

Q&A with President and CEO Mikko Helander on 24 July 2019 at Kesko's media and analyst briefing for the Q2 and half year financial report

*

Harri Wallenius, Nordea: How much of the store redesigns in the grocery trade have you now completed, will there be more store redesigns?

Mikko Helander: Updating stores is an ongoing process, so in that sense they will continue. But the store remodelling process that we began in 2015 will be completed by the end of this year. At that point, we will have carried out the redesign and rebranding of our store networks, and we will switch to normal remodelling and upkeep of the stores.

*

Harri Wallenius, Nordea: You mentioned cost savings – where have you achieved the biggest savings in the grocery trade?

Mikko Helander: The acquisition of Suomen Lähikauppa and its fast and successful integration into K Group and Kesko resulted in significant synergies. That combined with organic growth and the consequent significant increase in sales volumes has been the biggest contributing factor to improved cost-efficiency. Today, we can handle significantly larger volumes while employee numbers and other costs have not increased nearly to the same extent. This is reflected across the board in unit costs in the grocery trade and in improved cost competitiveness.

*

Harri Wallenius, Nordea: How has K-rauta performed in Sweden, excluding K-Bygg? Have you managed to reduce losses there?

Mikko Helander: We have cut losses, yes. However, the new country management has initiated a big transformation for the K-rauta chain there. The work has proceeded according to plans, but we'll see the results of those efforts more in upcoming years.

Following the acquisition of Fresks, Jorma and his team are working hard to maximally utilise synergies between K-Bygg and K-rauta, a lot is happening there. I have faith that these factors will accelerate the improvement in K-rauta's profitability and operations. Would you care to add anything, Jorma?

Jorma Rauhala, President, building and technical trade: Yes, overall our situation in Sweden is looking better than perhaps ever. We divested the loss-making part of Onninen, while the healthy infrastructure business remains. K-Bygg is very profitable, and everything there has gone according to plans, in line with estimated figures. As for K-rauta and K-Bygg, as Mikko said, we see significant synergies between them. It's worth remembering it's only been one and a half months, but everything has gone according to plans. So things in Sweden are looking bright for a change.

*

Kirsi Turkki, Lännen Media: In the grocery trade, your growth clearly outpaced the market. When did the turn take place, has your growth outpaced the market in previous quarters?

Mikko Helander: Yes, it clearly has. Ari, would it be right to say that a distinct turn took place in spring 2018? Our growth rate has steadily exceeded that of the market from Q2/2018 onwards. We've had some periods of such growth also before, but the trend has been constant since then, and the growth figures are big.

Kirsi Turkki, Lännen Media: So who has lost?

Mikko Helander: Our competitors. It's no secret, it's public knowledge. If you look at, for example, S Group's H1 figures, their growth rate was close to the rate of inflation, if I remember correctly, which is clearly less than our growth rate.

*

Kirsi Turkki, Lännen Media: You talk about the multi-store model – how common is it for one K-retailer to have two or more stores?

Mikko Helander: It has been a positive surprise for us, just how enthusiastic retailers have been about this. The model has been in place for some two years. Ari, do you have an exact figure? We have in total 1,100 K-retailers. How many food store retailers do we have?

Ari Akseli, President, grocery trade: We have 1,200 stores in total, and nearly 600 of those operate under the multi-store model, by retailers who have two or more stores.

Mikko Helander: How many K-food retailers have more than one store? Is it 500?

Ari Akseli, President, grocery trade: No quite as many, I would say over 200, maybe 250.

Mikko Helander: It has been a significant change. When we acquired Suomen Lähikauppa, the number of small neighbourhood stores doubled. We now have 800 K-Market stores. We could not have managed such a large number of neighbourhood stores as effectively with the old model, the success is thanks to the multi-store model and the enthusiasm among retailers to manage more than one store. And they manage the stores well, as the sales figures indicate.

*

Kirsi Turkki, Lännen Media: You carried out three major acquisitions in the car trade. Are there more such companies in Finland for you to buy?

Mikko Helander: I don't know about Finland. Of course, we are also looking at Finland. However, our position in Finland is so strong that the biggest potential and interest for us lies outside Finland. As we've said many times before, we see good and interesting growth opportunities in the building and technical trade, in both building and home improvement trade and Onninen's technical wholesale, especially in

Northern Europe. We seek growth organically, but also through acquisitions. We've made acquisitions, and of course we are mapping out possibilities all the time.

Kirsi Turkki, Lännen Media: So is your car trade network now complete?

Mikko Helander: I'm not saying that, none of our divisions is complete. We see lots of growth potential also in the car trade division, and growth there has been good. The strengthening of our dealer network is an important part of our growth. The fact that our Volkswagen Group's product assortment is expanding – we started selling Porsche a few years ago, and now Bentley – that also supports our growth. Also, new mobility services: we are making significant investments in a charging network for electric cars, we've introduced car leasing. We've tried out many other mobility services for both consumers and corporate customers. We believe these also offer us good growth opportunities going forwards.

*