



KESKO INTERIM REPORT Q3/2019

Mikko Helander, President and CEO, 24 October 2019

**All-Time Best Quarter**





# Highlights Q3/2019

- Another all-time best quarter for Kesko
- Group net sales up by 6.1%
- Market share for K-food stores strengthened further, performance particularly strong in the K-Citymarket chain
- Growth continued in building and technical trade, with profitability improving especially in the Nordic countries
- Kesko was again included in the prestigious Dow Jones Sustainability Indices



# Key Performance Indicators

## Profitable growth continued in the third quarter

	Q3/2019	Q3/2018	1-9/2019	1-9/2018
Net sales, € million	2,803.9	2,641.8	7,986.1	7,727.6
Change in net sales, %	6.1	1.8	3.3	-2.4
Change in net sales, comparable, %	2.9	3.5	1.6	3.6
Operating profit, € million	152.0	137.0	331.9	314.0
Operating margin	5.4	5.2	4.2	4.1
Finance net, € million*	-23.3	-25.3	-70.1	-76.7
Profit before tax, € million	129.3	111.2	263.1	234.5
Earnings per share, basic, €	1.01	0.81	2.07	1.75

Comparable figures, continuing operations

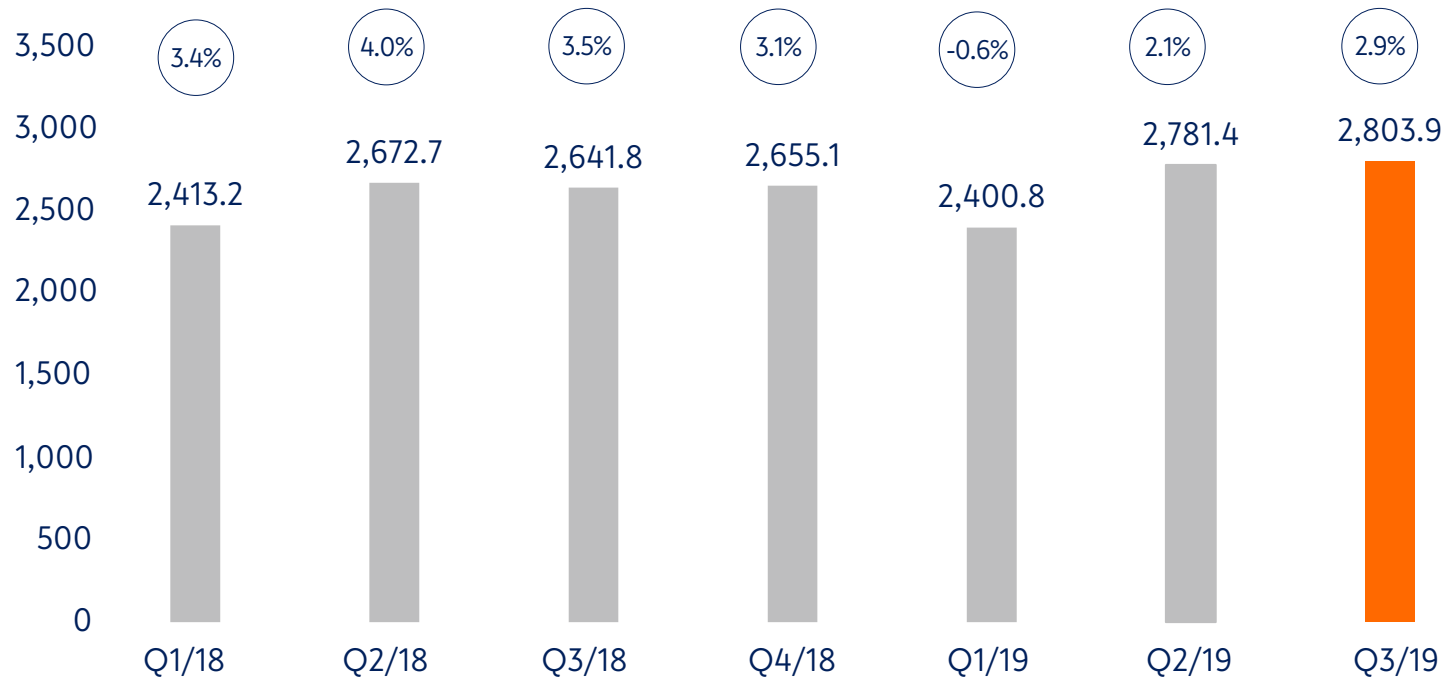
\* Includes interest expenses for lease liabilities of €23.1m (€25.0m) in 7-9/2019, €71.9m (€75.6m) in 1-9/2019

