



Welcome to Building and Technical Trade Deep Dive

24 May 2019

Building and Technical Trade Deep Dive

Agenda

- **Welcome and Current Topics**
- **Strong Strategy Execution in Building and Technical Trade**
Jorma Rauhala, President, Building and Technical Trade, Deputy CEO
- **Building a Solid Foundation – Accelerating Business in Poland and Gaining Sustainable Profitability in Sweden**
Endre Espeseth, Country Director, Sweden and Poland
- **Case K-Rauta Finland and Store Visit**
Olli Pere, K-Rauta Chain Director and Petri Lappalainen, K-Rauta Merituuli Retailer





Current Topics

Jukka Erlund,
CFO

Continuing Our Growth Strategy Implementation

VISION

We are the customers' preferred choice and the quality leader in the European trading sector

STRATEGIC FOCUS AREAS

Profitable growth

Business focus

Quality and customer orientation

Best digital services

Sustainability and combating climate change

One unified K

DIVISION PRIORITIES



Grocery trade

- Most customer-oriented and inspiring food stores with store-specific business ideas
- Profitable development of store network
- Seamless multi-channel customer experience
- Development of the retailer business model as a competitive advantage
- Significant growth in the foodservice business



Building and technical trade

- Country focus with specified strategic actions
- Three customer segments served according their specific customer needs
- Synergies – within individual countries and between the operating countries
- Organic growth and profitability improvement
- Selected acquisitions to win a chosen country and segment



Car trade

- Increasing business in cooperation with the Volkswagen Group
- Increasing own service and mobility business
- Best customer experience – in all channels

VALUE

The customer and quality – in everything we do

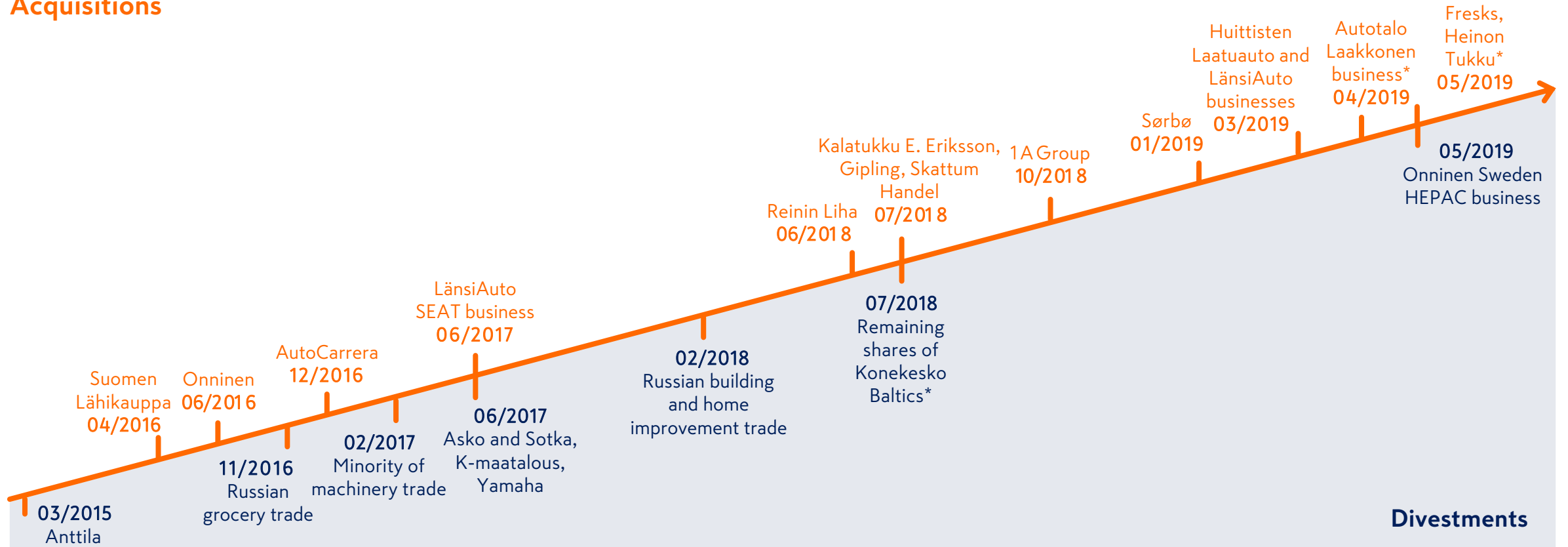
Kesko's New Financial Targets

	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.

A Strong and More Focused Company Through Successful Portfolio Transformation

Acquisitions



*Transaction announced, waiting for closing

Kesko to Acquire Foodservice Wholesaler Heinon Tukku Oy

Heinon Tukku complements our service offering and network, also enabling significant synergies



- Full service wholesale trade covering HoReCa customers all over Finland
- Services via delivery, cash & carry and digital channels
- Employs 500 people
- Over 40.000 products
- 14 cash & carry outlets across Finland
- 2018 net sales €872m



- One of the leading foodservice market operators in the greater Helsinki region
- Services via delivery, cash & carry and digital channels
- Employs 450 people
- Over 30.000 products
- 2 cash & carry outlets in Helsinki and Vantaa
- 2018 net sales €264m and comparable pro forma operating profit €10m

Kesko Group's Sales in April and January-April 2019

	April 2019		Comparable
	€ million	Change, %	change, %
Grocery trade, total	481.2	+16.4	+17.7
Building and technical trade, Finland	182.5	+2.1	+2.1
Building and technical trade, other countries	190.2	+8.4	+4.3
Building and technical trade, total	372.7	+5.2	+3.2
Car trade, total	71.7	-12.6	-15.7
Common functions and eliminations	-0.2		
Grand total	925.4	+8.9	+8.2

	1.1.-30.4.2019		Comparable
	€ million	Change, %	change, %
Grocery trade, total	1,757.0	+3.2	+4.6
Building and technical trade, Finland	657.1	+3.0	+3.1
Building and technical trade, other countries	679.4	+9.8	+5.3
Building and technical trade, total	1,336.4	+6.3	+4.2
Car trade, total	277.3	-20.0	-20.3
Common functions and eliminations	-1.4		
Grand total	3,369.4	+1.9	+1.7

K

Jorma Rauhala

President, Building and Technical Trade, Deputy to CEO

- President, building and technical trade division and Deputy to President and CEO since 15 November 2017
- President, grocery trade division 2013 - 2017
- Vice President for the K-Citymarket chain's food trade 2012 - 2013
- Managing Director of foodservice business Kespro Ltd 2007 - 2012
- Employed by Kesko Corporation since 1992





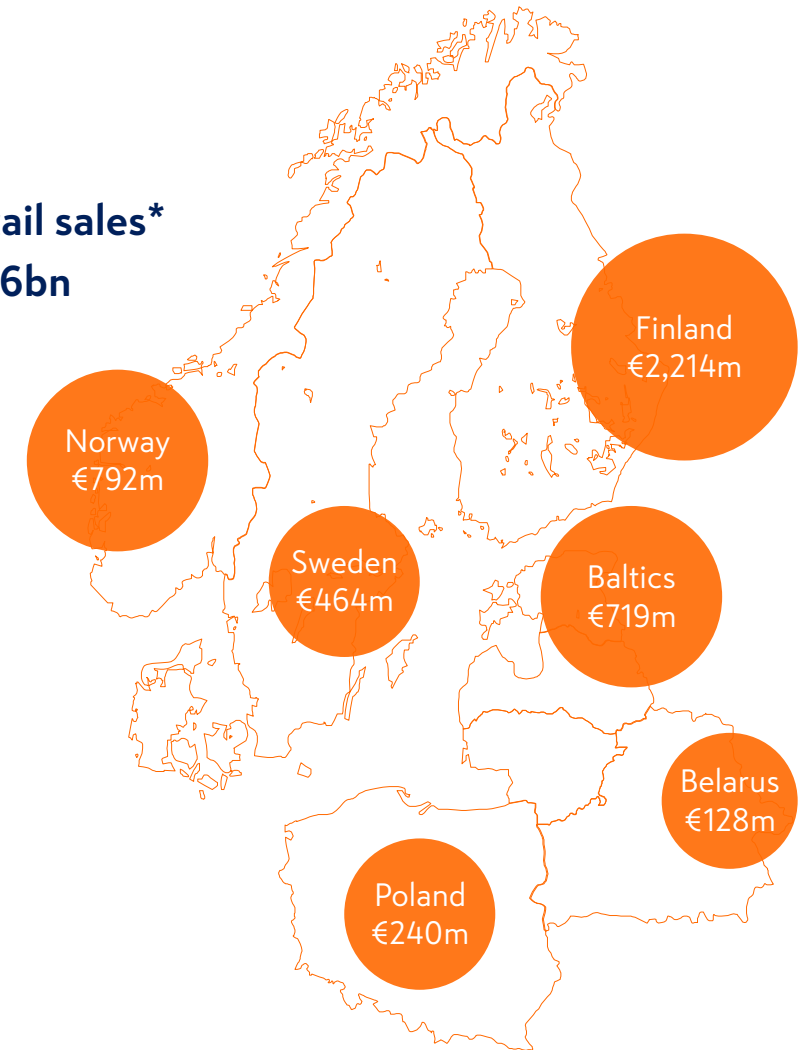
Strong Strategy Execution in Building and Technical Trade

