



Growth Strategy Delivering Results

Kesko Corporation

Capital Markets Day 2020

Mikko Helander, President and CEO
Growth Strategy Delivering Results

Jorma Rauhala, President, Building and Technical Trade Division, Deputy CEO
Continued Profitable Growth and Strengthening Market Position in Northern Europe

Ari Akseli, President, Grocery Trade Division
Still Room for Further Profitable Growth in Grocery Trade

Johan Friman, President, Car Trade Division
Towards Growth and Better Profitability

Jukka Erlund, CFO
Creating Value Through Growth and Efficiency



Growth Strategy Delivering Results

Mikko Helander, President and CEO
Capital Markets Day 2020

Group Today



Leading retailer in Northern Europe



Profitable growth strategy in 3 core divisions



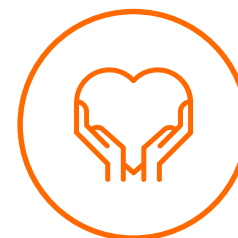
1,800 stores in 8 countries, comprehensive e-commerce



1.9 million customers every day



Strong financial position with good dividend capacity



World's most sustainable grocery trade company

Our Strategy Works and Brings Profitable Growth

Growth Strategy

Focus

-  Grocery trade
-  Building and technical trade
-  Car trade

One unified **K**

 Sustainability and combatting climate change

Strong Strategy Execution

Over 30 acquisitions and divestments

Investments in growth
€3.0 billion

- ↑ Acquisition of Carlsen Fritzøe Handel AS
- ↑ Acquisition of Fresks stores
- ↑ Byggmakker acquisitions
- ↑ Acquisition of Onninen
- ↑ Acquisition of Suomen Lähikauppa

Divestments
€1.0 billion

- ↓ Divestment of operations in Russia
- ↓ Divestment of agricultural trade
- ↓ Divestment of machinery trade businesses
- ↓ Divestment of Anttila department stores

Transformation from a Traditional Retailing Company into a Focused K Group

KESKO

K CITYMARKET

K SUPERMARKET

KESPRO

K MARKET

K EXTRA

K-RAUTA

RAUTIA

K-MAATALOUS

KODINYKKÖNEN 1

ASKO



ANTILA

muuli



MUSTA PÖRSSI

KONEKESKO

K PYOKA



VV-AUTO

K-PAYTA



K CITYMARKET

K Supermarket

K Market

KESPRO

K Rauta

onninen K

K BYGG



K Auto

K Plusa

Strategy Performs Well in a Fast-changing Operating Environment



Globalisation



Industry
consolidation



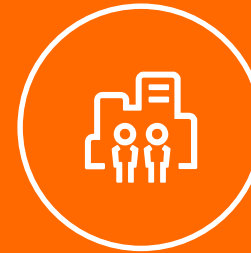
Sustainability and
climate change



Faster
technological
development



Multichannel and
e-commerce



Urbanisation
and demographic
changes

Kesko's net sales* in Q3/2020
rolling 12 months

€10,090 million

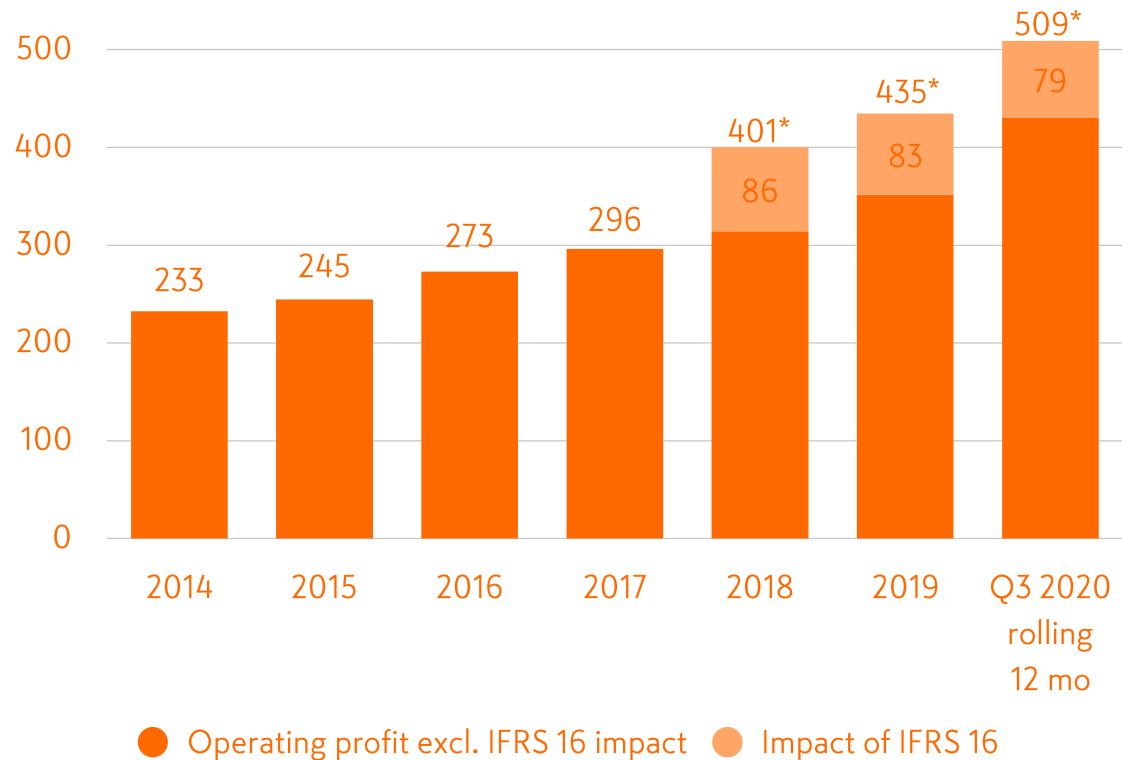
Growth in core business net sales since 2014

over €3 billion



Steadily Improving Profitability

Comparable operating profit, continuing operations
€ million



* Kesko Senukai treated as a joint venture in the illustrative comparison figures

Operating margin in Q3/2020

5.0%

2.6% in 2014

Another All-time Record Result in 2020

Estimated comparable operating profit for continuing operations in 2020 will be in the range of

€530-570 million

Less than half of the profit growth attributable to the pandemic

- # Our strategy has proven effective also under exceptional circumstances
- # Agility, fast response and a well-functioning retailer business model have helped us
- # Both the grocery trade and the building and technical trade have benefitted
- # The foodservice business and the car trade have suffered considerably

Strong Market Share* Growth in Grocery Trade

37.6%

31.9% in 2014

Sales growth in Finland since 2014

€1.4 billion

* Kesko's own estimate



Strengthening Market Position in Building and Technical Trade in Finland

K-Rauta's market share

42.7%

39.1% in 2014

Onninen's market share

38%

35.8% in 2014



Total Turnaround in Sweden Thanks to Successful Strategy Execution

Operating profit
rolling 12 months, Q3/2020

€12.6 million



Successful Transformation into a Strong Retailing Company in Norway

Operating profit
rolling 12 months, Q3/2020

€20.1 million



Great Improvement in Shareholder Value and Return on Investment

Kesko's market capitalisation

€8.7 billion

€2.9 billion in 4/2014

Price of a Kesko B share and the dividends 4/2014-12/2020*

+268%



New Financial Targets

Indicator	Old target	Actual in Q3/2020*	New target
Comparable operating margin	5.0%	5.0%*	5.5%
Comparable return on capital employed	11.0%	11.0%*	12.5%
Interest-bearing net debt/EBITDA, excluding IFRS 16 impact	max. 2.5	0.5	< 2.5

*Continuing operations, rolling 12 months

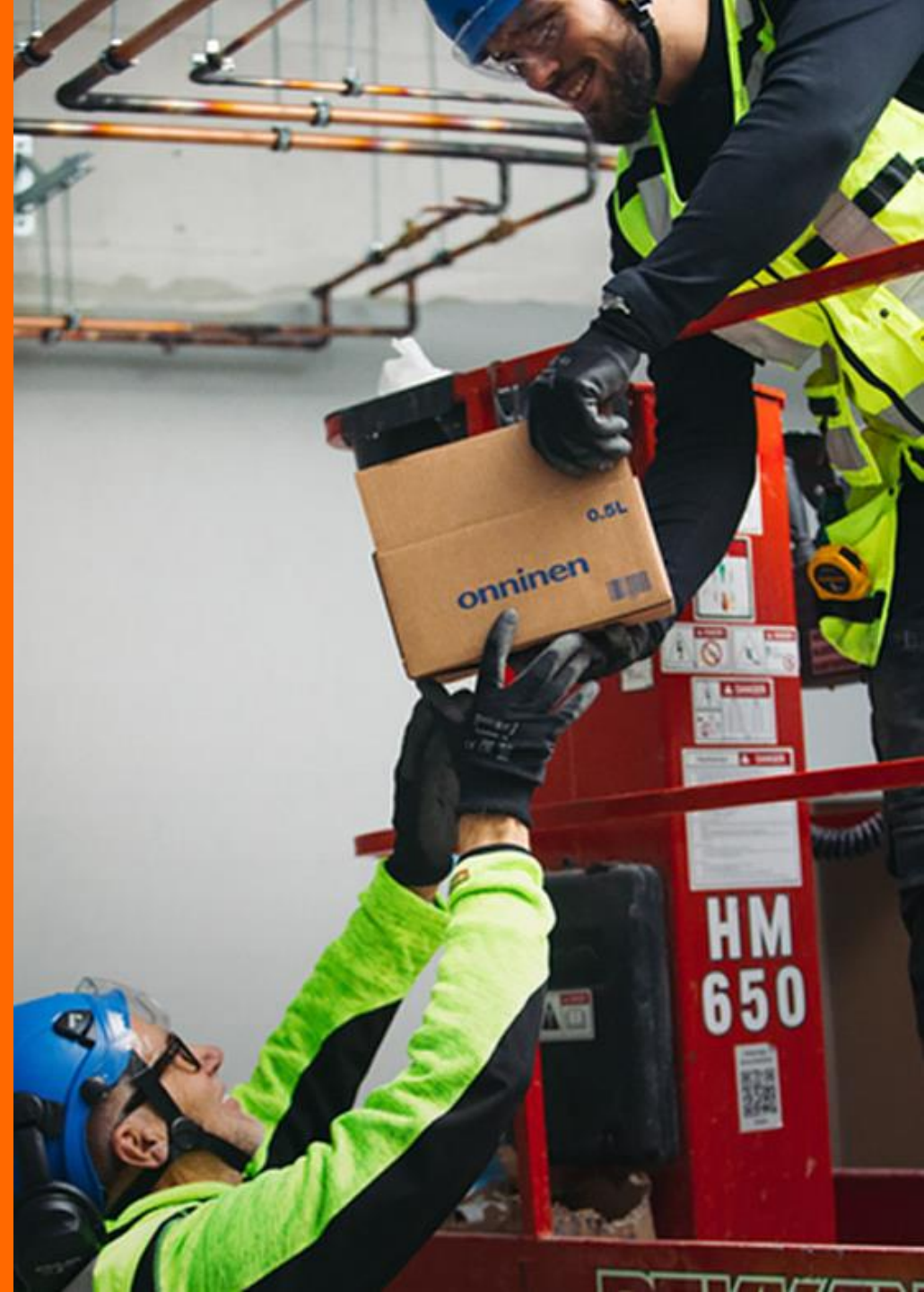
Continuing Profitable Growth in Grocery Trade by Improving Customer Experience