# Net Sales

Q3 net sales up by 6.1%, comparable growth 2.9%

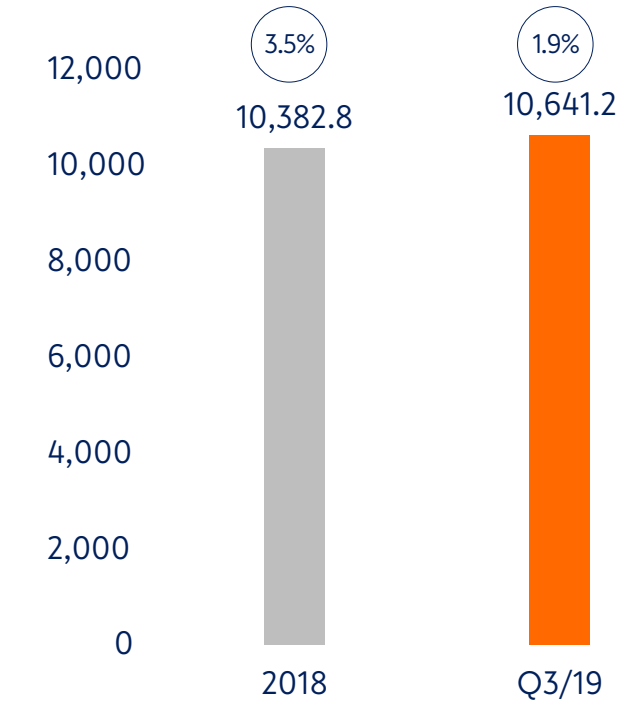
(%) Comparable growth

€m



## Rolling 12 months

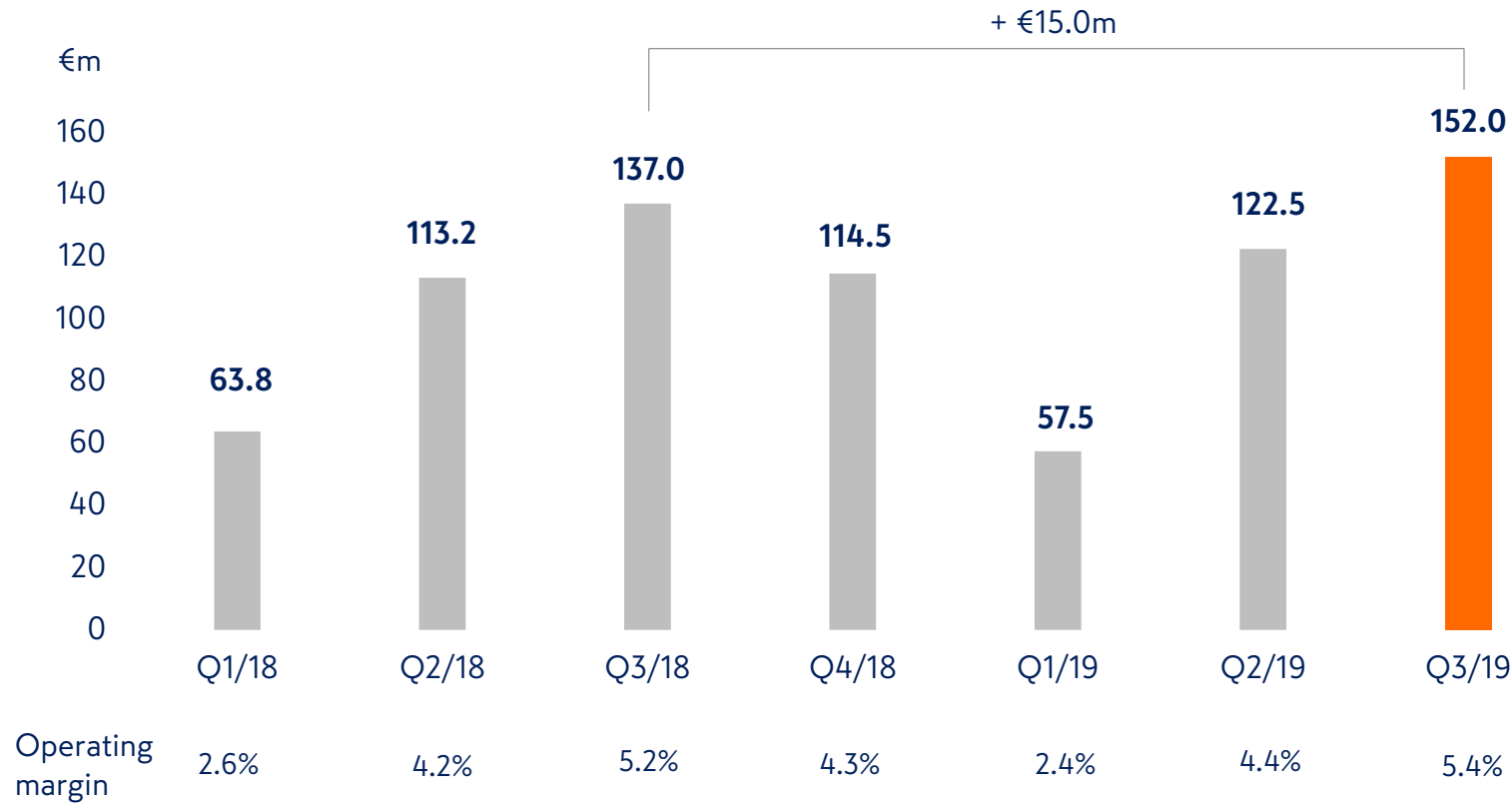
€m



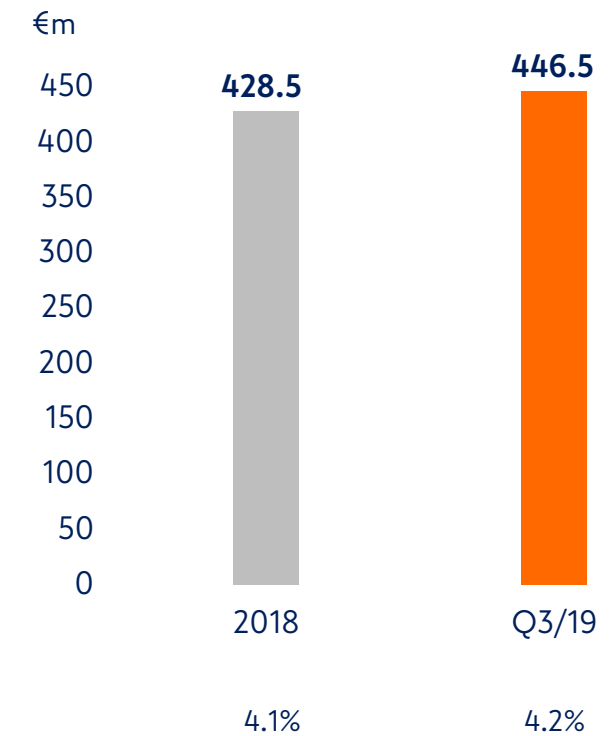
Continuing operations

# Operating Profit

Q3 operating profit up by €15 million



## Rolling 12 months



Comparable operating profit, continuing operations

# Strong Financial Position

Kesko has signed financing agreements totalling €700 million linked to its sustainability targets

	30.9.2019	30.9.2018
Liquid assets, €m	171.8	319.2
Interest-bearing net debt excl. lease liabilities, €m	465.1	228.9
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	1.0	0.6
Lease liabilities, €m	2,392.3	2,212.7
Continuing operations Q3:		
Cash flow from operating activities, €m	191.6	207.8
Cash flow from operating activities (excl. IFRS 16 impact), €m	108.4	130.5
Capital expenditure, €m*	132.2	221.2

\* Acquisitions €45.0m (€162.1m)

