



KESKO OYJ

## Record Q2 Result – Profitability Improved Thanks to Fast Response to Exceptional Circumstances and Well-Functioning Strategy

MIKKO HELANDER, PRESIDENT AND CEO  
JUKKA ERLUND, CFO



# K Group and Kesko Today

#1

**Biggest in Finland**,  
#3 in Northern Europe  
with retail sales of over  
**€13,5bn**



Profitable growth  
strategy in **3** core  
divisions



**43,000** employees,  
approx. **1,800 stores** and  
comprehensive **digital**  
services in **8** countries



**Strong financial**  
**position** with good  
dividend capacity



Market cap approx.  
**€7.2bn** with over  
**50,000** shareholders

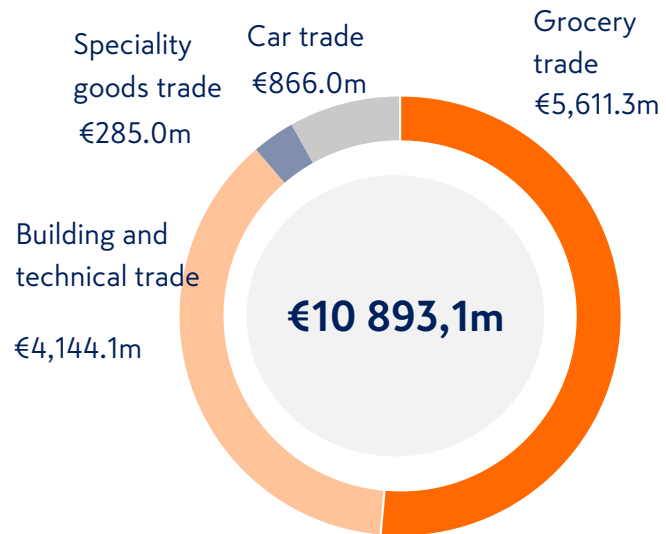


**World's most**  
**sustainable** grocery  
trade company

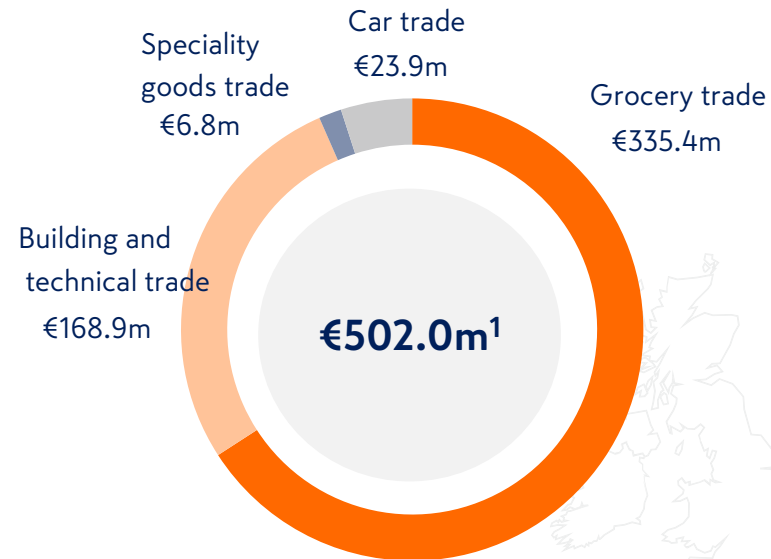


# Key figures in a nutshell

## Net Sales



## Comparable operating profit



# Growth Strategy

## Focus:



Grocery trade



Building and technical trade



Car trade

One unified **K**

Sustainability  
and combatting  
climate change





# Core Divisions at a Glance

## Grocery Trade



- Net sales approximately €5.6bn
- Quality leader in the Finnish grocery market: #2 in grocery retailing, #1 in foodservice B2B
- Rapidly expanding online food store network
- Market share at its highest in >15 years, ~37%
- 1.3m customer visits per day
- 1,200+ stores in the retailer business model
- One of the most profitable players in Europe

## Building and Technical Trade



- Net sales approximately €4.4bn
- #1 operator in building and technical trade in Northern Europe
- 537 stores in 8 countries
- Comprehensive digital services
- Serves three customer segments – B2B share approximately 70%
- Strong position to fully benefit from the ongoing consolidation of the market

## Car Trade



- Market leader with net sales of €0.9bn
- Operating the Volkswagen Group's business in Finland: Audi, Volkswagen, SEAT, Porsche, Bentley and MAN
- Value chain includes importing, retailing, leasing services and after sales as well as an extensive dealer and servicing network
- Various service concepts and wide electric car charging network



# Most sustainable grocery trade company in the world

- Kesko ranked the most sustainable grocery trade company in the world for the sixth time
- Transparent purchasing chains at the core of our corporate responsibility work
- Strong involvement in combatting climate change, ambitious targets:
  - Carbon neutral by 2025
  - Zero emission by 2030
- Choosing to shop at a K Group store is a responsible act by customers

# Kesko's Financial Targets

Indicator	Target level	Level achieved in Q2 2020*
Comparable operating margin, %	5.0%	4.6%
Comparable return on capital employed, %	11.0%	10.1%
Interest-bearing net debt/EBITDA, excluding the impact of IFRS 16	at maximum 2.5	0.6

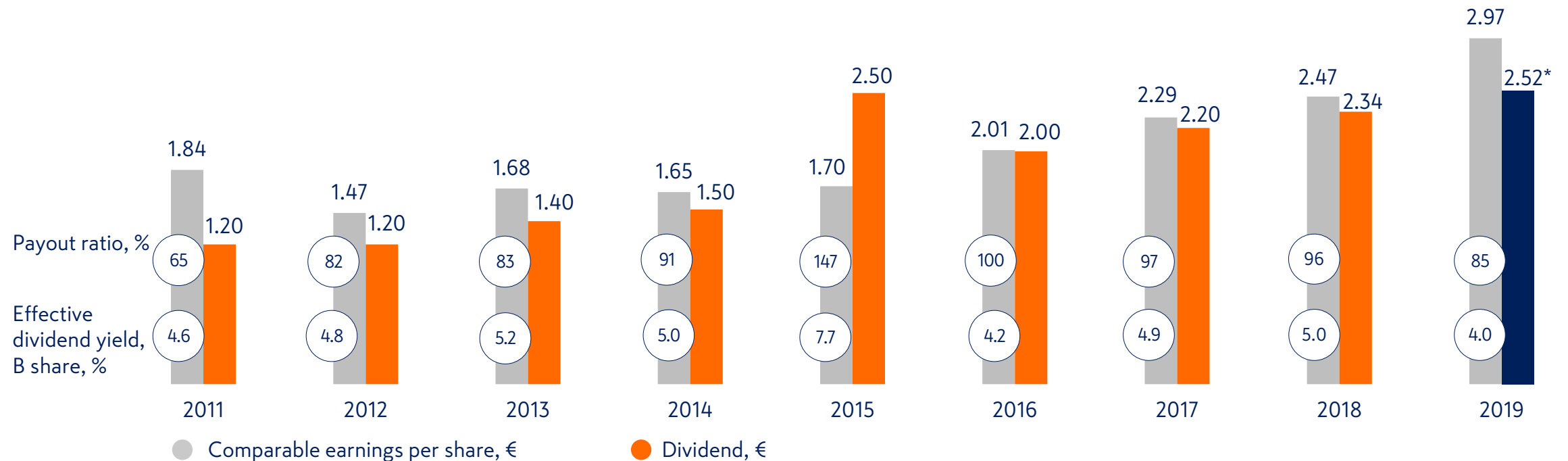
## Main themes and actions to achieve the financial targets

- All business division:
  - Customer driven organic growth
  - Improved efficiency
- Improved cash flow generation
- Focused capital expenditure:
  - Selected acquisitions
  - Limited store sites expansion needs
  - Further development of digitalisation

# Solid Dividend Track-record

## Dividend in two instalments in 2020

**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.



<sup>8</sup> 2011-2016 Comparable earnings per share, Group; 2017-2019 comparable earnings per share, continuing operations  
 \*Prior to the share split (1:4)





# Q2 – Kesko Group and Divisions



# Key Events in Q2

- Record result and very strong cash flow
- Grocery trade sales grew and profitability improved further
- Demand continued strong in building and technical trade
- Good development continued in K-Rauta and Onninen in Finland, significant profit improvement in building and home improvement trade in Sweden
- Acquisition of Carlsen Fritzøe Handel, leading building and home improvement trade operator in the Oslo region, in July
- Positive result in car trade under difficult circumstances thanks to adjustment measures
- New ambitious climate targets: carbon neutral by 2025, zero emissions by 2030

