

# Kesko Investor Presentation

September 2017



# K Group the Third Biggest Retail Operator in Northern Europe

- K Group's retail sales €12.9bn\*
- K Group formed by Kesko and 1,088 K-retailer entrepreneurs
- Operations in nine countries
- 45,000 trading sector professionals, over 30,000 in Finland
- Significant social impact in Finland
- Kesko shares listed on Nasdaq Helsinki with €4.4 bn market capitalisation and close to 42,000 shareholders (6/2017)

ONE UNIFIED **K** THE CUSTOMER AND QUALITY - IN EVERYTHING WE DO

**K**CITYMARKET **K**Supermarket

**K**Market **KESPRO** NESTE **K**

**K**Rauta **onninen** **SSS**  
**KSENUKAI**



**K**Payta



**INTERSPORT**

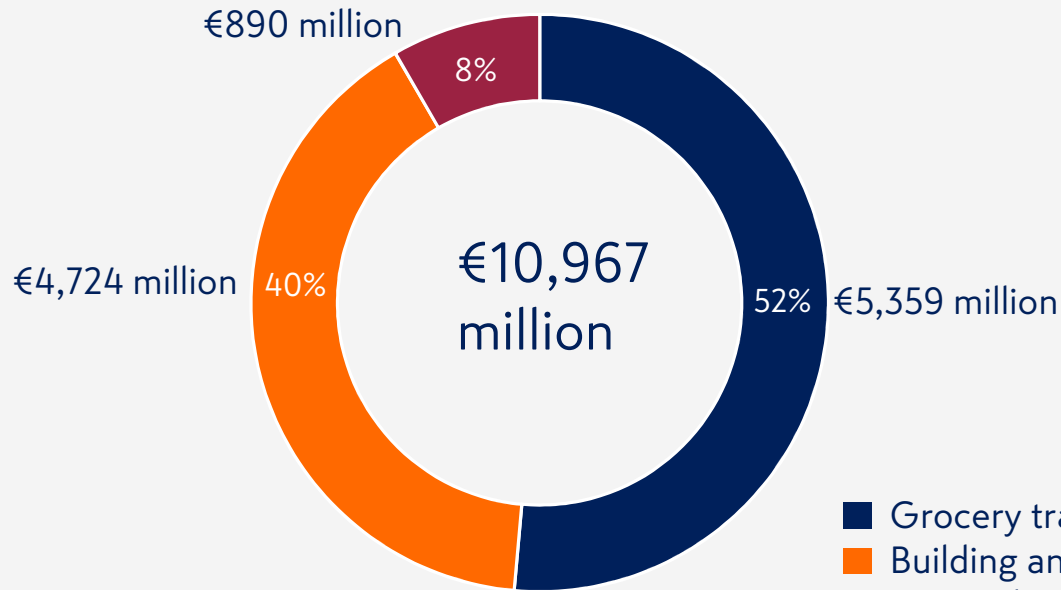


**KOOKENKÄ**

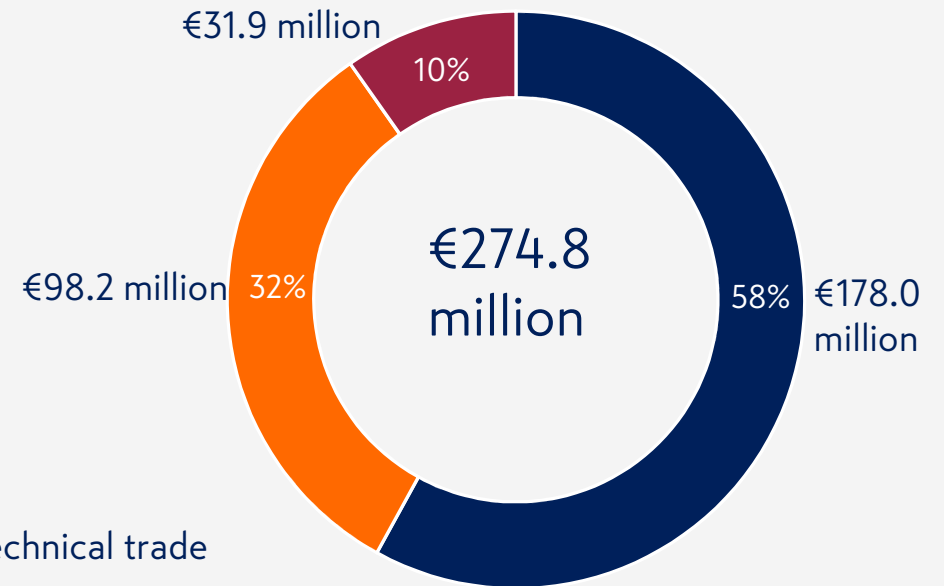
\*Pro forma rolling 12 mo 6/2017

# Net Sales and Comparable Operating Profit by Division

Net sales\*



Comparable operating profit\*



- Grocery trade
- Building and technical trade
- Car trade

\*Rolling 12 mo 6/2017

# Growth Opportunities Supported by Megatrends

Global economy  
- international operators  
challenge local companies

Digital  
revolution

Urbanization,  
single person  
households  
and ageing  
population

Consumers'  
knowledge  
and power has  
increased

Corporate  
responsibility  
and strong  
brands

Climate  
change



# The Core of Kesko's Strategy is Profitable Growth in Three Strategic Areas

## Grocery trade



Retail sales €6.7bn\*

1,300 stores in Finland

#2 in the Finnish retail market

#1 in Finnish food service business

## Building and technical trade



Retail sales €5.3bn\*

600 stores in 9 countries

#1 in Northern Europe

## Car trade



Retail sales €0.9bn\*

VW, Audi, Seat, Porsche and MAN trucks

#1 in Finland

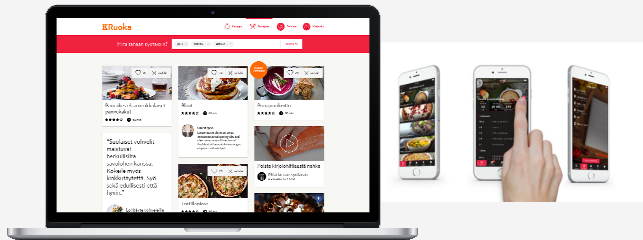
\*Pro forma rolling 12 mo 6/2017

# Growth Strategy Implementation is Progressing towards More Focused Business Portfolio

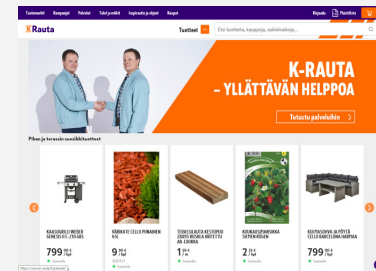


# New Digital Services by Divisions

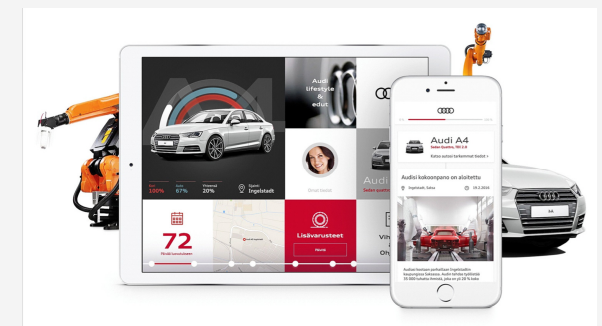
## Grocery trade



## Building and technical trade



## Car trade



# Kesko is the World's Most Sustainable Retail Operator\*

- Kesko's responsibility programme contains both short-term and long-term objectives with six themes
- All electricity purchased by Kesko in Finland is renewable since 2017
- Science-based targets set to reduce emissions from facilities, transportation and the supply chain.



\*The Global 100 list, Corporate Knights Inc.

# Main Financial Objectives

| Objective                        | Realisation in 2015 | Realisation in 2016 | Rolling 12 mo 6/2017 | Target level |
|----------------------------------|---------------------|---------------------|----------------------|--------------|
| ROCE*                            | 11.7%               | 11.9%               | 11.1%                | 14%          |
| ROE*                             | 8.2%                | 9.8%                | 8.6%                 | 12%          |