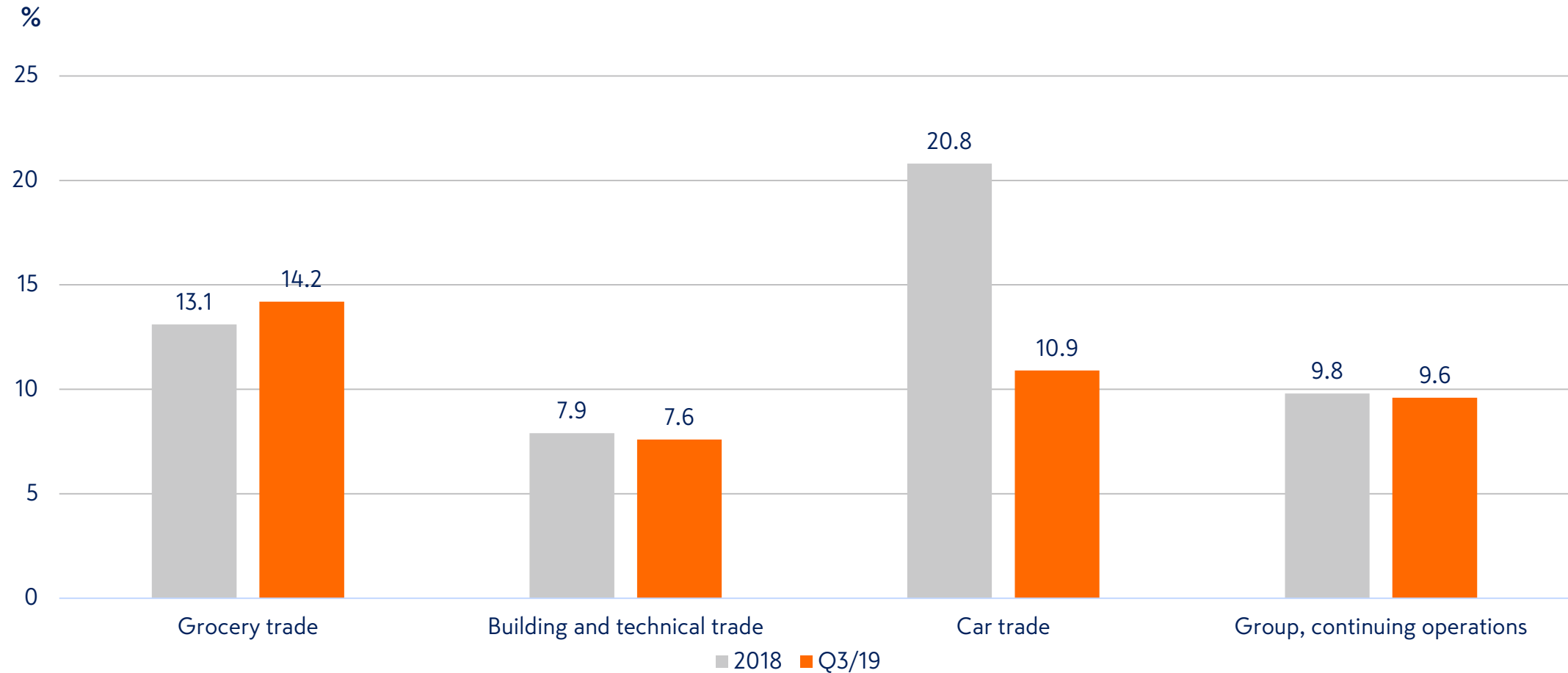
# Investments in Line with Growth Strategy 1-9/2019

€603m worth of acquisitions and investments in line with growth strategy completed in Jan-Sept

	1-9/2019, €m
Acquisitions in building and technical trade and car trade	290
Store sites	110
Kruunuvuoren Satama, store sites	86
IT and other investments	117
Total	603