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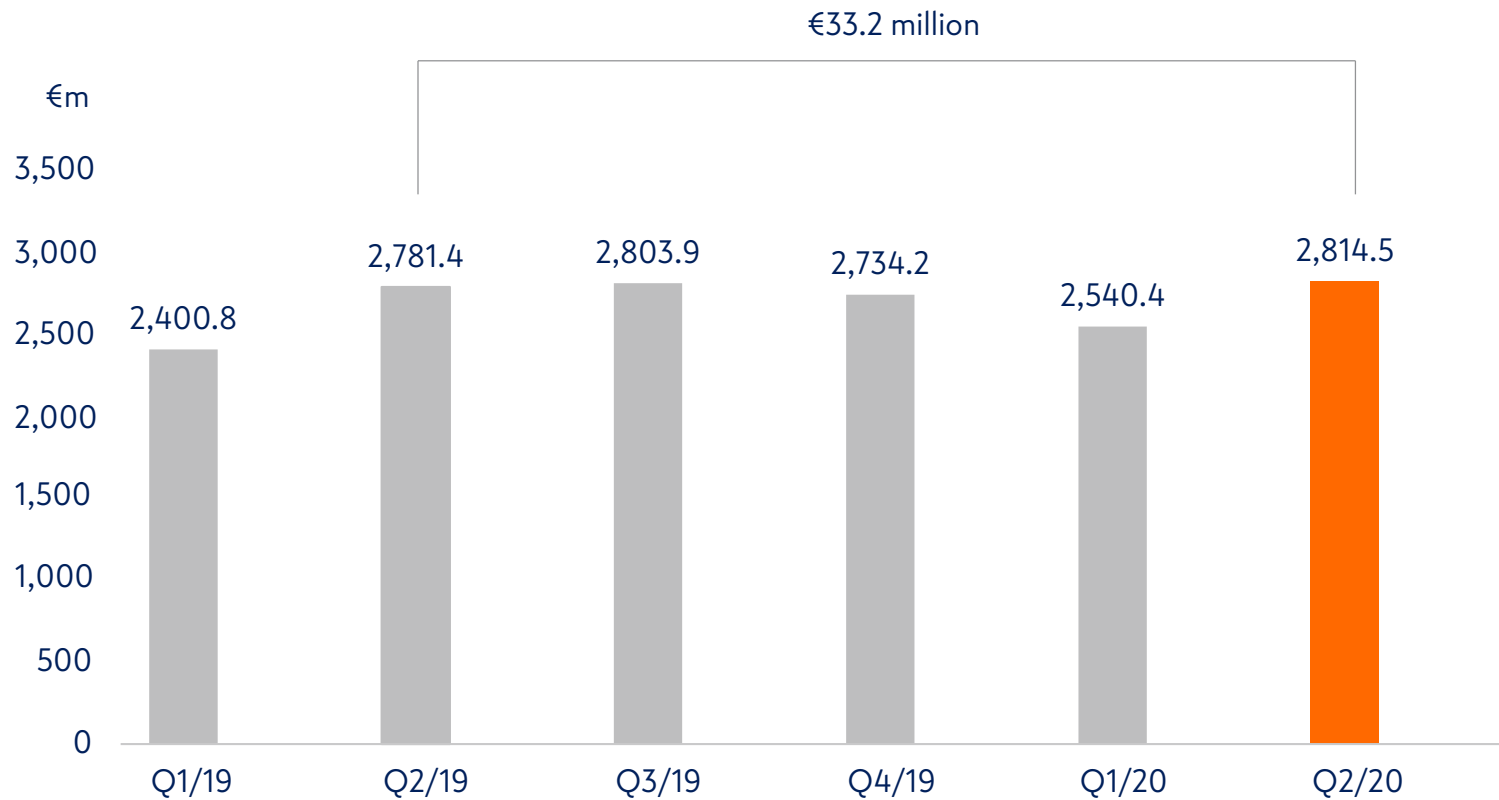
	4-6/2020	4-6/2019
Net sales, € million	2,814.5	2,781.4
Net sales growth, %	1.2	4.1
Operating profit, € million*	155.2	122.5
Operating margin*	5.5	4.4
Profit before tax, € million*	135.2	99.2
Earnings per share, basic, €*	0.24	0.18
Cash flow from operating activities, € million	421.8	271.4