- Further developing the stores by utilising store-specific business ideas
- Renewing the store network and further improving e-commerce services
- Fully utilising customer data to improve customer loyalty and to enable a seamless omnichannel experience
- Maintaining price competitiveness and price image
- Growing the foodservice business faster than the market



Continuing Growth and Industry Consolidation in Building and Technical Trade

- Continuing the consolidation of building and technical trade in Northern Europe
- Continued improvement in profitability with the objective of being one of the top companies in Europe
- Continuing to improve customer experience and cost-efficiency further in each country
- Continuing the development of digital sales channels and services



Towards Profitable Growth in Car Trade

- Taking customer experience to a new level
- Further tightening our collaboration with the world's biggest car manufacturer the Volkswagen Group
- Increasing sales with existing and new products and services
- Maximising the use of new technology in improving customer service and operational efficiency
- Utilising K Group's best practices and synergies



Sustainability Drives Us in Everything We Do



Responsible
purchasing and
sustainable selections



Environment



Good corporate
governance and
finance



Working
community



Customers'
sustainable lifestyles



Society

International Recognition for Kesko's Sustainability Efforts



**THE MOST SUSTAINABLE
GROCERY TRADE COMPANY
IN THE WORLD**



Kesko has been on the list every year since 2005



Kesko has been included for 16 years

Zero Own Emissions by 2030

2025

K Group carbon neutral by 2025

Requiring reduction targets to be set for 2/3 of Kesko's supplier emissions by 2025

2025-2030

K Group will offset its remaining own emissions

2030

K Group will reach net zero emissions by 2030



We Continue the Execution of Our Growth Strategy



Grocery trade

Gaining profitable growth and increased market share by improving customer experience



Building and technical trade

Maintaining growth, improving profitability and continuing industry consolidation



Car trade

Increasing sales by taking customer experience to a new level

One unified



Sustainability and combatting climate change

Culture: Courage, innovation and agility to drive growth and renewal





Continued Profitable Growth and Strengthening Market Position in Northern Europe

Jorma Rauhala, President, Building and Technical Trade division, Deputy CEO

Capital Markets Day 2020

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Building and Technical Trade in Brief

#1 Leading operator in Northern Europe

 **560**
stores

 Comprehensive digital services



Some 70% of retail sales is B2B trade

Serving three customer segments: technical professionals, professional builders and consumers

Rolling 12 months
9/2020*

Net sales	€3,549.1 million
Operating profit	€165.7 million
Operating margin	4.7%

*Kesko Senukai treated as a joint venture in the illustrative comparison figures, speciality goods trade included in the figures

Strategy to Become Even Stronger in Northern Europe



Country focus with specified actions



Customers in three segments served according to their specific needs



Synergies – within and between the countries



Organic growth and profitability improvement



Growth accelerated by acquisitions

Strong Country-Specific Strategy Brings Results

Finland



Strong growth in sales, profit, and market share

Sweden



Total turnaround: all businesses on the right track with substantial profit improvement

Norway



Good sales growth and profitability development

Poland



Steady profit level with consistent strategy execution

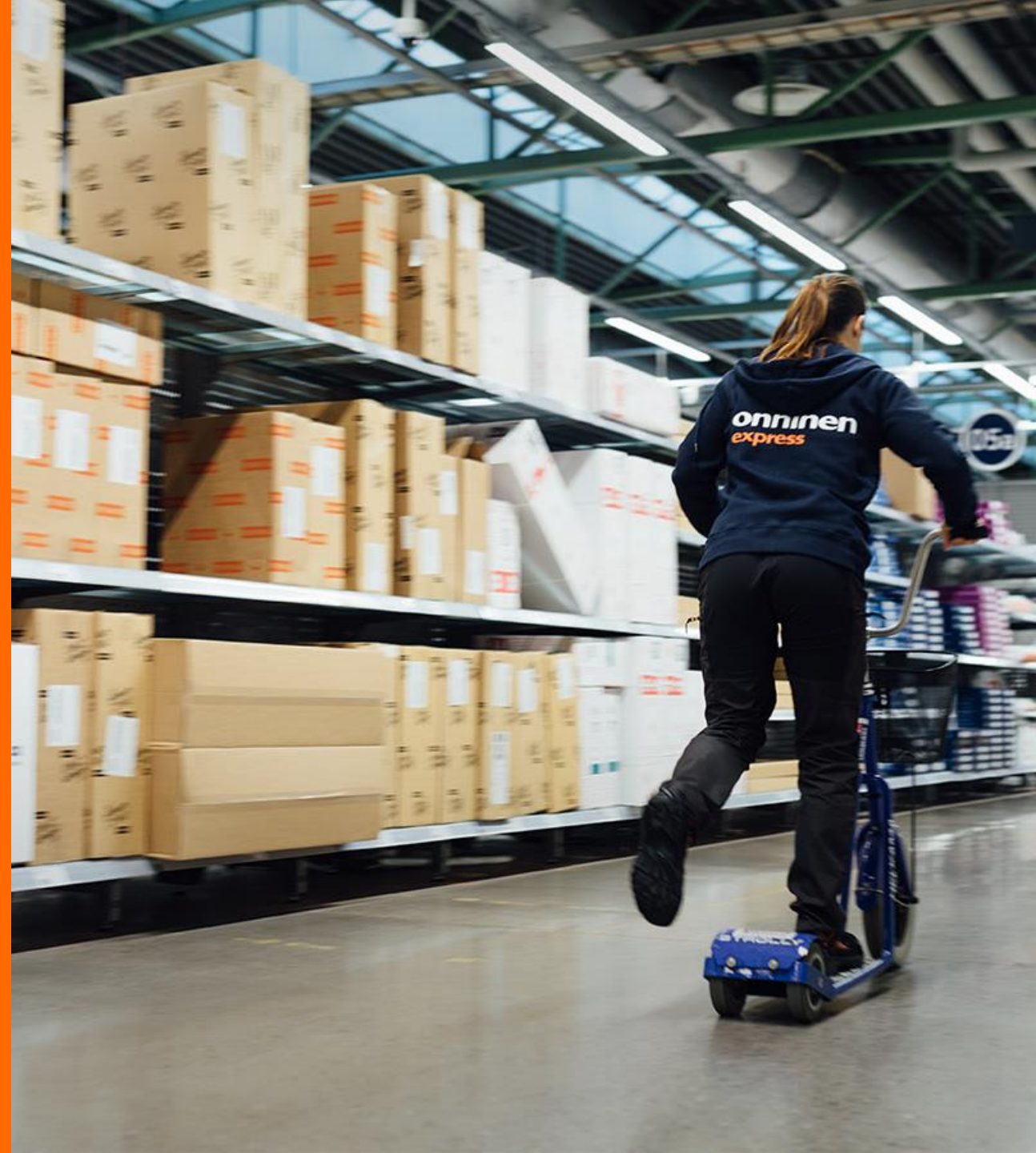
Baltic countries and Belarus



Steadily growing, well-performing market leader



Still Potential for Profitable Growth



Fragmented Market Offers Big Potential for Consolidation



Retail market 2019 (€bn)
Market position
Retail sales €bn 2019
Market share

Technical trade	Professional builders	DIY
2.4	3.3	1.8
#4-5	#3	#3
0.3	0.5	0.2
10%	14%	



Technical trade	Professional builders *	DIY *
2.2	1.8	1.4
#1	#1	#1
0.9	0.8	0.5
38%	43%	



Retail market 2019 (€bn)
Market position
Retail sales €bn 2019
Market share

Technical trade	Professional builders *	DIY *
3.7	2.7	2.1
#6	#5-6	#5
0.1	0.2	0.2
5%**	8%	