Jorma Rauhala,
President, Building and Technical Trade, Deputy CEO

Building and Technical Trade in Brief

- Number 1 operator in building and technical trade in Northern Europe
- Retail sales pro forma €4.6 bn*
- Approx. 70% of sales from B2B trade and 30% from B2C
- 440 stores in 8 countries
- Comprehensive digital services

Retail sales*
€4.6bn



* Pro forma 2018 current portfolio and excl. speciality goods trade

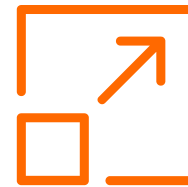
Operating Environment in the Northern Europe Changing at Growing Speed



The market is consolidating



Consumers increasingly outsourcing construction to professionals



Growing need for renovation building



Digital is a critical part of the customer journey

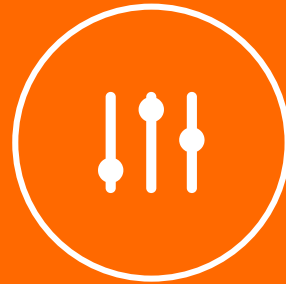
Strategic Choices to Become an Even Stronger Operator in the Northern European Building and Technical trade



Country focus with specified strategic actions



Three customer segments served according their specific customer needs



Synergies – within individual countries and between the operating countries

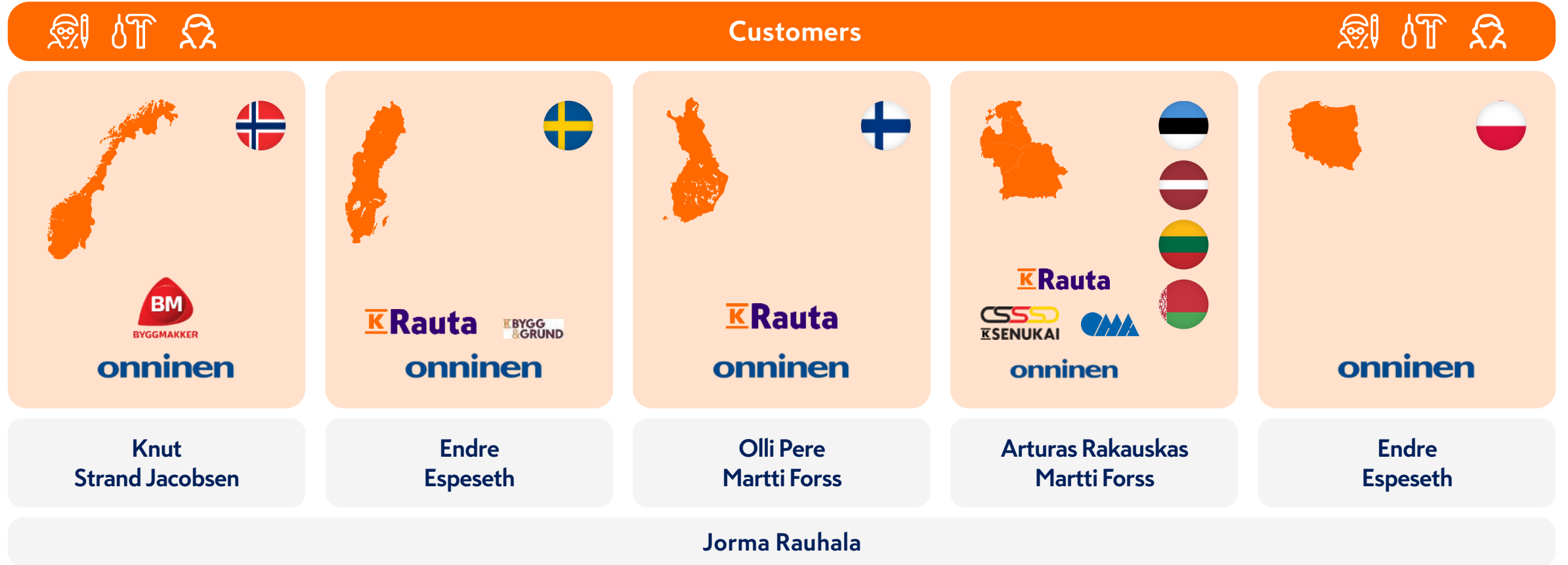


Organic growth and profitability improvement



Selected acquisitions to win a chosen country and segment

Sharper Country Specific Focus



Three Customer Segments Served According Their Specific Customer Needs



Technical professionals



- Technical contractors
- Infrastructure
- Industry
- Retailers



Professional builders



- Construction companies
- Renovation contractors
- Decoration contractors



Consumers



- Renovators
- Home and garden builders
- Decorators
- Gardeners

Synergies Sought Both Within Each Country's Operations and Between the Eight Operating Countries

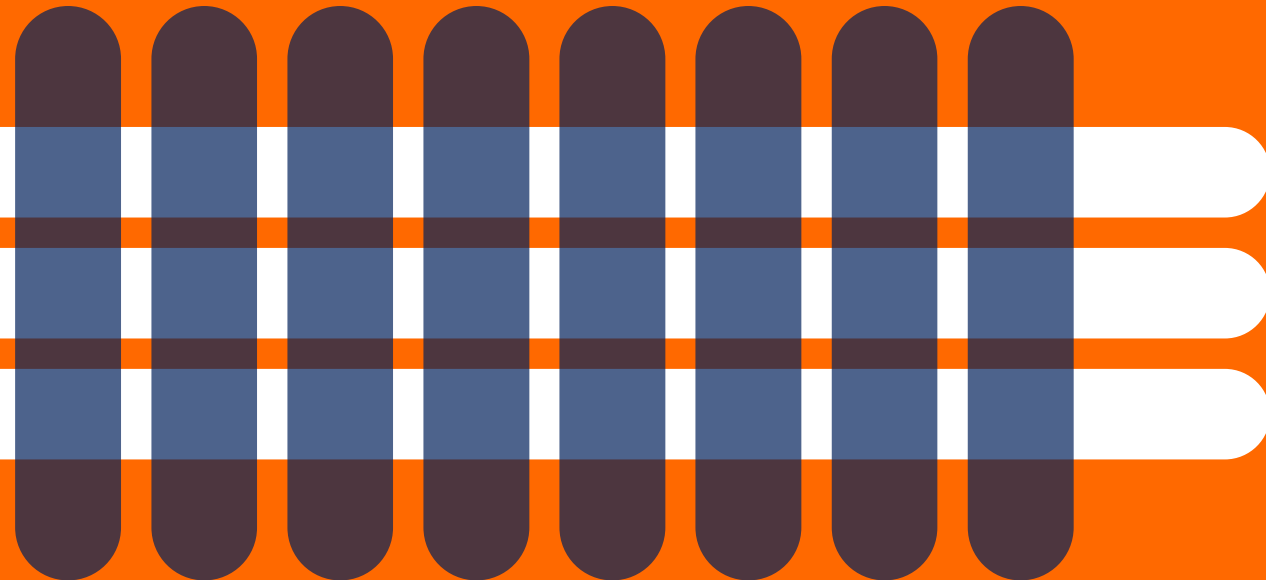
Examples of synergies within the operating countries:
Logistics, IT, HR, Finance...

Examples of synergies between
the countries:

Sourcing

Digital services

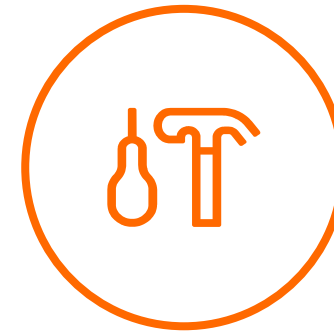
Concept development



Profitable Growth and Selected Acquisitions



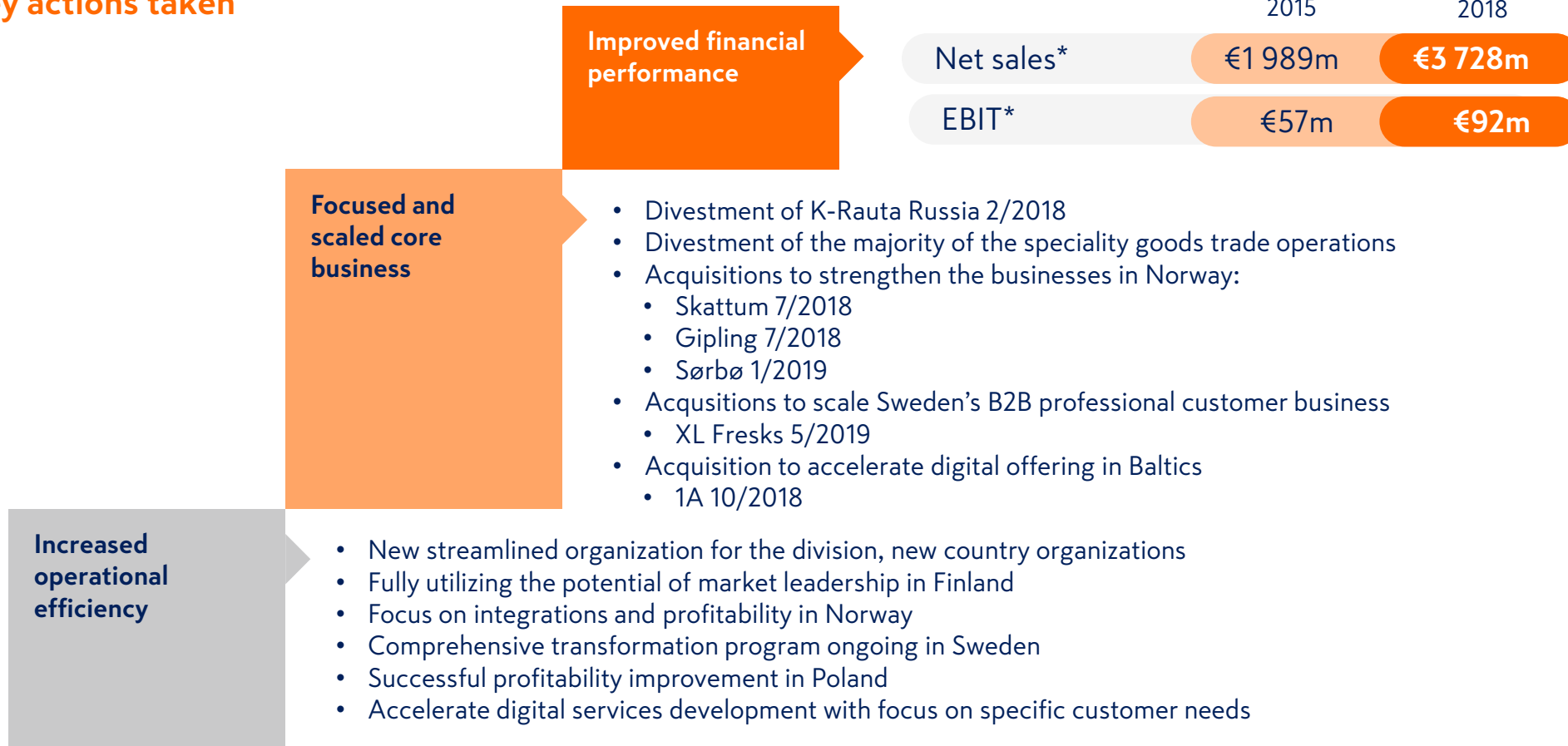
Organic growth and profitability improvement



Selected acquisitions to win a chosen country and segment

Strong Strategy Execution in Building Technical Trade

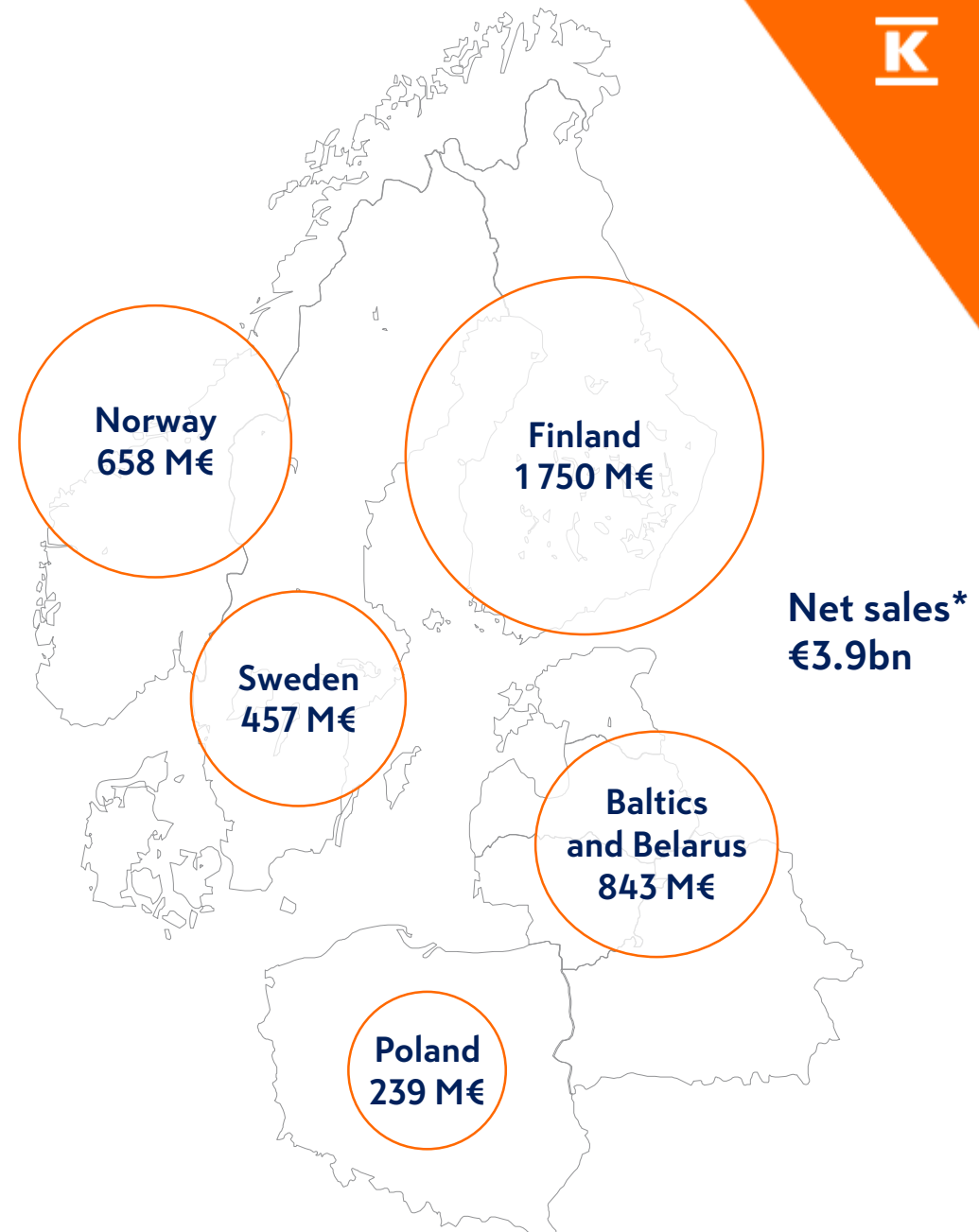
Key actions taken



*Continued operations excl. speciality goods trade, excl. IFRS16

The Execution of Country-Specific Strategies Proceed as Planned

- **Finland:** K-Rauta and Onninen clear market leaders, profitability has improved
- **Baltics:** successful redesigns of stores and selections has led to growth in sales and profit
- **Norway:** share of own retailing for the Bygghjælper chain increased with acquisitions
- **Sweden:** Acquisition of Fresks makes Kesko one of the leading building and home improvement trade operators in Sweden
- **Poland:** Continue to execute the country focused strategy after the turnaround in profit



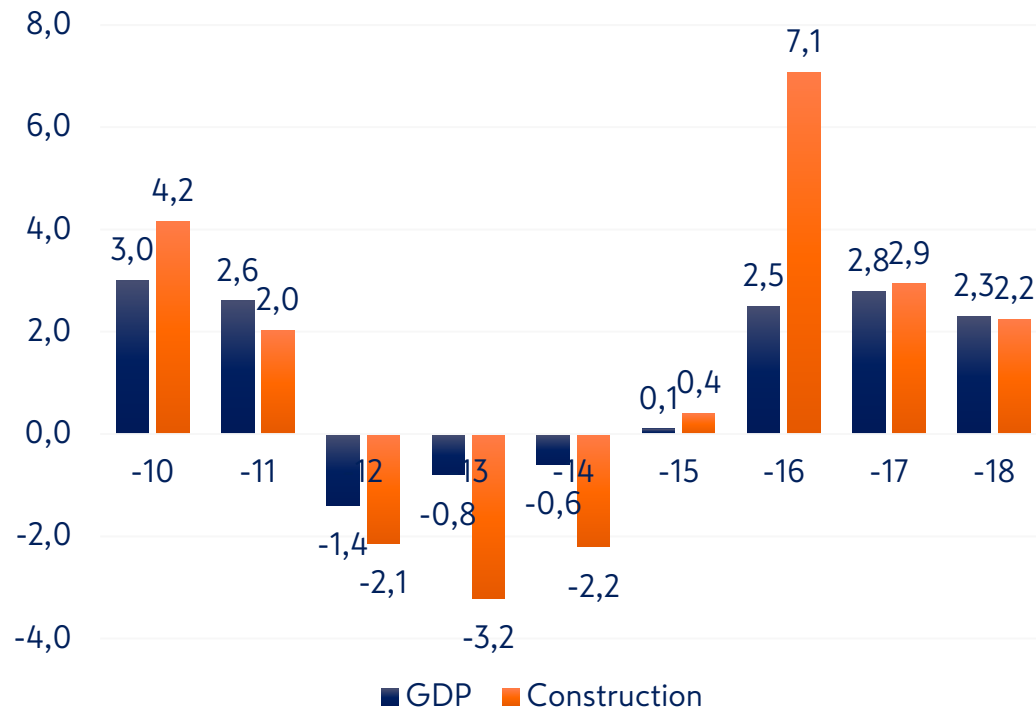
*Proforma net sales 2018 current portfolio and excl.speciality goods trade

