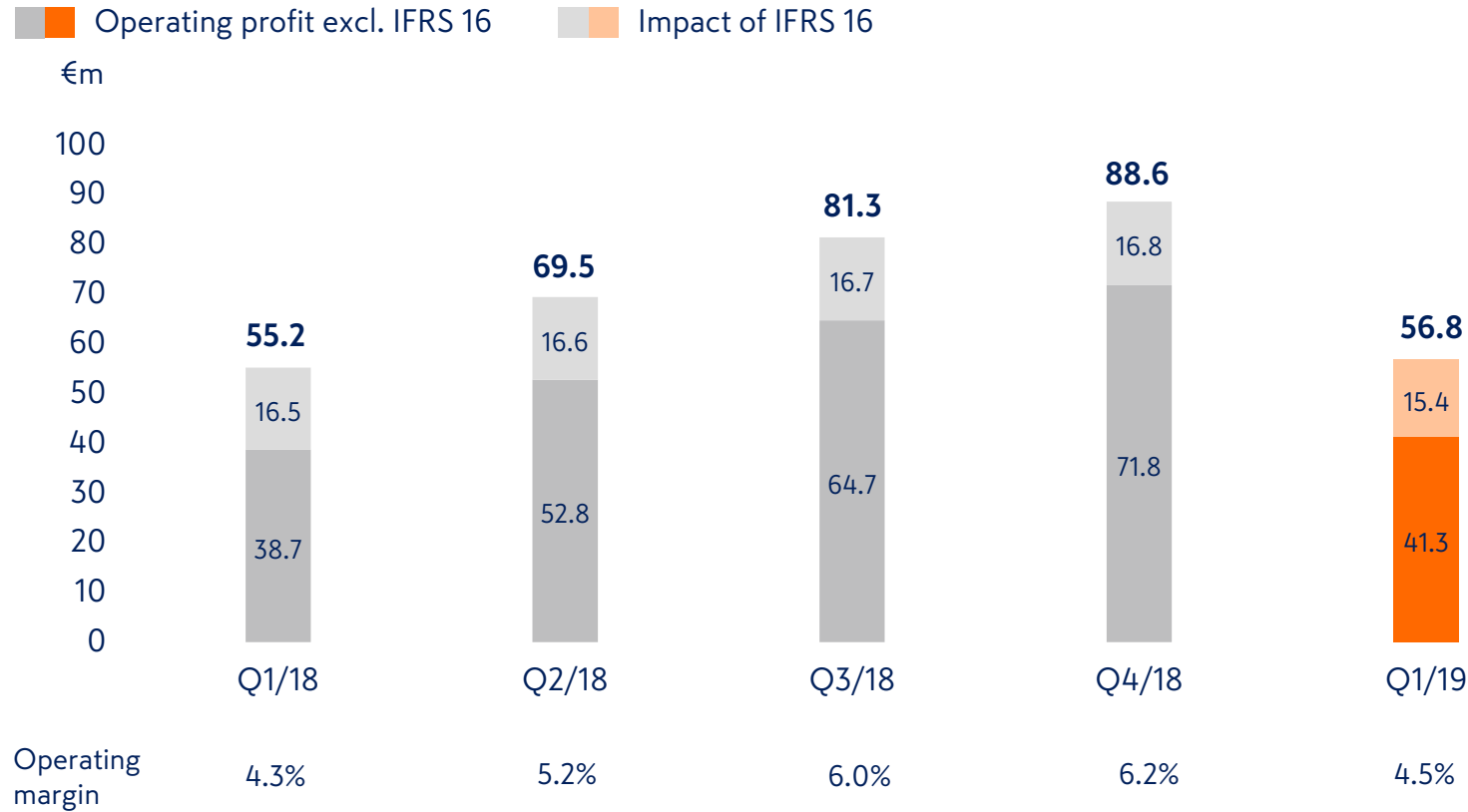
Rolling 12 months

€m

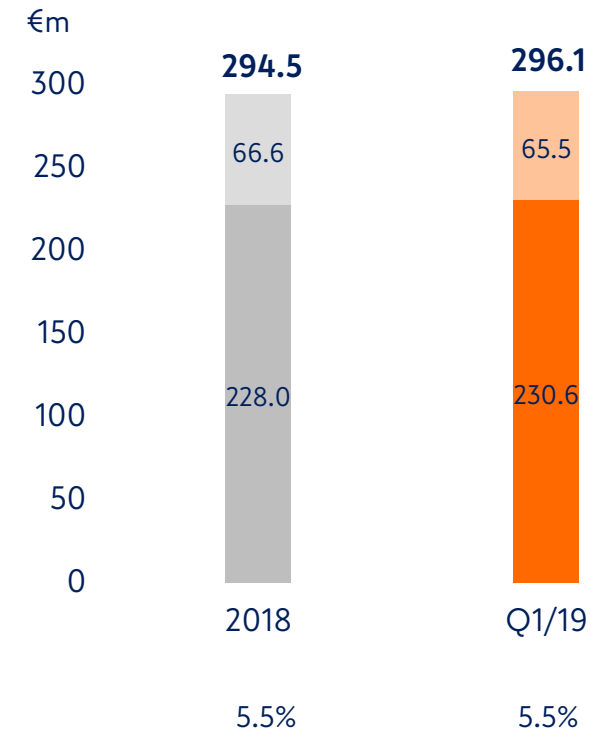


# Grocery Trade Operating Profit

Q1 operating profit improved despite the timing of Easter



## Rolling 12 months



Comparable operating profit, continuing operations

# Building and Technical Trade

## Excluding speciality goods trade

### Market

- Market situation continues to be good
- Growth in B2B trade still strong
- Share of renovation building growing
