



KESKO CORPORATION ANNUAL GENERAL MEETING 28 APRIL 2020

# 2019 Review by the President and CEO

## Growth Strategy Yielded Record Result

MIKKO HELANDER, PRESIDENT AND CEO



# Key Events in 2019

- All-time record result
- Strong financial position and cash flow
- Excellent performance in the grocery trade
- World's most sustainable grocery trade company
- Strong growth continued in the building and technical trade
- Profit generation continued good in the car trade despite challenges in market and availability



# 2019 Was a Strong Year

Kesko recorded its best-ever result

	1-12/2019	1-12/2018
Net sales, € million	10,720.3	10,382.8
Change in net sales, %	+3.3	-1.0
Operating profit, € million	447.8	404.3
Operating profit, comparable, € million	461.6	428.5
Operating margin, comparable, %	4.3	4.1
Profit for the reporting period*, € million	339.2	158.0
Earnings per share, diluted		
- continuing operations	3.31	2.16
- discontinued operations	0.12	-0.56
Group, total	3.42	1.59
Earnings per share, basic, comparable, continuing operations, €	2.97	2.45

# Strong Cash Flow and Financial Position

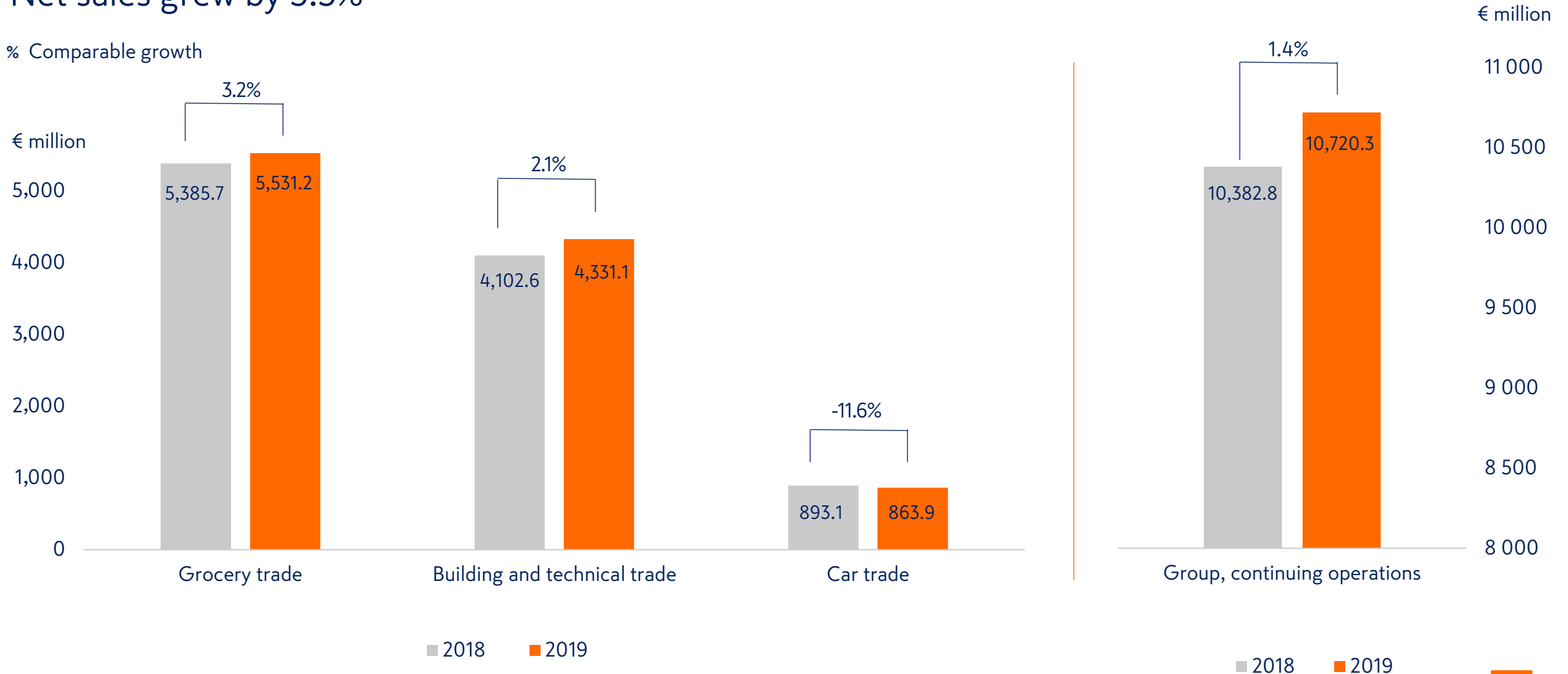
Cash flow from operating activities €893.1 million