| Interest-bearing net debt/EBITDA | -1.4                | 0.4                 | 0.5                  | <2.5         |

Capital expenditure in 2015-2017 c. €750m (excl. possible acquisitions)

**Kesko's dividend policy:** Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the Company's financial position and operating strategy.

\* Comparable



Net sales growth

Operating margin expansion including synergy benefits and full impact from cost savings program

Improved NWC efficiency

Reduced capital expenditure needs

Enhanced cash flow





# Grocery Trade

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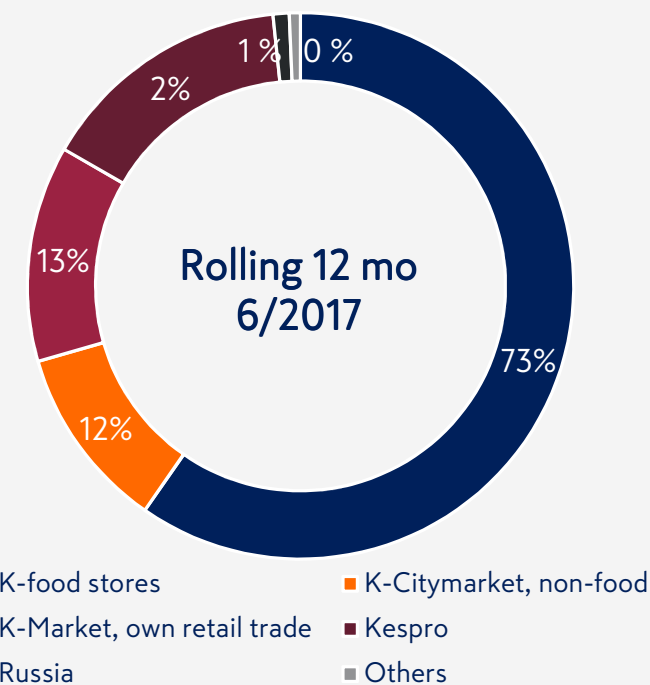


# Grocery Trade Division Key Figures




|                   | Q2/2016 | Q2/2017 | Rolling 12 mo<br>6/2017 |
|-------------------|---------|---------|-------------------------|
| Net sales         | €1,353m | €1,327m | €5,359m                 |
| Operating profit* | €43.6m  | €50.5m  | €178.0m                 |
| Operating margin* | 3.2%    | 3.8%    | 3.3%                    |
| ROCE*             | 20.4%   | 26.2%   | 22.0%                   |

\* Comparable

In 2016, the Finnish grocery trade market was worth app. €16.8bn (incl. VAT).



# Retail Sales and Number of Stores of the Grocery Trade

|   | Retail sales pro forma rolling<br>12 mo 6/2017 €m, VAT 0% | # stores at<br>6/2017 | Concept             |
|---|---|-----------------------|---------------------|
|  | 1,521+577=2,098   | 81                    | Hypermarket         |
|  | 1,795   | 230                   | Supermarket         |
|  | 1,825   | 825                   | Neighbourhood store |
| Neste K and others  | 166   | 160                   | Service station     |

\* 2016 sales include K-Market, Siwa and Valintatalo chains' sales



# Grocery Trade Megatrends

Urbanisation,  
single-person  
households and  
ageing  
population

More individual  
consumption  
habits

Level of  
requirements  
and price  
awareness

Corporate  
responsibility

Digitalisation

# Grocery Trade Strategic Focus Areas



# Suomen Lähikauppa Acquisition boosts Neighbourhood Market Renewal in the Grocery Trade

- 409 Siwas and Valintatalos converted into K-Markets
- By the end of 2018 all stores transferred to retailers
- New K-Market chain with over 800 stores – Finland's most comprehensive neighbourhood store network
- Faster strategy implementation and with less capex
- Market share highest in 15 years
- Annual synergy level over €30 million as of 2018





# Building and Technical Trade

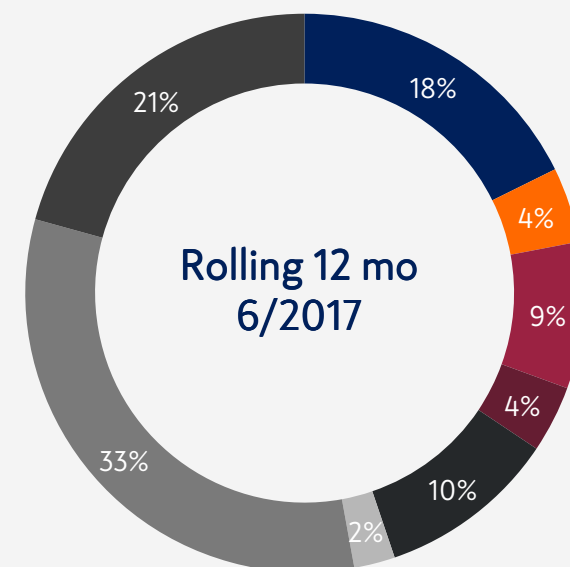
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# Building and Technical Trade Key Figures

|                   | Q2/2016 | Q2/2017 | Rolling 12 mo<br>6/2017 |
|-------------------|---------|---------|-------------------------|
| Net sales         | €1,046m | €1,253m | €4,724m                 |
| Operating profit* | €37.9m  | €35.5m  | €98.2m                  |
| Operating margin* | 3.6%    | 2.8%    | 2.1%                    |
| ROCE*             | 16.6%   | 12.0%   | 8.3%                    |