Technical trade	DIY
1.4	2.3
#2 #4 #3	#2 #2 #1
0.1	0.7
11%, 5%, 3%	19%, 17%, 36%

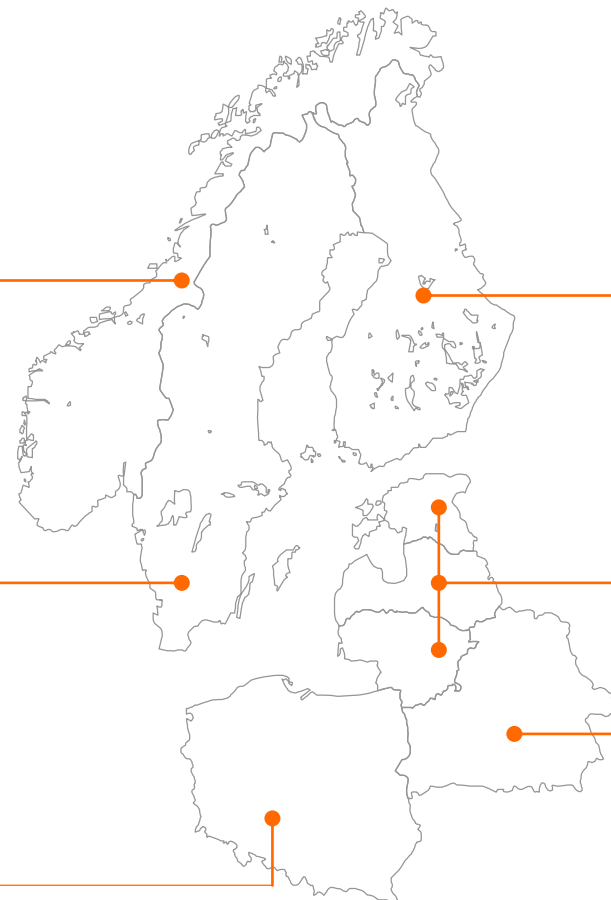


Retail market 2019 (€bn)
Market position
Retail sales €bn 2019
Market share

Technical trade
5.1
#3
0.2
5%



DIY
1.4
#1
0.1
11%



*) Share of professional builders and DIY, Kesko estimate based on BCG 2017

**) Sweden SEG

Global Trends Boost Market Growth



Urbanisation



Maintenance
backlog and
investment debt



Technological
development



Increased focus on
energy and
environmental
efficiency

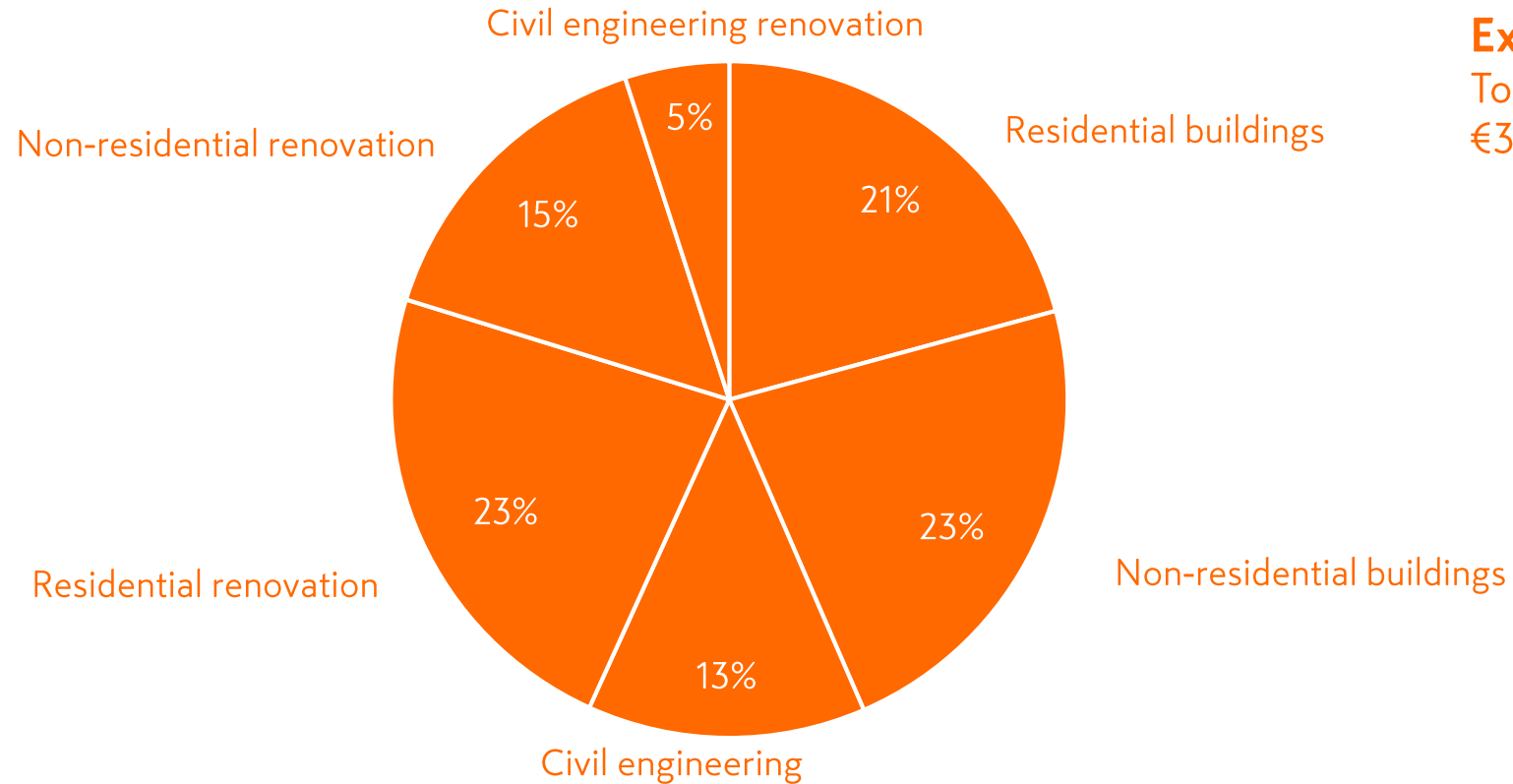


New energy
production
and storage
solutions



Emission reduction
targets

Well-Positioned on the Overall Construction Market



Example Finland
Total construction market
€36.1 billion in 2019

Strong Customer Focus Creates a Significant Threshold for Entering the Technical Trade Business

Product assortment of 700,000 SKUs

3,700 suppliers

1,500 technical sales professionals

Distribution centres deliver almost 40,000 order lines a day – 50% via automated process

Customer-tailored logistic services

Comprehensive store network of 131 Onninen Express stores

Several digital channels with combined sales of €400 million



Threshold to Enter the DIY and Professional Builders Market High Due to Strong Store Network and Online Services

Product
assortment of
500,000 SKUs

3,000
suppliers

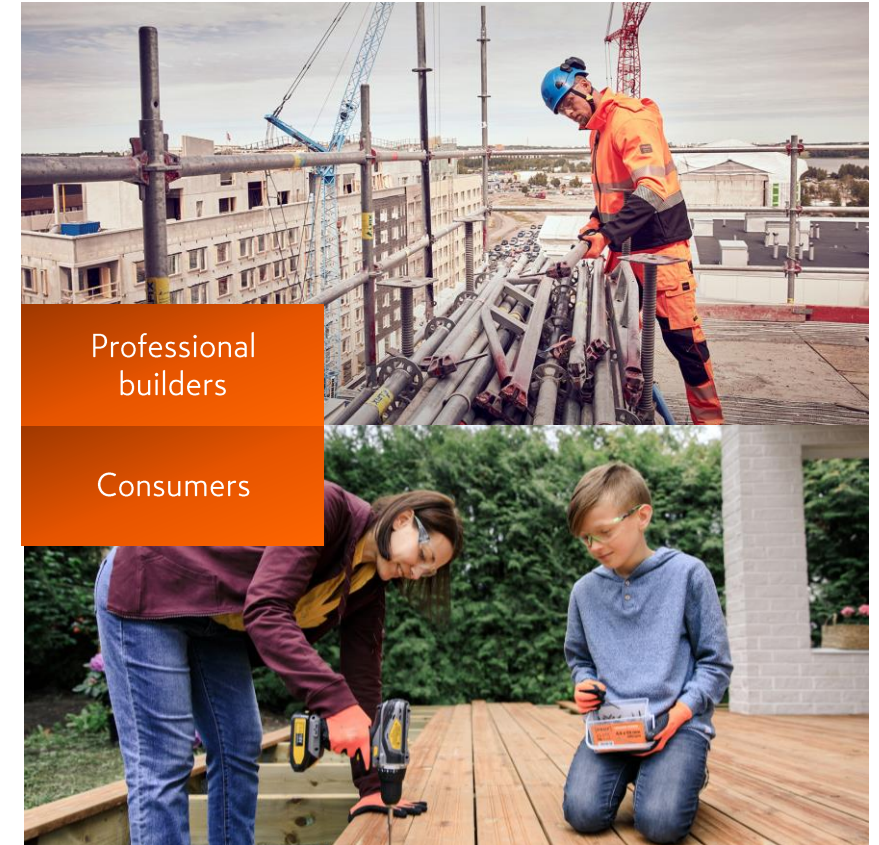
Comprehensive network of 331 stores in prime locations with near-by deliveries

