



Interim Report Q1/2019

Today's News: Kesko to Acquire Volkswagen, Audi and SEAT Businesses from Laakkonen

Mikko Helander, President and CEO
25.4.2019

Highlights Q1/2019

- Good performance continued in Q1, strategy execution proceeded in all divisions
- Comparable operating profit decreased due to acquisitions that increased seasonal fluctuations and due to market disturbances in the car trade division
- Growth in grocery trade division continued to outpace the market
- Acquisitions in line with growth strategy in Swedish building and home improvement trade and Finnish car trade
- Financial reporting changed to comply with new IFRS 16 Leases
- New financial targets set



Key Performance Indicators

	Q1/2019	Q1/2018
Net sales, €m	2,400.8	2,413.2
Change in net sales, comparable, %	-0.6	+3.4
Operating profit, €m	57.5	63.8
Operating margin	2.4	2.6
Finance net, €m*	-23.7	-25.3
Profit before tax, €m	34.6	38.3
Earnings per share, €	0.33	0.34

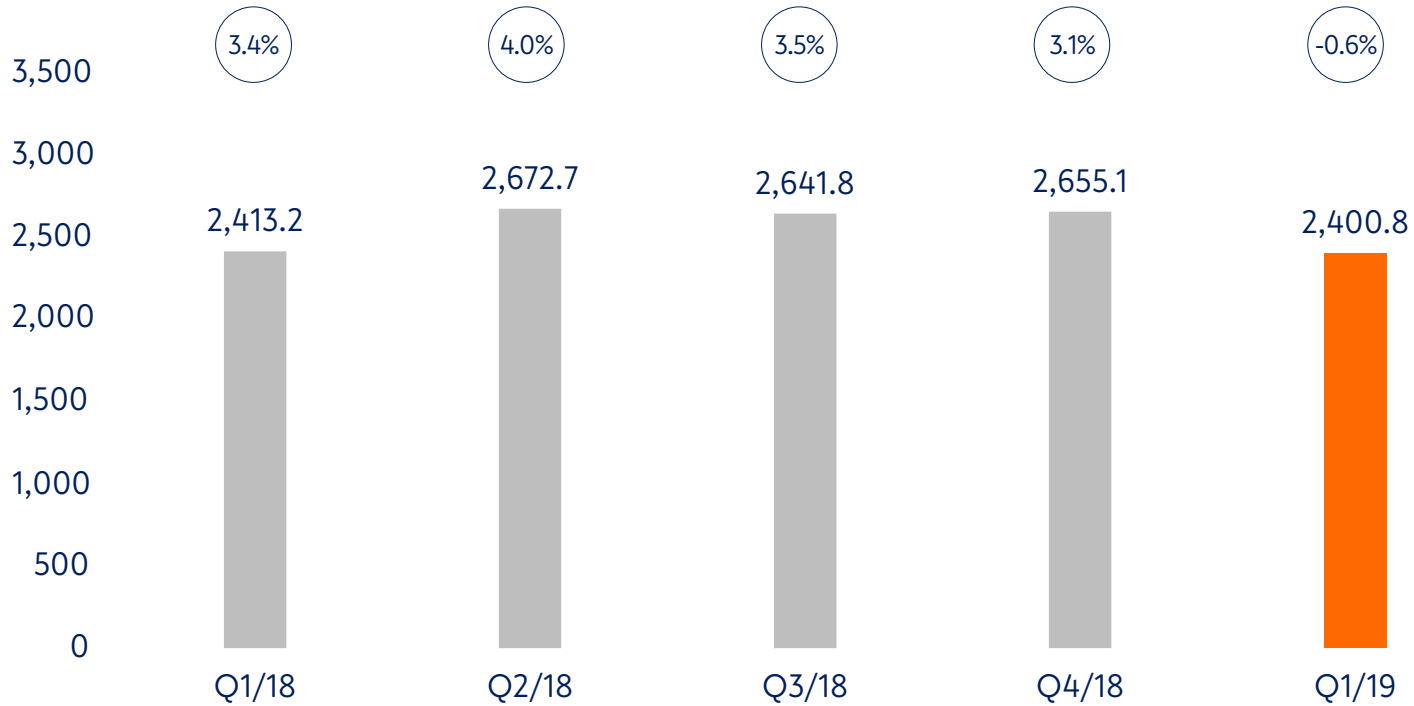
* Includes interest expenses for lease liabilities of €24.6m (€25.4m)
Comparable figures, continuing operations

Net Sales

Q1 net sales were decreased by the timing of Easter and decline in sales in the car trade