Medium-Term Perspective Construction Forecast in Finland



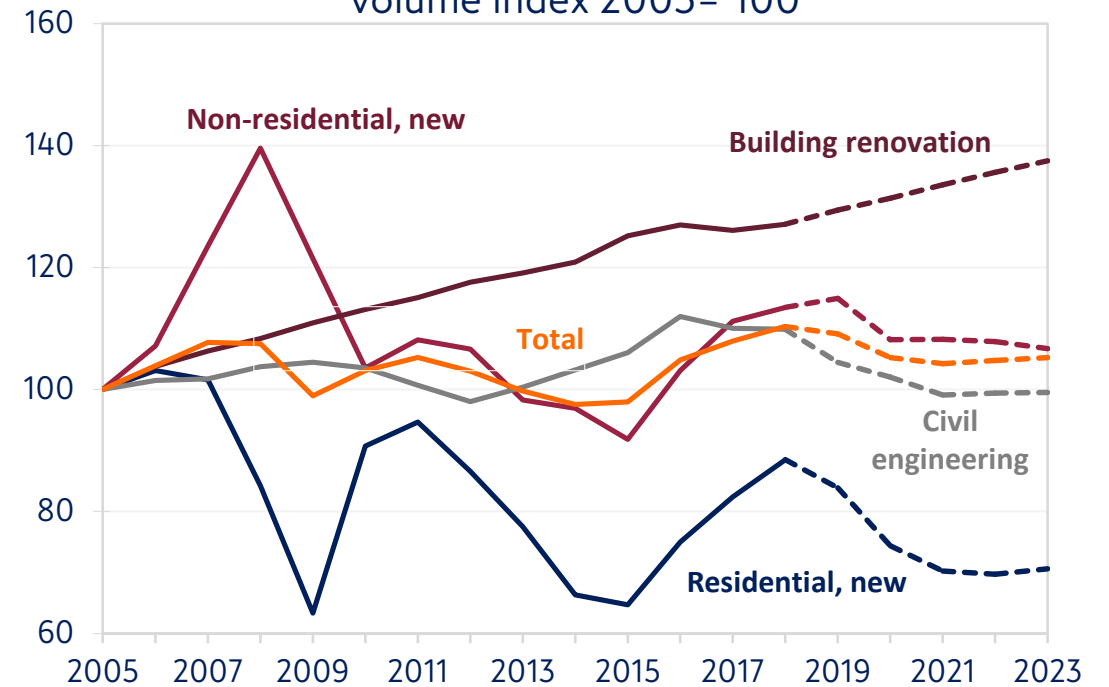
Share of renovation building expected to grow and new residential construction is expected to slow down.

Growth of GDP and construction in Finland



GDP: Statistics Finland, Forecon
 Construction: Statistics Finland, Forecon

Construction in Finland volume index 2005= 100

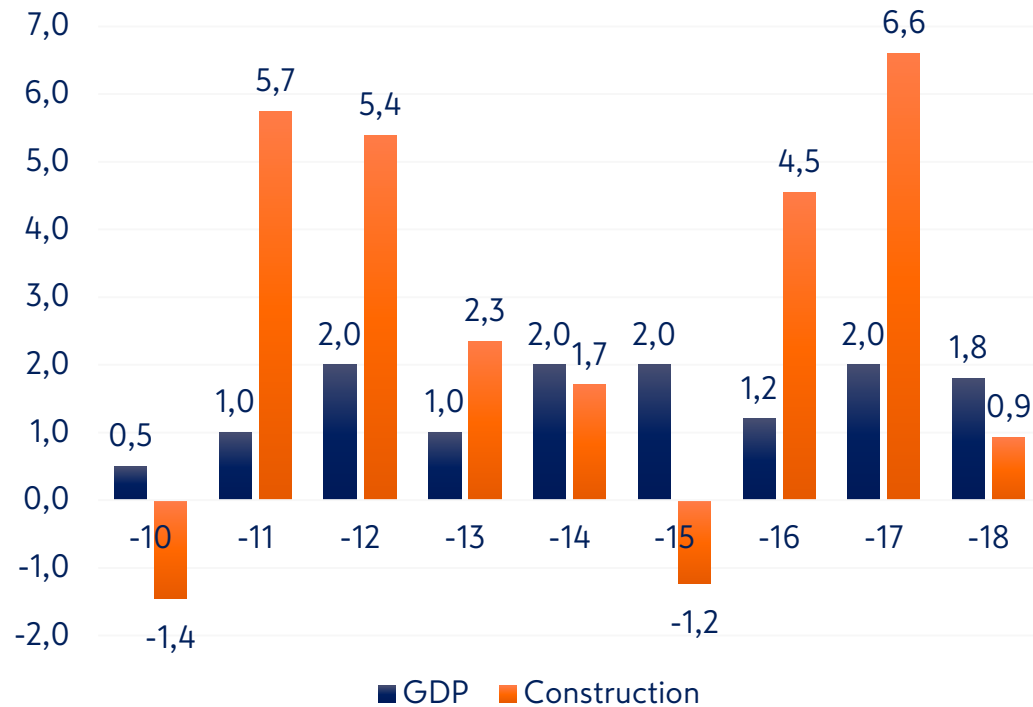


Medium-Term Perspective Construction Forecast in Norway



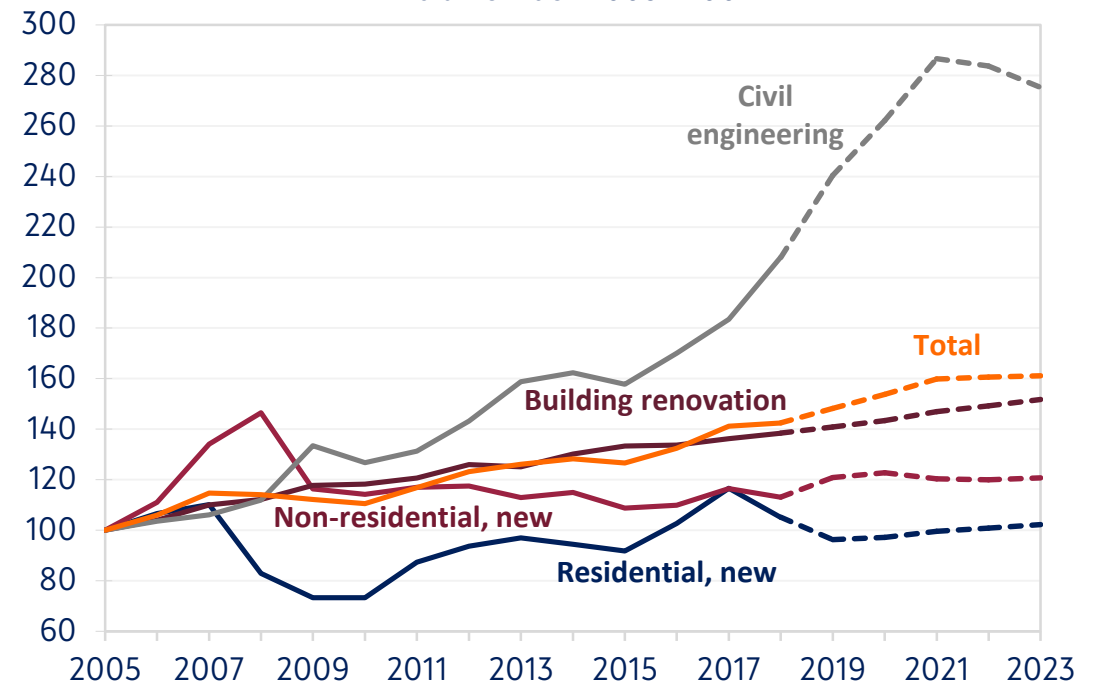
Norway's infrastructure investments result in high volumes in civil engineering. New build and renovation are expected to grow somewhat.