Over 160 million customer visits annually to our online sites

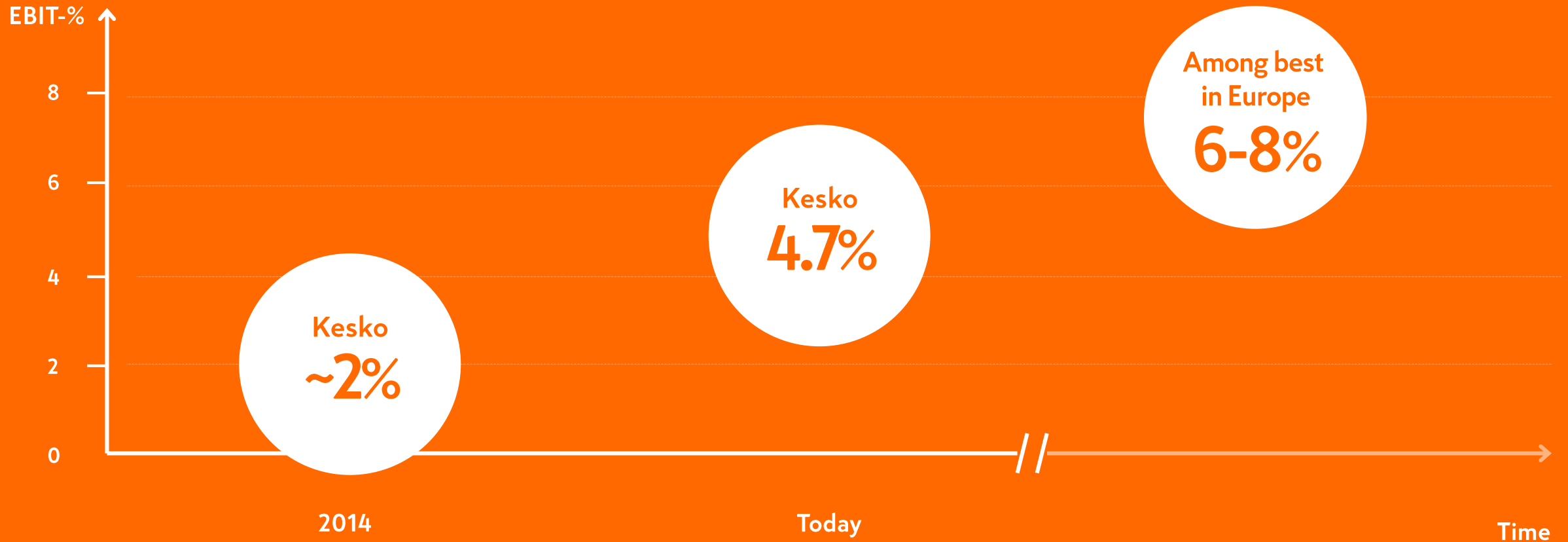
Strong multichannel customer experience with increasing online sales

Strong B2B sales – 185,000 professional builder customers

Differentiating own brands, with sales of around €200 million



Value Creation on Track and Steadily Moving in the Right Direction







Still Room for Further Profitable Growth in Grocery Trade

Ari Akseli, President, Grocery Trade Division

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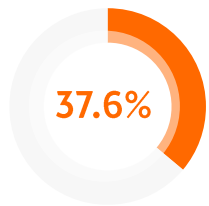


Grocery Trade in Brief

 **1,250**
stores

 **1.7 million**
customers every day

 **900**
K-retailers



Market share in 2020
Our own estimate

KESPRO

The leading foodservice
provider in Finland

Rolling 12 months 9/2020

Net sales	€5,671 million
Operating profit	€350.6 million
Operating margin	6.2%

Strategy for Grocery Trade Is Working and Yielding Results



Most customer-oriented food stores with store-specific business ideas



Development and renewal of the store network



Seamless omni-channel customer experience



Maintaining price competitiveness and price image



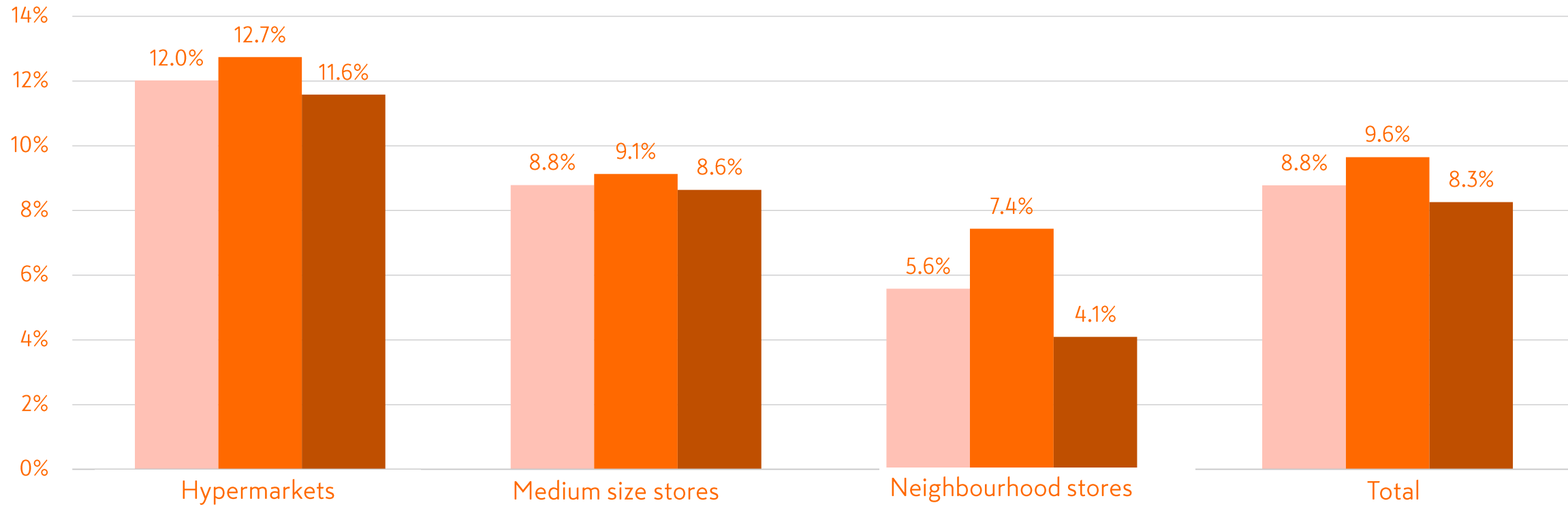
Developing retailer entrepreneurship as a competitive advantage