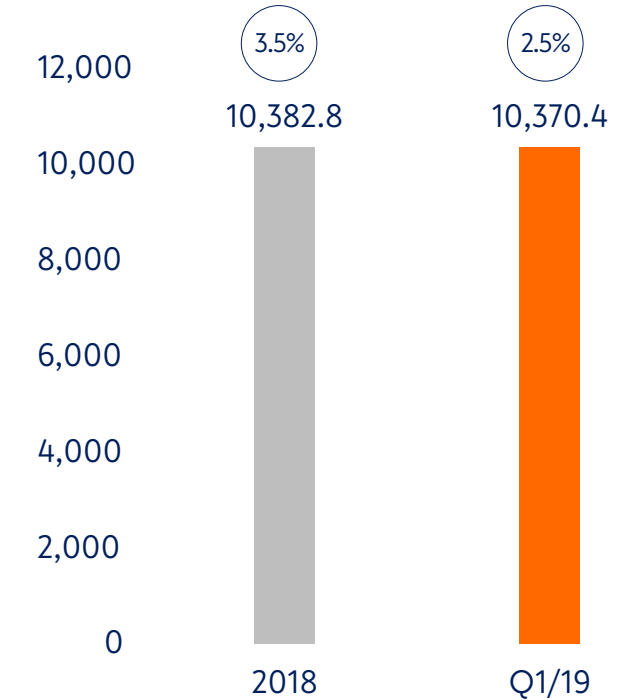
⊘ Comparable growth

€m



Rolling 12 months

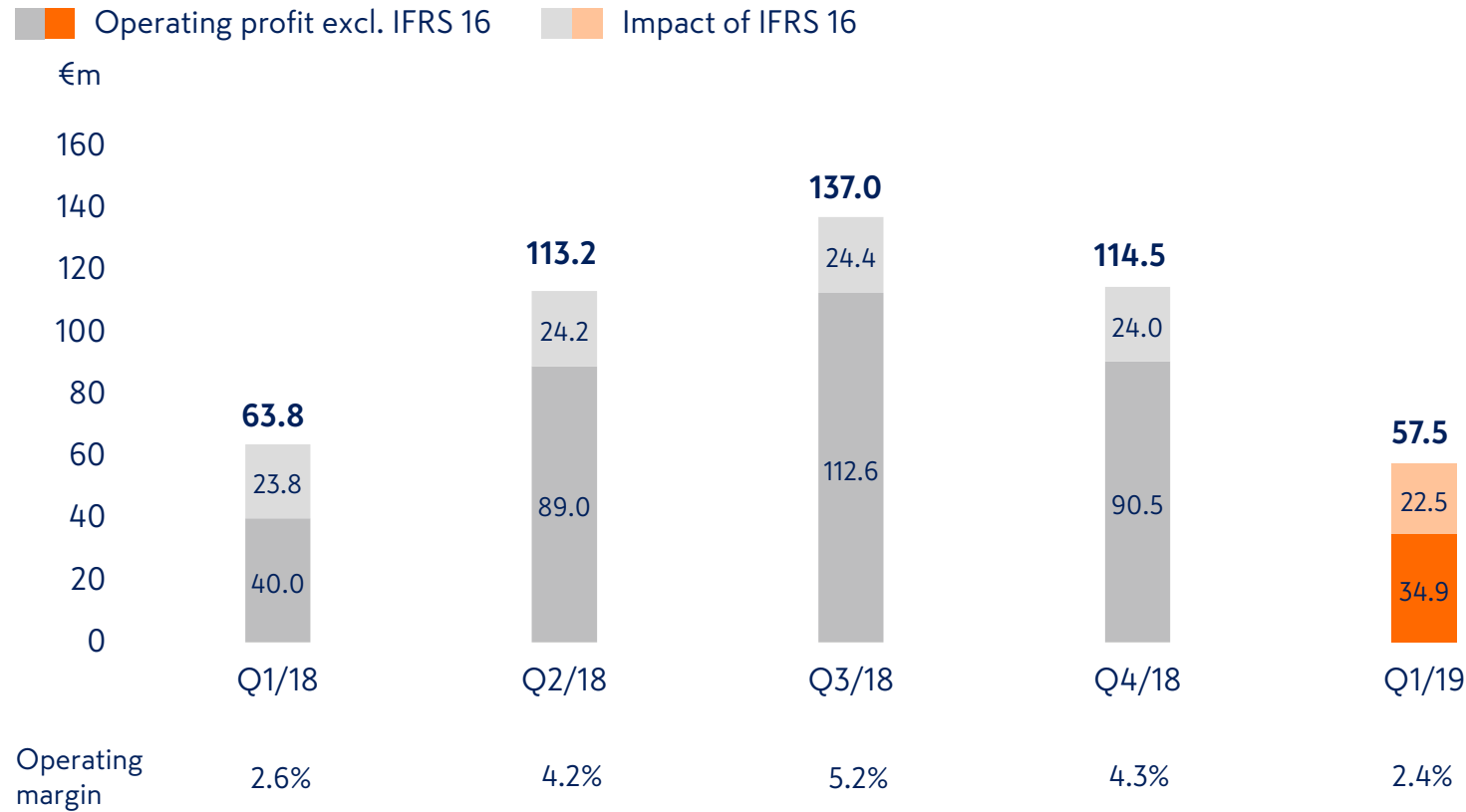
€m



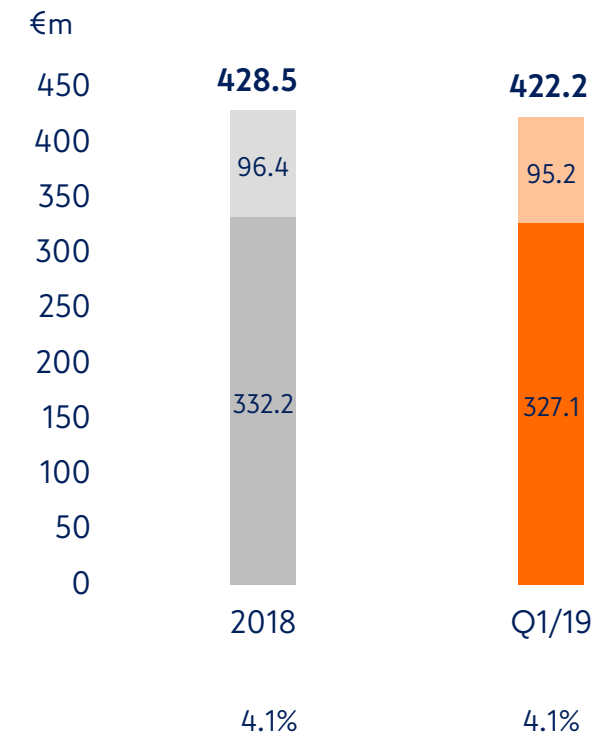
Continuing operations

Operating Profit

Q1 performance affected by acquisitions increasing seasonality and decline in car trade sales



Rolling 12 months



Comparable operating profit, continuing operations

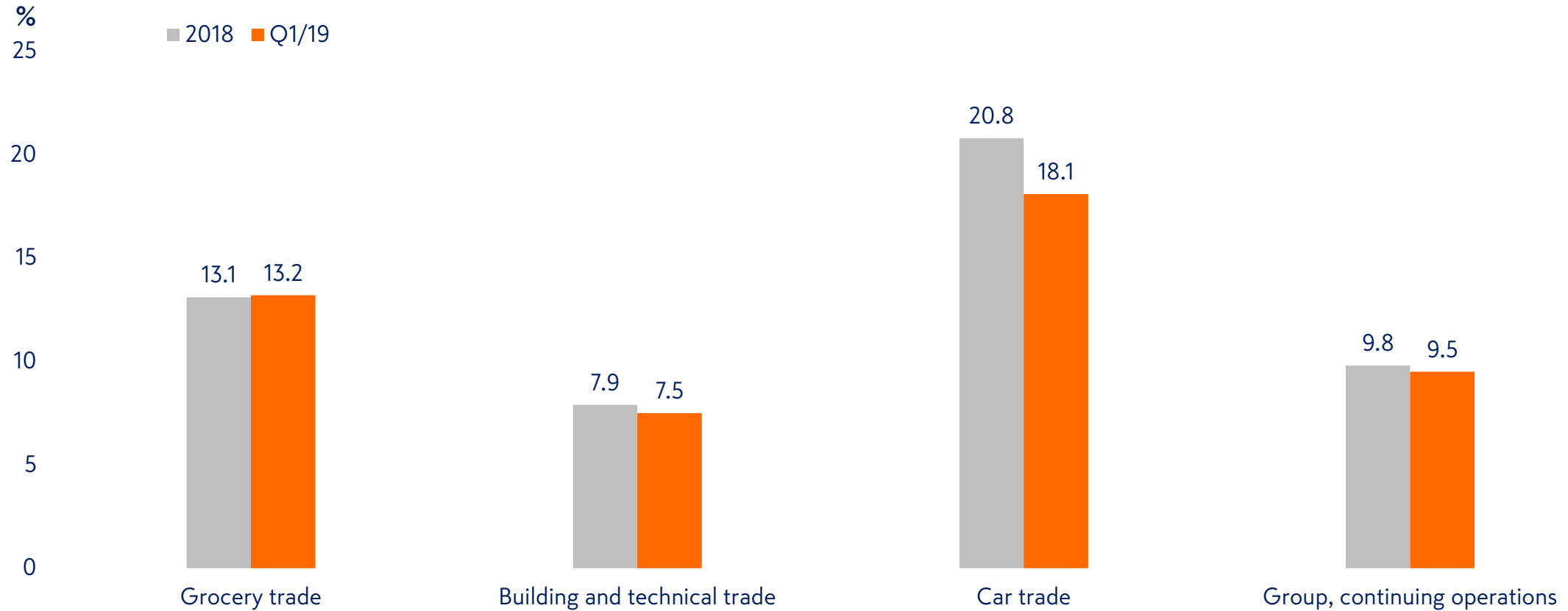
Strong Financial Position

	31.3.2019	31.3.2018
Liquid assets, €m	237.6	599.2
Interest-bearing net debt excl. lease liabilities, €m	174.6	-59.0
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.4	-0.1
Lease liabilities, €m	2,287.1	2,233.9
Continuing operations Q1:		
Cash flow from operating activities, €m*	157.0	116.0
Cash flow from operating activities (excl. IFRS 16 impact), €m	77.9	39.3
Capital expenditure, €m	**97.3	54.5