\* Comparable



■ Building & home improvement, Finland
 ■ K-Rauta, Sweden
 ■ K-Rauta, Russia
 ■ Kesko Senukai, Baltics
 ■ OMA, Belarus
 ■ Onninen
 ■ Others

# Building and Technical Trade Customer Groups

## B2B CUSTOMERS

- Largest customer groups are contractors and construction companies, 80% of sales
- Building materials, HEPAC\* and electricals account for 75% of sales

\* HEPAC=heating, plumbing and air conditioning

## B2C CUSTOMERS

- Renovators or builders with a DIY project
- Consumers with a need for a special DIY product
- Main product lines are building materials, home furnishing, decoration and tools

# Building and Technical Trade Megatrends

Building and renovation increasingly technical, regulation increases

Consumers increasingly often outsource building to professionals

Increasing need for renovation building

Rising standard of living increases the use of services

Omni-channel customer experience is coming more important

# Building and Technical Trade Strategic Focus Areas

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- Improvement of profitability and realization of synergies in all operating countries
  - Strengthening the market leader position in Northern Europe
  - Creating for B2B customers winning customer experience and unique partnership – more time for work
  - For B2C customers best omnichannel experience and most comprehensive services - surprisingly easy
  - Implementation of a common core in all functions and countries based on customer needs
  - Strong development of eCom sales and digital services both in B2B and B2C operations



# Acquisition of Onninen Strengthens Position in the Building and Technical Trade

- Acquisition supports market shift to B2B sales
- Onninen's HEPAC and electrical product groups expanded the offering making it the most comprehensive in the market
- Better services and synergies from sourcing, logistics, store site network and ICT
- Full annual impact of synergies €30m from 2020





# Car Trade

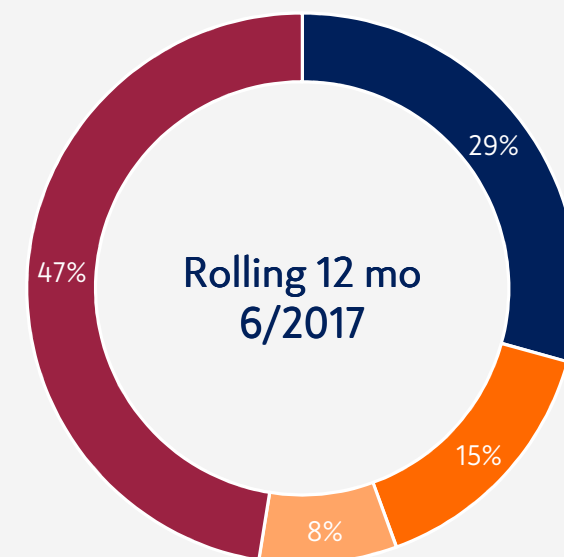
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# Car Trade Key Figures

|                   | Q2/2016 | Q2/2017 | Rolling 12 mo<br>6/2017 |
|-------------------|---------|---------|-------------------------|
| Net sales         | €214m   | €234m   | €890m                   |
| Operating profit* | €5.8m   | €7.6m   | €31.9m                  |
| Operating margin* | 2.7%    | 3.2%    | 3.6%                    |
| ROCE*             | 19.4%   | 19.0%   | 23.0%                   |

\* Comparable



- New car retailing
- Used car retailing
- After sales retailing
- Importing / sales to dealers

# Car Trade Megatrends

Car sharing and  
short-time  
leasing

Autonomous  
driving

Limitations in  
emissions and  
car use

Electric cars

User-friendly  
multi-channel  
services

# Car Trade Strategic Focus Areas

- Increasing business in cooperation with the Volkswagen Group
- Increasing service business independent of principals
- Developing the multi-channel customer experience

# Growth from New Business Opportunities in Car Trade

Acquisition of AutoCarrera

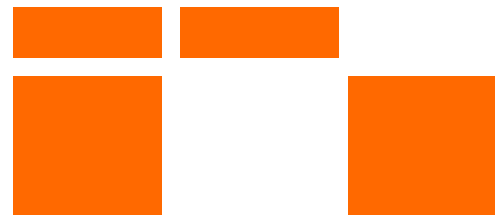
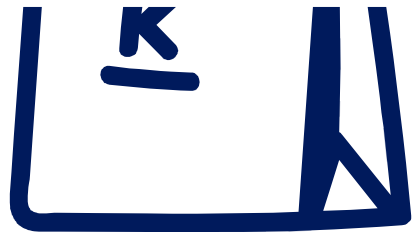


Developing new services – caara.fi



Sustainable mobility





# Half Year Financial Report Q2/2017

27 July 2017



# Highlights

Q2/2017

- The grocery trade continued its good development in sales and profitability
- The B2B sector in the building and technical trade continued its good development
- Sales and profitability continued to improve in the car trade
- Unusually cold spring and early summer in northern Europe weakened sales, as did three fewer delivery days than in the previous year
- In line with our strategy, focusing on growth areas was continued by divesting several speciality goods businesses
- Good cash flow from operating activities and divestments further improved our strong financial position