# Return on Capital Employed 9.6%

Comparable, rolling 12 months





# Our Chosen Strategy Is Working and Yielding Results





GROCERY TRADE

Sales Grew, Market Share Strengthened and  
Profitability Improved Further

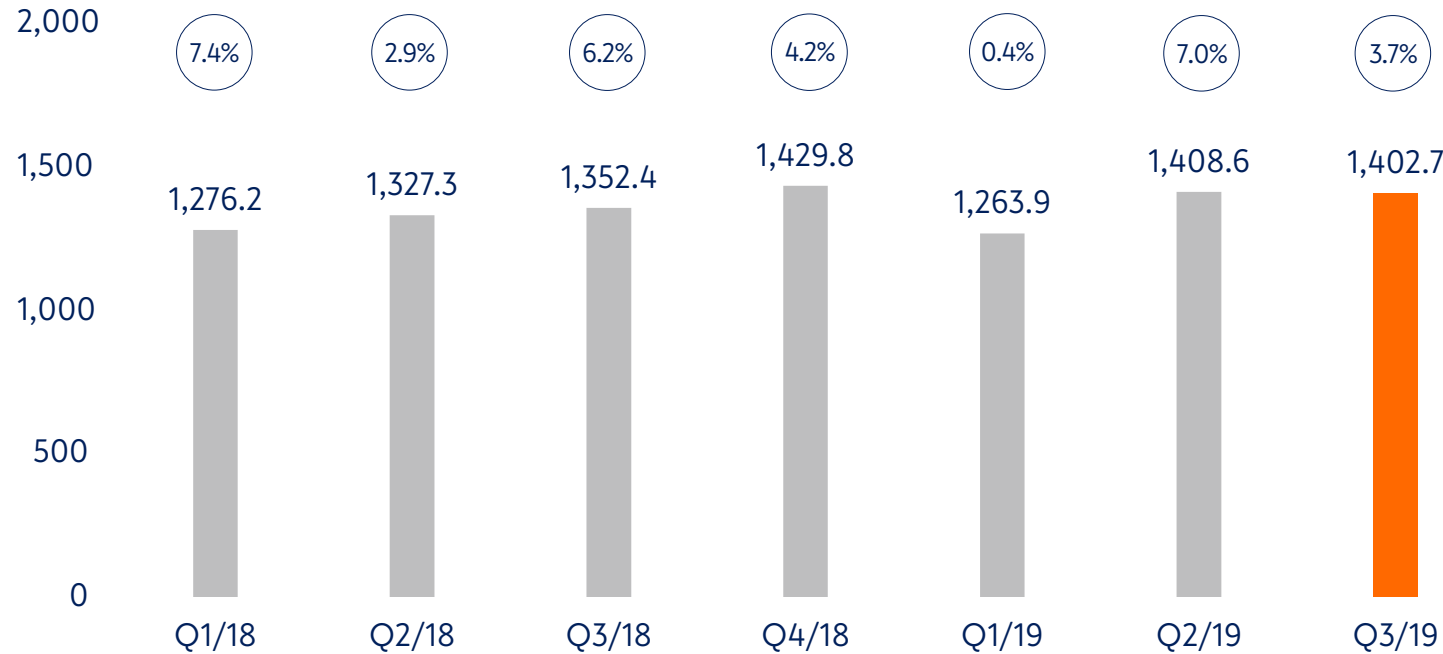


# Grocery Trade Net Sales

Q3 net sales and market share growth continued strong

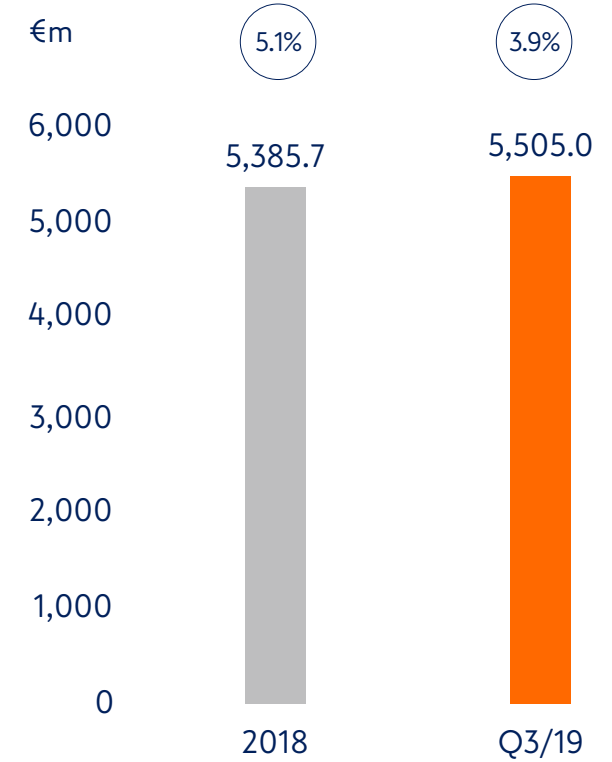
⊖ Comparable growth

€m



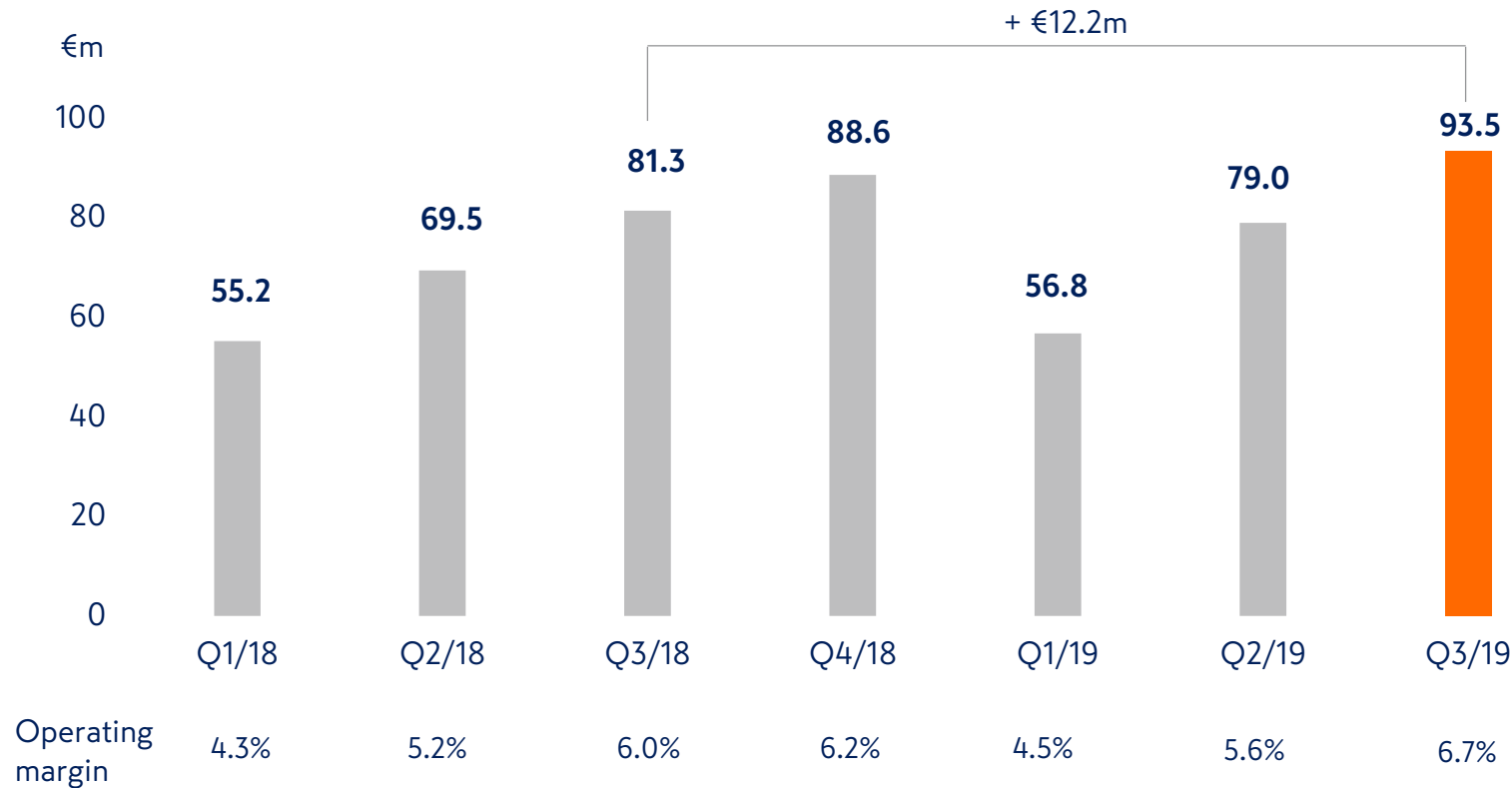
Rolling 12 months

€m

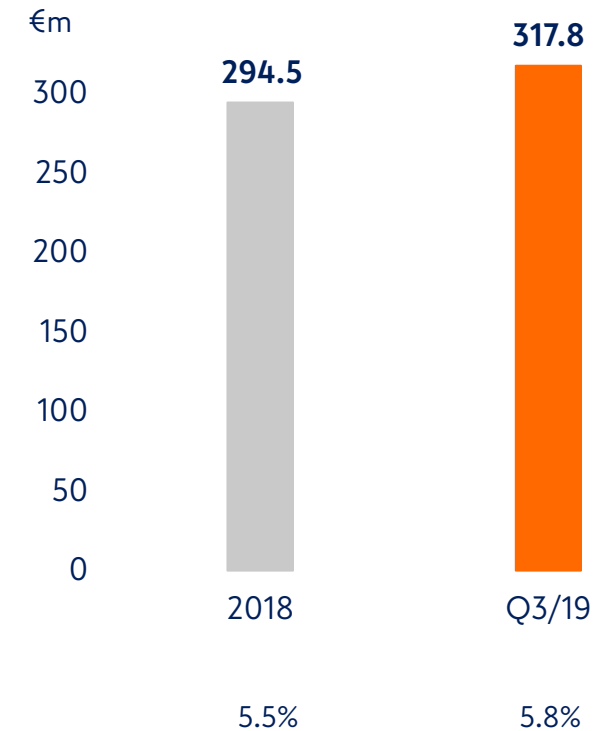


# Grocery Trade Operating Profit

Q3 operating profit improved further, growth €12.2 million



## Rolling 12 months



Comparable operating profit

# Grocery Trade

## Market

- Total market growth 2.5%\*
- Grocery prices up by approx. 1.7%
- One wholesale selling day more in Q3
- Importance of quality, selections and ease of shopping has increased further, price still relevant
- Continued growth in foodservice and the popularity of eating out