*Return of surplus assets paid by Kesko Pension Fund €48.3m (€57.8m) **Acquisitions €37.7m

Return on Capital Employed

Return on capital remained good in grocery trade, return in car trade still at a good level despite the decline in sales



Comparable, rolling 12 months



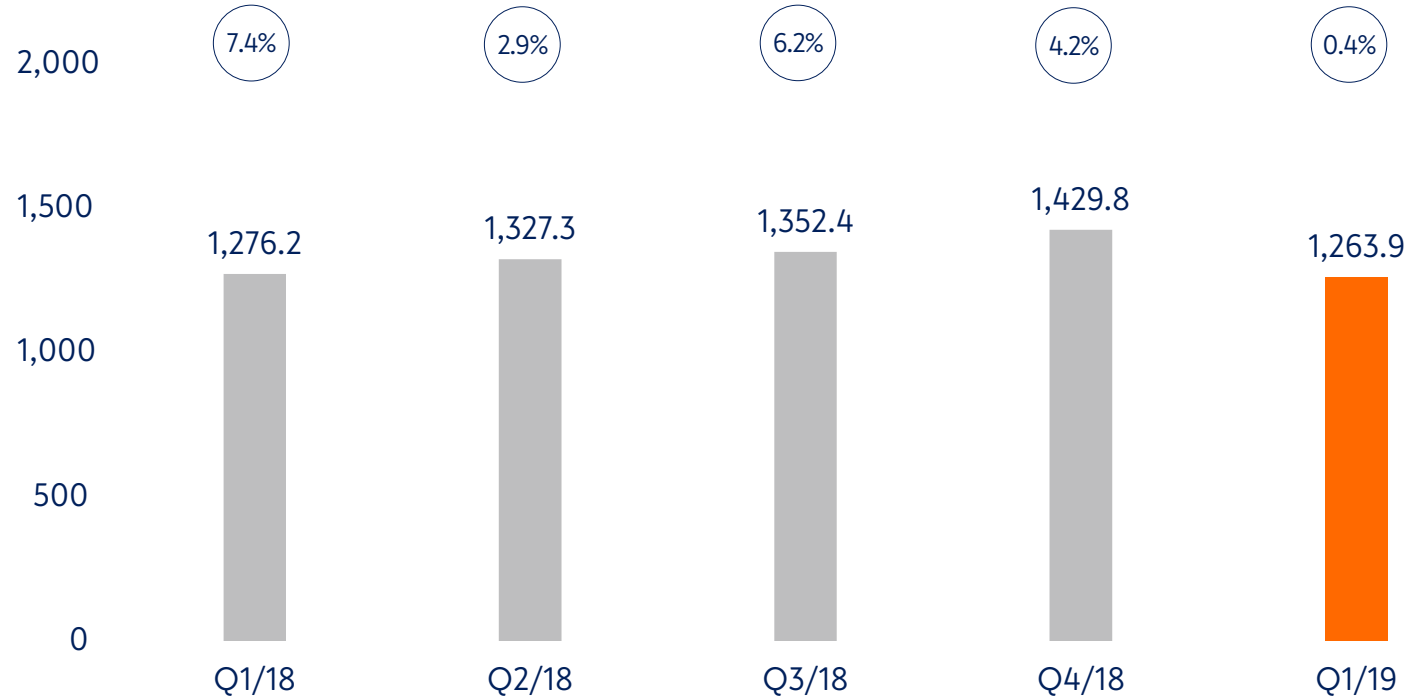
Grocery Trade

Grocery Trade Net Sales

Comparable Q1 net sales growth 0.4%, retail sales growth 1.5%

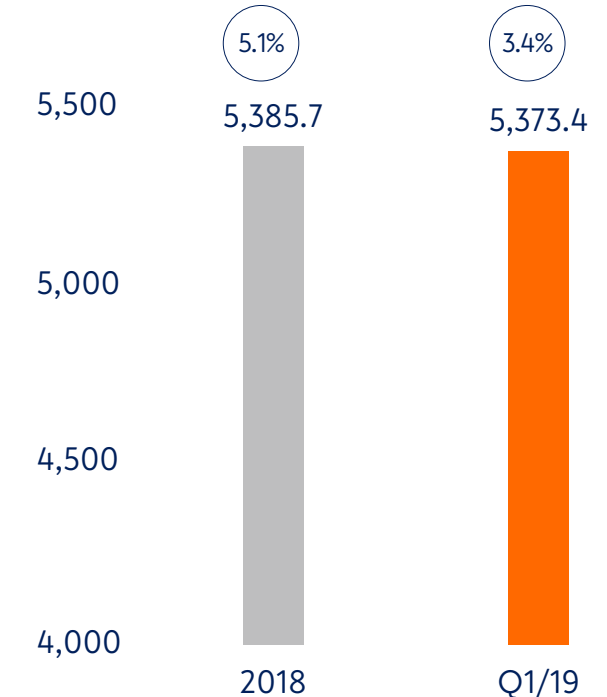
⊖ Comparable growth

€m



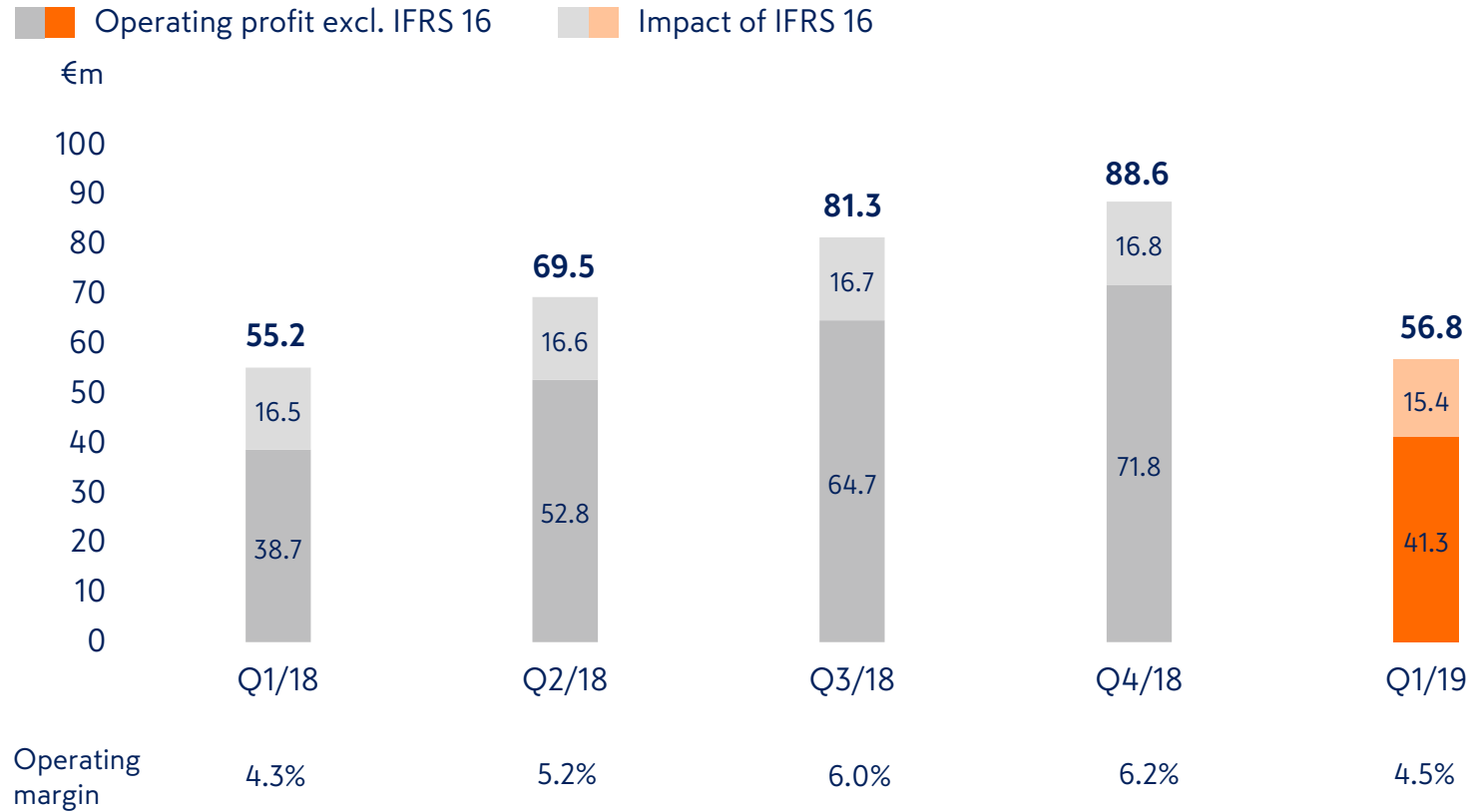
Rolling 12 months

€m

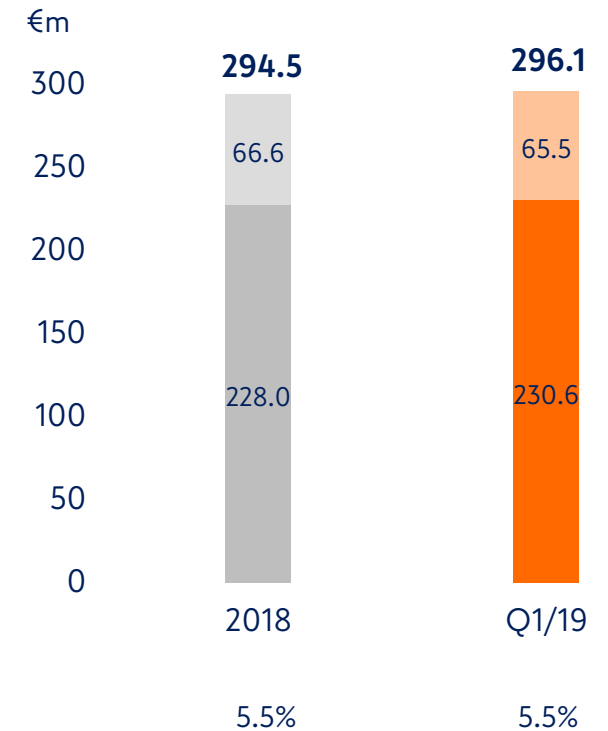


Grocery Trade Operating Profit

Q1 operating profit improved despite the timing of Easter



Rolling 12 months



Comparable operating profit, continuing operations

Grocery Trade

Market

- Grocery market growth 0.4%*
- Market growth weakened by the timing of Easter season, which fell on April this year
- Grocery prices up by approx. 2%