	31.12.2019	31.12.2018
Cash flow from operating activities, continuing operations, € million	893.1	748.4
Cash flow from investing activities, € million	-616.8	-209.0
Liquid assets, € million	169.0	249.6
Interest-bearing net debt excl. lease liabilities, € million	446.1	161.6
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.9	0.4
Lease liabilities, € million	2,422.2	2,289.0

# Net Sales by Division

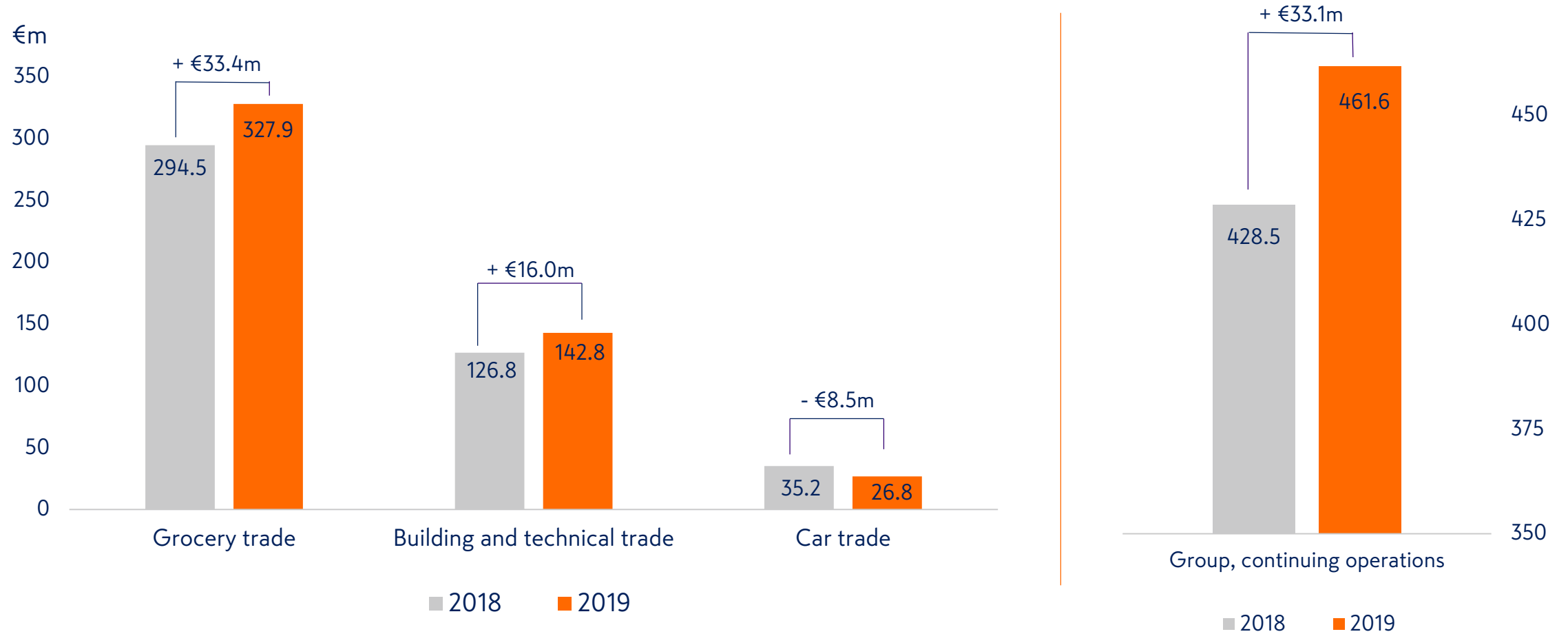
Net sales grew by 3.3%

% Comparable growth



# Operating Profit by Division

All-time record result



# Total Capital Expenditure €686 Million

	€ million
All capital expenditure in store sites	227.7
Acquisitions	290.5
IT	33.9
Other investments	134.0
<b>Total</b>	<b>686.1</b>