## Net Sales and Operating Profit Grew

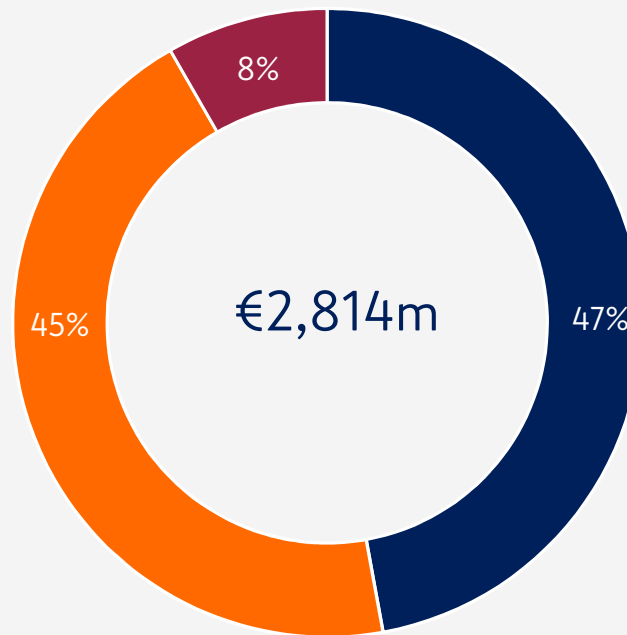
|                                  | Q2/2017 | Q2/2016 | H1/2017 | H1/2016 |
|----------------------------------|---------|---------|---------|---------|
| Net sales, €m                    | 2,814   | 2,610   | 5,411   | 4,624   |
| Net sales growth, %              | +7.8    | +17.2   | +17.0   | +7.3    |
| Operating profit, €m             | 152.5   | 68.0    | 169.1   | 101.6   |
| Comparable operating profit, €m  | 84.6    | 79.1    | 113.2   | 111.4   |
| Comparable operating profit, %   | 3.0     | 3.0     | 2.1     | 2.4     |
| Profit before tax, €m            | 150.5   | 68.1    | 172.1   | 103.8   |
| Comparable profit before tax, €m | 82.6    | 79.2    | 116.2   | 113.7   |
| Comparable earnings per share, € | 0.61    | 0.59    | 0.90    | 0.85    |

# Net Sales by Division

Q2/2017

Car trade  
€234 million  
+9.7%, in comparable terms +3.3%

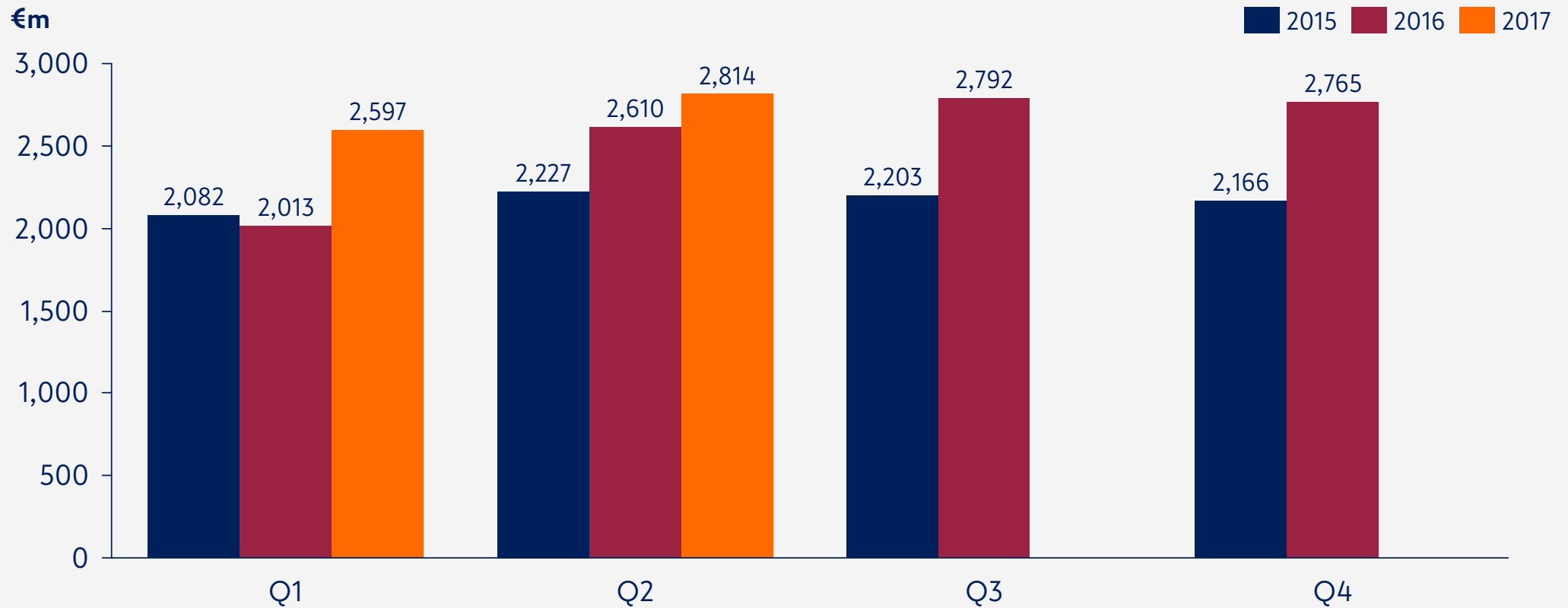
Building and technical trade  
€1,253 million  
+19.8%, in comparable terms -2.8%