## Q3

- K Group's grocery sales +3.3%, growth outpacing the market
- Sales grew and profitability improved in all chains
- Performance especially strong in K-Citymarket, also in non-food
- Continued growth in online sales, +117%
- Finnish Competition and Consumer Authority extended the time limit for the investigation into Kesko's acquisition of Heinon Tukku

\* Kesko's own estimate



# Changing Grocery Trade Market and Trends

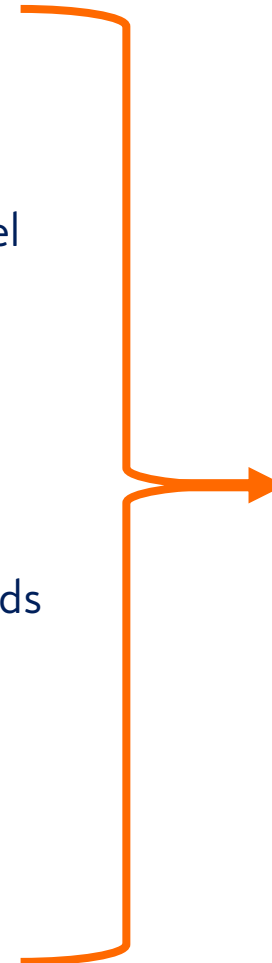
- Ease of shopping, multichannel
- Individuality and diversity of customer needs
- Experiences and inspiration
- Sustainability, Finnish products and local food
- Healthy food, especially vegetarian





# Our Strategy Is Working in the Changing Market

- K-food retailers as forerunners in modernising Finnish grocery store selections
- Store-specific business ideas and an agile operating model
  - Sustainable, inspiring, high-quality tailored selections
  - Ease and convenience
  - Advanced digital services and online sales
- Redesigns for the whole store network and all chain brands
- Competitive prices and a more extensive private label Pirkka selection
- Management by data - efficient processes based on customer data