- Continued increased emphasis on quality and selections, price also important

Q1

- K Group's grocery sales grew by 1.5%
- Retail sales grew in all chains despite the timing of Easter
- Customer numbers and market share up
- Growth in online grocery sales 110%
- Operating profit boosted by good development in all chains and increased operational efficiency

* Source: The Finnish Grocery Trade Association PTY

Strong Transformation Continues Towards a Better Customer Experience in All Channels

Physical stores

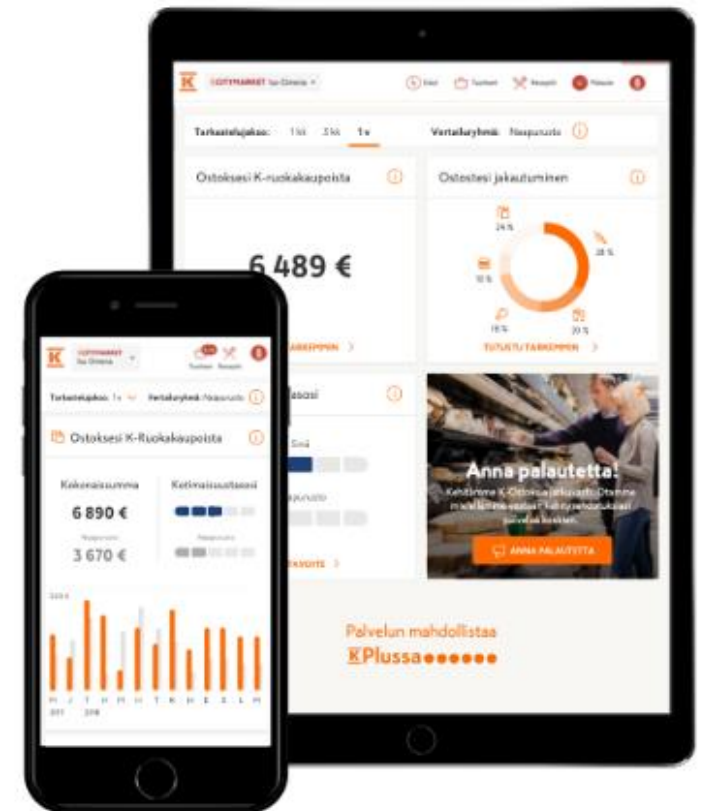
- Good progress in store remodels and the implementation of store-specific business ideas

Online

- Growth 110%, some 180 stores now offering online sales

Digital services

- New K-Ostokset service launched in March allows customers to view their purchases from K-food stores, tells them how much Finnish products they are buying, and recommends Finnish products