\* Comparable

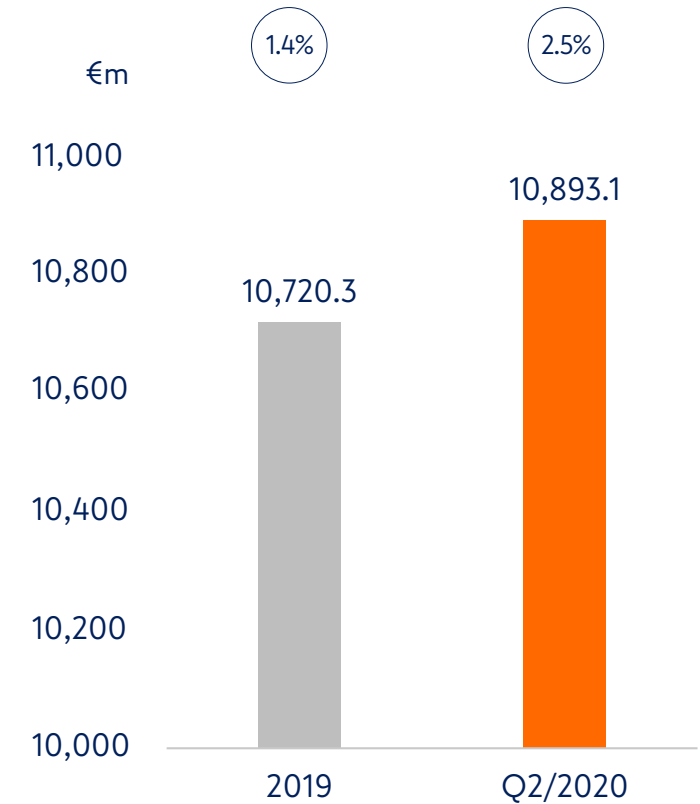


# Net Sales

Q2 net sales up by 1.2%, or 2.2% in comparable terms

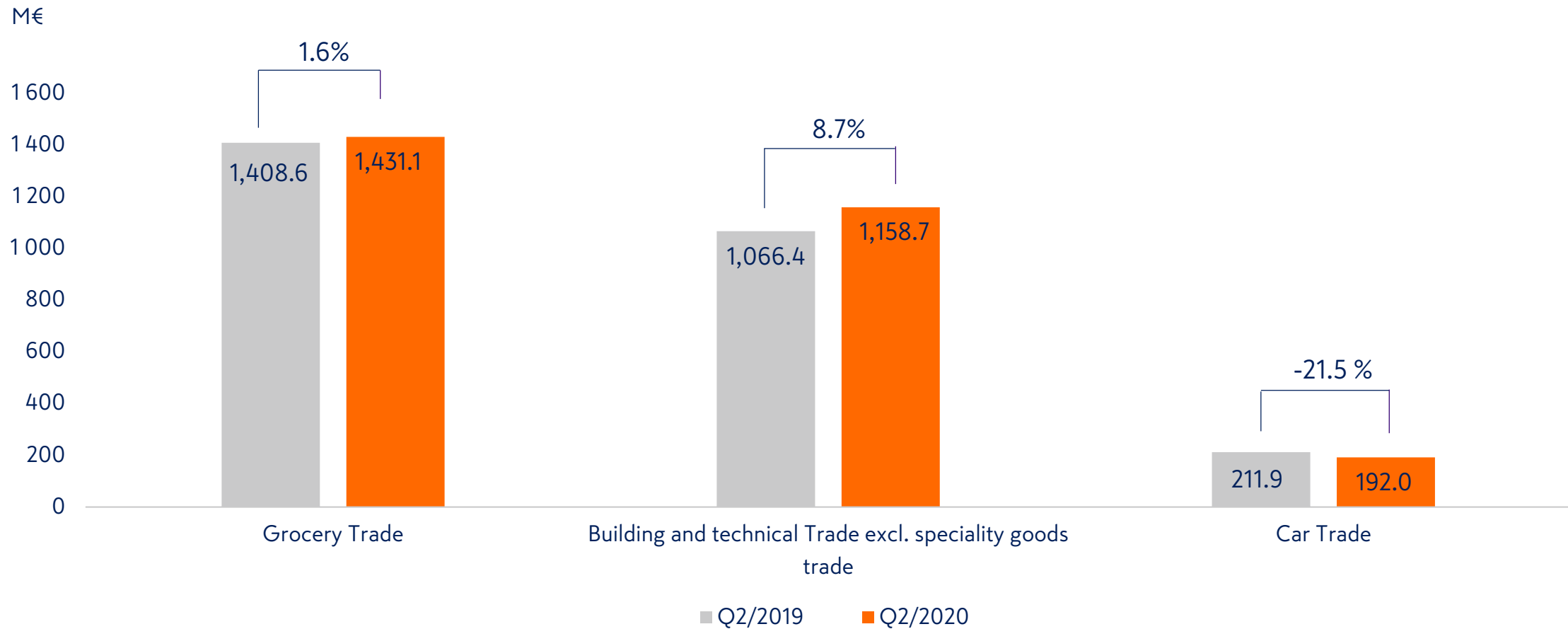


## Rolling 12 months



# Net Sales by Division

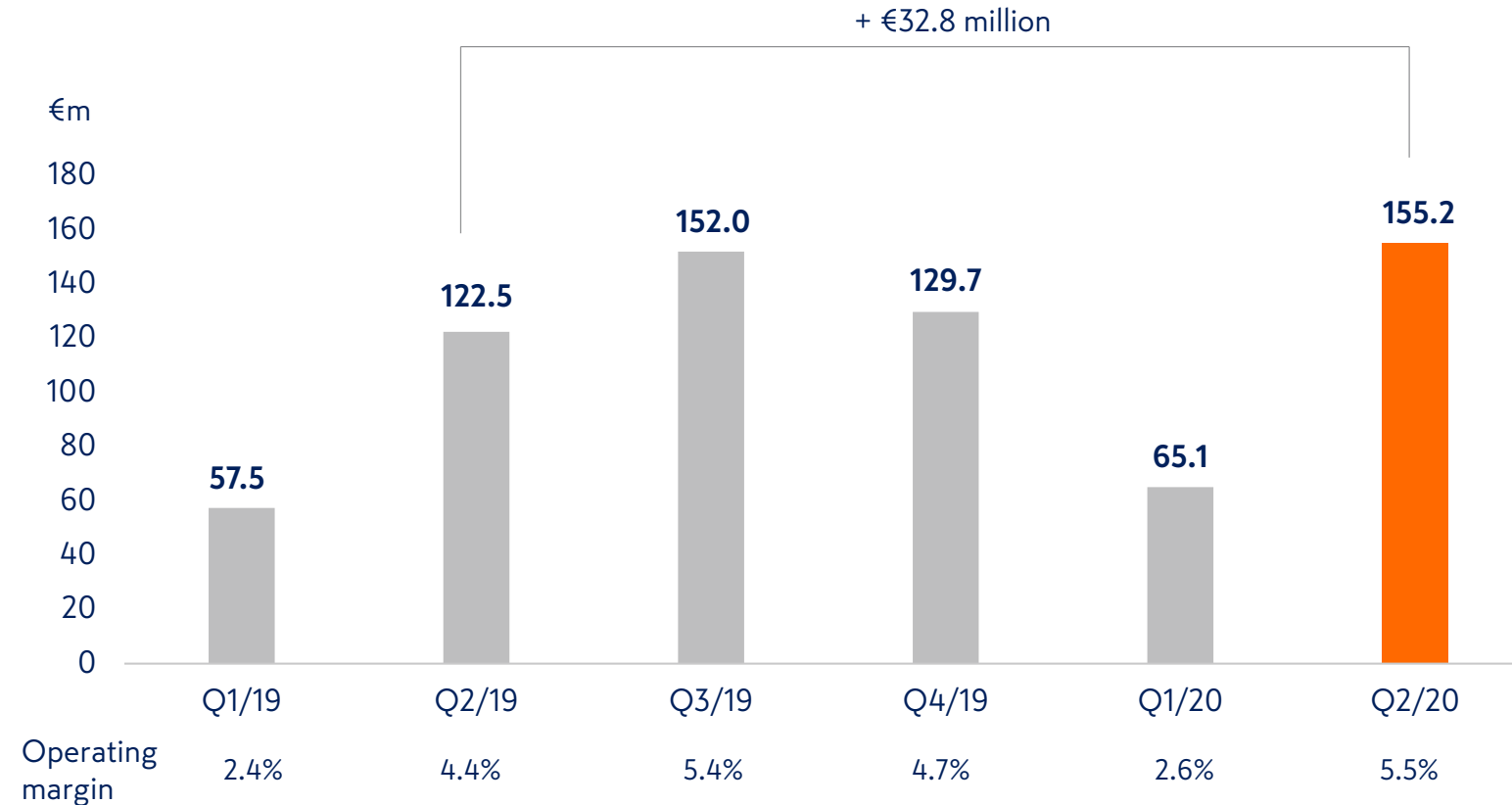
Comparable growth



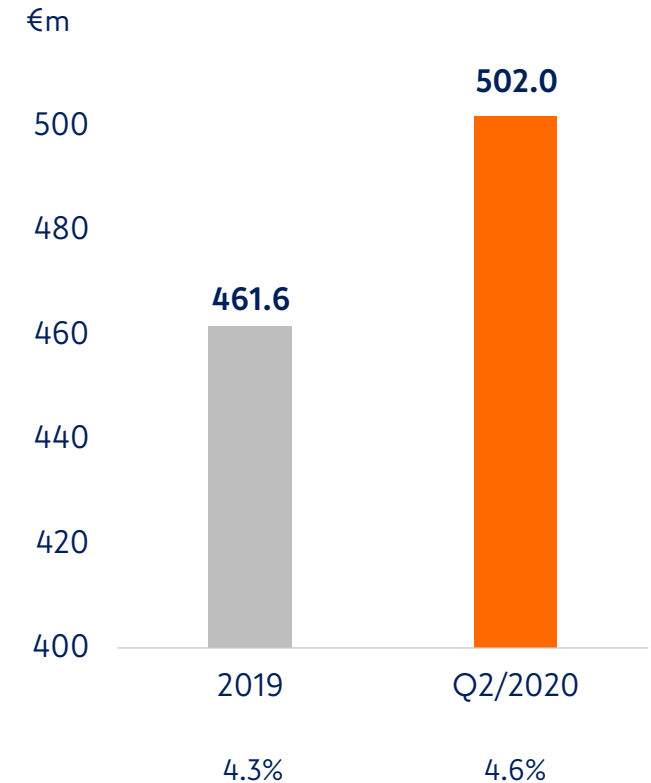


# Operating Profit

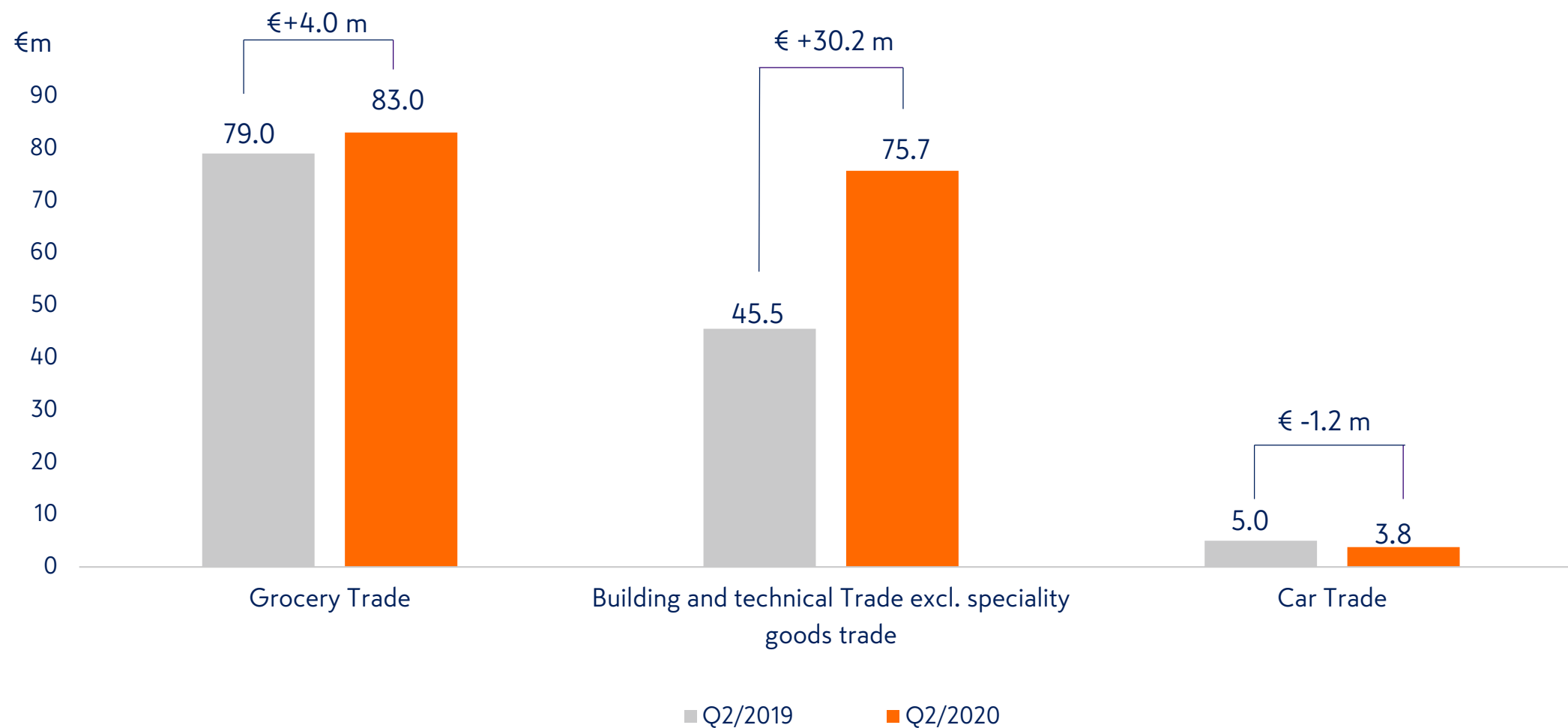
Operating profit grew by €32.8 million



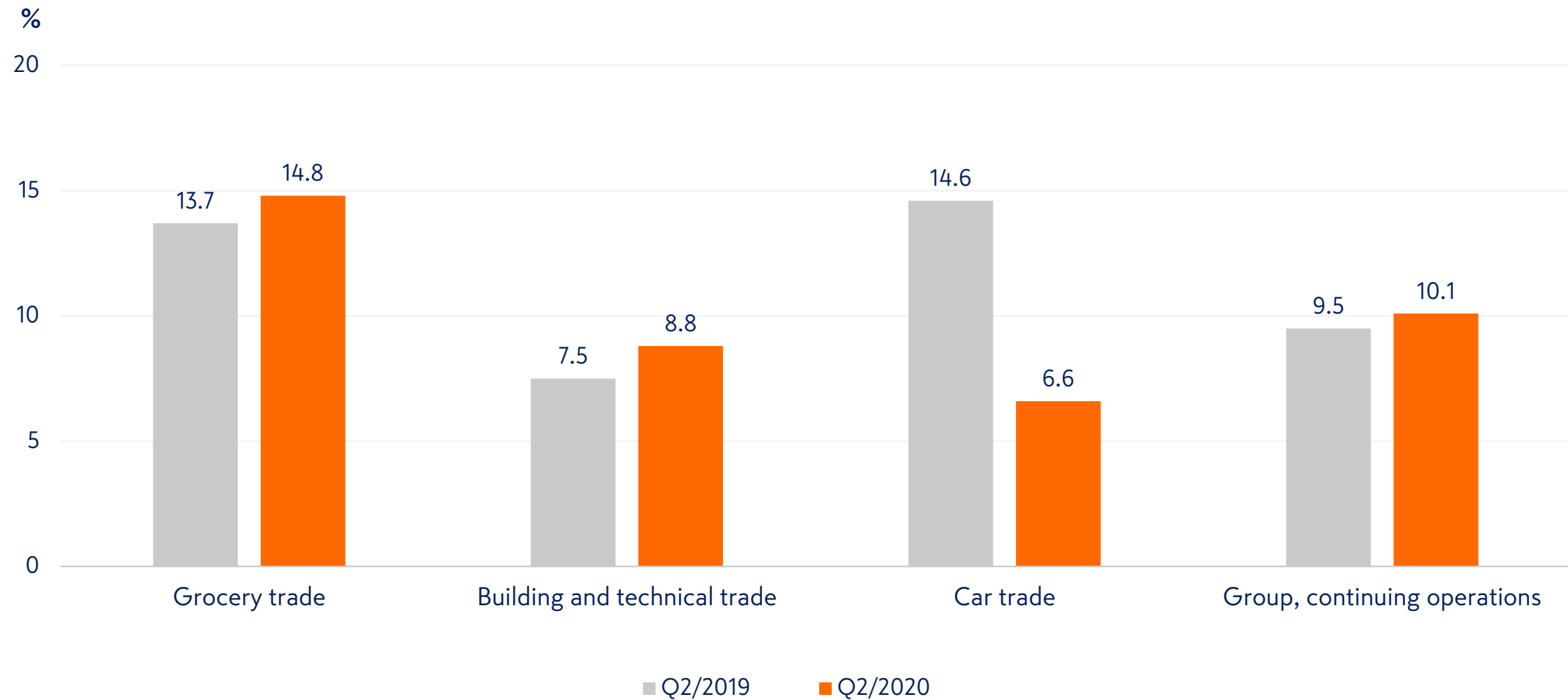
## Rolling 12 months



# Operating profit by division



# Return on Capital Employed Improved to 10.1%



## Strong Financial Position

Cash flow from operating activities strengthened operatively by €195 million, cash flow for the comparison period contained exceptional positive items totalling €44 million

	Q2/2020	Q2/2019
Cash flow from operating activities, € million	421.8	271.4
Cash flow from investing activities, € million	-70.6	-347.2
Capital expenditure, € million	69.1	373.4
Liquid assets, € million	461.8	200.6
Interest-bearing net debt excl. lease liabilities, € million	330.0	439.6
Interest-bearing net debt/EBITDA (rolling, excl. IFRS 16 impact)	0.6	1.0
Lease liabilities, € million	2,312.1	2,351.6





GROCERY TRADE, BUILDING AND TECHNICAL TRADE, CAR TRADE

Market Q2 vs. K Group



# Grocery Trade Q2

## Market Q2

- Significant growth in retail sales of food due to the exceptional circumstances
- Total market growth in retail 9.5%\*, prices up by approx. 1.3%
- Safety of customers and personnel emphasised during the epidemic
- Customer visits down, average purchase up due to the epidemic
- Strong growth in demand for online sales of groceries
- Demand plummeted in foodservice, a turn for the better seen in June

## K Group

- Well-functioning strategy helped also under exceptional circumstances, retail sales up by 12.3%
- Market share growth continued stronger than before
- Sales grew in all K-food store chains
- We have been able to respond to the rapid rise in demand for online grocery sales better than our competitors
- Profitability improved despite the decrease in Kespro's sales

# Building and Technical Trade Q2

## Market Q2

- B2B trade has continued strong in both building and home improvement trade and technical wholesale
- Activity on construction sites has continued without major disruptions
- Surprisingly high activity in B2C sales across Northern Europe
- It is still difficult to estimate how demand will develop in H2
- Demand in the leisure trade weakened heavily at the beginning of the epidemic, fast recovery since May

## K Group

- Net sales grew forcefully and profit rose to a new level
- B2B trade continued strong in both building and home improvement stores and Onninen
- B2C sales grew clearly more than anticipated
- We strive to accelerate growth also via new acquisitions