Grocery trade  
€1,327 million  
-1.9%, in comparable terms +2.1%

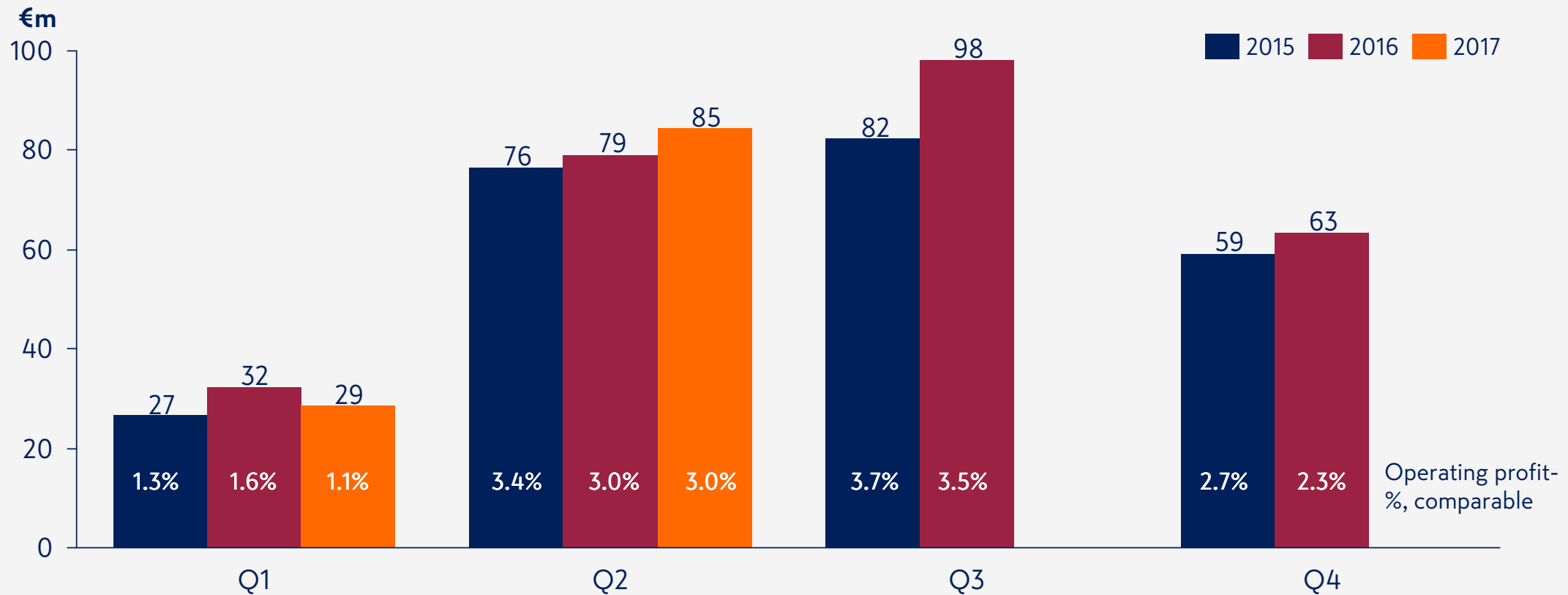
# Net Sales by Quarter

Q2/2017 growth 7.8%, in comparable terms 0.4%



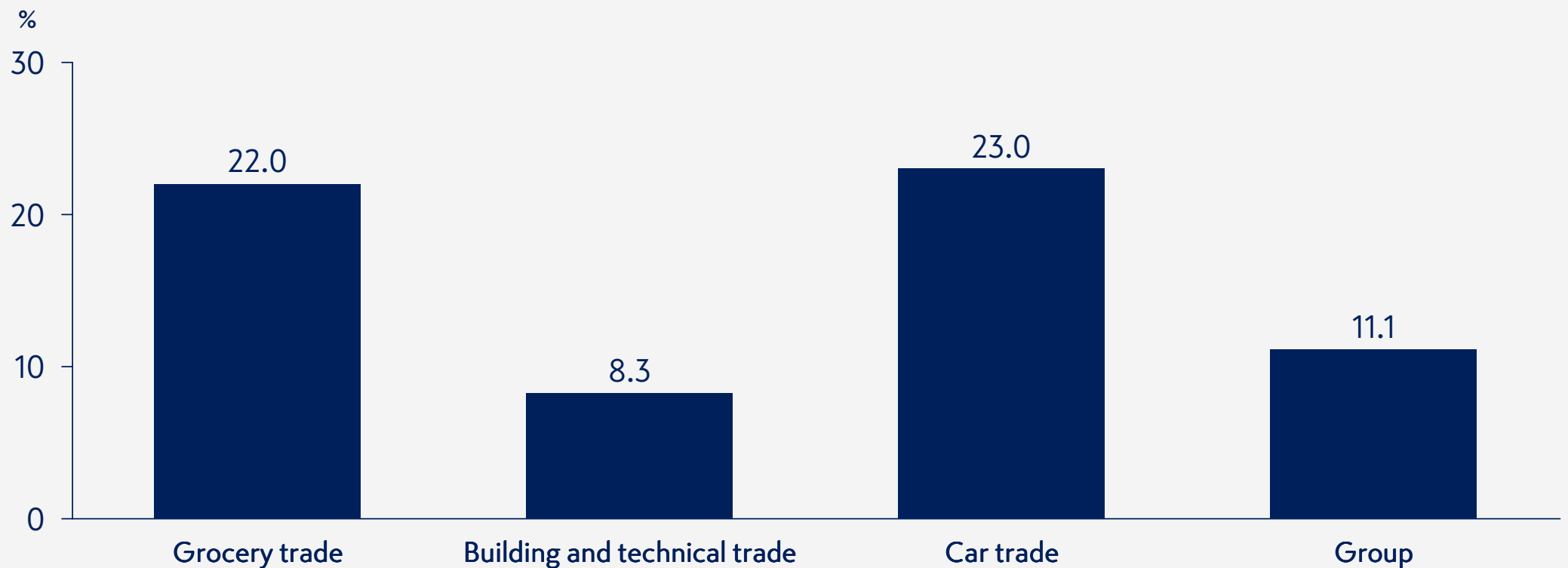
# Operating Profit by Quarter

## Comparable



# Return on Capital Employed 11.1% and Return on Equity 10.3%

Comparable ROCE, rolling 12 months



# Strong Financial Position

|   | 30 June 2017 | 30 June 2016 |
|---|--------------|--------------|
| Equity ratio, %                                       | 47.0         | 44.8         |
| Liquid assets, €m                                     | 367          | 327          |
| Interest-bearing net debt, €m                         | 194          | 330          |
| Interest-bearing net debt / EBITDA, rolling 12 months | 0.5          | 0.9          |
| Cash flow from operating activities, Q2, €m           | 141          | 79           |
| Cash flow from investing activities, Q2, €m           | 98           | -476         |
| Capital expenditure, gross, Q2, €m                    | -92          | -513         |



# Grocery Trade

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# Grocery Trade

## The market

- The overall market grew by 1.2% and the fall in prices stopped in the first half of the year
- More emphasis on quality, range and service