K Group's role as  
a forerunner  
has strengthened

Customer satisfaction  
is clearly up

Good growth  
in market share



BUILDING AND TECHNICAL TRADE

Sales Grew and Profit Strengthened  
Led by the Nordics

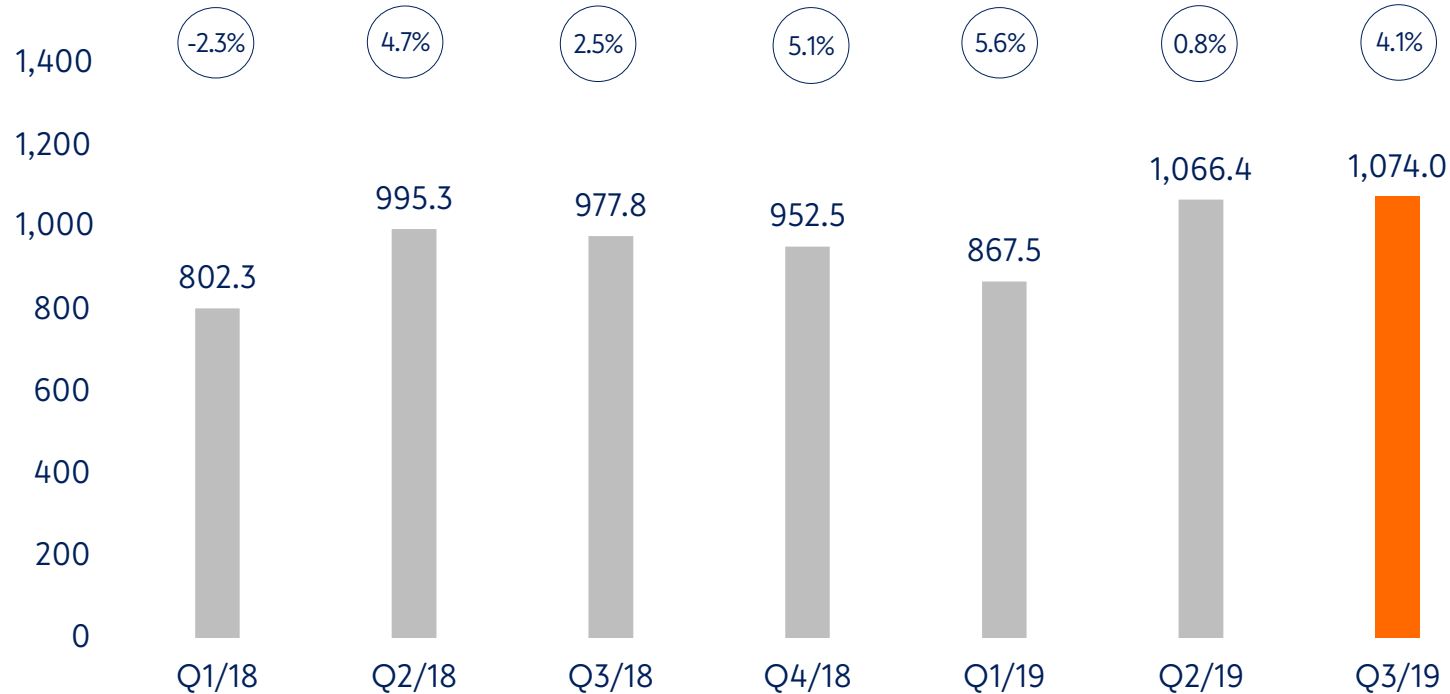


# Building and Technical Trade Net Sales

Q3 net sales up by 9.8%

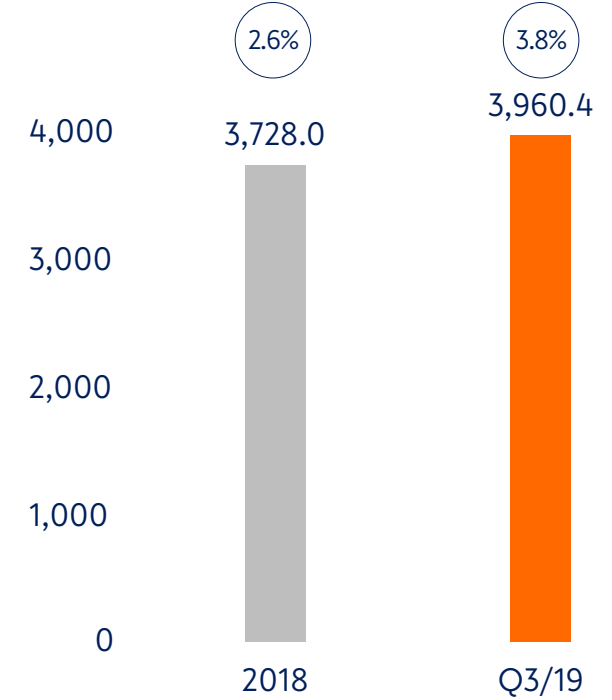
⊙ Comparable growth

€m



Rolling 12 months

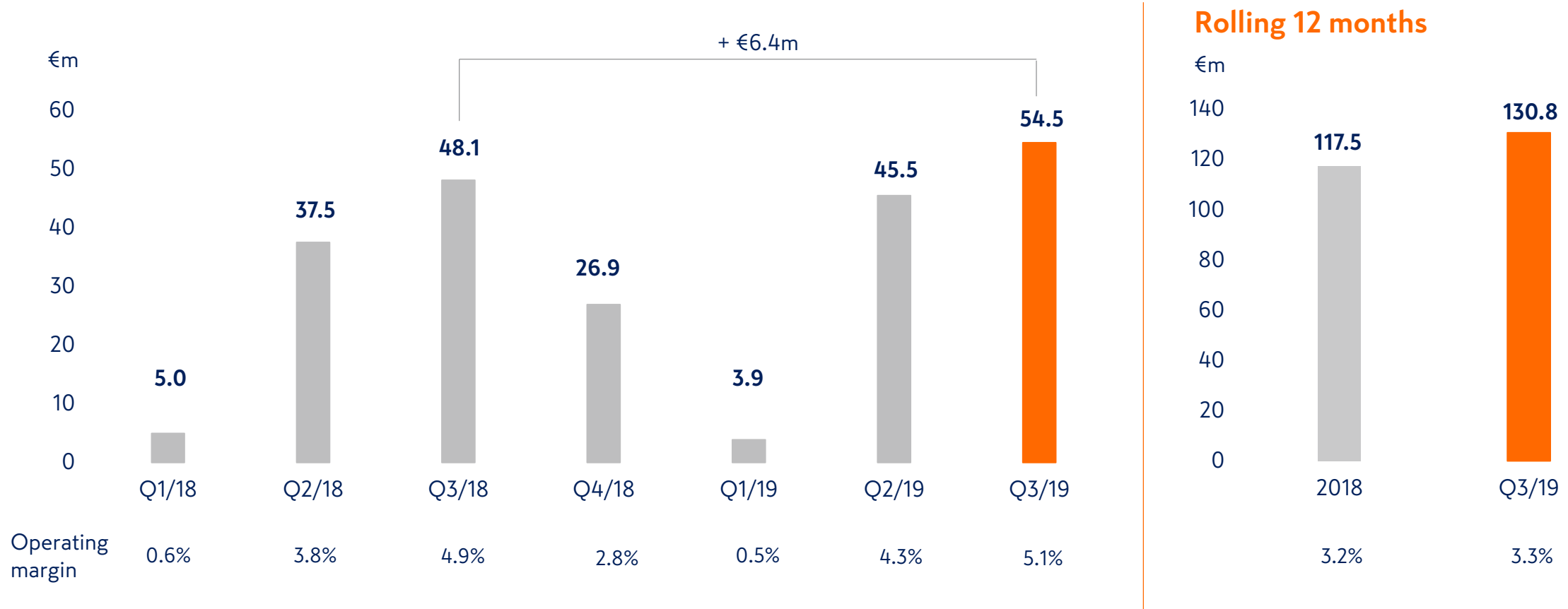
€m



Figures excluding speciality goods trade

# Building and Technical Trade Operating Profit

Q3 comparable operating profit improved, growth €6.4 million



Comparable operating profit, figures excluding speciality goods trade

# Building and Technical Trade

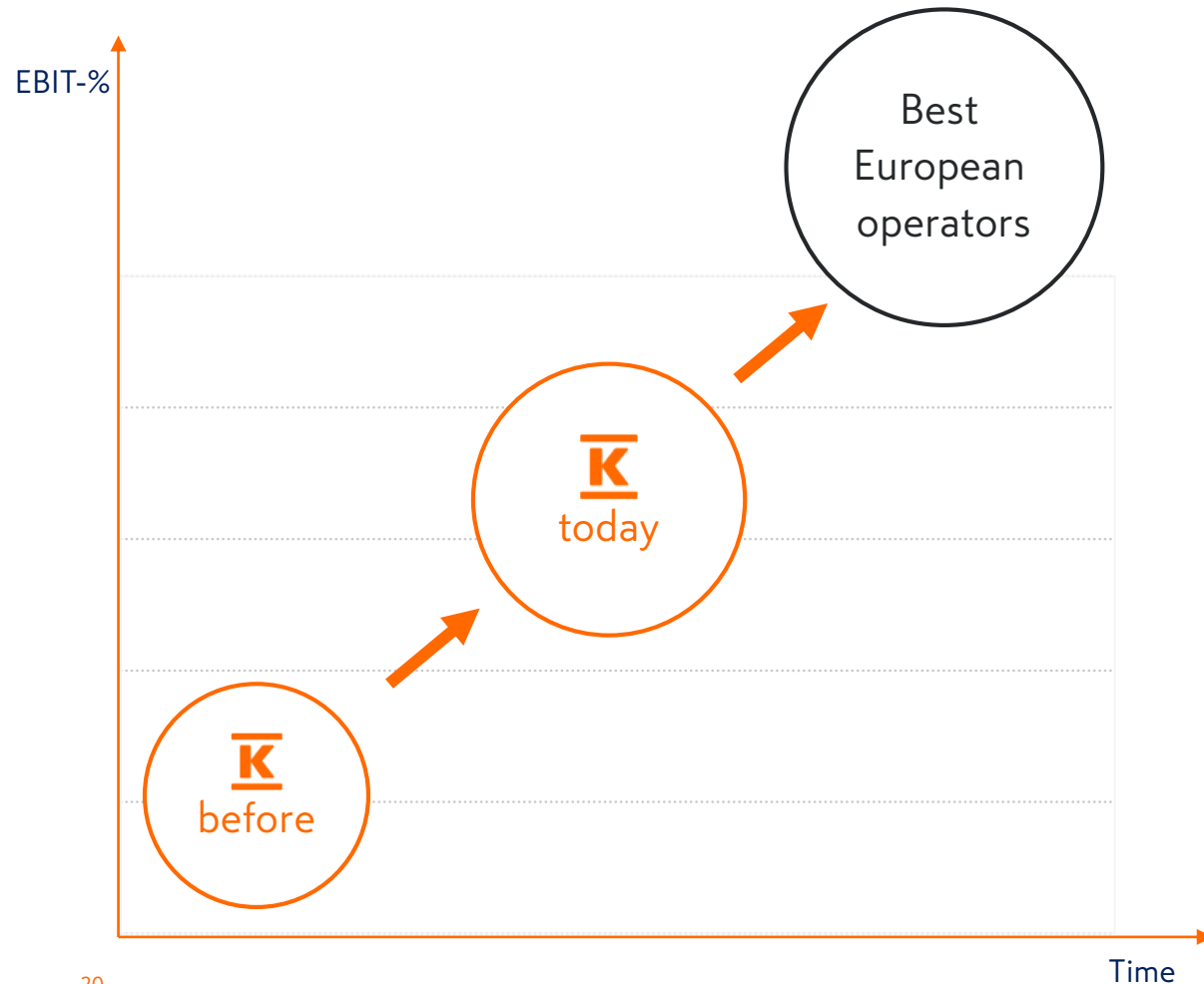
## Market

- New building volumes in the construction market normalising after peak years
- Steady growth in renovation and infrastructure construction
- Market consolidation continues
- Importance of digital services growing