# Impacts of the COVID-19 epidemic and measures taken





**The COVID-19 epidemic began to affect our operations significantly from mid-March onwards**

**Despite ongoing worldwide efforts to stop the epidemic, we must prepare for the possibility that exceptional circumstances will last for some time**

**In response, we have adjusted our management practices and operations as necessary**

# Impacts of the Pandemic on the Economy Depend on the Duration and Success of Containment Measures



## Finland:



COVID-19 strategy:  
Emergency Powers Act, tight  
restrictions, preparations to  
ease restrictions

Epidemic currently  
under control

Estimated GDP development  
-6.0%

## Sweden:

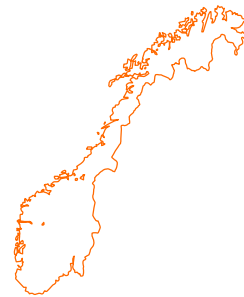


COVID-19 strategy:  
No tight restrictions,  
voluntary recommendations

Cases and mortality higher than  
in other Nordic countries

Estimated GDP development  
-6.8%

## Norway:



COVID-19 strategy:  
Tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-6.3%

## The Baltic Countries:



COVID-19 strategy:  
Very tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-7.5-8.6%

## Poland:



COVID-19 strategy:  
Very tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-4.6%

# Key Measures

- # Ensuring the safety of customers and personnel
- # Ensuring functioning purchasing and supply chains under all circumstances
- # Growing online sales services fast
- # Postponing development projects, focus on dealing with the situation
- # Securing cash flow:
  - Savings in personnel costs, over 1,000 people currently laid off
  - Cuts to other fixed costs
  - Cutting cash flows from investing activities below €200 million in 2020
  - Efficient management of credit risk and amounts due from customers
- # Ensuring the availability and sufficiency of financing



**Epidemic well under control in K Group**

**Significant investments made in protection,  
constant efforts to improve safety**

**Testing has begun and will be expanded**

**Some 30 confirmed cases at the moment**

**Preparations to safely return back to normal  
have begun**

# Impacts Vary within Grocery Trade

## Impact on K Group

- Strong food sales growth in K-food stores and online
- Kespro's sales down by approx. 50% due to restrictions on restaurants and cafeterias
- Sales of home and speciality goods in K-Citymarkets down due to lower customer numbers
- Reduced traffic has had a significant impact on sales for Neste K service stations

## Impact on market

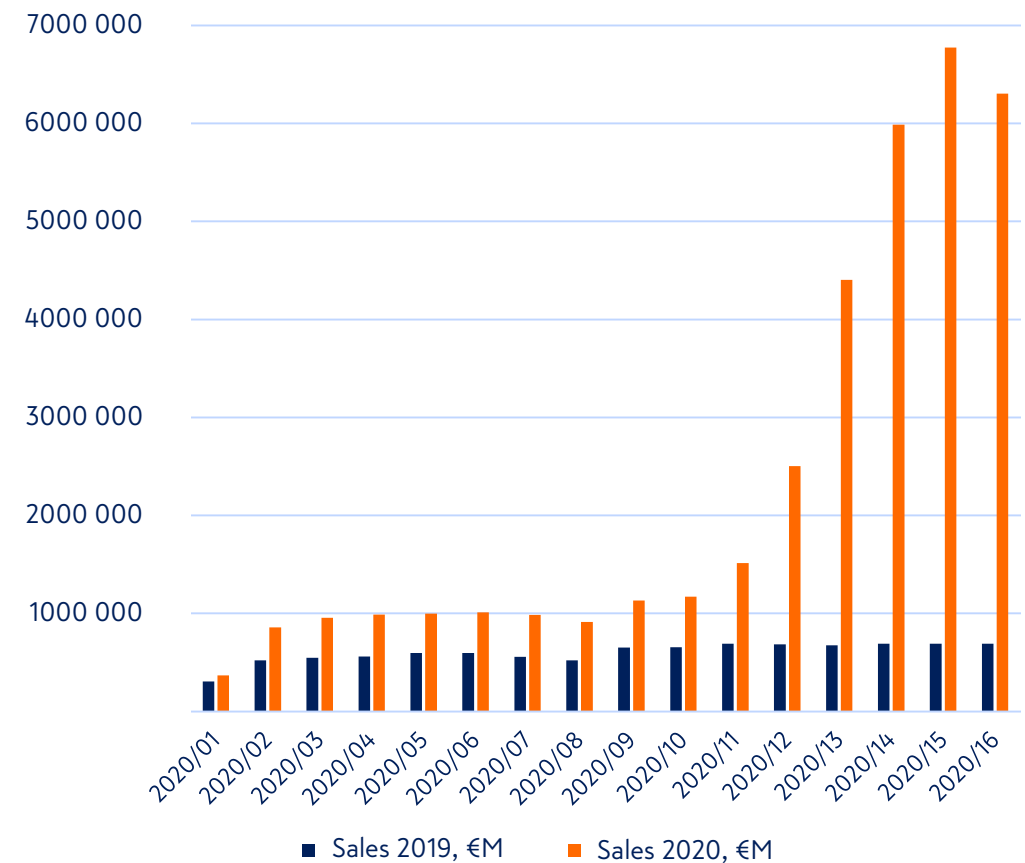
- Significant growth in food retail
- Hoarding seen in individual product categories
- Fewer customer visits, but bigger average purchase
- Strong growth in demand for online sales of groceries
- Strong decrease in demand in the foodservice business due to containment measures
- Service station sales down due to reduce traffic