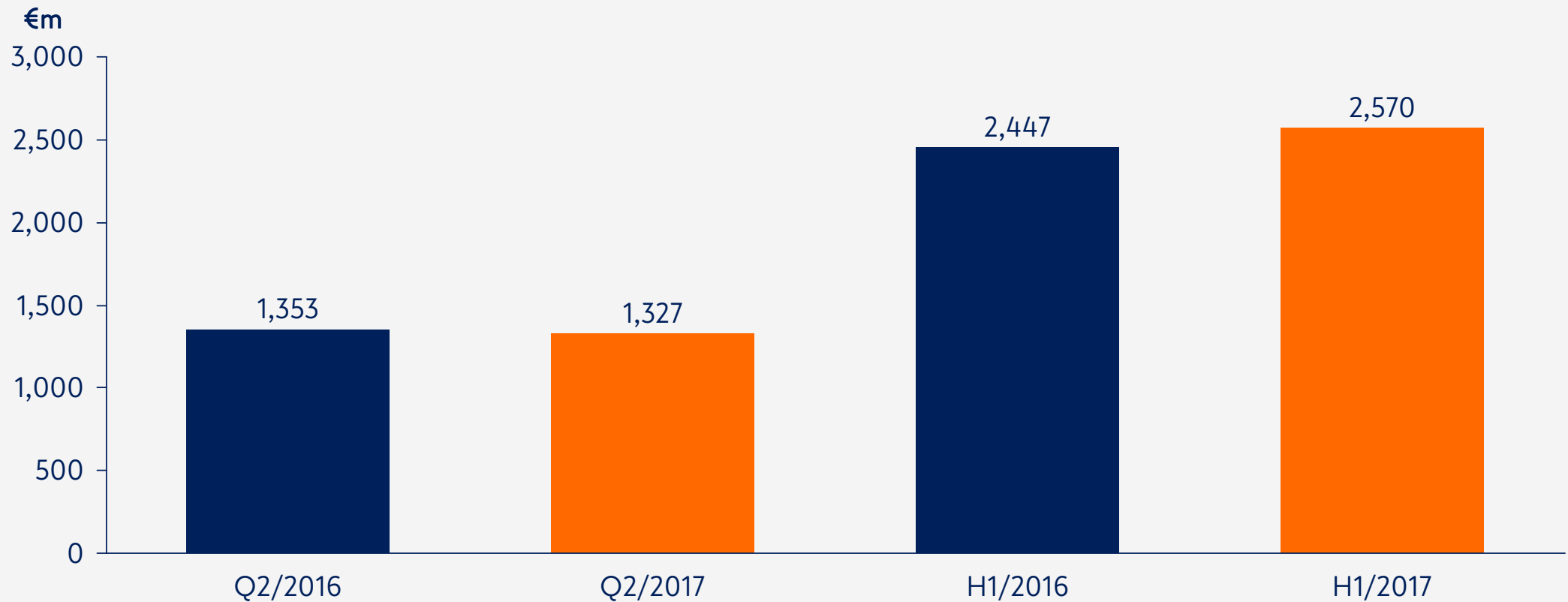
## Highlights Q2

- K Group's grocery trade sales grew 1.0%, excluding the acquisition of Suomen Lähikauppa it was 3.4%
- Our comparable store network developed better than the market, especially K-Citymarkets
- The sales of renewed K-Markets grew by 11%
- Profitability improved with the growth in sales, synergy benefits and divestment of the Russian business in 2016
- The conversion of 409 Suomen Lähikauppa's stores was completed – the transfer of the stores to retailers is progressing well



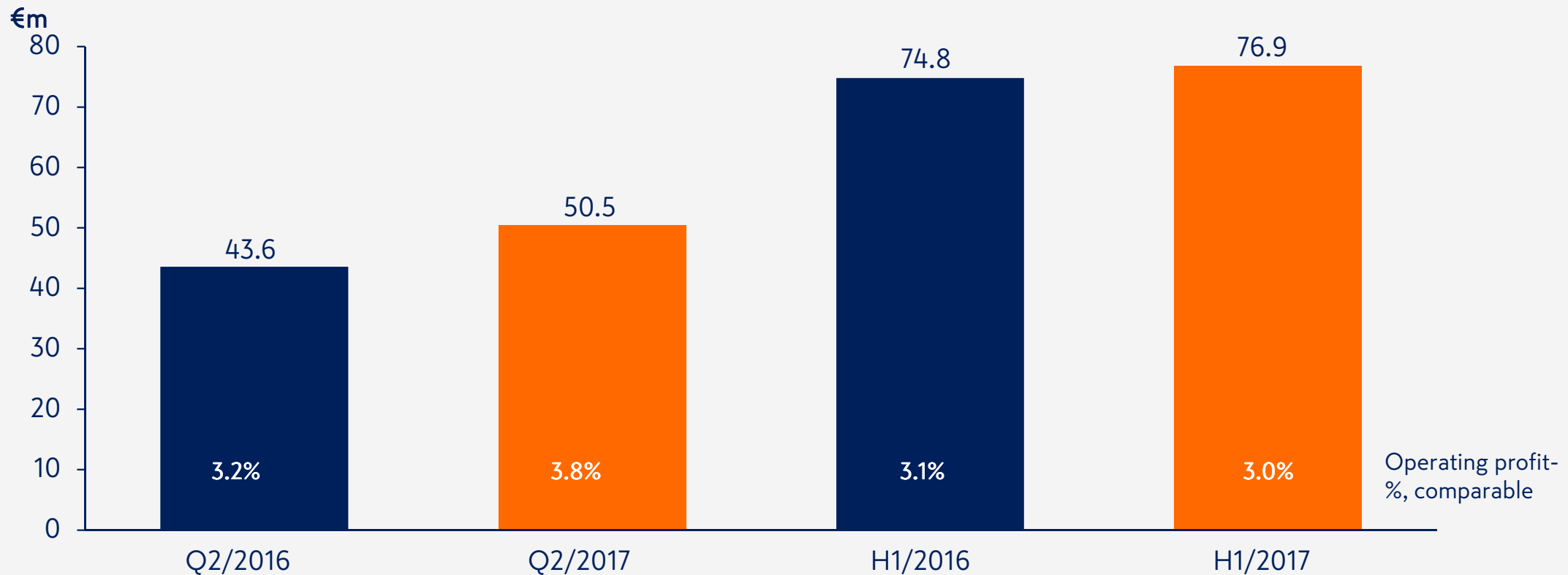
# Grocery Trade Net Sales

Q2/2017 -1.9%, in comparable terms +2.1%



# Grocery Trade Operating Profit

## Comparable





# Building and Technical Trade

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# Building and Technical Trade