- Stronger emphasis on digital services

### Q1

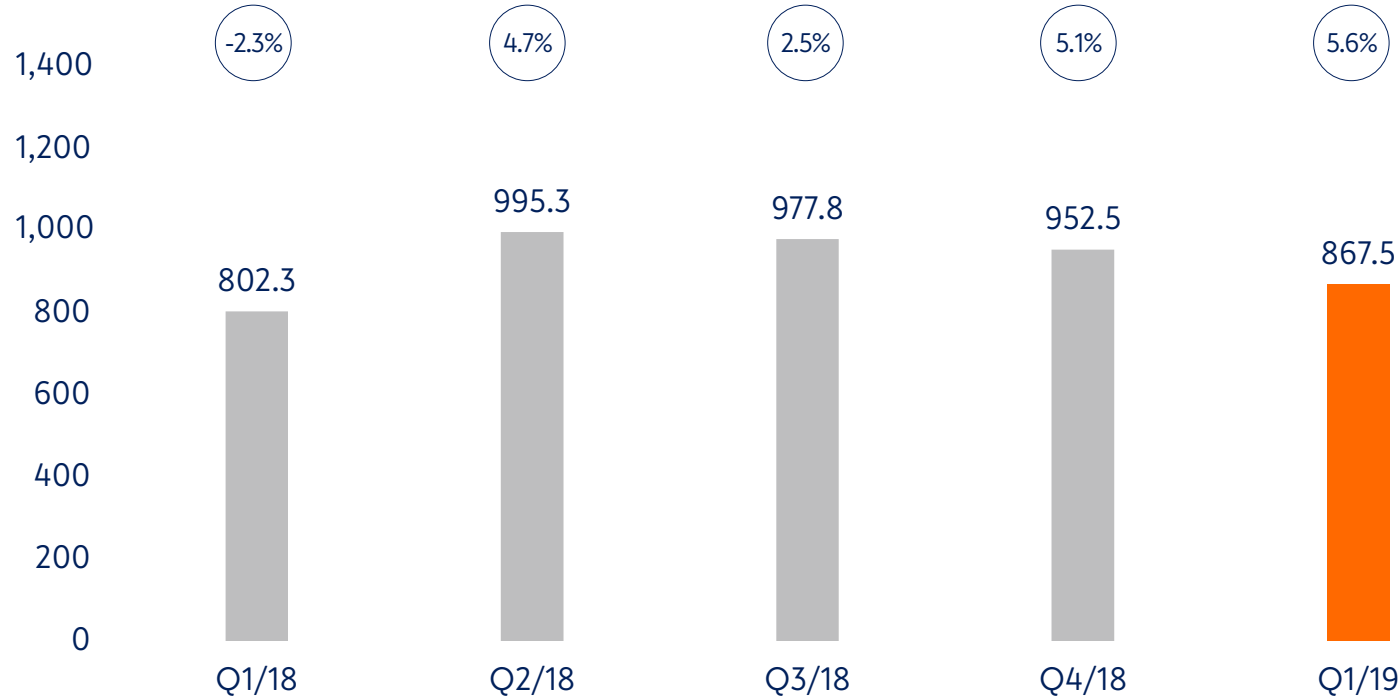
- Strong sales growth in the Baltics, Finland and Poland as well as due to acquisitions in Norway
- Comparable growth in net sales 5.6%, overall development 8.1%
- Comparable operating profit €3.9m (€5.0m), with €-3.6m impact from acquisitions increasing seasonality
- Acquisition of Fresks to significantly improve Kesko's market position in Swedish building and home improvement trade