## Q3

- Strong net sales growth in Finland, Sweden and the Baltics
- Profitability improved especially due to good development in K-Rauta Finland, Onninen and K-Bygg in Sweden
- Measures to improve profitability in Sweden and Norway continued
- Good performance in the sports trade, both net sales and profit up
- Finnish agricultural machinery trade operations divested in August

# Profitable Growth at the Core of Strategy Execution



- Increased country focus in strategy execution is working: sales and profit up
- Improved market position for K-Rauta in Finland among both consumers and B2B customers
- Onninen's comparable net sales and operating profit continued to grow
- In Sweden, Fresks chain rebranded K-Bygg, market position in B2B trade has strengthened
- A geographically balanced foothold: operations outside Finland account for 56% of net sales
- Continued efforts to redesign multichannel services, K-Rauta's online sales in Finland up by 99% in Q3





CAR TRADE

Our Competitiveness Is Good Despite  
the Challenging Market Situation

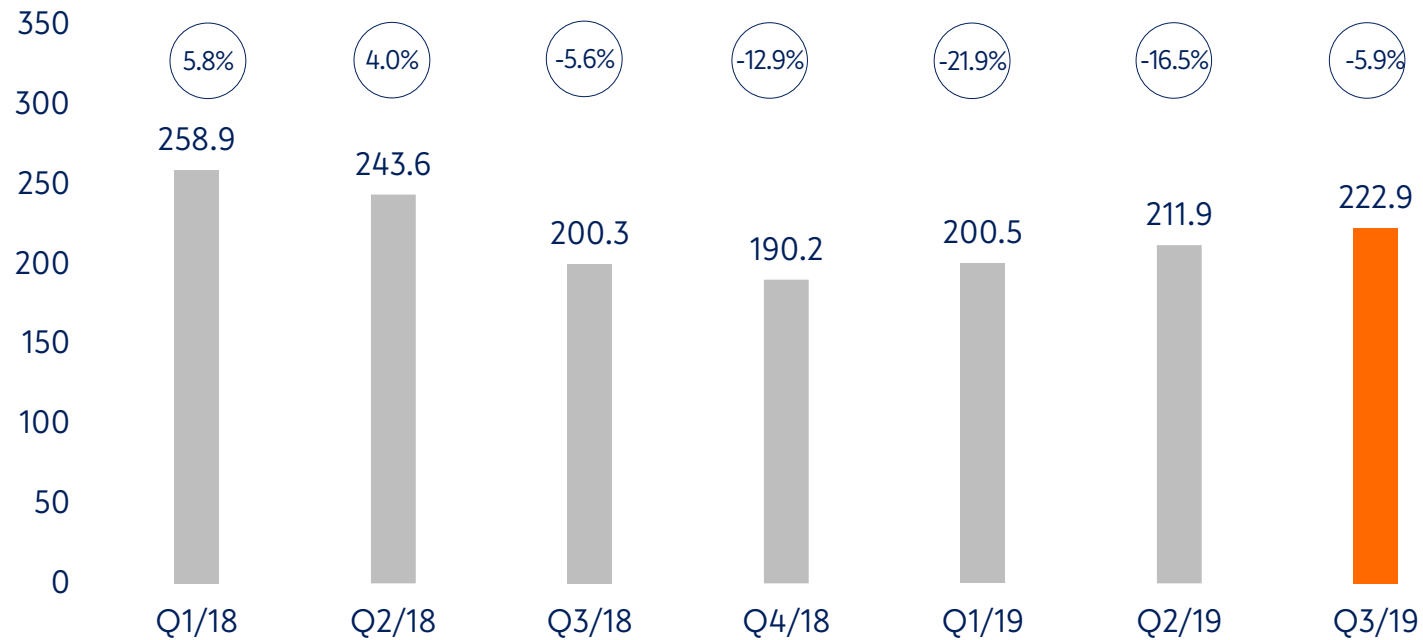


# Car Trade Net Sales

Q3 net sales up by 11.3%

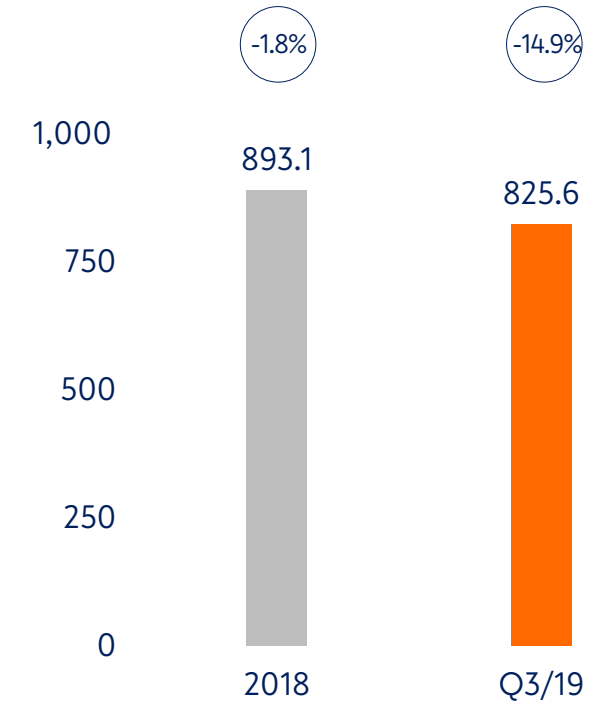
(%) Comparable growth

€m



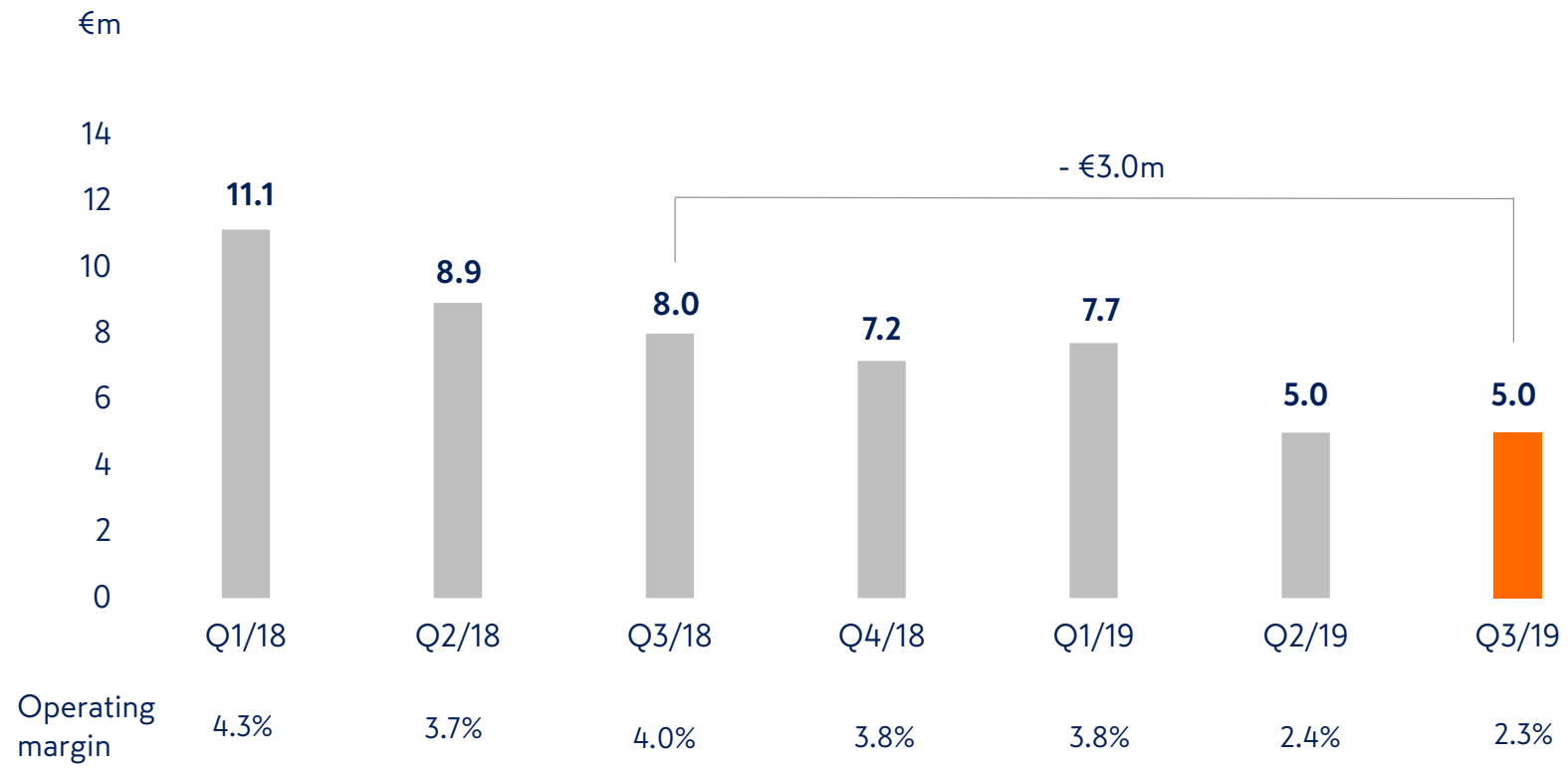
## Rolling 12 months

€m

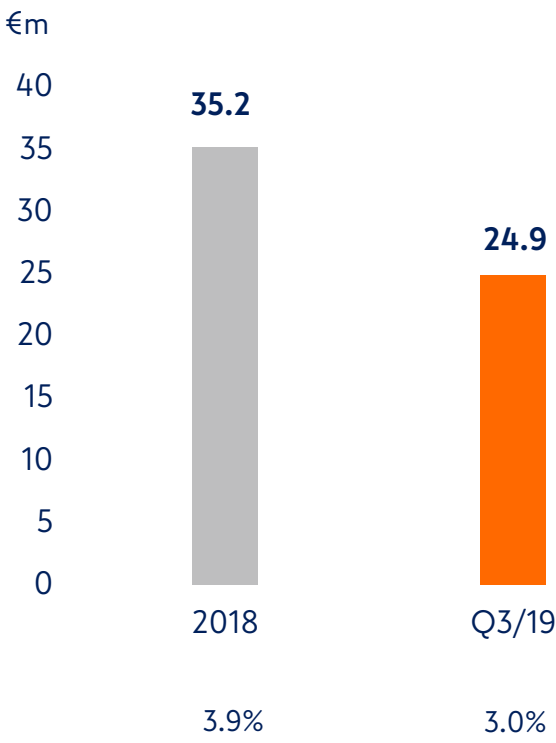


# Car Trade Operating Profit

Q3 operating profit €5.0 million, efficiency measures carried out



## Rolling 12 months



Comparable operating profit

# Car Trade

## Market

- Car trade in Europe clearly below normal levels
- Debate over car taxation and motive power choices has kept up uncertainty among consumers in Finland
- Imports of used cars clearly up
- First registrations down by 0.9%

## Q3

- Performance in car trade softer than anticipated, but did pick up towards the end of the quarter
- Significant cost adjustment measures due to changes in the market: codetermination negotiations concluded in 10/2019
- Acquisition of Laakkonen's VW, Audi and SEAT businesses completed in 7/2019
- Leasing fleet has grown to some 1,500 cars
- Market share of brands we represent 16.5%



# Strengthening Competitiveness

- Modernising and expanding range