## The market

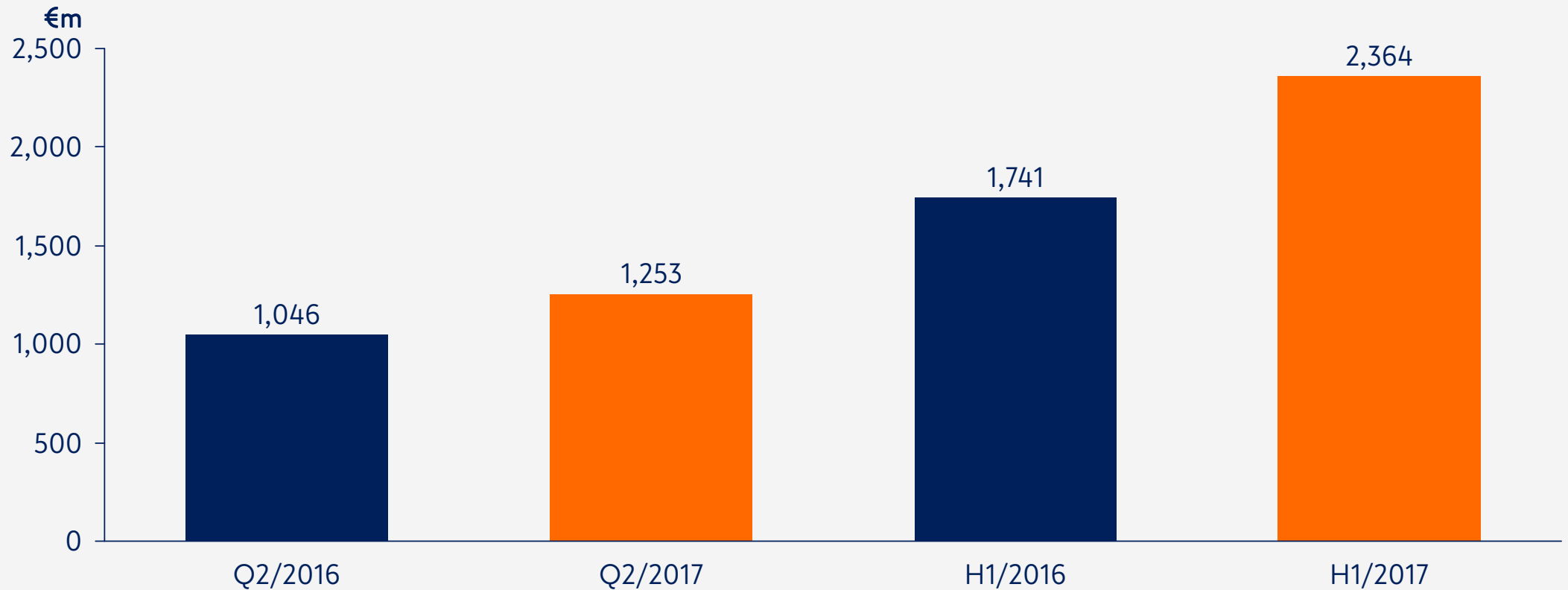
- Building and renovating continues to shift from consumers to professionals
- Market growth is even more pronounced in large growth centres in both the Nordic and Baltic countries
- Unusually cold spring and early summer in northern Europe weakened demand in B2C

## Highlights Q2

- Growth in B2B sales continued to be clearly stronger than B2C sales
- Onninen's development in H1 according to plans, historically H2 clearly stronger
- Net sales and profitability were weakened by having three fewer delivery days than in the previous year
- Kesko Senukai's profitability was burdened by the renewal and expansion of the store site network
- The operating profit of the speciality goods trade was reduced by the divestments made

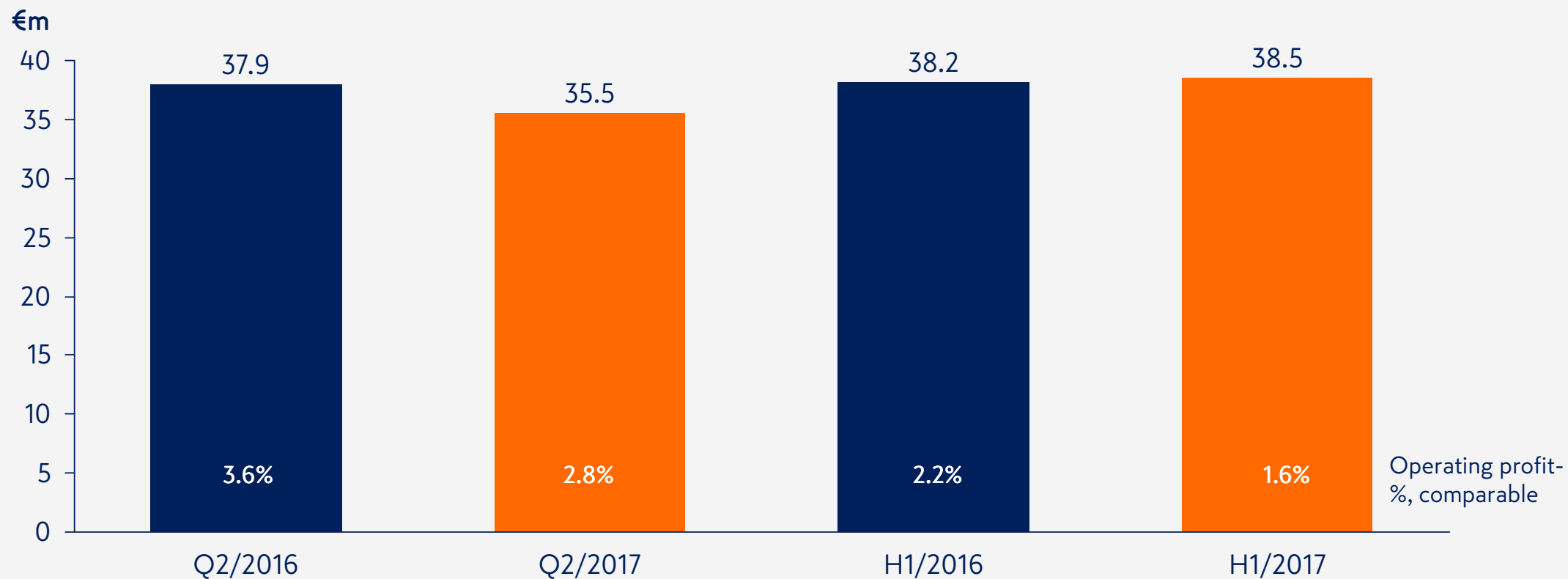
# Building and Technical Trade Net Sales

Q2/2017 +19.8%, in comparable terms -2.8%



# Building and Technical Trade Operating Profit

Comparable





# Car Trade

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# Car Trade

## The market

- The market strengthened after the slow development in the first half of the year
- The share of larger and better equipped cars is growing

