Q&A with President and CEO Mikko Helander on 5 February 2020
at Kesko's media and analyst briefing for the Q4 report and 2019 financial statements release

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Maria Wikström, Danske Bank: A question for Jorma Rauhala on the outlook for the building and technical trade on different markets. Some operators such as Euroconstruct have lately clearly revised their estimates for 2020 slightly upwards. Could you shed some light on the 2020 outlook for the construction market in the Nordic countries? I am also interested in the situation in the Baltics – you have carried out many changes there, and apparently profit has come down. What is the outlook for the Baltics? What hasn't worked? It's sometimes difficult to know here what is going on in the Baltics – could you shed some light on that?

Mikko Helander: Nice to have the first question for Jorma, as he did not get any in the personnel briefing.

Jorma Rauhala, President, building and technical trade: Market estimates, such as those of Euroconstruct, are constantly changing somewhat. Estimates continue to show growth for five of our eight operating countries, with some decline expected in Finland, Sweden and Estonia.

For us, the main thing is the market structure: is it new construction or renovation building? There is a significant difference in building new apartment houses and renovating existing ones. The move towards building and infra construction is very positive for us, and that is why I am very confident in the overall market. Each of our operating countries and each of our businesses is in a better shape to face the current market situation than they were a year ago.

As for the Baltics, I would focus on Latvia. There have not been any notable developments on the Latvian market, but for the past two years, we have been forcefully taking over market share there with very competitive pricing. That has been a conscious decision, and of course it has affected our margins somewhat. Now that we have gained market share and consequently bigger volumes, we get increasingly better terms, and therefore the outlook is much better. It was a conscious decision in Latvia, and this year is looking good.

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Pirkko Tammilehto, Kauppalehti: How will you involve all K-food store retailers in your transformation? Have you had any difficulties and how do motivate the retailers to take part fully?

Mikko Helander: A good, topical question. This is one of the key aspects of Kesko's and K Group's strategy, and of course everyone must commit to executing the strategy agreed upon together. There is no alternative, no option for anyone to diverge from the strategy.

Moreover, the results today are undeniable. In all the great number of stores in all chains where retailers have created excellent and successful store-specific business ideas, the results have been so good that we no longer need to discuss whether this is a sensible thing to do. The question is how Kesko can better support the remaining retailers in creating their store-specific business ideas, because it is a big challenge. Some retailers need more help than others, some are already implementing their business ideas brilliantly.

The main issue is the one I already mentioned: there are still a lot of K-stores where this has not been fully implemented, and therefore we still see plenty of potential there.

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Joni Sandvall, Nordea: What was the impact of the cost adjustment measures carried out in the car trade on Q4 and what is the expected impact in 2020?

Mikko Helander: The measures had a big impact. Our FTE is down by approximately 180. Relative to the size of total personnel in the car trade division, I believe that is a reduction of over 10%. It's a big number, but it was something we had to do due to our sales development and the challenges impacting the whole car trade sector. We have entered 2020 in good shape. It is also worth remembering that integrating the acquired retail outlets was a big effort, and that has now been pretty much completed.

The third, most important factor is our range of models. We now have cars: last year, especially early in the year, we faced a situation in which we had no cars to sell in some brands – now the situation has returned to normal. There are currently great new models added to the range, and we believe and trust that the new models make us a very attractive alternative to both corporate customers and consumers. Did I miss anything, Johan?

Johan Friman, President, car trade: No.

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Joni Sandvall, Nordea: What are the strategic steps you intend to take in K-rauta in Sweden in 2020? Will you introduce new locations or close stores? Is there something you could tell us? We have been waiting for a turnaround in K-rauta in Sweden for a long time.

Mikko Helander: Yes, it has been a long wait. Our efforts have been systematic, and they are ongoing. We have reviewed each store to see which K-rautas in Sweden have the prerequisites to be successful, and we are developing those stores further with store-specific actions. We have also pragmatically reviewed stores that do not have the prerequisites for success, and we are planning actions for those. Before I let Jorma continue, I would like to point out that we have also made many changes in the management, and now have very competent management also in Sweden across the board, and that is also extremely significant.

Jorma Rauhala, President, building and technical trade: Overall, our situation in Sweden has never been better, though of course there are things that still need fixing.

Onninen today is a healthy business, the Infra business is healthy and growing forcefully. We now have K-Bygg, which we didn't have this time last year. It's a very functional business and has gone fully according to plans. It's true that K-rauta has historically had many problems, but there are really good stores that are generating very strong profit, as well as poor-performing ones. As Mikko said, we are reviewing each store to come up with store-specific actions and plans. I would be very surprised if we were to open more K-rautas. We will open one store, but that will be under the K-Bygg brand. Our future growth in Sweden is focused especially on B2B trade, but we have the potential to improve the performance in K-rauta significantly. K-Bygg has given us bigger volumes, and we are now the third biggest operator on the market, and that will also enable us to improve K-rauta's performance.