# Strong Growth in Online Grocery Sales

K-ruoka.fi has become the biggest online grocery service in Finland, highest growth rate over 800% a week

- We have been able to successfully respond to strong growth in online demand
- Our K-ruoka.fi network is expanding fast, some 20 new stores added to the network every week
- Currently some 360 K-food stores offer online grocery sales services at K-Ruoka.fi
- Very high customer satisfaction, NPS 82
- Online's share of retail sales rose to 5% in April

Online sales weeks 1-16/2020



# Moderate Impact So Far on Building and Technical Trade Sales

## Impact on K Group

- Sales development in building and home improvement B2C trade has been good in Finland and Sweden
- Sales levels have also stayed good in B2B trade
- Onninen's sales development very good so far
- Steep drop in sales in Lithuania due to stores being closed until 16 April
- Significant decline in leisure trade sales

## Impact on market

- Activity on construction sites has continued without major disruptions
- Home decoration and renovation have increased
- Fewer new construction starts
- Difficult to predict trends in demand in the longer term
- Stimulus measures could accelerate economic turnaround and increase demand

# Significant Decrease in Demand in Car Trade

## Impact on K Group

- New car sales and orders significantly below normal levels
- Used car sales also clearly down
- Servicing and spare part service sales almost at a normal level
- Production shutdowns at Volkswagen Group plants, but plenty of previously imported cars available for sale
- Car pick-up and return services expanded

## Impact on market

- Overall, orders for new passenger cars down by approx. 60%, orders for vans down by 40%
- Demand has weakened significantly among both consumer and corporate customers
- Used car sales also down significantly



# Growth Strategy Execution Continues, but Right Now Our Focus Is on Crisis Management

**Growth Strategy**

**Focus**

- Grocery trade
- Building and technical trade
- Car trade

One unified

Sustainability and combatting climate change



## Dividend

€2.52 per share in line with the original Board proposal,  
to be paid in two instalments

## Share split 1:4

Three new shares issued for each current one  
in line with the original Board proposal

# Outlook and Guidance for 2020

Outlook for Kesko Group's continuing operations is given for year 2020, in comparison with year 2019.

**Due to the COVID-19 pandemic and global economic uncertainty, the company estimates that its comparable operating profit for continuing operations will amount to €400–450 million in 2020, thus falling somewhat short of the 2019 comparable operating profit of €461.6 million.**

**The company does not issue a guidance regarding net sales.**

Kesko estimates that consumer demand for food will remain good despite the exceptional circumstances brought on by the COVID-19 pandemic. Sales are expected to grow in grocery stores and especially in the online sales of groceries. In the foodservice business and home and speciality goods trade, sales are expected to decrease. Under the current circumstances, it is difficult to provide assessments on sales development in the building and technical trade. A weakening in the overall economy is expected to be reflected in sales to B2B customers. In addition, restrictions on store opening hours affect sales development. In the car trade, both new and used car sales are expected to decrease compared to 2019.

**K**