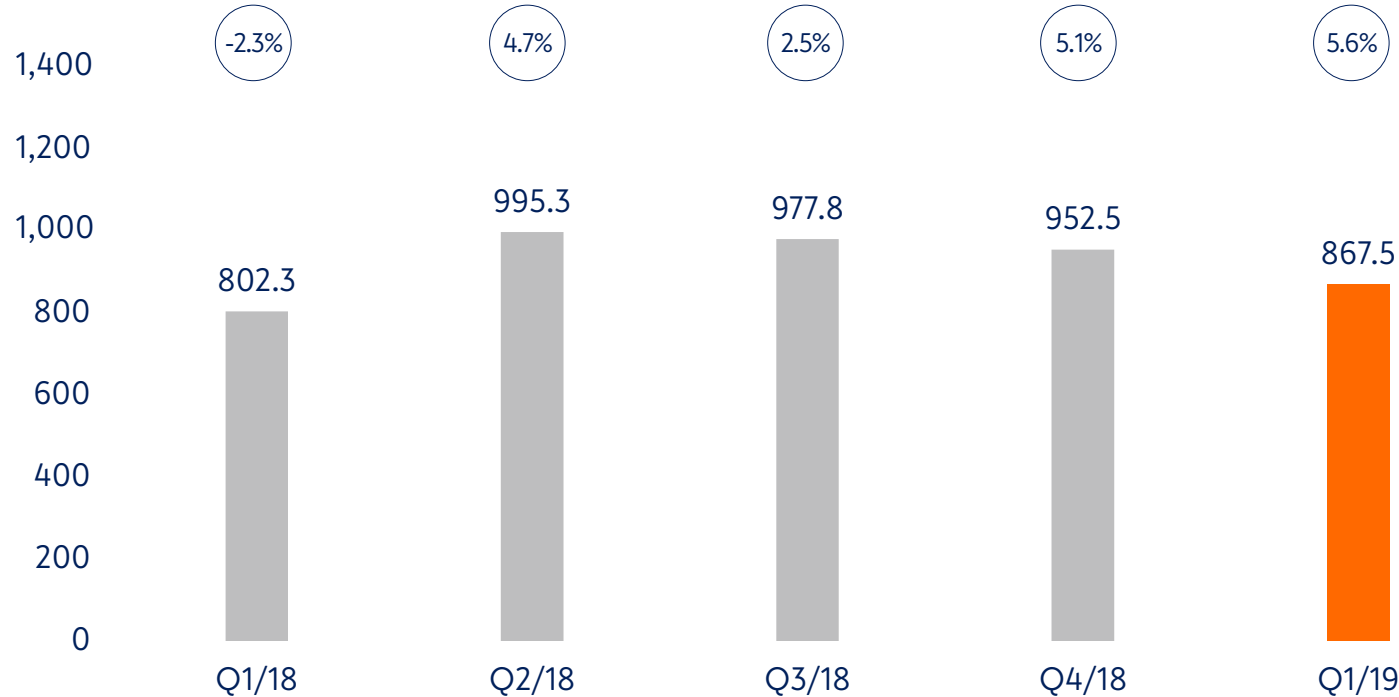
Building and Technical Trade

Building and Technical Trade Net Sales

Comparable Q1 growth 5.6%, figures excluding speciality goods trade

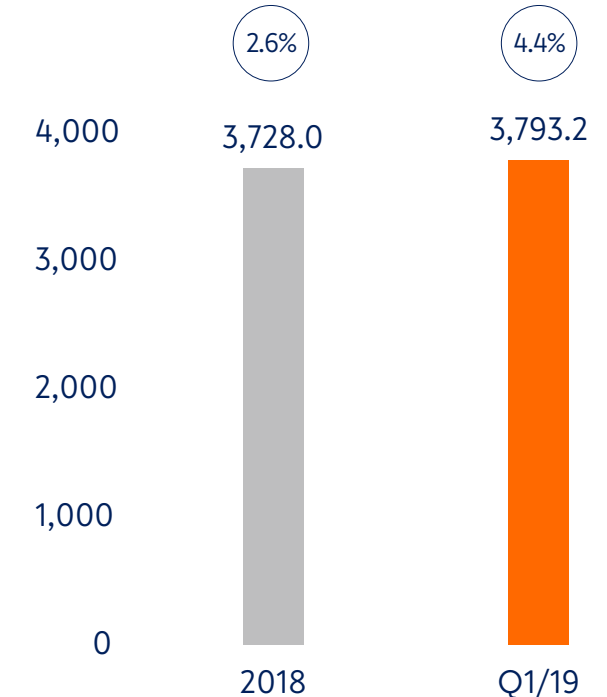
⊘ Comparable growth

€m



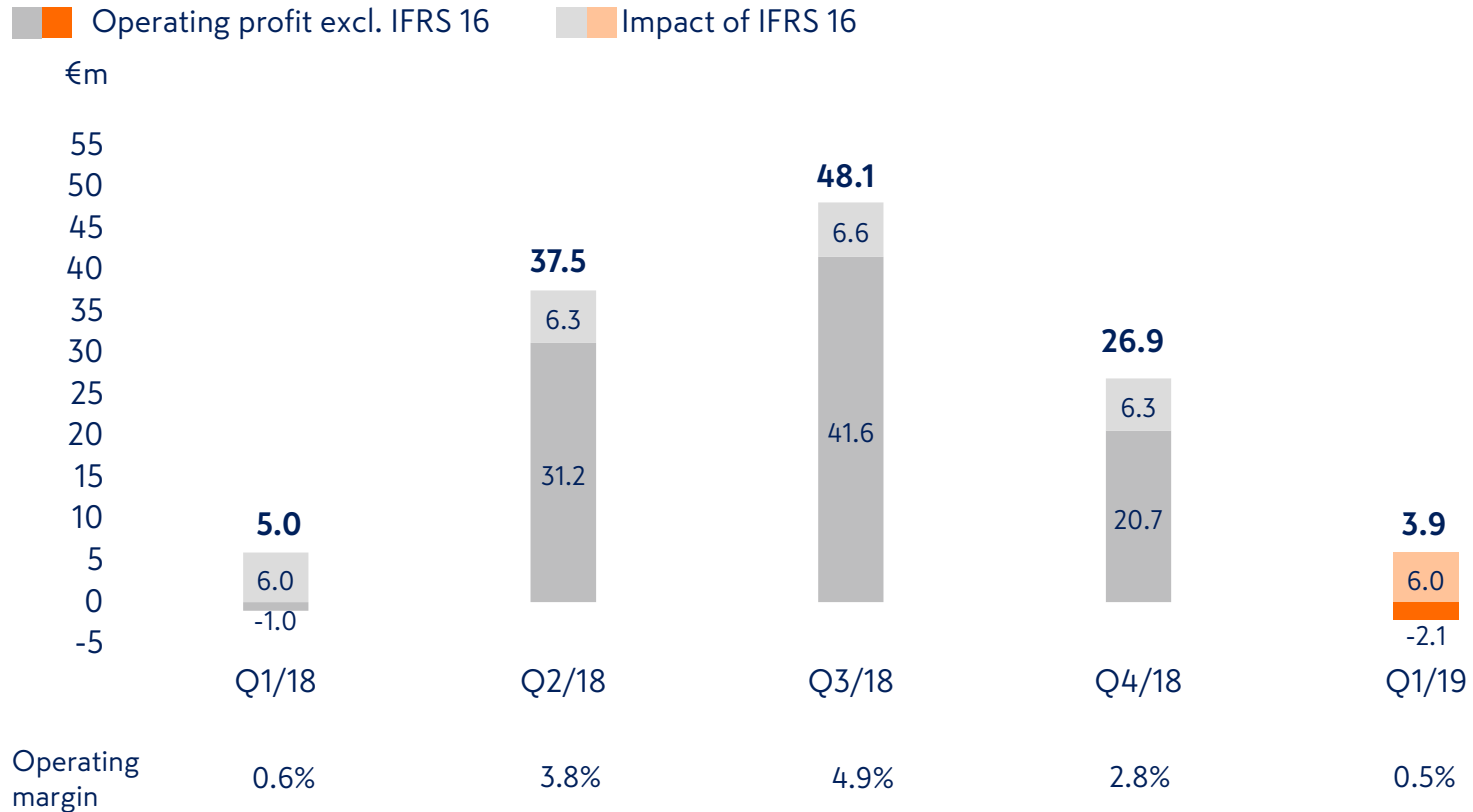
Rolling 12 months

€m

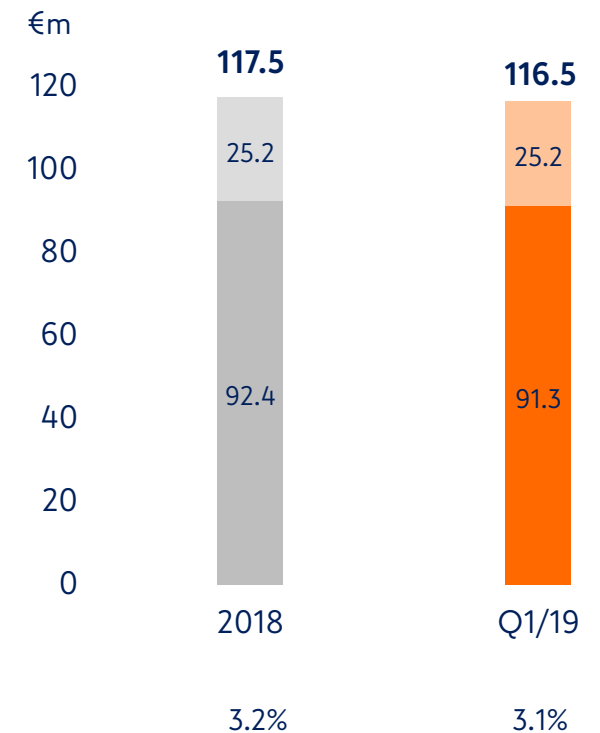


Building and Technical Trade Operating Profit

Acquisitions have increased seasonality, €-3.6m impact in Q1, figures excluding speciality goods trade



Rolling 12 months



Comparable operating profit, continuing operations

Building and Technical Trade

Excluding speciality goods trade

Market

- Market situation continues to be good
- Growth in B2B trade still strong
- Share of renovation building growing
- Stronger emphasis on digital services

Q1

- Strong sales growth in the Baltics, Finland and Poland as well as due to acquisitions in Norway
- Comparable growth in net sales 5.6%, overall development 8.1%
- Comparable operating profit €3.9m (€5.0m), with €-3.6m impact from acquisitions increasing seasonality