Strong growth in the foodservice business

Market Share Growing in All Segments

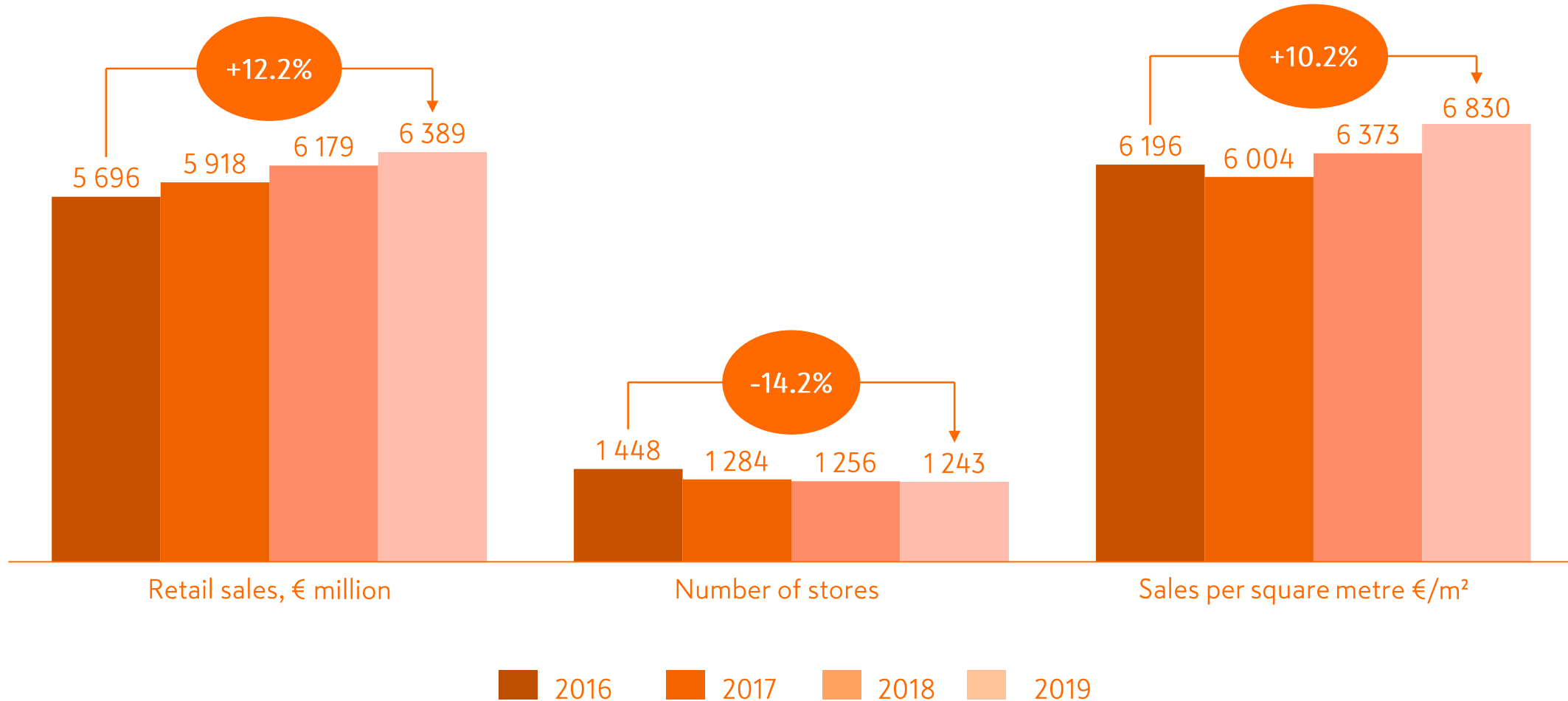
Grocery sales growth



*) 1-10/2020

■ Finnish Grocery Trade Association / Total ■ K Group ■ Competitors

Bigger Sales per Square Metre Boost Result



Covid-19 Impacts on the Grocery Trade Varied



Food retail sales have grown during the epidemic



Fast response to the rise in demand for online sales



Profit improvements thanks to own measures



Heavy hit for the foodservice business



Fast response and new services



The measures taken support our growth also in the long term

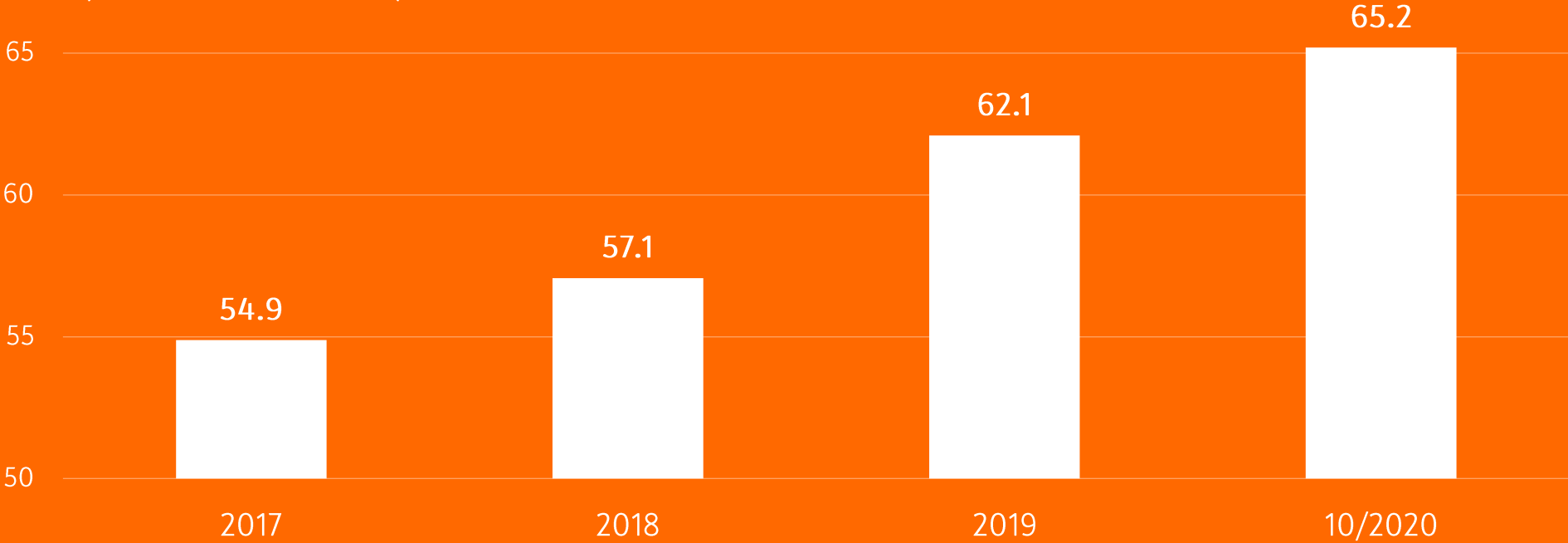


Customer Satisfaction Boosting Sales



Strongly Improving Customer Satisfaction

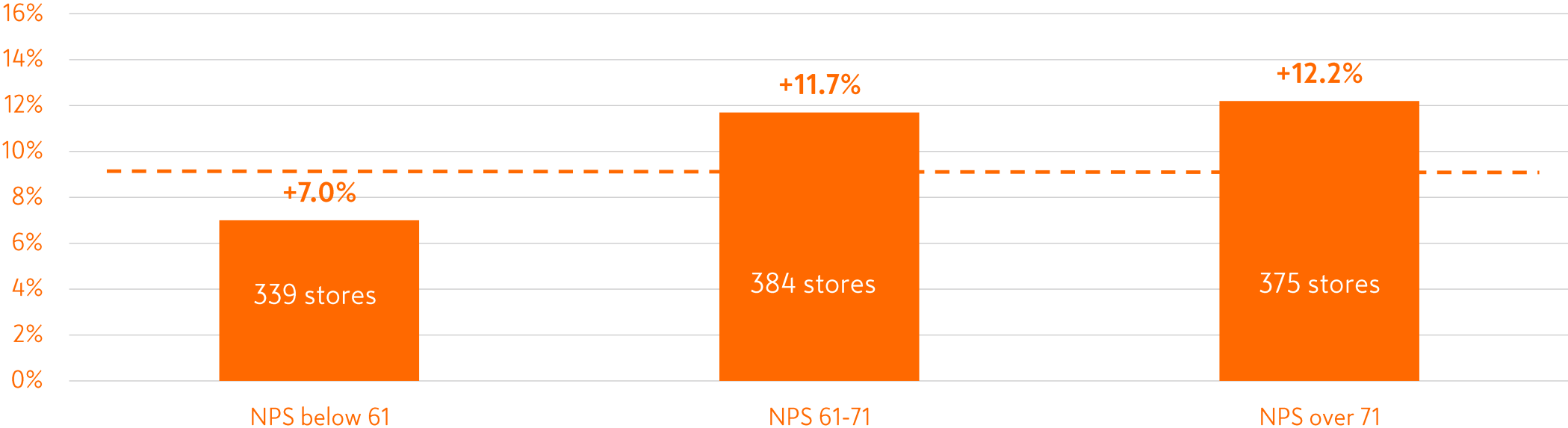
NPS (Net Promoter Score)



Strong Correlation between Sales Growth and Customer Experience

Stores with high NPS perform better than the market

Cumulative retail change
10/2020



--- Cum. total market dev. -% ● Retail sales / NPS grade

Comparative stores, not incl. online NPS; KCM incl. foods and non-foods

Driving Growth with Network Investments

Investments in K-food stores 2015-2020

€936 million



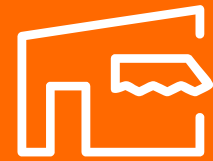
510 new stores



900 renewals

Investments in K-food stores 2021

€120 million



20 new stores



100 renewals

Our Retailer Business Model Makes us Unique

- K-retailer entrepreneurs are very driven to be successful
- Success for the retailer means higher earnings for Kesko
- Store-specific business ideas respond to the specific local needs of each area based on customer data



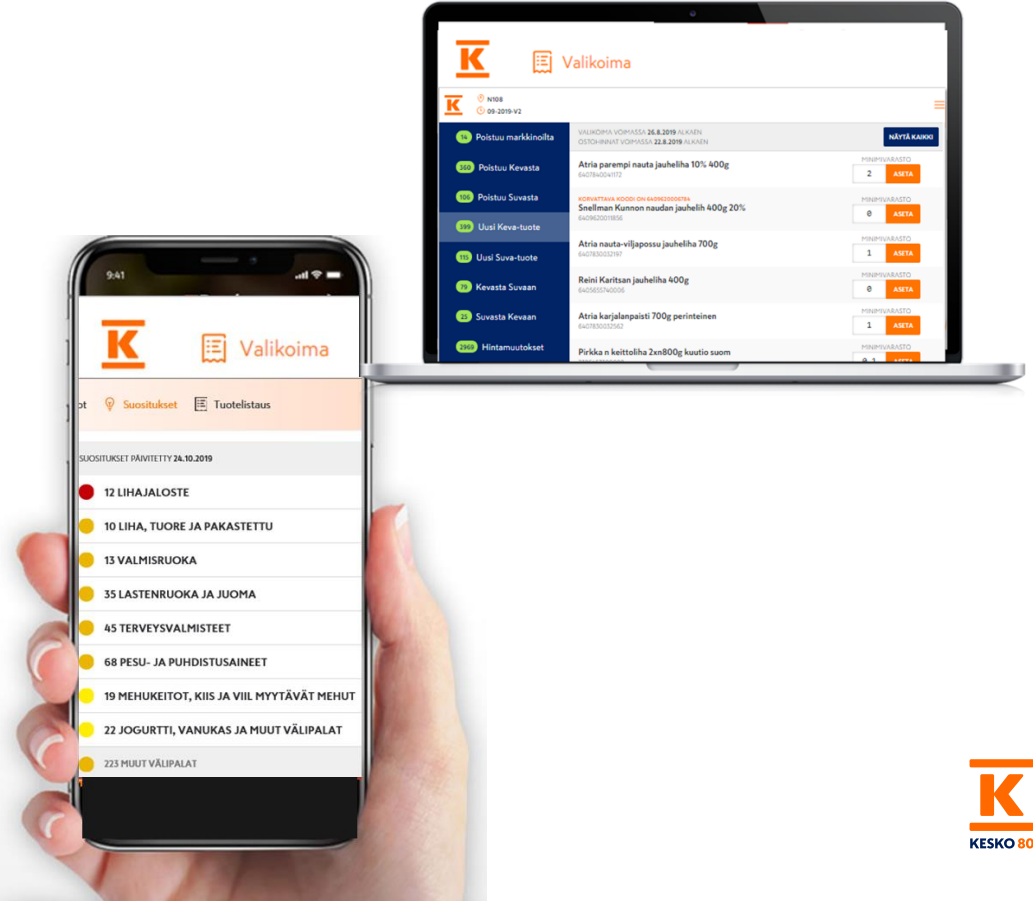
~50%

Approximately 50% of the stores have made their store-specific business idea visible to their customers



New Data-Based Tools Support Store-Specific Business Ideas and Accelerate Growth

- Data-based tools enable more accurately tailored store-specific selections more effectively
- Easy one-click solution for recommendations and decisions for store selections
- Utilising new products and preparing for seasons made faster and easier