# Building and Technical Trade Net Sales

Comparable Q1 growth 5.6%, figures excluding speciality goods trade

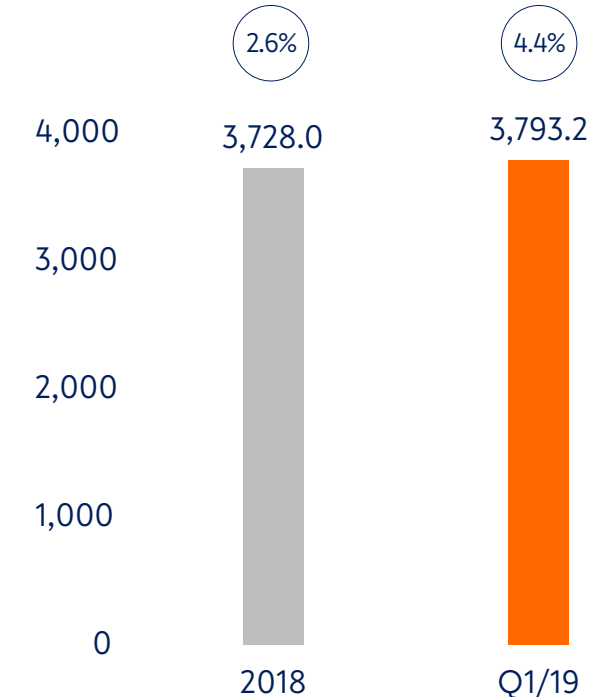
⊘ Comparable growth

€m



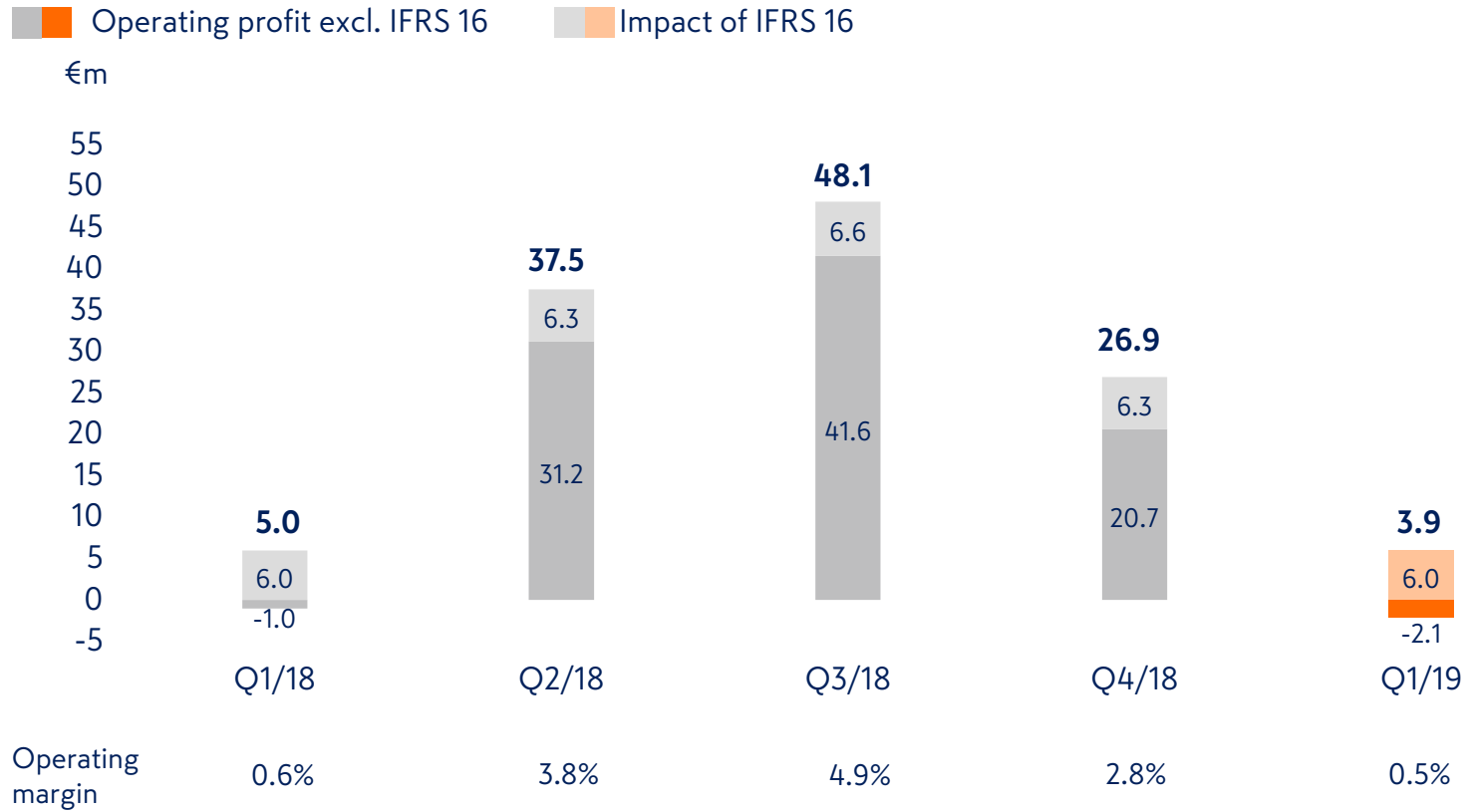