- Acquisition of Fresks to significantly improve Kesko's market position in Swedish building and home improvement trade

Strong Strategy Execution in Sweden

- K-Rauta's extensive transformation programme to improve profitability and strengthen market position underway
- Divestment of Onninen's contractor business will improve profitability in Sweden
 - 2018 net sales €70m, loss-making
 - Concentrating on the growing infrastructure construction business
- Acquisition of Fresks will make Kesko one of the leading building and home improvement trade operators in Sweden
 - 2018 pro forma net sales €205m, comparable EBITDA €18m
 - Mainly SME B2B customers specialising in renovation
 - Significant economies of scale and synergies

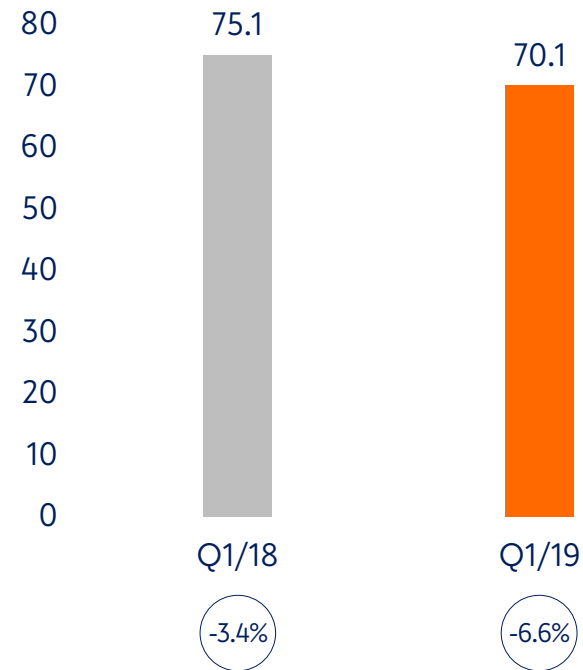


Speciality Goods Trade Net Sales and Operating Profit

Sales and profitability remained at a good level in leisure trade

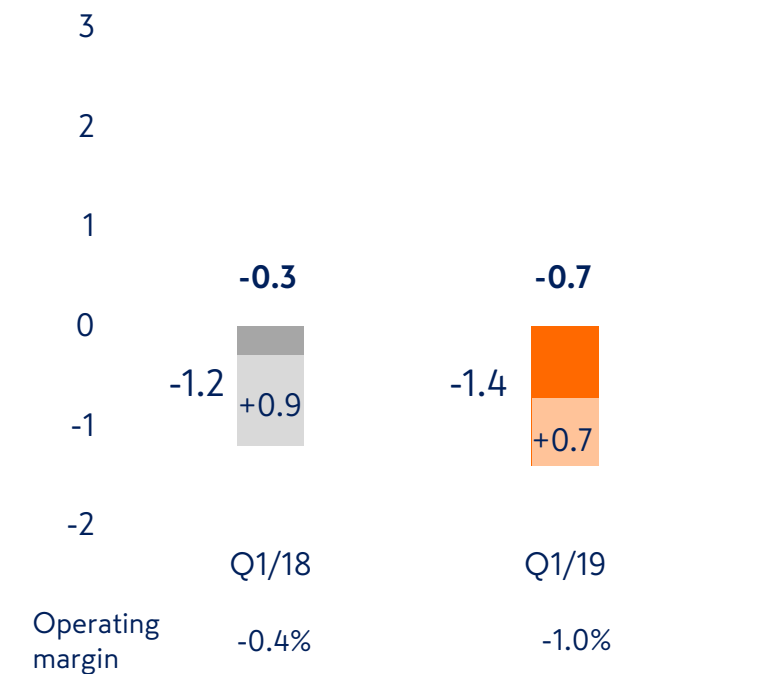
Net sales, €m

(%) Comparable growth



Operating profit, comparable, €m

Operating profit excl. IFRS 16 (orange), Impact of IFRS 16 (grey)