Market Leader in Online Grocery Sales

- Sales of our K-Ruoka online store in 1-10/2020 up by nearly 400%, market share over 55%
- Continued development of online sales and online profitability
- Strengthening the store-specific business ideas also online
- Easy-to-use tools for managing online product information and selections
- Improving efficiency in collection and logistics operating models



Better Price Image and Differentiation with Own Brands



- More than 3,000 products, over 1,000 of them made in Finland
- Compared internationally, the share of own brand product sales still low
- Emphasis in the product portfolio on affordable basics – untapped potential in the premium category
- Reworking the K-Menu range to make it a better price-fighter

*) Q3/2020, rolling 12 months

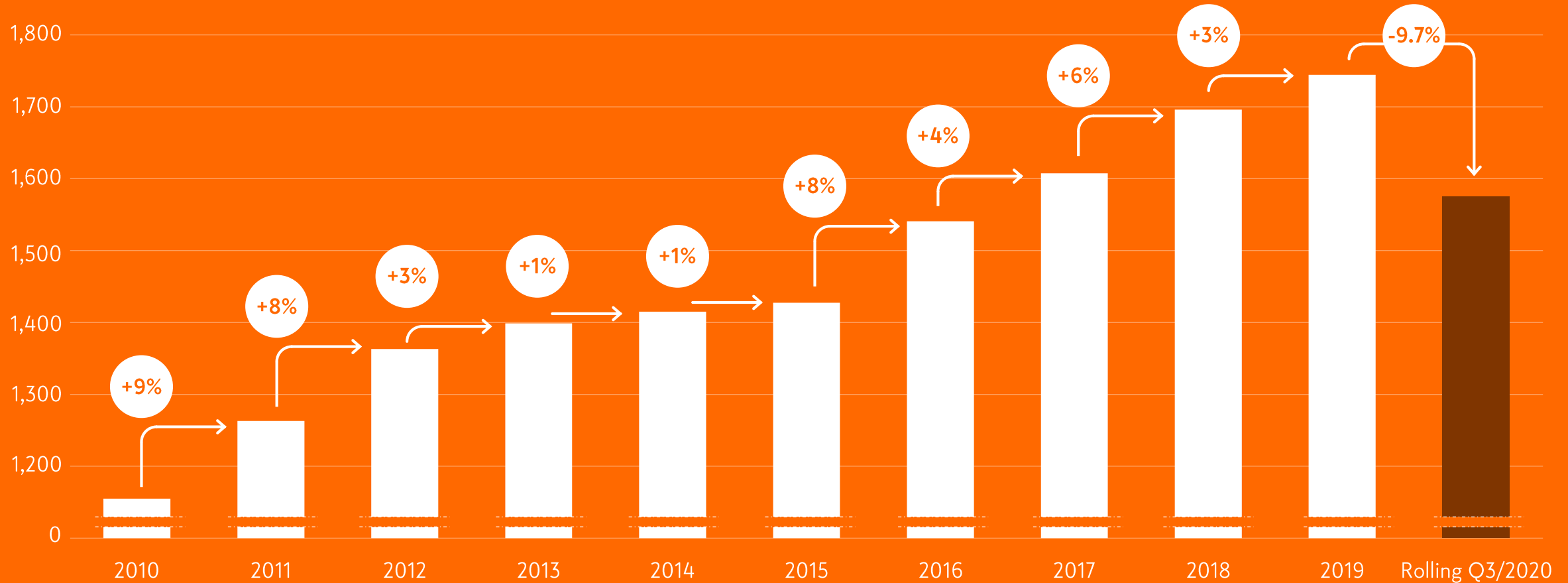
Exclusively from K-stores – New Customers, Better Margin and Way to Differentiate

- Selections that enable differentiation support store-specific business ideas and margins
- Differentiating products raise the average purchase and lead to more committed existing and new customers
- In recent years, new products related to restaurant brands have been successful and their ranges expanded



Strong Growth Trend in the Foodservice Market

The trend is expected to continue after the Covid-19 epidemic



Source: Statistics by the Finnish Grocery Trade Association, HoReCa customer warehouse sales 2010-2019

Main Growth Drivers



Utilising
store-specific
business ideas
in all stores



Utilising
new data tools
in all stores



Developing
in-store
Food Worlds



Developing
and improving
the efficiency
of online sales



Significant investments in digitalisation and
developing and renewing the store network





Towards Growth and Better Profitability

Johan Friman, President, Car Trade Division

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Car Trade in Brief



Operating the Volkswagen Group's business in Finland: importing and retailing



market share
(1-9/2020)

	Rolling 12 months 9/2020
Net sales	€887 million
Operating profit	€26.3 million
Operating margin	3.0%



Large Growth and Profit Potential in the Market

The entire Finnish automotive industry value pool 2019, estimated EBIT, € million

Kesko's position



● 135-160	Import and new car retail	Strong position
● 190-210	Used car retail	Potential for improvement
● 260-280	Aftersales (retail)	Potential for improvement
● 130-150	Financing & Leasing	Potential for improvement

Growth Potential in Current Strategic Focus Areas



Focusing on Finland



Cooperation with
the Volkswagen Group



Competitive
retail network

Strategic Priorities that Raise Car Trade to the Next Level



Make a step change in customer experience



Strengthen the foundation for growth



Extract full value from synergies with K Group



Expand into new business areas with the Volkswagen Group and beyond

Better Customer Experience is Key also in Car Trade

- Addressing pain points along the customer journey
- Driving cultural change
- Increasing measurement activities



Fully Utilising the Potential of Our Retail Network

- Raising used cars sales volumes to a new level
- After-sales opportunities with the older car fleet and in accident management
- Becoming the clear market leader in electric cars



Growth Through New Products and Services

- A wide range of new model launches in 2021 and beyond
- Market offensive through full electric and plug-in hybrid cars
- Continuing the strong growth of our own leasing company
- Further investing in the K Charge concept



Partnership with Volkswagen Group Will Enhance Our Market Share Growth

- The world's biggest car manufacturer and technology leader in the automotive industry
- Operating profitability ahead of competitors with a strong financial position of ~€20 billion cumulative free cash flow from 2020-22
- Substantial financial resources to drive development: investments in electric vehicles 46 billion by the end of 2025







Creating Value Through Growth and Efficiency

Jukka Erlund, CFO

Capital Markets Day 2020

Solid Growth in Financial KPIs

	2018		Q3/2020*
Net sales growth (average)		2.8% per annum	
EBIT-%	4.1%	→	5.0%
ROCE	9.8%	→	11.0%
Cash flow from operating activities, €m	749	→	1,117
Net debt /EBITDA	0.4	→	0.5

*Rolling 12 months

**Net sales growth illustrative and excl. acquisitions and divestments

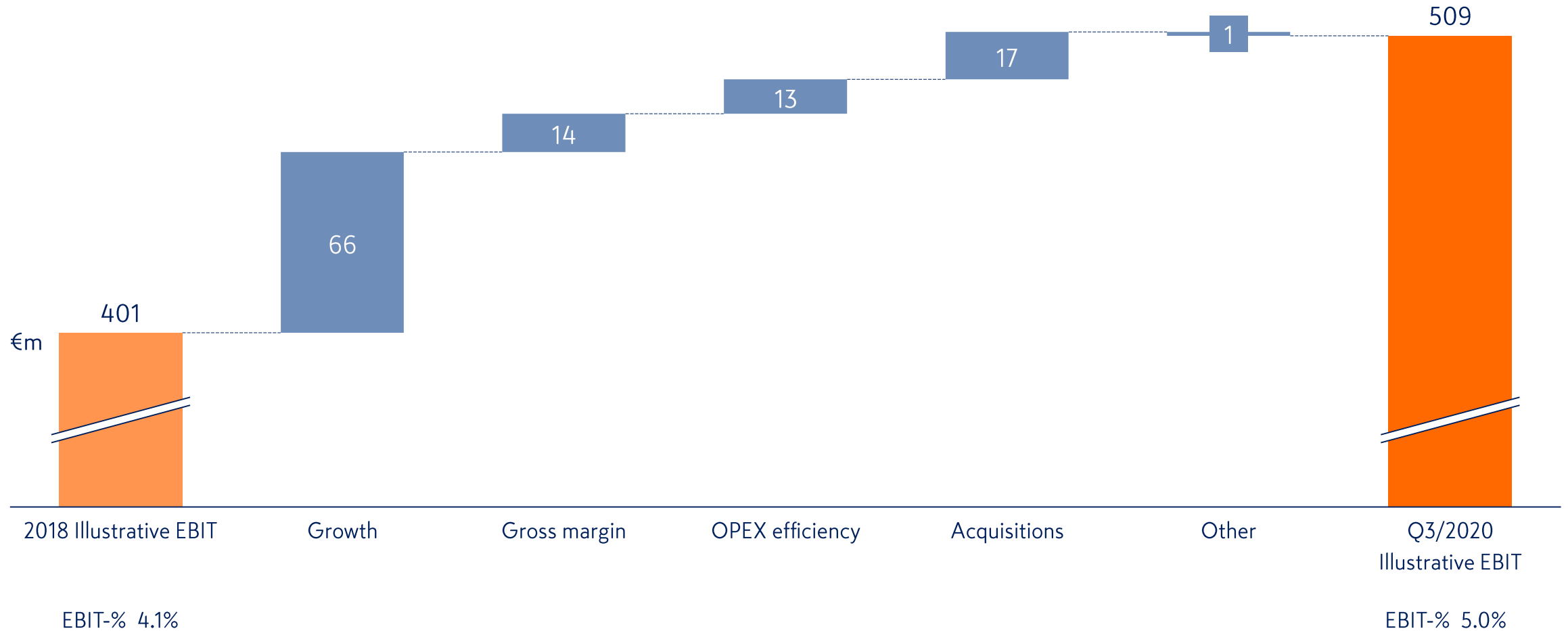
Targeting Further Financial Improvement

	2018		Q3/2020*	New target
Net sales growth (average)	2.8% per annum			
EBIT-%	4.1%	→	5.0%	5.5%
ROCE	9.8%	→	11.0%	12.5%
Cash flow from operating activities, €m	749	→	1,117	
Net debt /EBITDA	0.4	→	0.5	<2.5