Rolling 12 months

€m

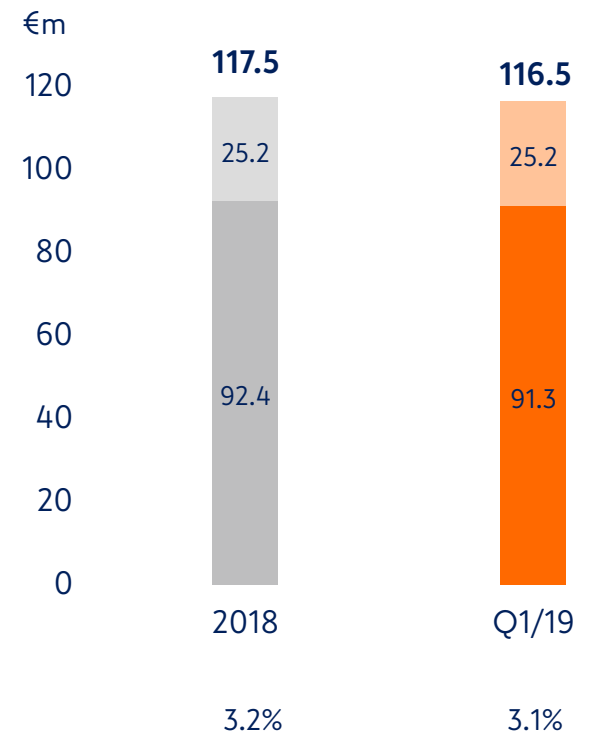


# Building and Technical Trade Operating Profit

Acquisitions have increased seasonality, €-3.6m impact in Q1, figures excluding speciality goods trade