  - Volkswagen Golf and Passat plug-in hybrid, Audi A4 and Q5 plug-in hybrid, and Porsche Cayenne Coupe plug-in hybrid
  - All-electric Porsche Taycan, Volkswagen ID.3, SEAT Mii
- Improving availability of cars
- More efficient operations, costs adjusted
- Integration of acquisitions that strengthen our dealer network proceeding as planned





# Priorities and Outlook





# PRIORITIES

- ✓ In the grocery trade, growing our sales and profitability further in the changing market by utilising our strategic strengths in everything we do
- ✓ In the building and technical trade, further growing our sales and profitability by country: continuous improvement of processes and well-executed acquisitions
- ✓ In the car trade, returning sales and profitability to a good level and further improvement through maximum utilisation of the VW Group's improved and more extensive range of models
- ✓ Maximum utilisation of data and new technologies across K Group
- ✓ Constant improvement in operational efficiency and competitiveness – preparing for a slowdown in economic growth
- ✓ Even stronger focus on visibility for sustainability in all actions by 1,800 K stores

# 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 (10/2019-9/2020) in comparison with the 12 months preceding the end of the reporting period (10/2018-9/2019). The outlook estimate 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. Uncertainty related to general economic development has grown in Kesko's operating countries and the pace of economic growth is expected to slow down. In the Finnish grocery trade, intense competition is expected to continue, but the market is expected to grow. In the Northern European construction market, new building volumes are expected to normalise from the high levels of peak years, and the focus to shift to renovation building. In the Finnish car trade, the market is expected to be lower than average.

Kesko continues the determined customer-oriented transformation of its business and execution of its strategy. 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.

# Contact

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