Growth of GDP and construction in Norway



Construction in Norway

volume index 2005= 100



GDP: Euroconstruct
Construction: Euroconstruct

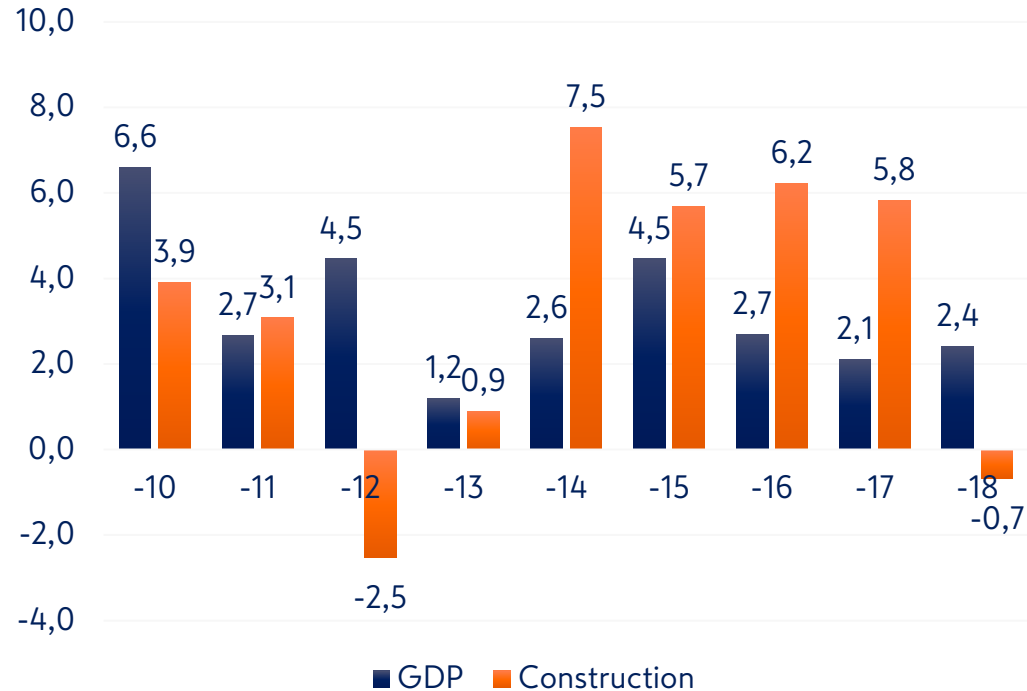


Medium-Term Perspective Construction Forecast in Sweden



New residential construction is expected to weaken but building renovation to continue the upward trend. Civil engineering expected to stay at a good level.

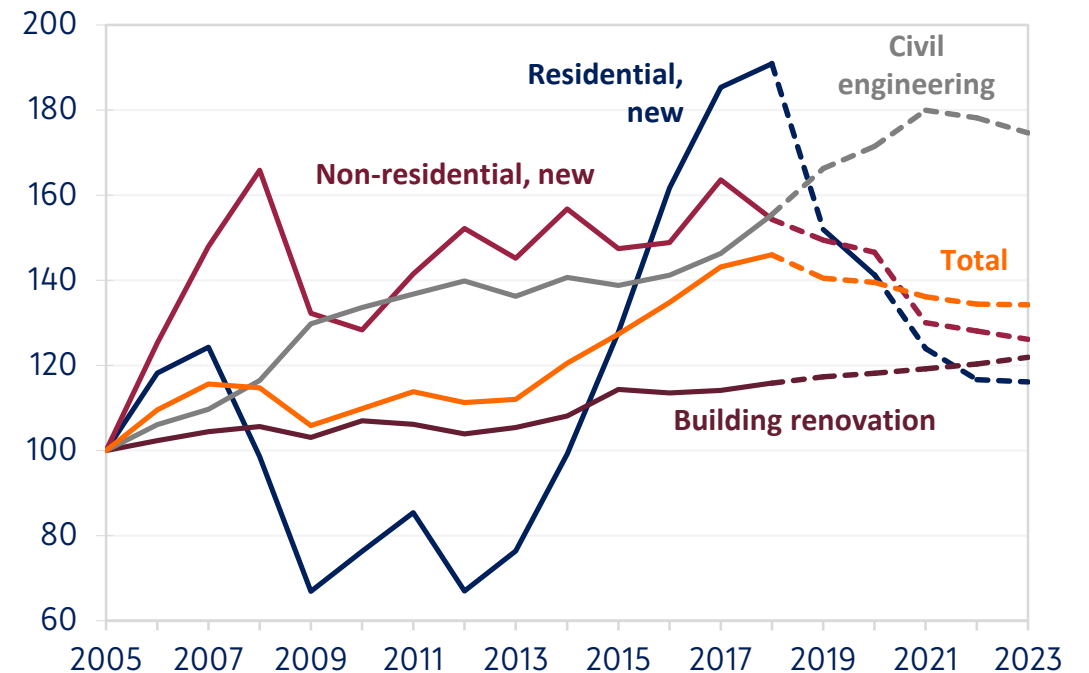
Growth of GDP and Construction in Sweden



GDP: Euroconstruct, IMF
Construction: Euroconstruct, Forecon

Construction in Sweden

volume index 2005= 100



K

Endre Espeseth

Country Director, Sweden and Poland

- Country Director, Sweden and Poland since 1 April 2018
- Country Director, Poland since 1 October 2016
- Country Director, Onninen Norway 2010 - 2016
- Employed by Kesko Corporation since 2016
- Prior to Kesko and Onninen:
 - President for Draka Cables NL, Offshore Division 2008 - 2010
 - Managing Director for Draka Norsk Kabel AS 2004 - 2008



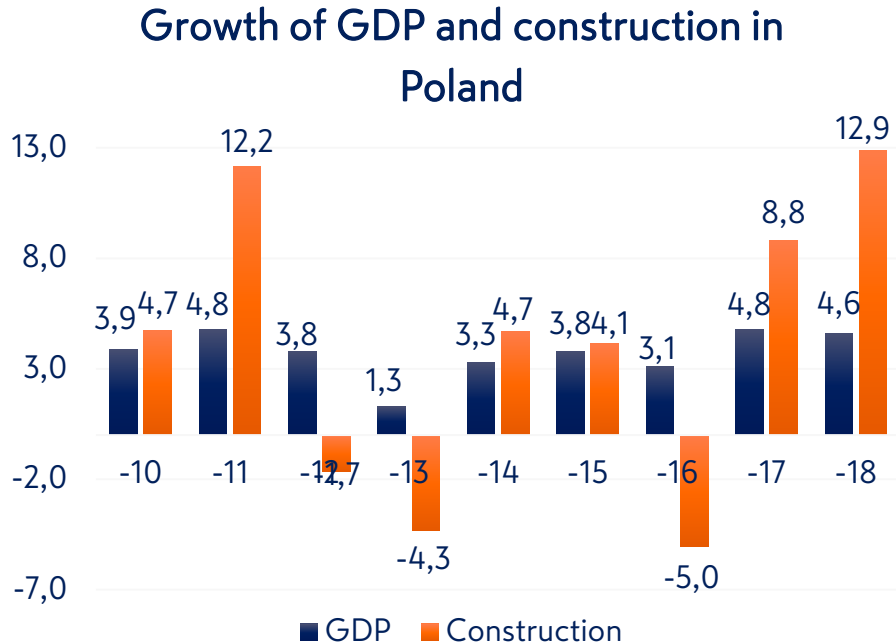


Building on a Solid Foundation – Accelerating Business in Poland

Endre Espeseth,
Country Director, Sweden and Poland

Poland is Europe's Growth Champion with Solid Growth

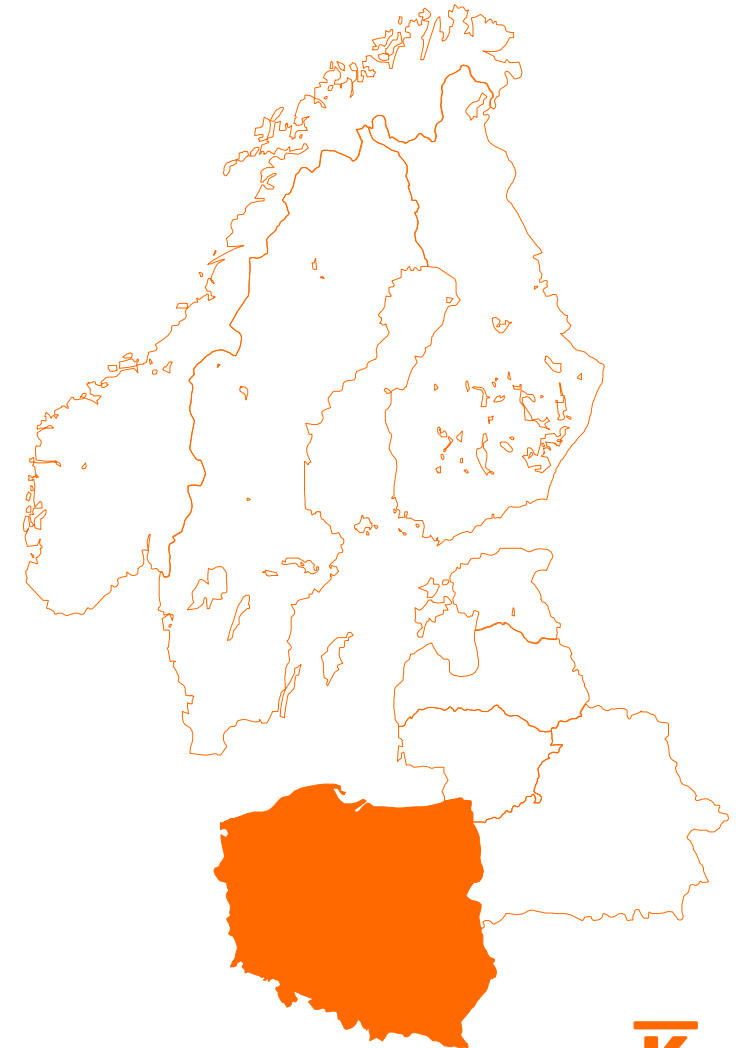
Poland is the fastest growing building and technical trade market with good infrastructure investment levels and new build.