## Rolling 12 months



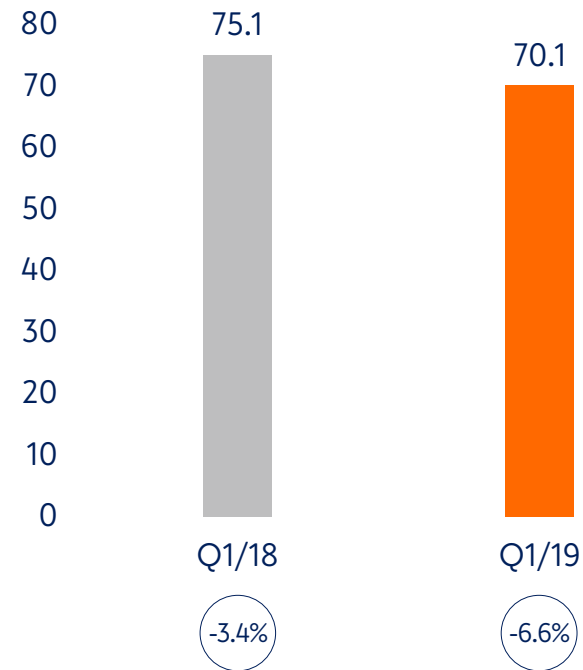
Comparable operating profit, continuing operations

# Speciality Goods Trade Net Sales and Operating Profit

Sales and profitability remained at a good level in leisure trade

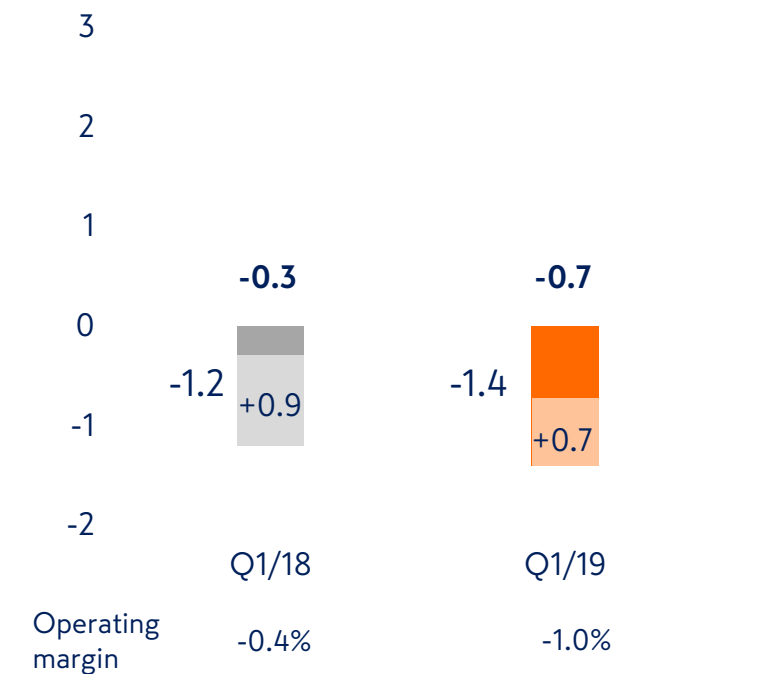
## Net sales, €m

(%) Comparable growth



## Operating profit, comparable, €m

Operating profit excl. IFRS 16 (orange), Impact of IFRS 16 (grey)



## Leisure trade

- Net sales €49.2m, -1.2%
- Development in line with expectations, does well in the market