- Strategic review of operations in the Baltics and Belarus and Kesko Senukai subsidiary consolidation examination ongoing

Acquisition of Bygg & Interiör in the Mälaren Valley, Sweden (2 Sept, 2020)  
- Three stores for mainly B2B customers to be included in K Bygg  
- Net sales of €13.9 m and EBITDA of €0.9 m (2019)

# Car Trade Q2

## Market Q2

- Automotive sector struggling globally due to the coronavirus epidemic and tightened emission limits
- Orders for new passenger cars in Finland down by more than 40%, orders for vans down by nearly 20%
- Decline in demand for servicing, repairs and spare part services and used cars more moderate
- Signs of recovery in the car trade towards the end of Q2

## K Group

- New car sales and orders below normal levels, car sales improved clearly in June
- Market share of brands represented rose to 17.8%, 18.5% in June and Volkswagen the market leader
- Development of own leasing fleet good despite the epidemic, totalling 2,600 cars at the end of Q2
- Servicing and spare part sales have remained good
- Adjusting operations has helped in managing the situation



# Guidance for 2020

# Outlook and Guidance for 2020

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

Kesko estimates that the comparable operating profit for continuing operations will be in the range of €430-510 million in 2020. Before, the company estimated that the comparable operating profit for continuing operations would be in the range of €400-450 million.

## Guidance upgrade rationale

The profit guidance upgrade is based on better than anticipated net sales development in the building and technical trade division in various operating countries as well as in the grocery trade. Consumer sales have developed better than anticipated during the exceptional circumstances. B2B sales have also continued stronger than anticipated in both building and home improvement stores and Onninen. Retail sales for all the grocery trade chains have developed better than anticipated, compensating for the decrease in sales in the foodservice business.

In addition to the foodservice business, net sales have clearly decreased in the car trade. Adjustment measures carried out have enabled the company to manage the situation and costs in its various business operations under the challenging circumstances.

Although conditions surrounding the coronavirus have improved in Kesko's operating countries, it is hard to predict the development of the epidemic situation and its economic impact. Therefore, the range for the guidance on comparable operating profit for 2020 is still wide.



# Contact

**Hanna Jaakkola**

Vice President, Investor Relations

tel.+358 40 5666 070

[hanna.jaakkola@kesko.fi](mailto:hanna.jaakkola@kesko.fi)