Leisure trade

- Net sales €49.2m, -1.2%
- Development in line with expectations, does well in the market

Machinery trade

- Net sales €20.9m, -17.3%
- Divestment of Baltic machinery trade and Finnish agricultural machinery trade operations ongoing



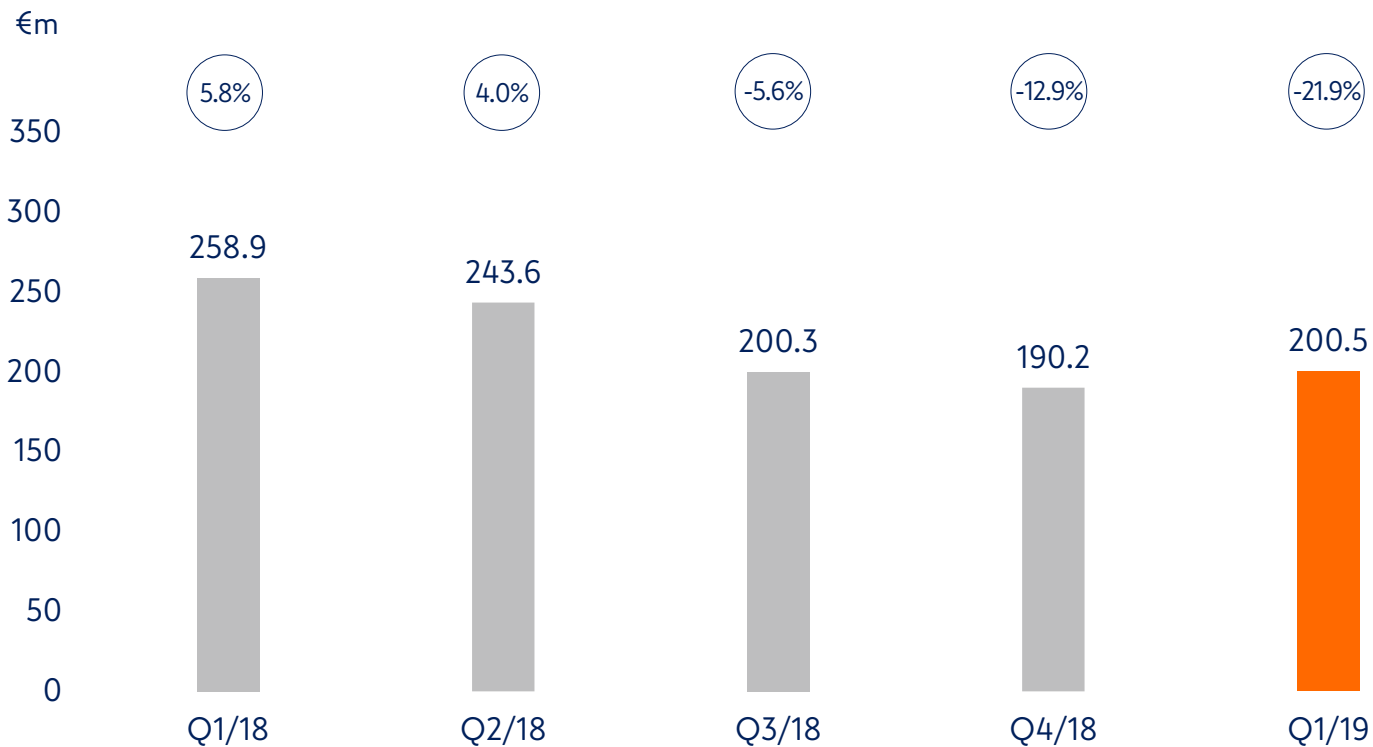
Car Trade



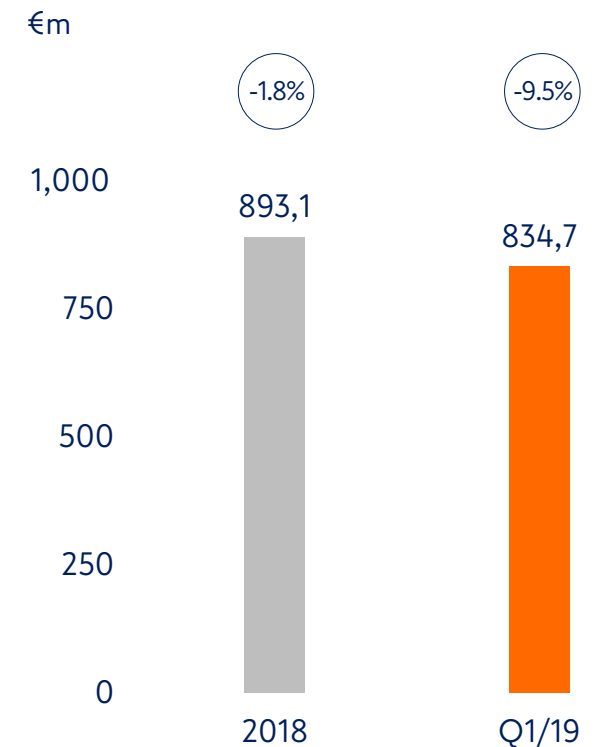
Car Trade Net Sales

New emissions testing and uncertainties regarding taxation and choice of motive power have led to a temporary decline in net sales