## Machinery trade

- Net sales €20.9m, -17.3%
- Divestment of Baltic machinery trade and Finnish agricultural machinery trade operations ongoing

# Car Trade

## Market

- First registrations of passenger cars and vans -14.6%
- Uncertainties regarding car taxation and choice of motive power have resulted in weakened consumer demand
- Disturbances caused by the implementation of WLTP testing decreasing
- Market expected to normalise in H2

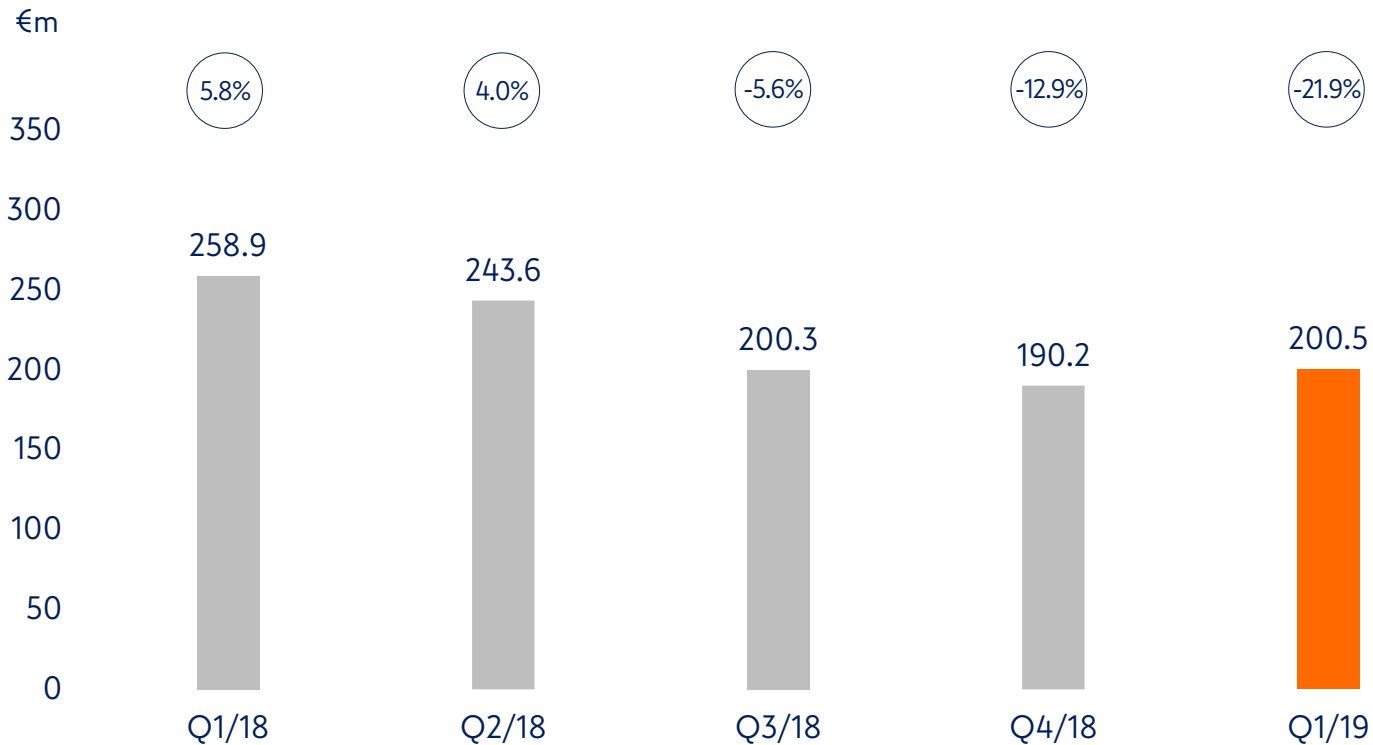
## Q1

- Profitability good despite the temporary decline in net sales due to the implementation of WLTP
- Problems in car availability temporarily reduced our market share in passenger cars
- Dealer network strengthened by acquiring businesses from Huittisten Laatuauto and LänsiAuto