*Rolling 12 months

**Net sales growth illustrative and excl. acquisitions and divestments

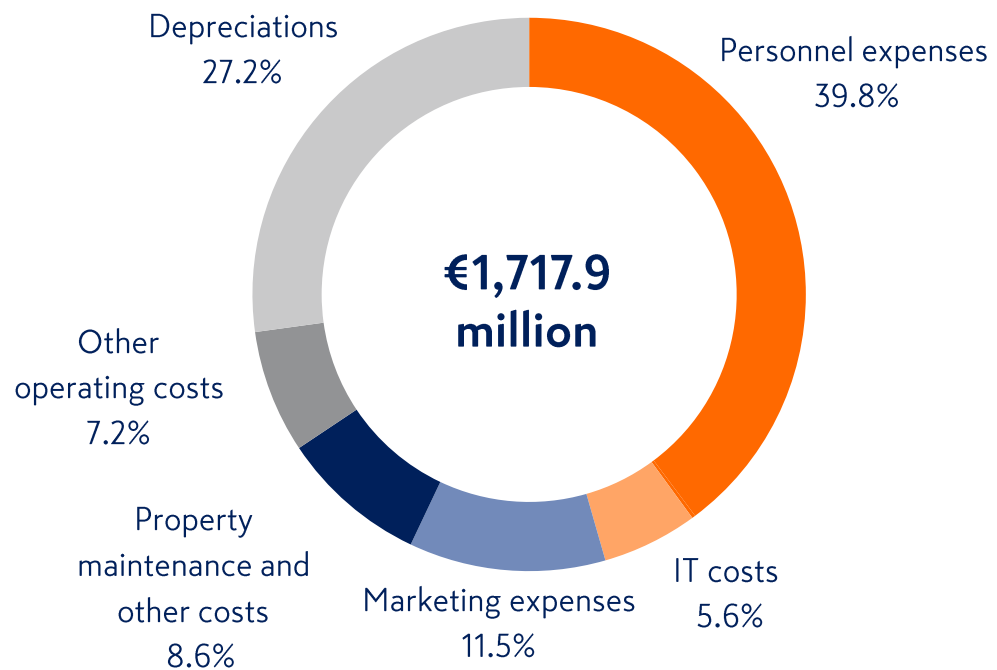
Profitability from All Sources, Operating Profit Up by > €100m



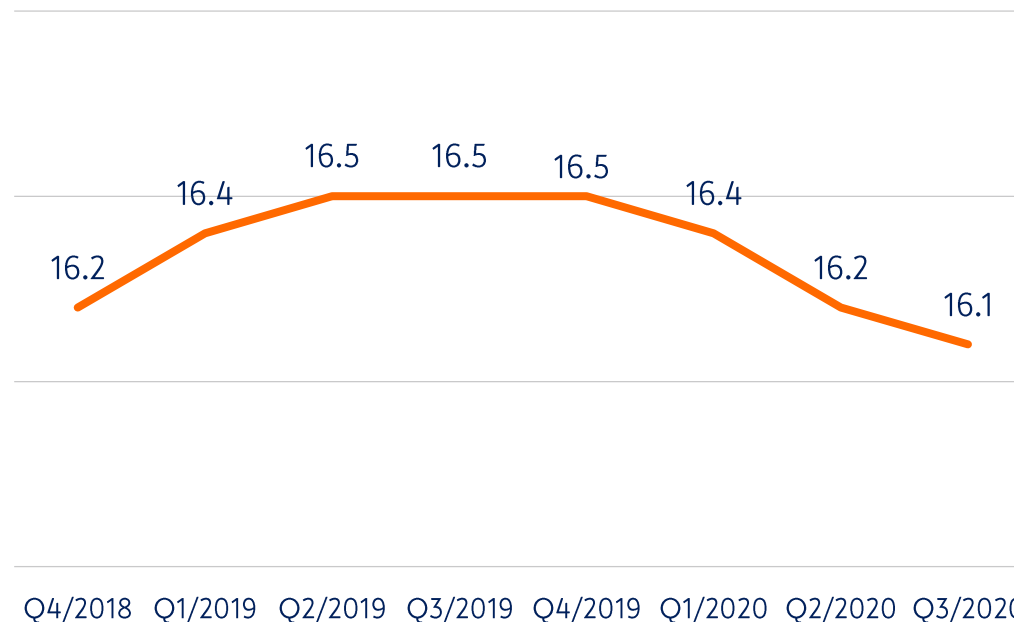
Kesko Senukai treated as a joint venture in the illustrative comparison figures

Further Reducing Unit Costs in "the New Normal"

Operating expenses



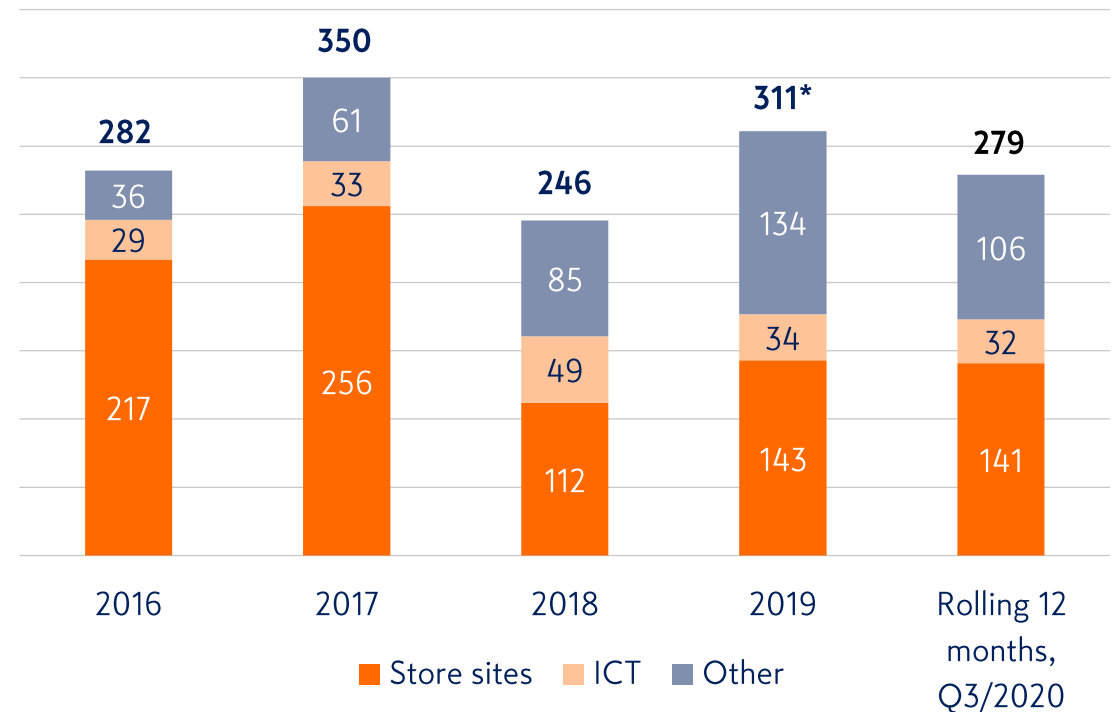
Cost ratio, rolling 12 months, % Illustrative and excl. acquisitions and divestments



Investing in Strategy Execution

- Annual capital expenditure excl. mergers and acquisitions €200-300 million in upcoming years
 - In store site capex, focus on renewals
 - Investments in technology to improve customer experience and cost efficiency
 - In car trade, investments in leasing fleet
- Acquisitions boost market share growth and synergies

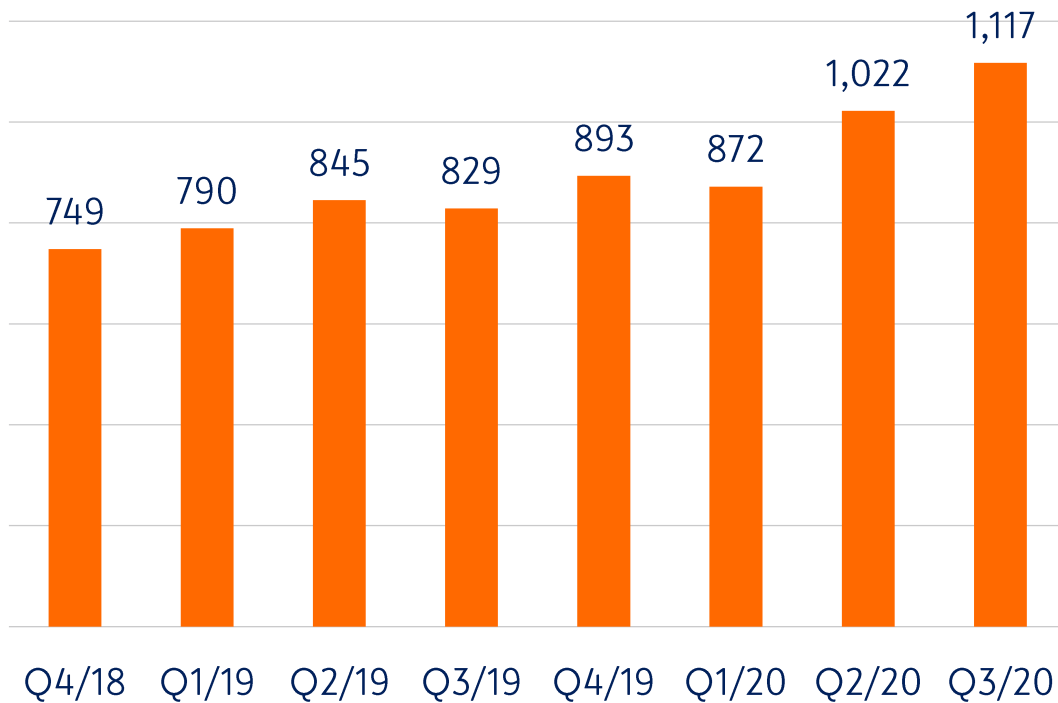
Capital expenditure (excl. acquisitions), € million