(%) Comparable growth

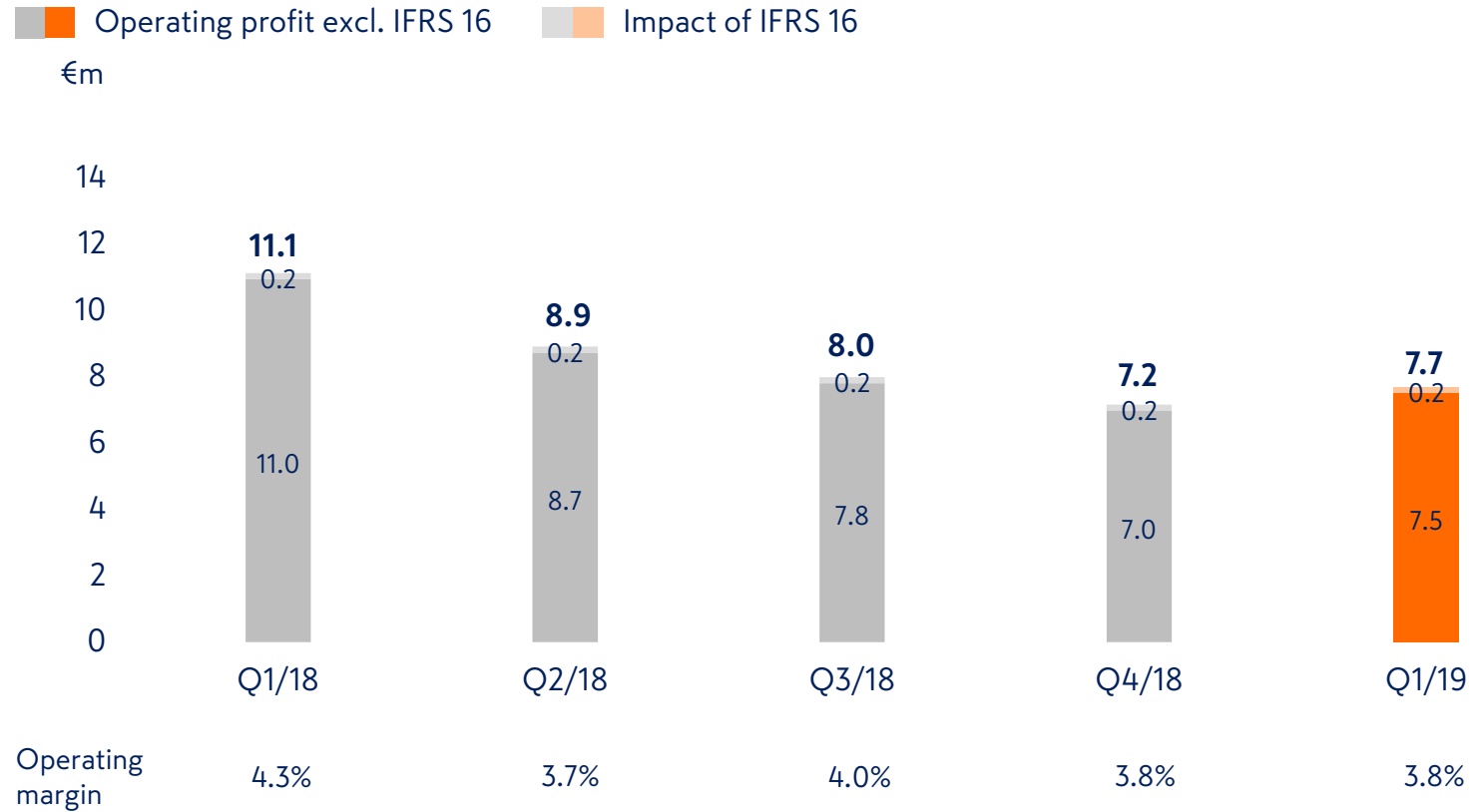


Rolling 12 months

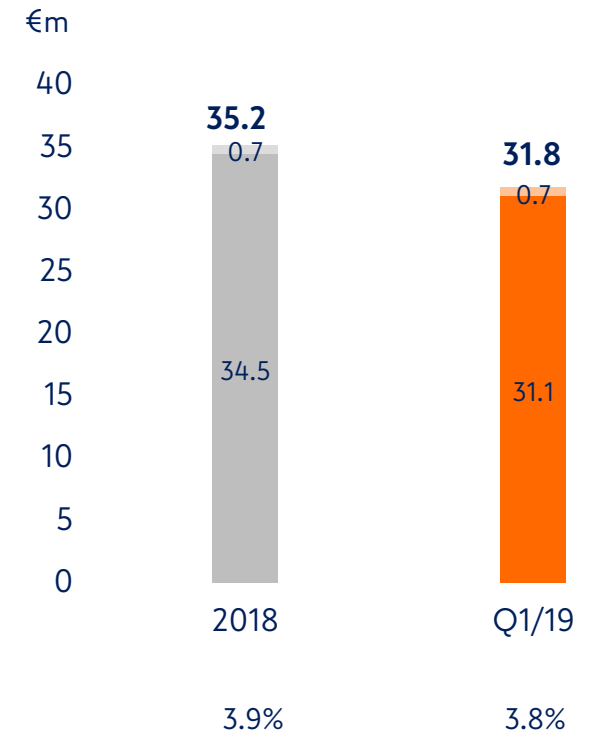


Car Trade Operating Profit

Q1 profitability at a good level despite temporary market disturbances



Rolling 12 months



Comparable operating profit, continuing operations

Car Trade

Market

- First registrations of passenger cars and vans -14.6%
- Uncertainties regarding car taxation and choice of motive power have resulted in weakened consumer demand
- Disturbances caused by the implementation of WLTP testing decreasing
- Market expected to normalise in H2

Q1

- Profitability good despite the temporary decline in net sales due to the implementation of WLTP
- Problems in car availability temporarily reduced our market share in passenger cars
- Dealer network strengthened by acquiring businesses from Huittisten Laatuauto and LänsiAuto



Outlook

Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (4/2019-3/2020) in comparison with the 12 months preceding the end of the reporting period (4/2018-3/2019). The outlook is based on the IFRS standards that took effect on 1 January 2019, and includes the impact of IFRS 16 Leases on the Group's comparable operating profit for both the 12-month period following the reporting period as well as the 12-month period preceding the reporting period.

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow. In the Finnish grocery trade, intense competition is expected to continue, although, as purchasing power increases, the importance of quality will be emphasised more than previously. In the building and technical trade, the growth in B2B sales is expected to continue stronger than the growth in the retail market. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate.

In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months.

Kesko's New Financial Targets

	2018	New target level
Operating margin	4.1	5.0
Return on capital employed, %	9.8	11.0
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.4	<2.5

Dividend policy updated in Q1: 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. Dividends will be paid in two instalments, starting with the dividends paid for 2018.

We Continue to Execute Our Growth Strategy



Grocery trade

- Improving customer experience
- Competitive advantage with retailer entrepreneurs
- Growing the foodservice business



Building and technical trade

- Improving profitability
- Country-specific focus
- Strategic acquisitions and divestments



Car trade

- Partnership with the VW Group
- New technologies and services
- Growing our dealer network

One unified





Today's News: Kesko to Acquire Volkswagen, Audi and SEAT Businesses from Laakkonen

Kesko to Acquire Volkswagen, Audi and SEAT Businesses from Laakkonen

- Kesko will acquire the Volkswagen, Audi and SEAT businesses of Autotalo Laakkonen in Hyvinkää, Hämeenlinna, Joensuu, Kuopio, Lahti and Tampere, and Veljekset Laakkonen's SEAT business in Joensuu, Kuopio and Lahti
- The combined pro forma net sales of the businesses to be acquired totalled some €259 million in 2018 and operating profit €5.4 million
- The 470 employees of the businesses to be acquired will transfer to the new owner, and the businesses will continue to lease their current premises
- The acquisition is subject to approval by the Finnish Competition and Consumer Authority

Objective to Increase Own Retail Sales in the Car Trade Division

- Kesko's objective is to grow the sales of Volkswagen, Audi, SEAT, Porsche, MAN and – starting next autumn – Bentley in Finland in collaboration with the Volkswagen Group
- Kesko aims to establish an even more effective distribution and service network to serve both consumers and corporate customers
- The car sector is consolidating fast both on a global scale and in Finland
- The transaction is a continuation to the acquisitions of the businesses of Huittisten Laatuauto and LänsiAuto earlier this year





Thank you!