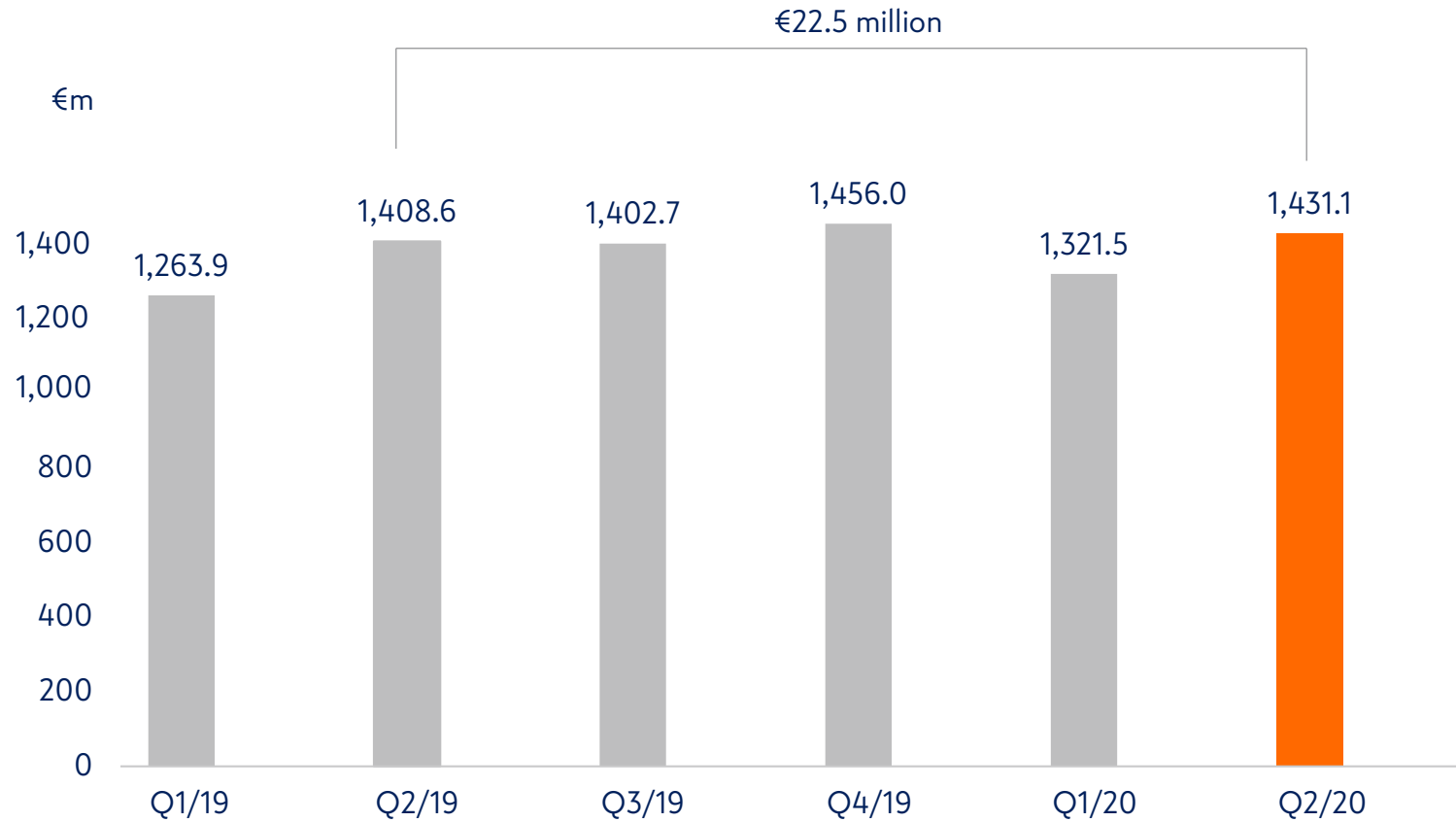


# Attachments

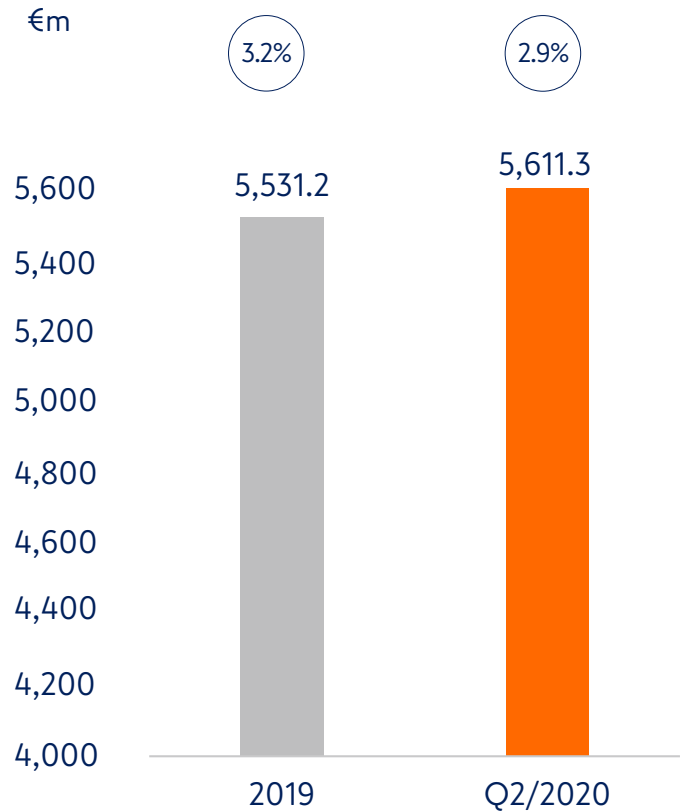


# Grocery Trade - Net Sales

Net sales growth 1.6%

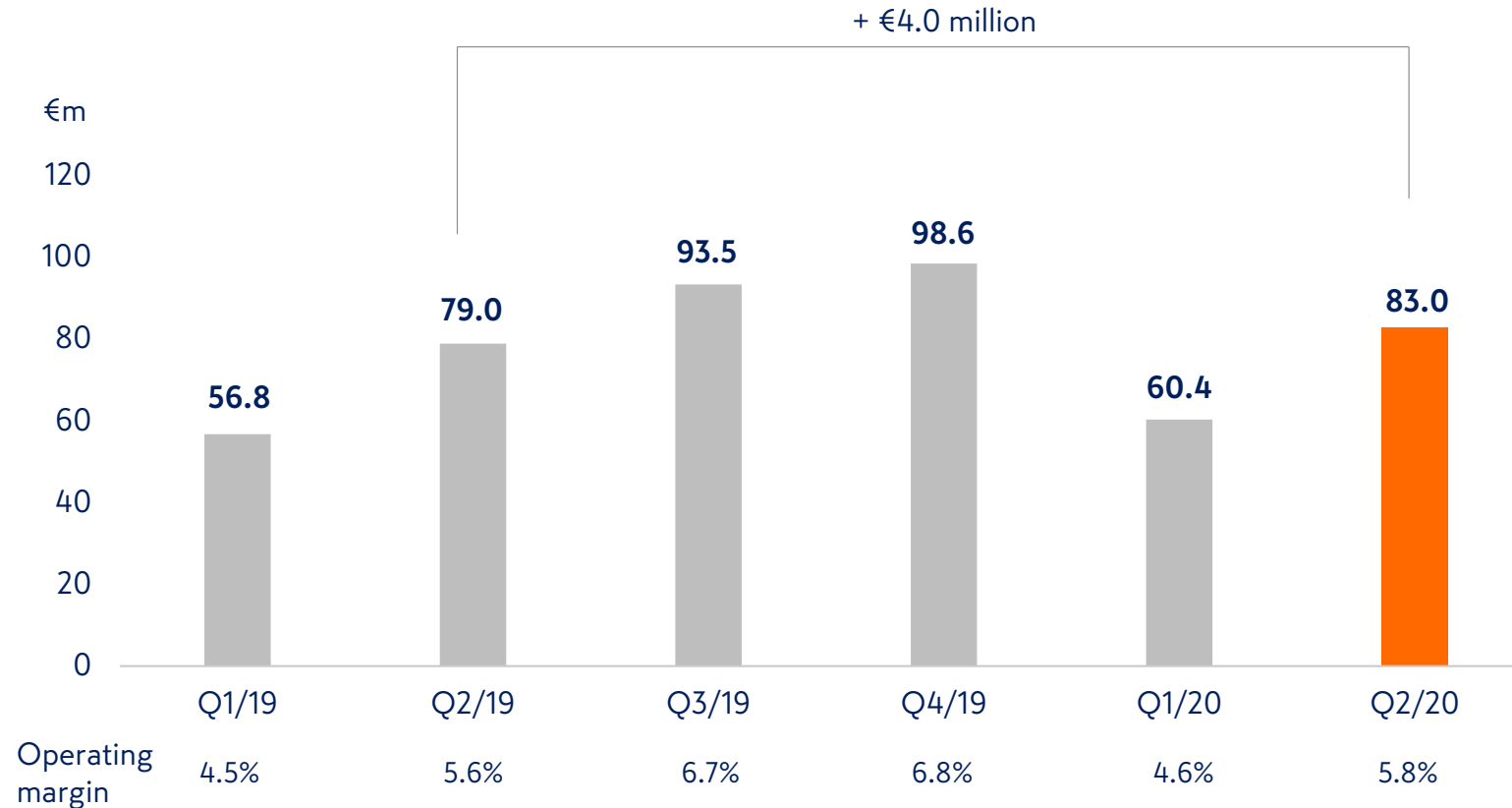


## Rolling 12 months

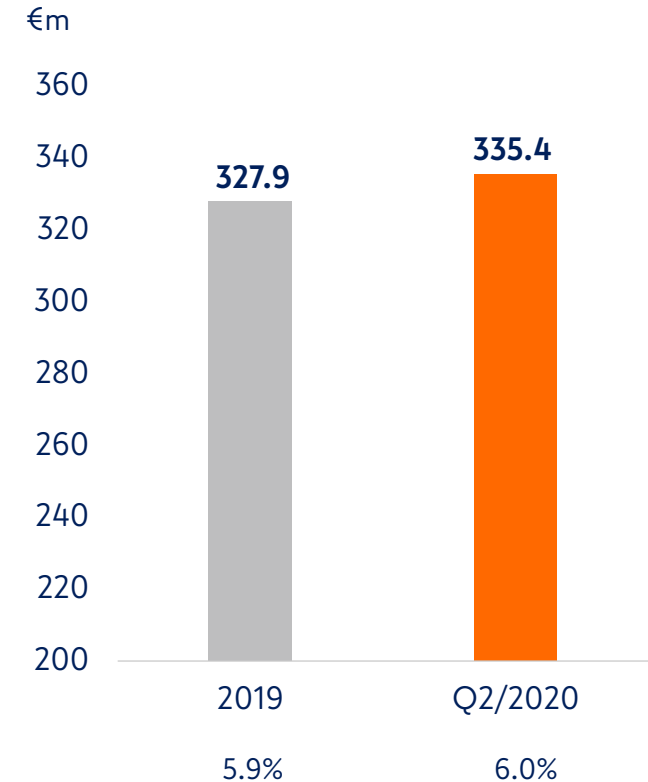


# Grocery Trade - Operating Profit

Record Q2 operating profit



## Rolling 12 months



# Excellent Performance by K Group people and Successful Strategy Execution Enabled a Good Result Under Exceptional Circumstances