GDP: Euroconstruct
Construction: Euroconstruct

Overall market trends and growth drivers in Poland

- Domestic market of approx. 40 million consumers
- Favorable macroeconomic outlook
- European Union funding
- Growing domestic investments



Kesko Footprint in Poland



Onninen had retail sales of **€ 240 million** in 2018

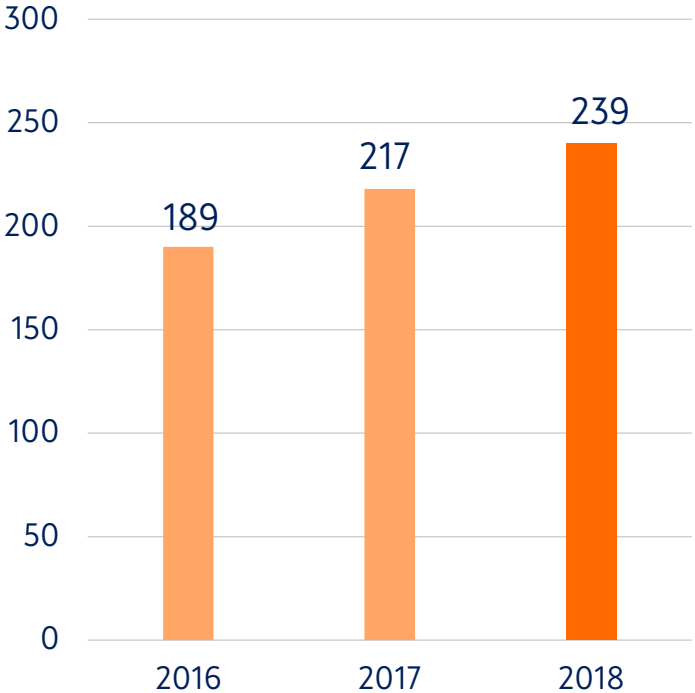


eCom sales of **€ 42 million** in 2018 with a growth rate of around 20 %

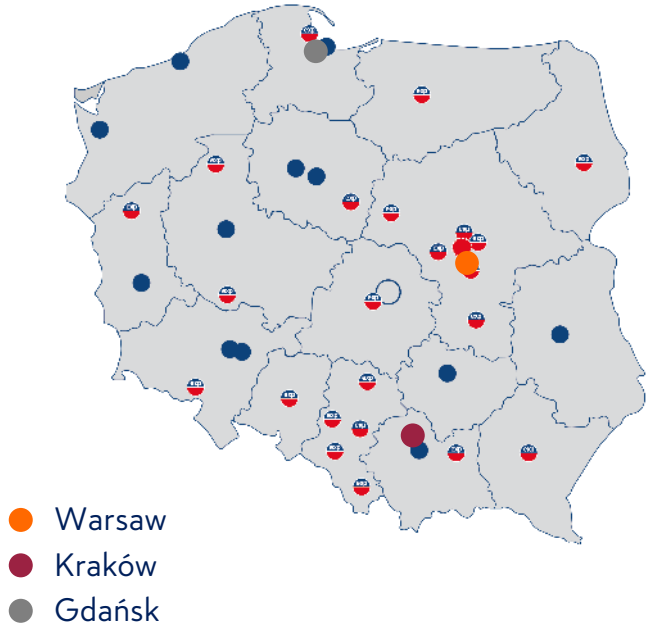


Personnel: approximately **770**

Net sales
€m



- 36 Onninen Express stores or points of sale
- Distribution centre in Tesolin



Operating Environment – Onninen #2–3 in Technical Trade



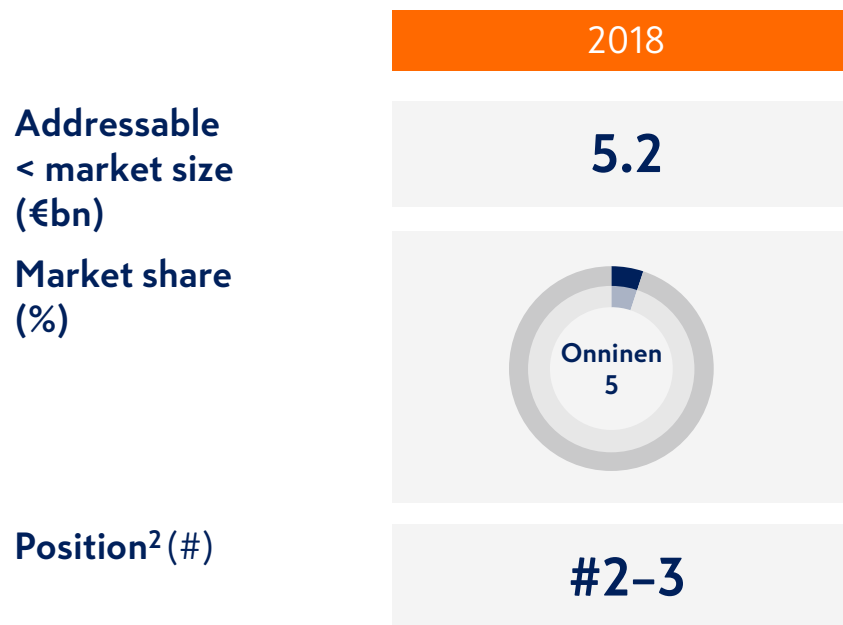
Technical Professionals

Products and services for customer segments:

- Contractors, Industry, Infra and Retailers
- Both Electrical & HEPAC products

Market position #2–3 in a highly fragmented market

Traditional technical trade market¹



1) Core Electrical & HEPAC categories + complementary products such as tools, tiles and bathroom equipment

2) Excluding purchasing chains

Main competitors in a fragmented market:

- BIMs plus, HTI & Hydrosolar (GC Group)
- TIM
- Saint-Gobain
- Alfa Elektro (Sonepar)
- Tadmar (Saint Gobain)
- Kaczmarek
- Wurth
- Purchasing chains

Building a Sustainable and Profitable Business 2016–



Status 2016

- ✓ Unfavourable market development
- ✓ Challenging ERP implementation
- ✓ New owner
- ✓ Several management changes
- ✓ Management structure & processes underdeveloped



Status 2018

- ✓ Gained back market position
- ✓ Generating positive EBIT
- ✓ Built a robust organisation with a strong corporate culture
- ✓ Started store network renewal
- ✓ Defined & implemented future business models

Solid Foundation Created to Accelerate Business



Main actions going forward

- ✓ Continue the country focused strategy execution
- ✓ Develop customer-centric sales excellence.
Become the trendsetter in customer experience
- ✓ Continue the transformation of our store network and further develop eCom B2B business
- ✓ Optimized e2e product flow and create a unique customer service
- ✓ Build growth on solid foundation and participate in the consolidation of the market





Gaining Sustainable Profitability in Sweden

Endre Espeseth,
Country Director, Sweden and Poland

Kesko Footprint in Sweden



K-Rauta, Onninen and Fresks had retail sales of **€ 464 million** in 2018



17 K-Rauta stores
34 K-Bygg&Grund stores
 Distribution center in Örebro

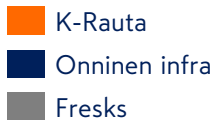
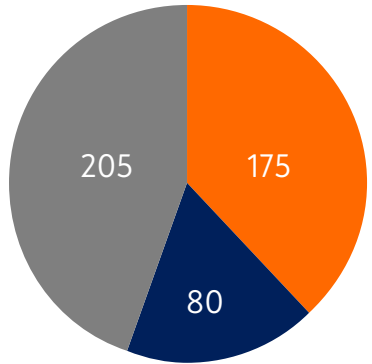