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Pirkko Tammilehto, Kauppalehti: A question regarding the labour market situation, the negotiations in the trading sector are difficult, with strikes forcing your competitor to temporarily close its Prisma hypermarkets. How would you comment on the situation?

Mikko Helander: That's an accurate description of the situation. The issues do not concern only the trading sector, more across the board. I find it unfortunate that strike notices have been given, as strikes will not fix things, and will not move the negotiations towards an agreement. I also find it very unfortunate that there is a strike notice targeted at one single operator in the trading sector.

But we have always reached an agreement in the end, and it is important that we let the negotiators do their work. Due to the strike notice, negotiations will continue under the National Conciliator, and I trust that the parties will gradually come to an agreement. It is important that the parties have a constructive approach, and remember that in the end, the question is how we can ensure the competitiveness of stores. Finnish trade is competing heavily with international operators and international online trade. We are also going through a major technological transformation with e.g. digitalisation. We must together ensure that Finnish trade is competitive, and it is important to remember this in the negotiations.

Pirkko Tammilehto, Kauppalehti: Are you prepared for the strikes to extend to K Group? It's unusual for a strike to focus on just S Group. How have you prepared for the possibility, how does it affect the retailers?

Mikko Helander: Of course first and foremost we want to give maximum support for an agreement to be made as soon as possible. We identify various risks as part of our normal operations, and have taken cautionary measures also in this situation. We hope we do not need to resort to those.

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Hanna Jaakkola, Investor Relations: A two-part question online from Jutta Rahikainen at SEB: “What is the level of Kesko’s CAPEX in 2020-2021 excluding the impact of IFRS 16?”

Mikko Helander: As we’ve noted, we have invested heavily in growth, and last year our CAPEX was again high. In terms of upcoming years, the big question is always if there will be acquisitions, and what is the size of those potential acquisitions.

Investments in IT systems and our store site network will continue strong, but will come down somewhat. Jukka, would you like to add anything?

Jukka Erlund, CFO: As Mikko said, investments are likely to come down somewhat from recent years. In the car trade, we have invested quite a lot in e.g. the leasing fleet, and we should soon free up capital there, so the impact on cash flow should not be that significant. Investments in store sites should come down somewhat, but investments in digitalisation are set to rise, so the structure will change. But we should come in somewhat below last year’s level.

Hanna Jaakkola, Investor Relations: And the second part: “What exactly pressed the EBIT for the building and technical trade excluding Onninen? Despite acquisitions, the Q4 EBIT came in at the level of the previous year.”

Mikko Helander: The market was no longer ideal in all our operating countries. Also, as Jorma already mentioned, in the Baltics we competed hard in Latvia in particular: we considered that important from a strategy perspective, and gained significant wins, but of course that impacted our profitability. Thirdly, we have many ongoing development projects which are not yet completed.

We are playing the long game, and as I said, for us the most important thing is that our sales are growing steadily and our profitability is improving steadily.

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Hanna Jaakkola, Investor Relations: A question from Kimmo Lunden, Maaseudun tulevaisuus:
“In 2019, Kesko announced it would begin importing Bentley in Finland. Did you begin Bentley sales and how many Bentleys did you sell in Finland?”

Mikko Helander: We began importing Bentley in October, so no that many months ago. Johan can tell us the latest sales figures, but I can say we have sold Bentleys and expect to sell more.

Johan Friman, President, car trade: As Mikko said, we began imports in October/November 2019, and have now sold first Bentleys in Finland. Our objective is to sell some 20 cars in 2020.

Mikko Helander: Maybe we’ll sell more! We do not, however, expect Bentley to become a car for the everyman in Finland anytime soon. But of course Bentley is also another Volkswagen Group product, and the message we have wanted to convey to our principal is that we want to handle Volkswagen Group’s business in Finland, and including Bentley was another step in that.

We are opening a Bentley Center in Olari, Espoo, next to a new Porsche Centre to be completed soon. So there will be two Porsche Centers in the greater Helsinki area, because Porsche has sold so well that it may even become a car for the everyman.

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Hanna Jaakkola, Investor Relations: An online question from an unidentified private investor: “How effective have the cost cutting measures in the car trade been so far, and can we expect changes in the organisation as the market focus shifts more towards used cars? When will the investments made in the car trade turn profitable?”

Mikko Helander: We have no intention to shift the main focus to used cars. We sell a lot of both used and new cars, so there are no organisational changes in sight. We carried out quite a lot of reorganisation last year, related to strategic acquisitions and efficiency improvement measures, and now the organisations are pretty close to how we want them, and meet our current needs. We have concluded our efficiency improvement measures successfully, and now we will focus primarily on growing sales.

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