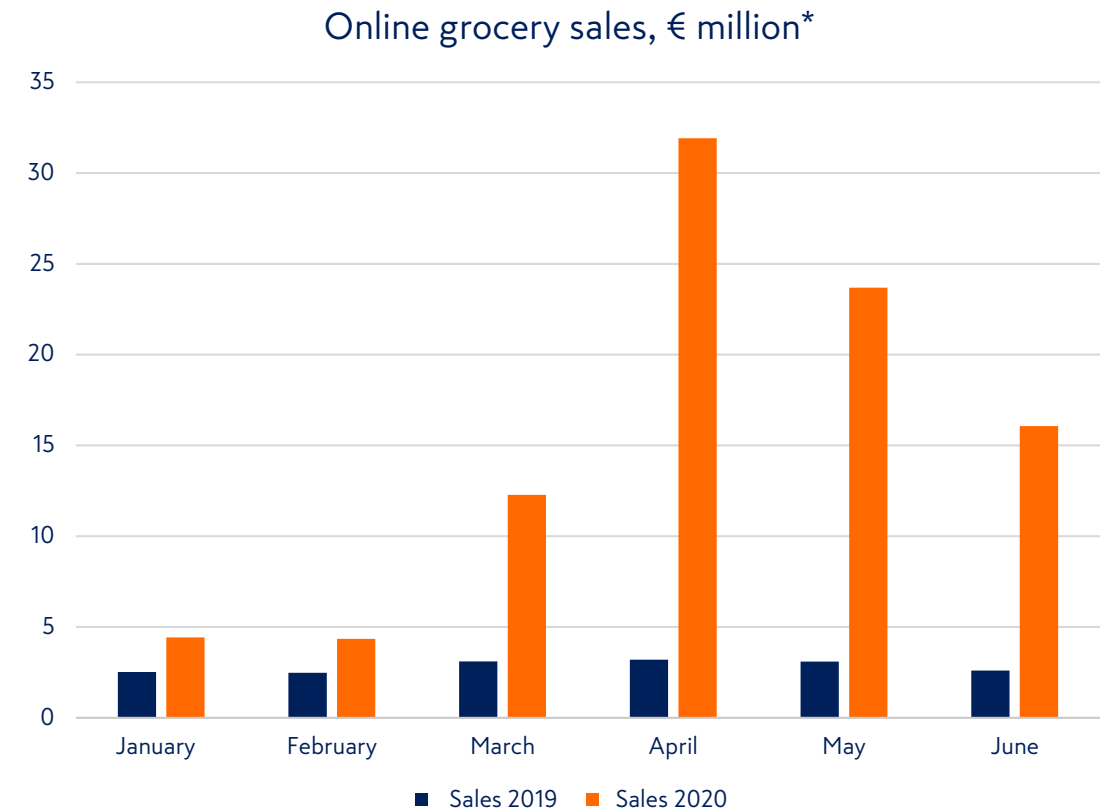
- K-retailers have shown their strength also during these exceptional times: agility and fast response in the stores
- Store staff and Kesko employees have performed excellently under the exceptional circumstances
- Success in ensuring safety
- We have managed to ensure product availability and deliveries to stores under all circumstances
- Fast response and establishing new services such as offering shopping assistance to people over 70 and selling restaurant meals in grocery stores
- Successful adjustment of foodservice operations to the sudden decline in sales



# Successful Response to Rapid Growth in Demand for Online Grocery Sales



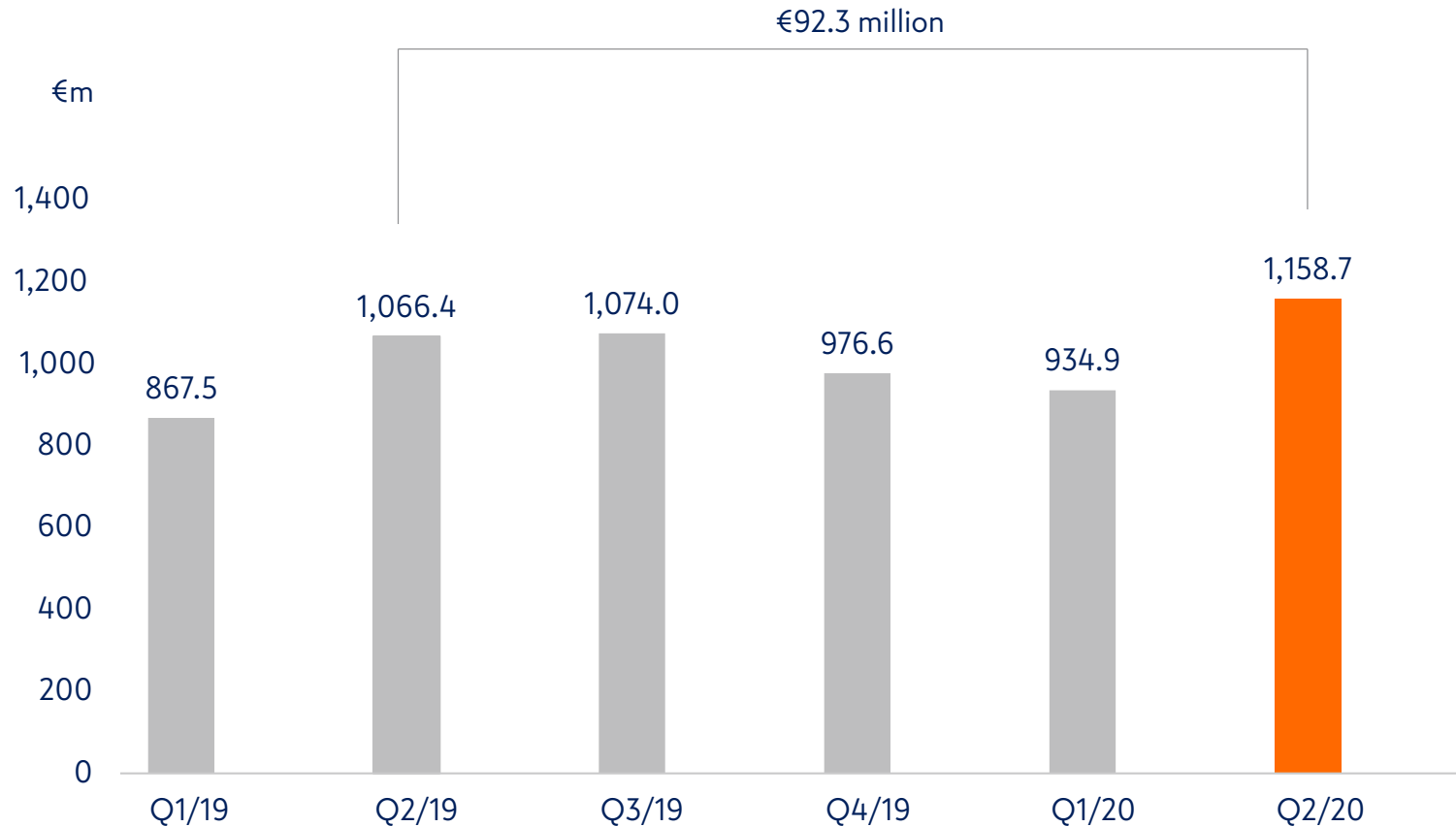
- Online grocery sales at K-Ruoka.fi approx. €93 million\* in H1, up by 446%
- 176 stores joined the K-Ruoka.fi service, which now covers 447 K-food stores around Finland
- Online accounted for 4.2% of sales in Q2, vs. 0.6% in 2019
- Despite the rapid growth, customer satisfaction has remained high, NPS 80
- Online sales of groceries clearly above earlier levels
- Growth continues strong also after the epidemic



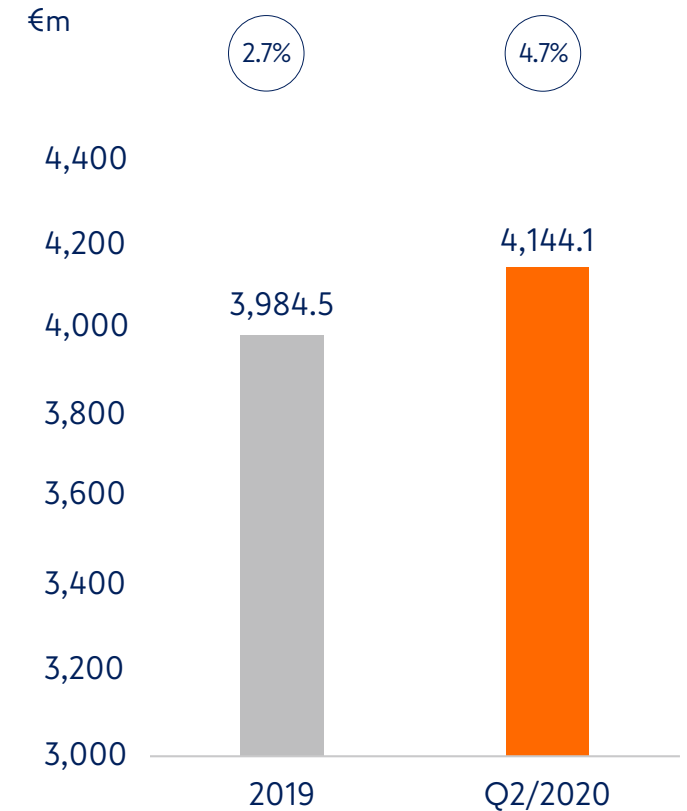
\* Figures 0% VAT, incl. collection and delivery fees