* Excluding Kruunuvuoren Satama store sites €85.3 million

Measures to Improve Cash Flow Generation Continue

Cash flow from operating activities, rolling 12 months, €m

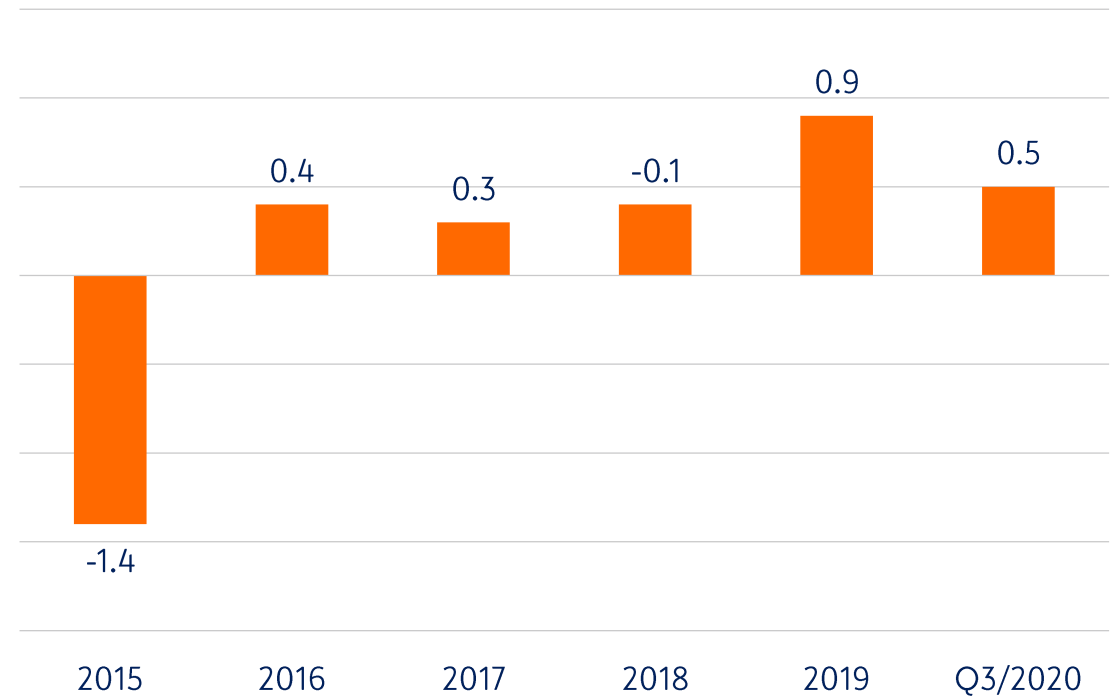


- Improving profitability
 - Sales growth driven by strategic initiatives
 - Better cost efficiency through increased automation and more efficient processes and organisations
 - Realising synergies from acquisitions
- Improving working capital efficiency, e.g. supplier finance programmes
- Well-prioritised capex

Strong Balance Sheet Enables Strategy Execution

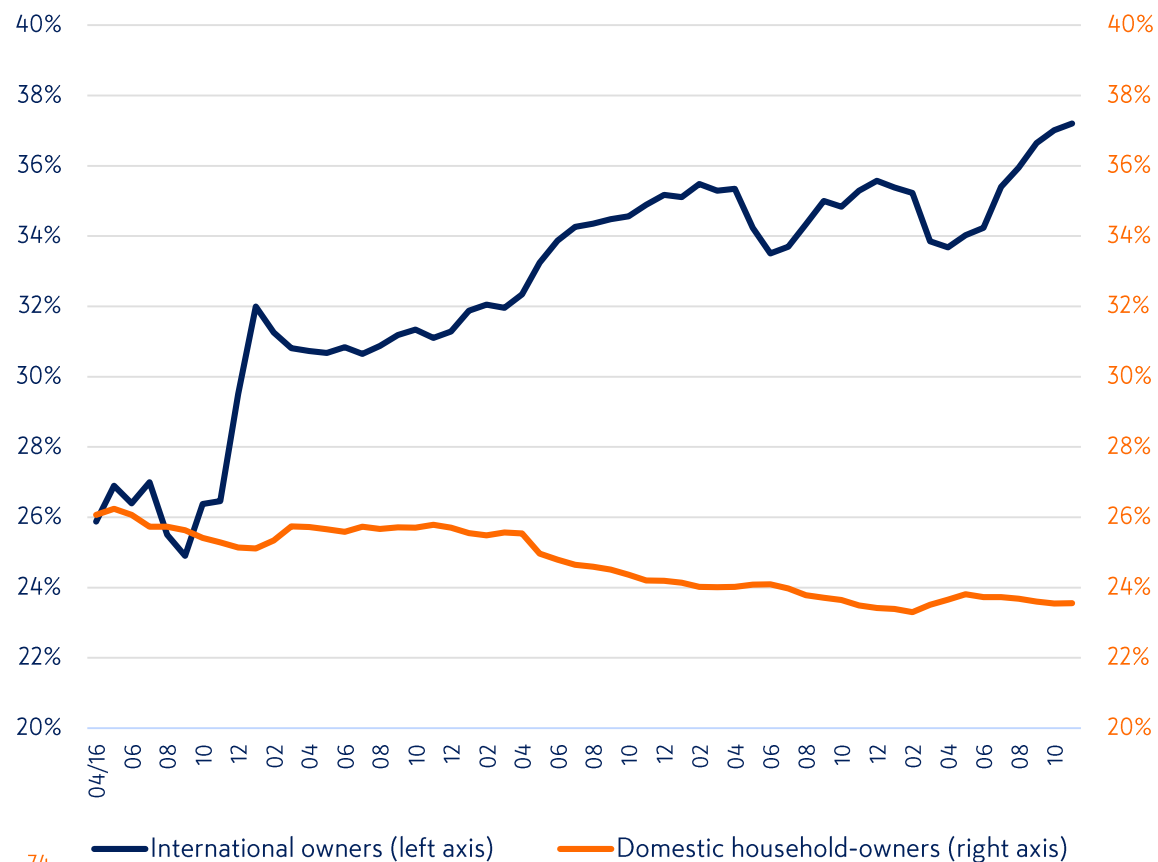
- Net debt/EBITDA excluding the impact of IFRS 16 at 0.5, which is clearly below the maximum target of 2.5
- Additional net debt fire power of over €1 billion
- Our strong balance sheet enables
 - Organic investments and acquisitions in line with our strategy
 - Good dividend according to our dividend policy

Net debt/EBITDA – maximum target level 2.5



Kesko's Ownership Base Becoming Wider and More International

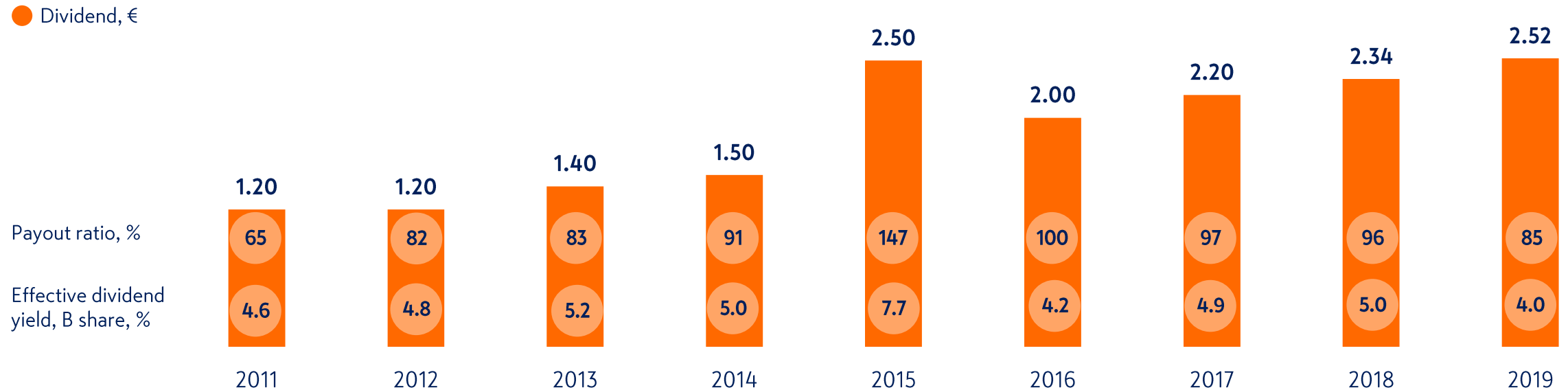
Ownership development in Kesko B



- International ownership has clearly increased during the past years
- Number of registered Finnish owners has increased to 54,903 (1/2018: 41,754)
- Kesko is one of the favourites among female investors

Solid Dividend Track-record

Kesko's 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 has been paying its dividends in two instalments starting with the dividend paid for the year 2018.



2011-2016 comparable earnings per share, Group; 2017-2019 comparable earnings per share, continuing operations
 *Prior to the share split (1:4)