K-Rauta webshop
 Onnshop for B2B

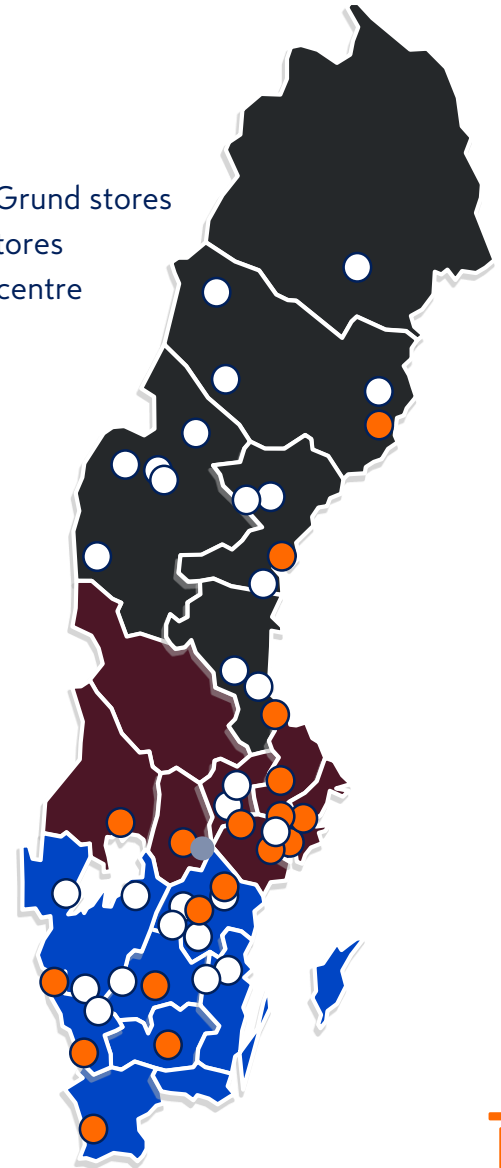


Personnel: approximately **1,400**

Proforma net sales
 €m

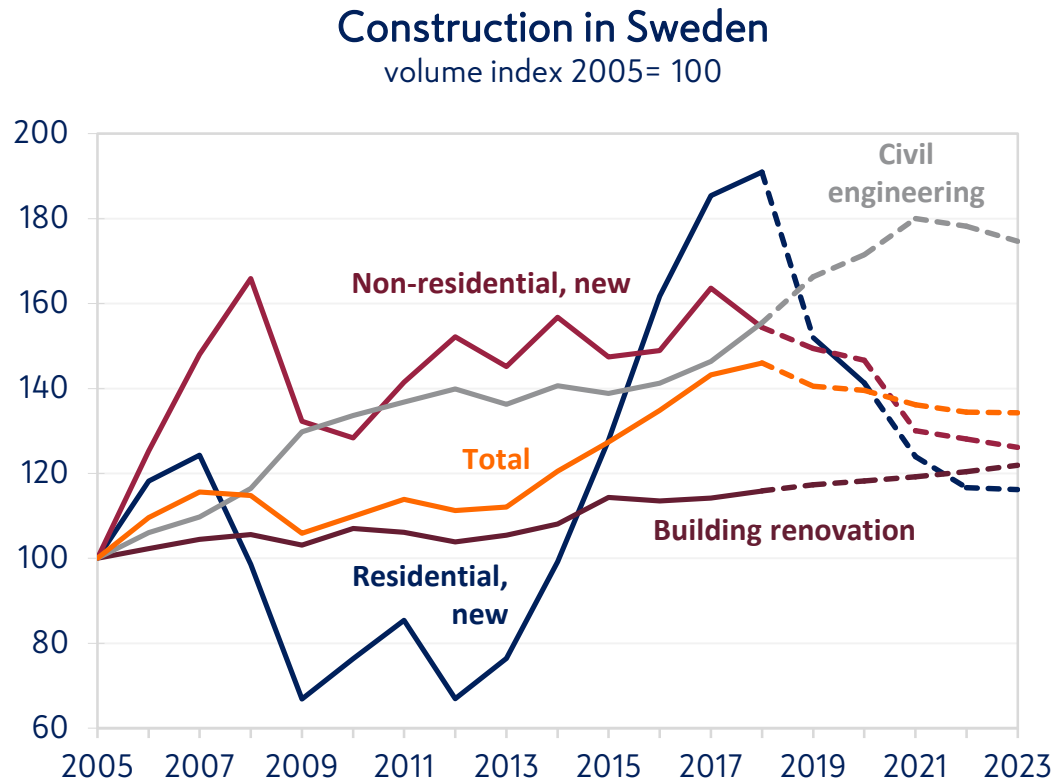


- 34 K-Bygg&Grund stores
- 17 K-Rauta stores
- Distribution centre in Örebro





The Market for Building Materials in the Retail Channel is Expected to Remain Strong



- Construction of new build estimated to decrease from the peak years
- Building renovation expected to continue the upward trend
- Civil engineering investments driving good growth in the infra market
- Total construction market estimated to remain at a good level in Sweden
- Market for retailers selling building materials to B2B and B2C customers is expected to have a stable growth

Overall Long-term Business Environment in Sweden Looks Promising for Most Market Segments



Technical professionals

- Strong growth is expected in the infra market
- Renovations will be strong



Professional builders

- Small and medium-sized entrepreneurs are expecting growth, mainly due to smaller projects in commercial buildings and renovation.
- Declining trend in the number of building permits



Consumers

- Renovation is expected to increase by 0-2% compared to 2018

Develop Business Models to Optimise Customer Experience and Expectations

Customer segment	Industry	Electrical Infra	Technical contractors		Building contractors			Consumers & renovators		
			HEPAC	Electrical	Large	Medium sized	Small	Homebuilder	Renovator	Decorator
Kesko		onninen				K BYGG & GRUND		K Rauta		
Examples of competitors	ahlsell		lundagrassisten		BEIJER BYGGMATERIAL			BAUHAUS		IKEA

Estimated by Kesko Management

Full Strategy Execution Creating a Long-Term and Sustainable Foundation for Future Growth



Technical wholesaler

onninen

”The digital and service-oriented technical wholesaler”

- Develop Onninen as a technical wholesaler primarily towards electricity market
- Develop the infra segment with expanded product range and a larger range of services



Professional builders

**KBYGG
&GRUND**

”Create a profitable building materials trade for professionals”

- Further development of the professional segment according to our strategic objective
- Fresks acquisition the platform towards the professional builders segment



Do-it-yourself (DIY)

K Rauta

”Develop a leading DIY chain in Sweden for the home renovator”

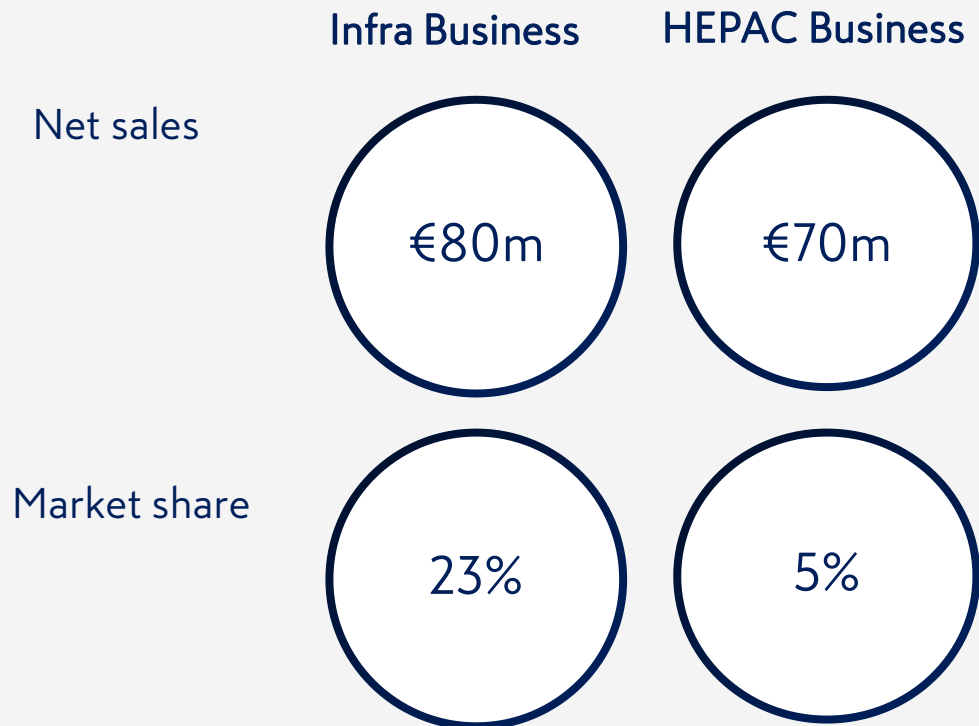
- Operational improvements
- Store-specific business plans
- Roll-out of category and destination concept



Common goals

- Create a result-oriented, customer-oriented organization with clear goals
- Digital acceleration
- Develop Örebro to become Kesko Sweden’s logistics centre
- Commerce excellence