# Building and Technical Trade - Net Sales

Q2 net sales up by 8.7%, growth 8.7% also in comparable terms



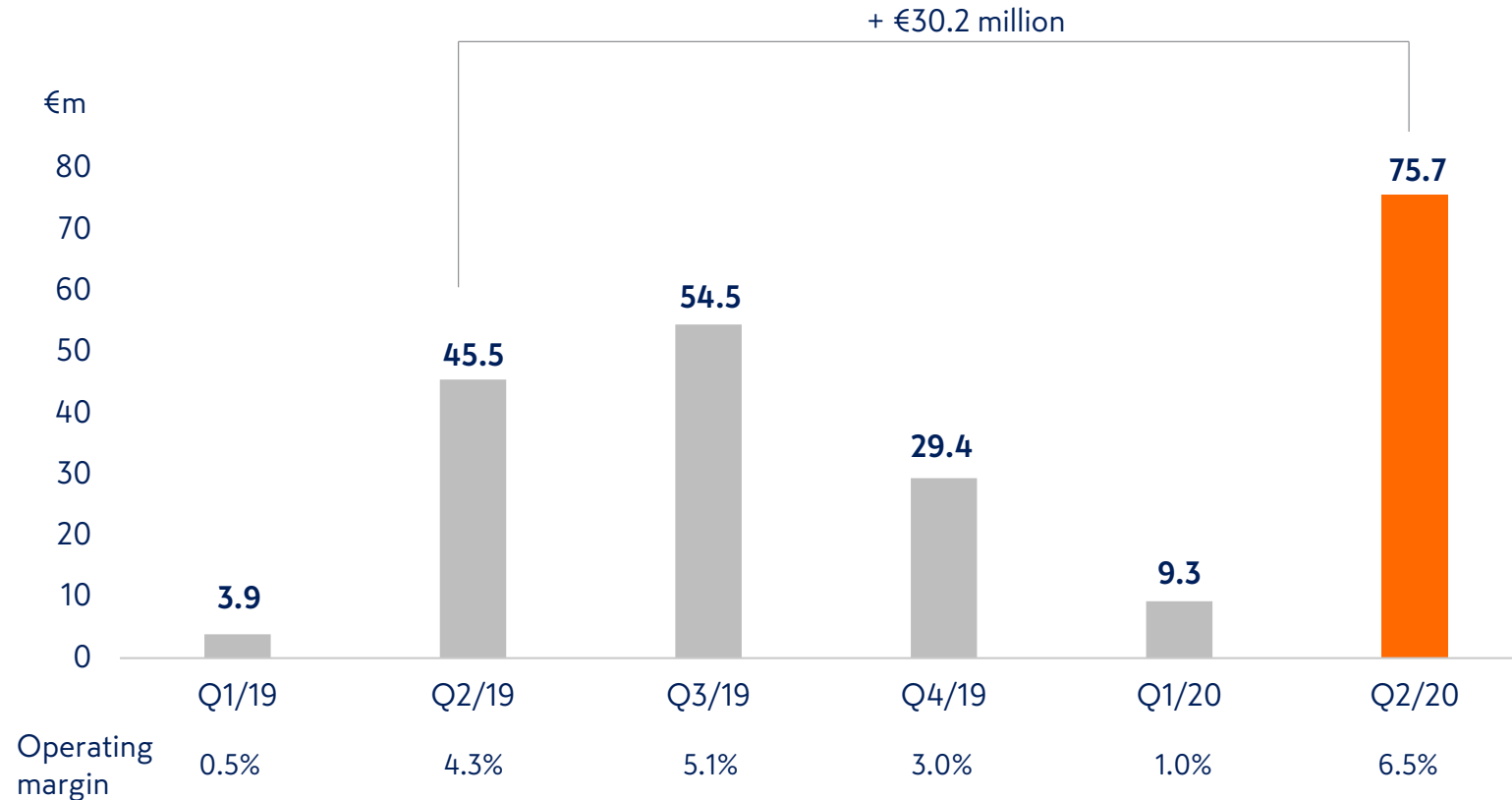
## Rolling 12 months



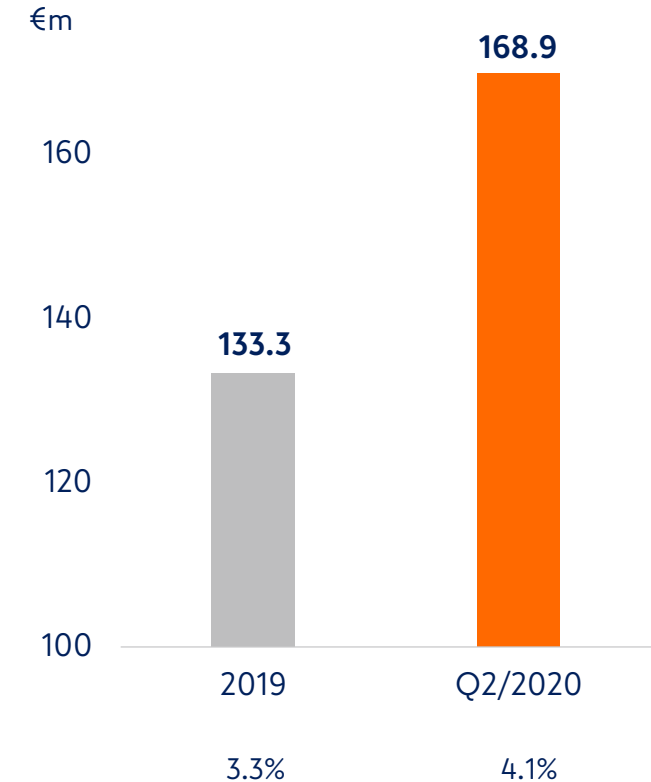


# Building and Technical Trade - Operating Profit

Record Q2 operating profit



## Rolling 12 months



# Continued Strong Development for K-Rauta and Onninen in Finland



Good sales development has accelerated market share growth

- B2B trade has continued stronger than anticipated
- Onninen's profitability improved further thanks to e.g. good product availability
- K-Rauta's B2C trade has developed better than anticipated during the exceptional circumstances
- Extended opening hours for K-Rauta have improved service and increased sales
- Sales of revamped K-Rauta.fi online service up by some 100%, lending good support to sales in physical stores



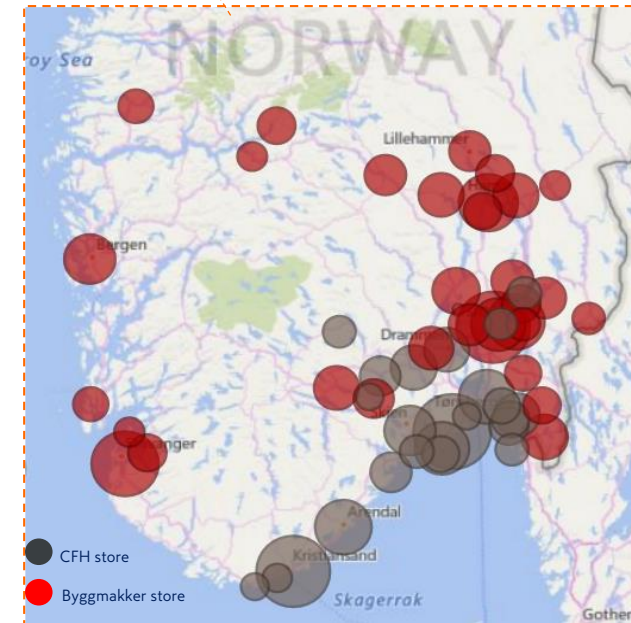
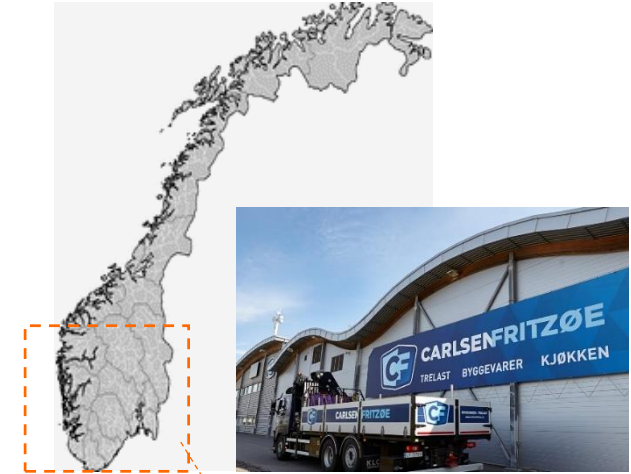
# Determined Strategy Execution in Sweden Has Led to Significant Improvement in Profitability

- Profitability improved significantly and profit exceeded €10 million, strong market also contributed
- K-Rauta's net sales growth 17.1% comparatively, growth also strong in K-Bygg
- Significant measures taken to improve K-Rauta's profitability, work continues
- K-Bygg's sales and profitability have developed well as part of Kesko
- Technical wholesale company MIAB acquired in Sweden
- Sweden an important growth area also going forward



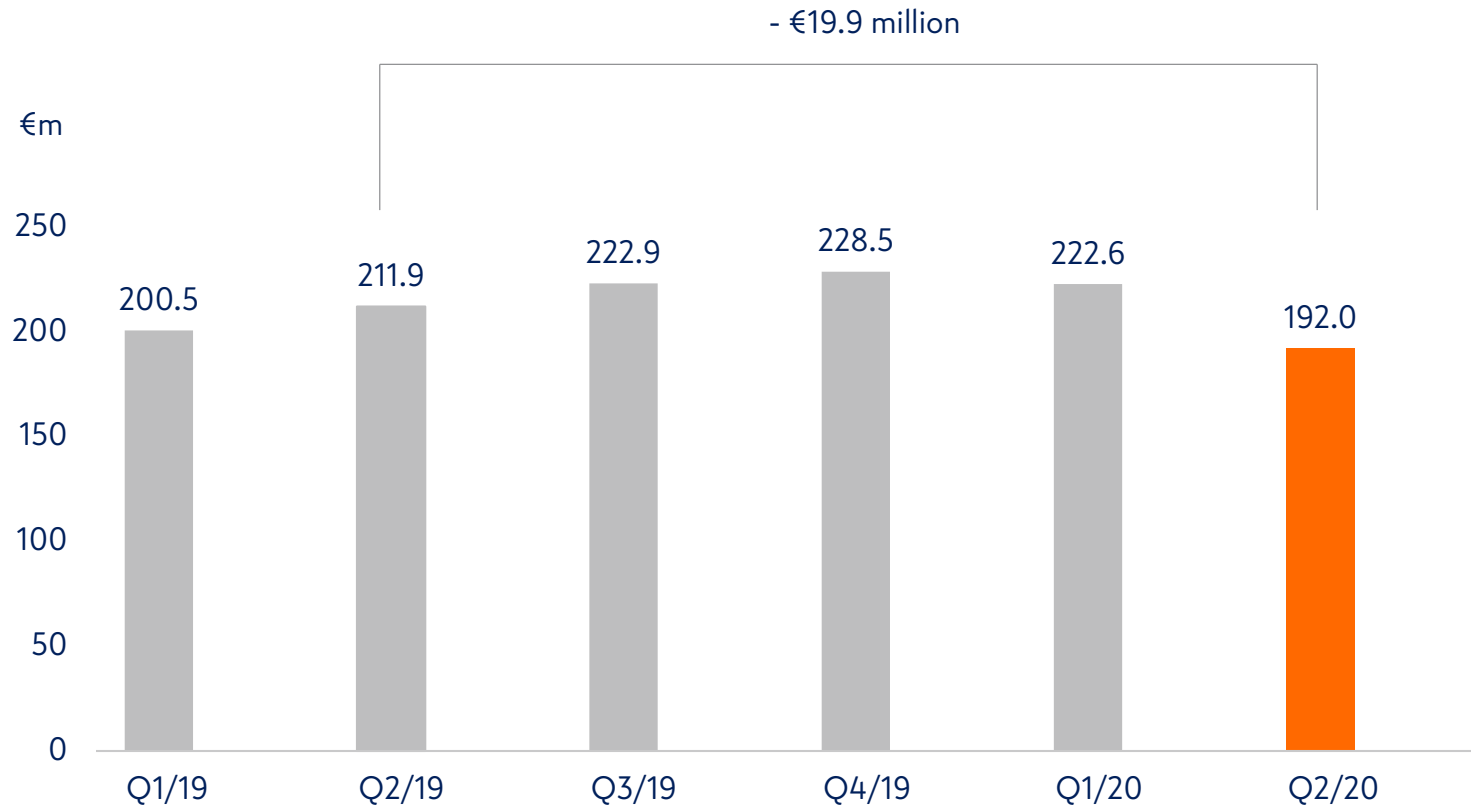
# Acquisition of Carlsen Fritzøe Handel, a Leading Building and Home Improvement Operator in the Oslo Region