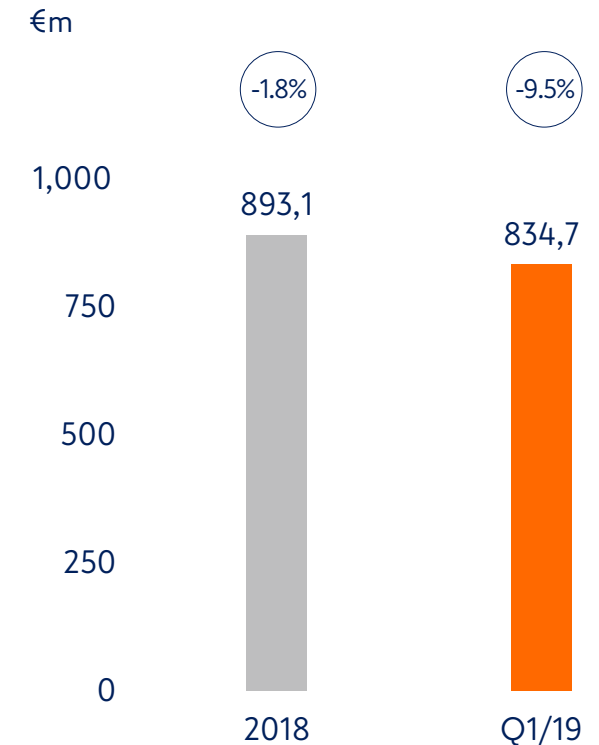
# Car Trade Net Sales

New emissions testing and uncertainties regarding taxation and choice of motive power have led to a temporary decline in net sales