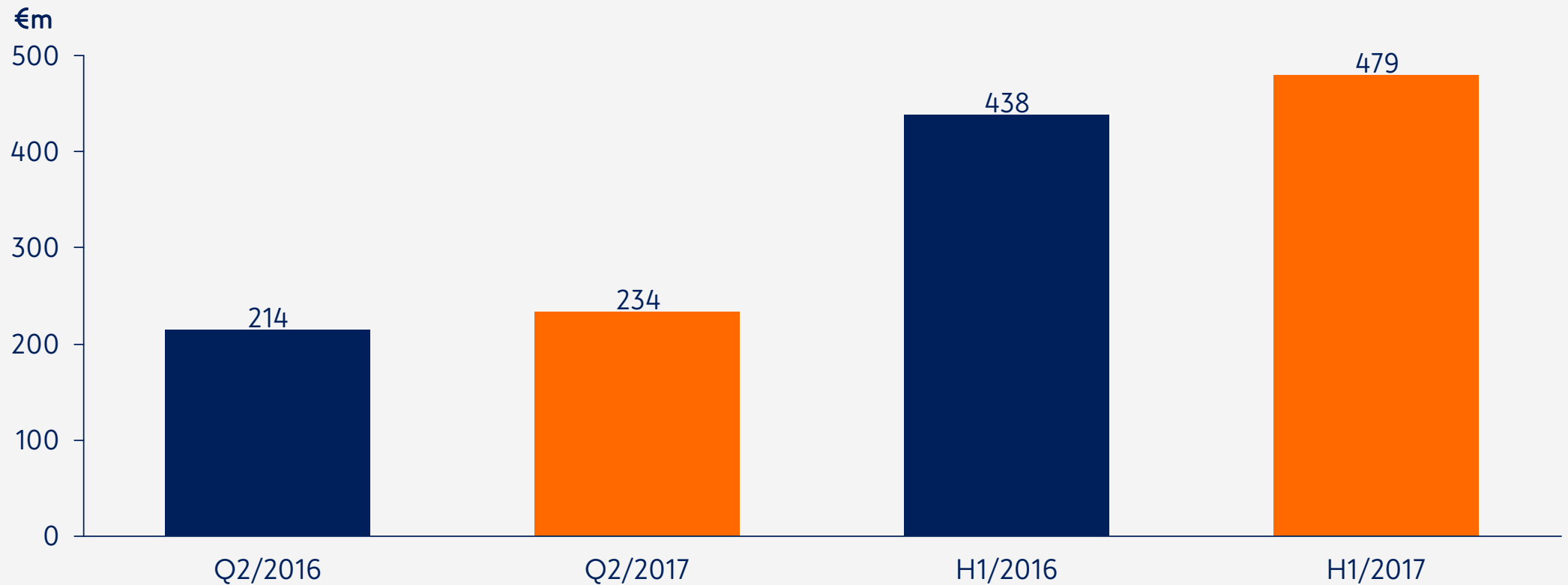
## Highlights Q2

- Sales clearly grew in the in the car trade and profitability improved
- The combined market share of passenger cars and vans rose to 19.7%
- The acquired Porsche business has developed very well
- 15% increase in overall order books



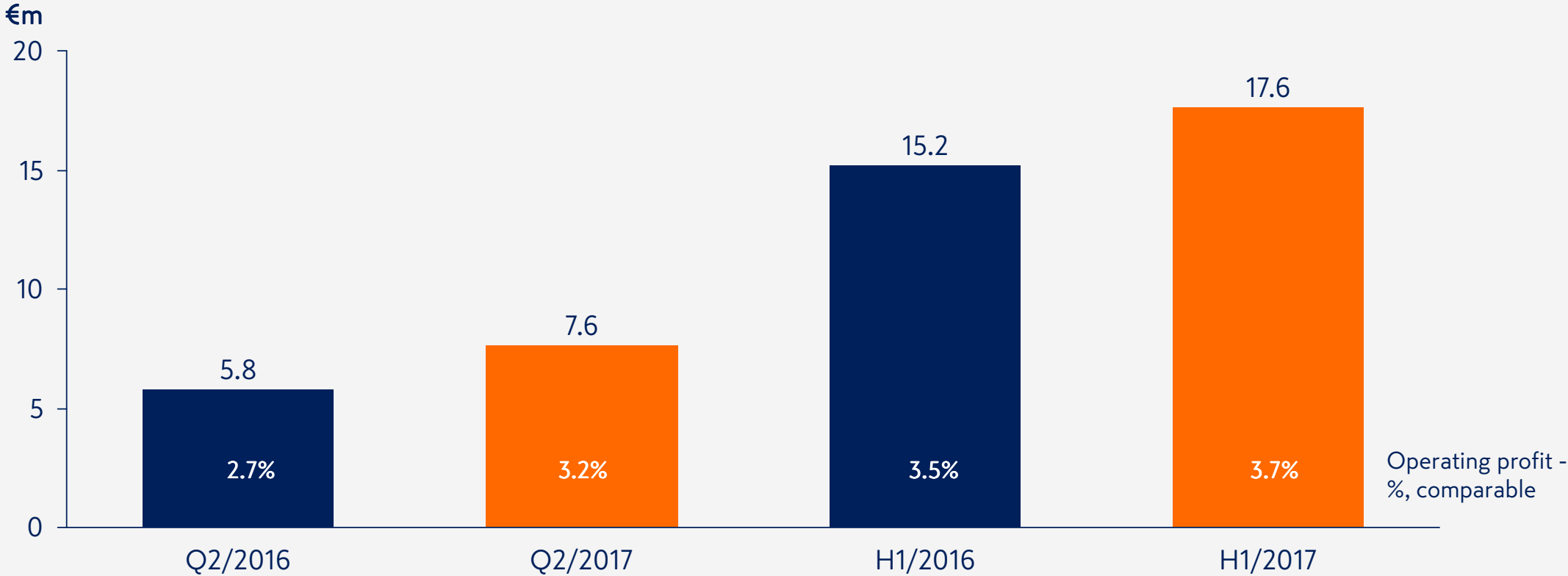
# Car Trade Net Sales

Q2/2017 +9.7%, in comparable terms +3.3%



# Car Trade Operating Profit

Comparable



# Divestments in Line with Strategy Continued in the First Half of the Year

- The cash flow from the divested speciality goods business operations and properties for January-June 2017 totalled €192 million, of which a total of €80 million was recorded as a gain on the divestments.
- H1/2017 divested business operations:
  - K-maatalous business
  - Asko ja Sotka furniture trade
  - Machinery trade's minority share in the Baltics as well as recreational machinery business in Finland
  - Properties in the Baltics
- In addition, divested business operations from 2015-2016:
  - Russian grocery and sports trade
  - Finland's department store trade
  - Properties in Finland and Sweden



# Outlook

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# Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (7/2017-6/2018) in comparison with the 12 months preceding the end of the reporting period (7/2016-6/2017).

In comparable terms, net sales over the next 12 months are expected to exceed the level of the previous 12 months. Due to the divestments and restructuring, Kesko Group's net sales for the next 12 months are expected to fall below the level of the previous 12 months.

The comparable operating profit for the next 12 month period is expected to exceed that of the previous 12 months.



For shopping  
to be fun