Focus to Growing Infrastructure Business in Onninen Sweden



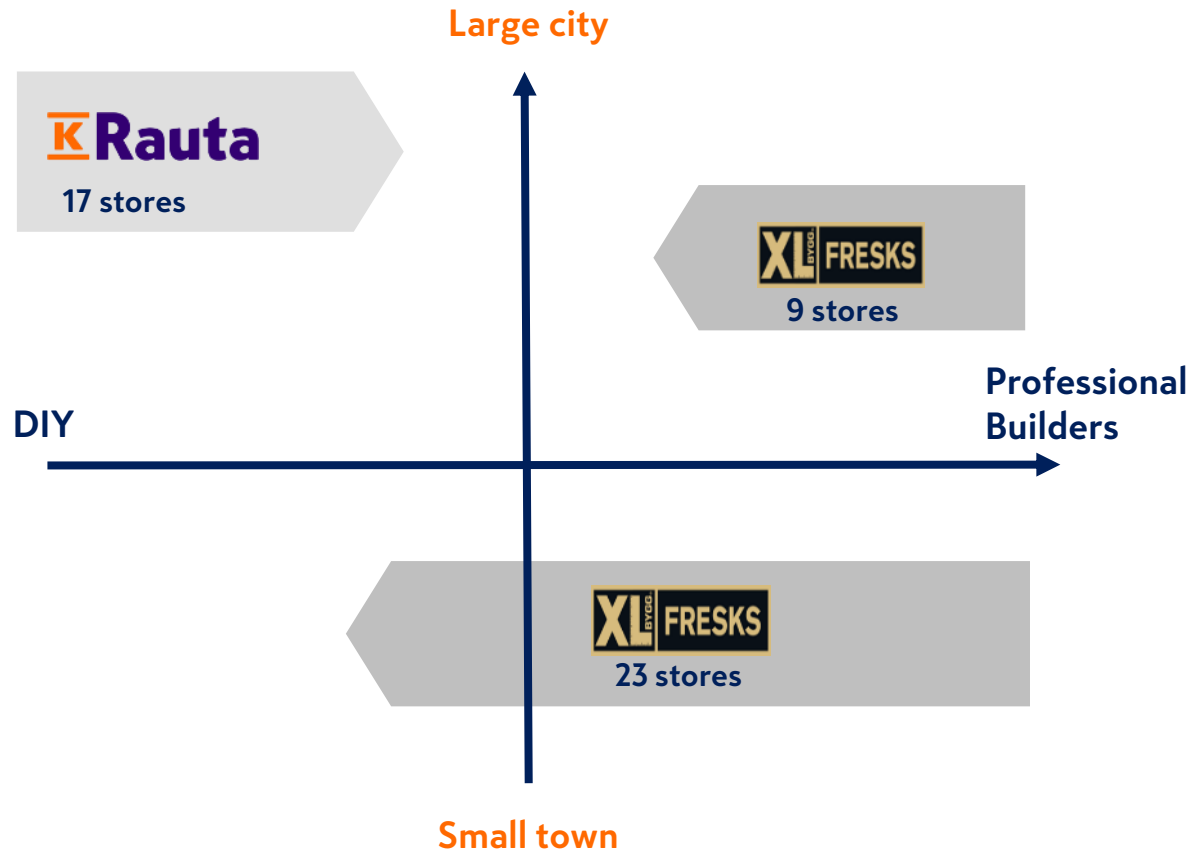
- Onninen infra business, where Onninen has a strong market position, will form the core of the Onninen business in Sweden going forward
- Divestment of historically loss-making HEPAC business will improve profitability and allows Onninen to concentrate on the growing infrastructure business
- Transaction closing 15.5.2019

Fresks Acquisition a Game Changer in B2B Operations

- Acquisition of Fresks announced 29.3.2019, closing 17.5.2019
- Makes Kesko one of the leading building and home improvement trade operators in Sweden
 - 2018 pro forma net sales €205m, comparable EBITDA €18m
 - 33 stores with a strong market position
 - Employs approx. 500 people who serve mainly small and medium-sized B2B customers specialising in renovation
 - Significant economies of scale and synergies



Fresks Group Operations Highly Complementary to Current K-Rauta Operations



- In larger cities the Fresks Group stores are focused on professional customers, on average 76% of sales
- In smaller towns with limited competition the stores also fills a DIY gap (61% professional customers)
- Providing access to both professional builders and expansion to DIY-customers in smaller locations are key benefits

Fresks Group Offers Significant Economies of Scale and Synergies with Current Swedish Operations

Scale

- The pro forma **net sales** of Fresks Group totalled €205 million and comparable pro forma **EBITDA** €18 million in 2018
- **Market position** in Sweden from 7-8 to 3-4 in the builders segments

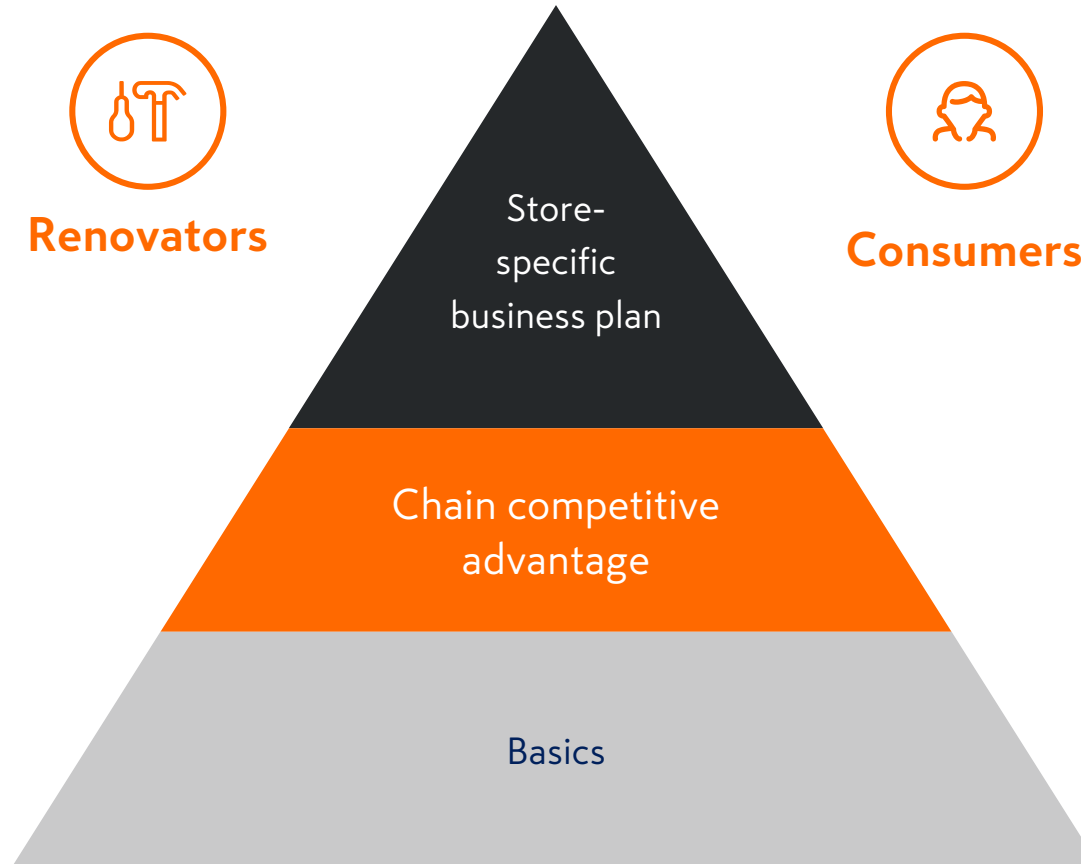
Synergies

- Revenue synergies
- Sourcing synergies
- Supply chain synergies
- Other synergies

Implementing Store-Specific Plans

Tools for identifying store-specific business ideas

- Store-specific operating environment analysis
- Space, assortment and services analysis
- Customer data and NPS



Tools for implementing store-specific plans

- Store-specific business plan
- Assortment structure and services
- Pricing profiles and tools

Full Strategy Execution in All Three Customer Segments



Technical professionals



onninen

Specialised provider for infra customers with matching know-how, product portfolio and logistics



Professional builders



KBYGG & GRUND

Focused B2B stores in larger cities and all-round hardware stores in smaller and mid-sized towns serving the whole community



Consumers



K Rauta

Inspirational hardware stores and digital presence for consumers in big cities with a range of services

K

Additional Information

Q2/2019 Half Year Report
24 July 2019

Q3/2019 Interim Report
24 October 2019

In addition, Group sales figures published monthly and K Group's retail sales figures quarterly

We observe a 30-day silent period

Materials and events: www.kesko.fi/sijoittaja

Follow us at: twitter.com/Kesko_IR

Contact

Kia Aejmelaeus

VP, Investor Relations

Tel: +358 40 765 4616

Email: kia.aejmelaeus@kesko.fi