(%) Comparable growth



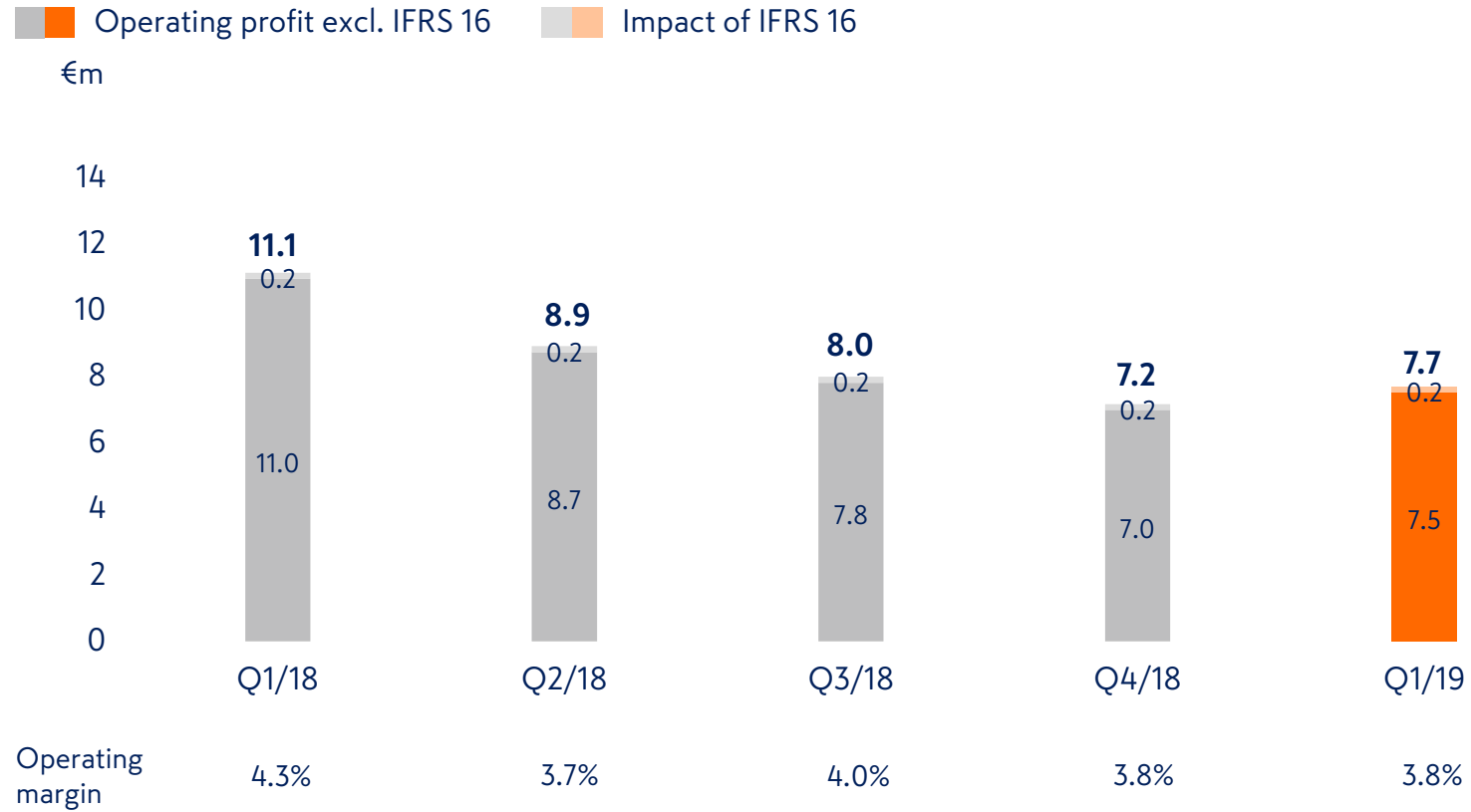
Rolling 12 months



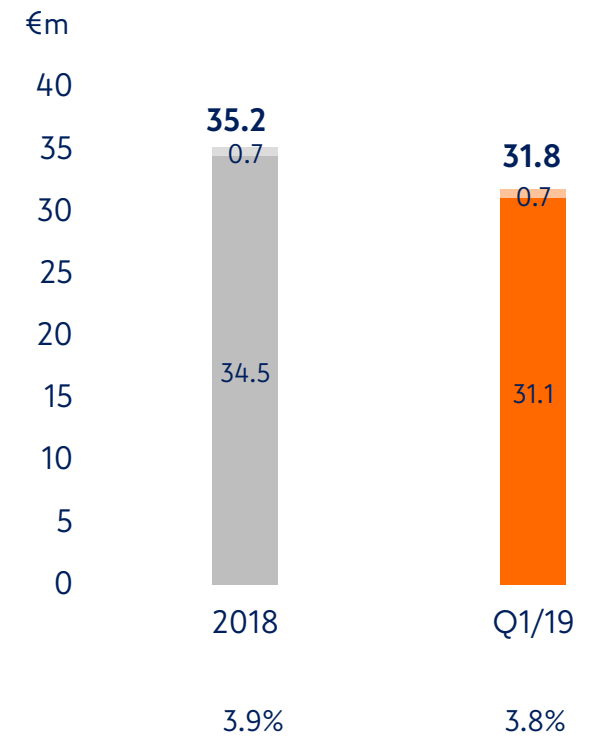


# Car Trade Operating Profit

Q1 profitability at a good level despite temporary market disturbances



## Rolling 12 months



Comparable operating profit, continuing operations

# Group 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 (4/2019-3/2020) in comparison with the 12 months preceding the end of the reporting period (4/2018-3/2019). The outlook is based on the IFRS standards that took effect on 1 January 2019, and includes the impact of IFRS 16 Leases on the Group's comparable operating profit for both the 12-month period following the reporting period as well as the 12-month period preceding the reporting period.

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.

# Additional Information

Q2/2019 half year report  
**24 July 2019**

Q3/2019 interim report  
**24 October 2019**

In addition, the Group's sales figures are published monthly and K Group's retail sales quarterly

Kesko observes a 30-day silent period

Materials and events: [www.kesko.fi/en/investor](http://www.kesko.fi/en/investor)

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