- Carlsen Fritzøe's 25 stores in the Oslo fjord region highly complement the Bygghjelp store network
- In 2019, the company's net sales totalled some €201 million and EBITDA €13.3 million
- Debt-free transaction price some €142 million, objective to complete the acquisition in August-September
- Once the transaction has been completed, Kesko will be a leading building and technical trade operator in Norway with retail sales of nearly €900 million
- Significant growth potential in Norway also going forward

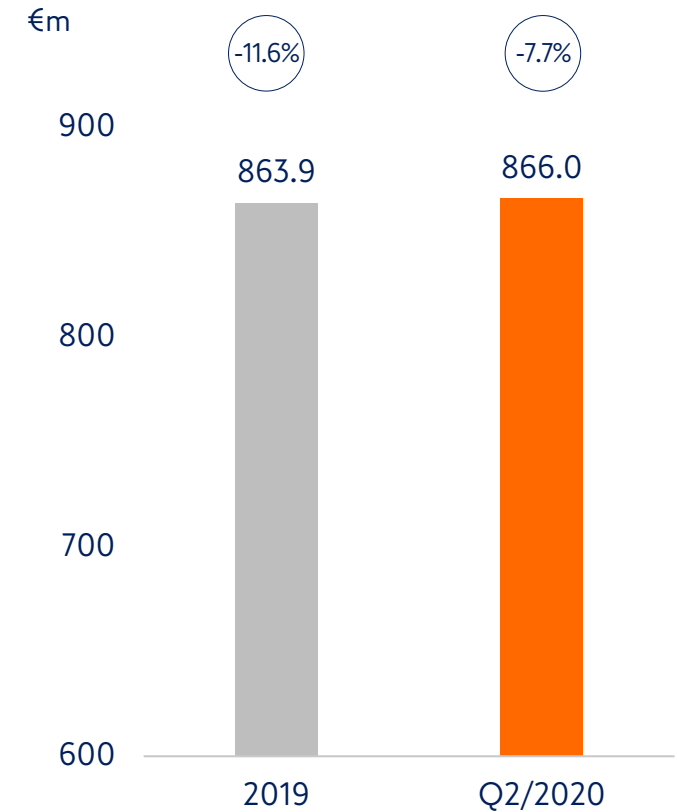


# Car Trade - Net Sales

Q2 net sales down by 9.4%, or 21.5% in comparable terms

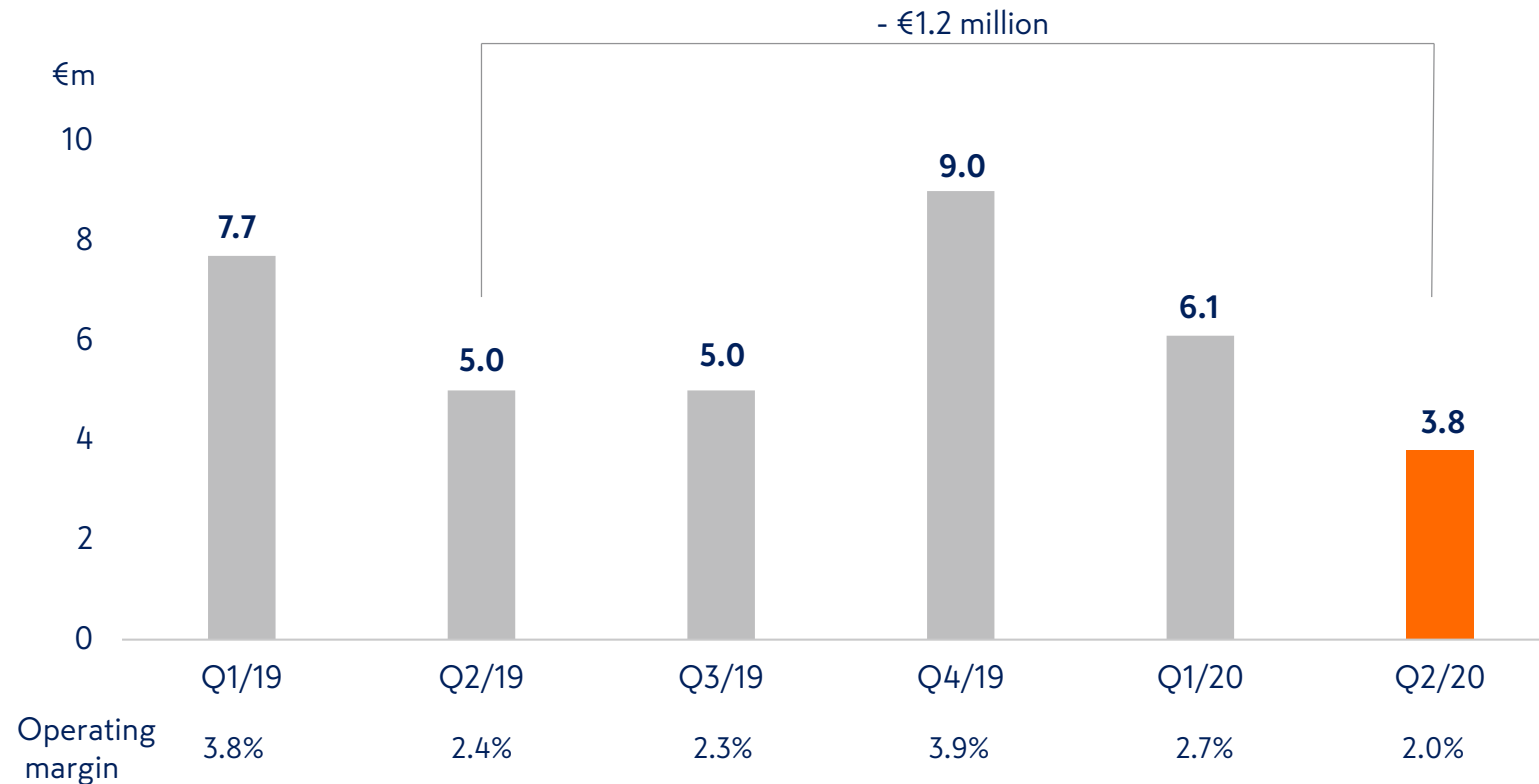


## Rolling 12 months

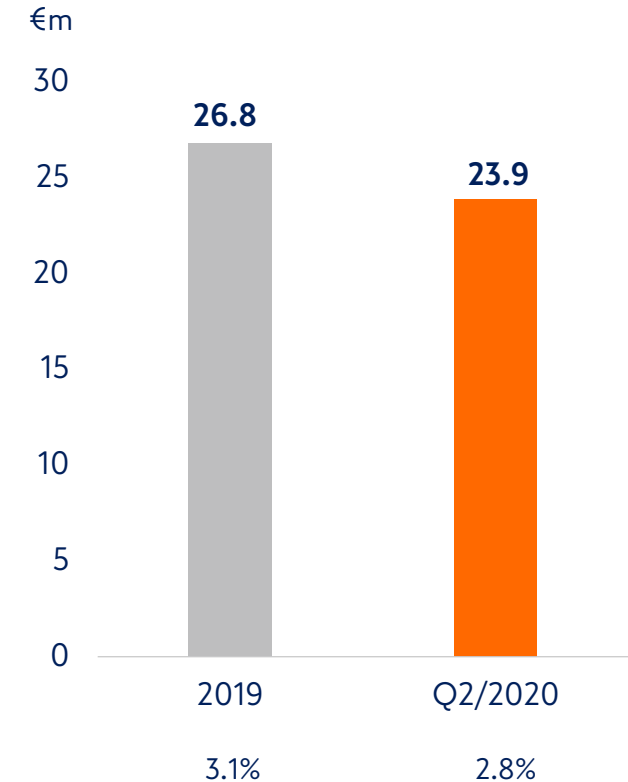


# Car Trade - Operating Profit

Operating profit down by €1.2 million



## Rolling 12 months





# Volkswagen in Finland for 70 Years

- First Beetles handed over to buyers on Senate Square, Helsinki on 9 June 1950
- More than 347,000 Volkswagen vehicles on Finnish roads
- Strategic partnership with the world's biggest car manufacturer Volkswagen Group since 1977



