

Q&A with President and CEO Mikko Helander on 28 April 2020
at Kesko's media and analyst briefing for the Q1 interim report

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Joni Sandvall, Nordea: Could you elaborate on the strategic review for the Baltics and Belarus? Is a buyout by the other major shareholder a possibility if you decide to exit the markets?

Mikko Helander: I would emphasise that this is not a conclusion you should draw from our review. We have successfully built a nearly 1 billion euro business in the Baltics and Belarus, which makes us very happy and proud. In this situation, it is extremely important to carefully examine all options, and a potential option is that we further develop growth in these businesses. The option you mentioned is not one you should speculate on.

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Joni Sandvall, Nordea: You say you are cutting CAPEX below 200 million euros – where exactly are you cutting investments this year?

Mikko Helander: Acquisitions have been important for us, and as I said, we will continue the execution of our growth strategy post-crisis. However, at the moment and in the near future, we are likely to consider acquisitions and their timing particularly carefully.

Also, we have invested heavily in store site networks. This has paid off, but for now, we will slow down investments in the development and redesign of stores and store site networks. IT investments have been reduced. I can assure you that we have reviewed and assessed the need for all investments in all divisions, which has led to significant reductions in investments compared to original plans.

Again, I stress that when we start seeing a light at the end of the tunnel in terms of the epidemic, we are ready to accelerate again and continue our strategic growth, and related investments.

Joni Sandvall, Nordea: You've talked a lot about implementing store-specific business ideas in building and home improvement stores – does this mean such efforts are now on hold during the crisis?

Mikko Helander: Absolutely not. We continue the determined execution of our strategy, and we have gotten good results from store-specific business ideas in the grocery trade. We will continue to create and develop store-specific business ideas also in building and home improvement trade, where results have also been good. Many of these do not require any massive investments.

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Joni Sandvall, Nordea: Has the sales mix changed in grocery trade?

Ari Akseli, President, grocery trade: There has been a change in the sales mix towards more traditional foods and brands. Meat sales are up, as are the sales of many non-perishables such as pasta and canned goods. Overall, the change in sales mix has been positive for us, and average purchase is significantly up. Also, there really is a “Great Finnish bake-off” going on, there has been a huge uptick in baking.

Mikko Helander: That’s reflected in yeast sales.

Ari Akseli, President, grocery trade: Yes, there is no amount of dry yeast that can satisfy demand. Tips on where to find yeast are a hot topic on social media.

Mikko Helander: At least I hope the yeast is being used for baking.

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Joni Sandvall, Nordea: In foodservice, some operators have expanded to retail. Do you think this is a significant shift going forward, other foodservice operators establishing retail sales channels?

Ari Akseli, President, grocery trade: In foodservice, the biggest change has been the increase in takeout meals, and we are confident that will continue. Consumers are clearly buying more takeout, and that affects both foodservice and retail. Retail sales by individual wholesale companies have a very minor impact on the overall market.

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Joni Sandvall, Nordea: A question about your leasing fleet: are you worried about the resale value of the cars as this situation drags on?

Johan Friman, President, car trade: We are mostly making 3-4 year leasing agreements, so the first cars will come back to us in a couple of years. The way residual values have been calculated makes me confident there is no major risk there. On the contrary, I believe there will be good demand also going forward for 3-4-year-old cars that have been serviced regularly. I don’t see a risk there.

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Joni Sandvall, Nordea: Do you expect online [grocery] sales to remain at their current high level? What do you think online’s share of food retail will be going forward?

Mikko Helander: It’s clear that the change we have now seen will push online grocery sales to a new level in Finland. As we’ve noted, the epidemic is accelerating the change in the grocery trade market. It’s

difficult to estimate future levels, but as I said, online accounts for 5% of our total sales at the moment. The figure is likely to come down somewhat, but the development is likely to continue, at a faster pace.

We are very happy that some three years ago we developed our next generation online grocery platform kruoka.fi, which we have been able to take into use. Studies show customers also consider it the easiest to use. This sets us up brilliantly to continue the strong development in online grocery sales also after the epidemic.

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Hanna Jaakkola, VP, Investor relations: A question online from Pirkko Tammilehto, Kauppalehti: “Is it possible you will completely divest operations in the Baltics and Belarus, and if so, when?”

Mikko Helander: As I said, we have begun a strategic review. We have been able to build one of the biggest trading sector operators in the Baltic region, with net sales close to 1 billion euros. The key issue in this strategic review is that we will examine different options to strengthen our commercial success in the Baltics going forward.

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Hanna Jaakkola, VP, Investor relations: Also from Pirkko Tammilehto: “Could you elaborate on your comment regarding market shares in the grocery trade, about one of your competitors making changes to past sales data?”

Mikko Helander: Not one competitor, but several. In our view, it is very important for our sector that we can all monitor market shares. I find it peculiar for past figures to be changed afterwards, and of course that also impacts current reported market shares. We feel operators should be consistent and follow the reporting practices we’ve all agreed on, to ensure that we can all monitor reliable market share data. This has been disrupted, and that’s unfortunate.

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Hanna Jaakkola, VP, Investor relations: A couple of questions regarding building and home improvement trade from Jutta Rahikainen, SEB: “Is Kesko still looking to make acquisitions in the building and home improvement trade in Finland or elsewhere?”

Mikko Helander: Yes we are. We have a functional growth strategy, which we have been successfully executing since spring 2015, with great results. As we heard today, we had our all-time best Q1. As I said, we will absolutely continue the execution of our growth strategy.

Hanna Jaakkola, VP, Investor relations: And another question: “Have consumer sales in the building and home improvement trade grown year-on-year in April?” We of course don’t have the figures yet.

Mikko Helander: Yes, April is not over yet, we'll have April figures in a while and will report them in May in line with our practice. But like I said earlier, the market for the building and technical trade has stayed strong, even surprisingly strong, since the epidemic began, and of course we are very pleased.

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Hanna Jaakkola, VP, Investor relations: A question online from Jussi Nurmi: "Are there significant differences in the earnings logic for online grocery sales and stores run by retailers?"

Mikko Helander: No. In K Group, we have brilliant K-retailer entrepreneurs who have made chain agreements with the Group. The chain agreements emphasise sales and sales growth. Whether those sales come from the retailer's physical stores or their online sales through kruoka.fi, that does not have any notable difference or significance in terms of the agreements.

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Hanna Jaakkola, VP, Investor relations: Another question about online grocery sales from Daniel Hirvonen: "How profitable are online sales vs. traditional retail sales? Are the costs higher in online sales, or are savings there bigger?"

Mikko Helander: All online operators globally have issues with profitability, also in online grocery. There is still work to be done when it comes to profitability. The products are collected in the store, packed, and delivered to people's houses, even kitchens. This is labour intensive and labour costs money. At the moment, the price does not cover the costs of labour and service. We and other operators still have work to do to make online sales as profitable as sales in physical stores.

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Hanna Jaakkola, VP, Investor relations: A question from Anni Lassila, Helsingin Sanomat: "Kesko is distributing big dividends and its sales and profit are excellent – why are you laying off personnel?"

Mikko Helander: Lay-offs are first and foremost related to a reduction in workloads, which we have seen in many of our business operations. For example, sales to restaurants: restaurants are closed, and as a result, Kespro's sales have dropped by over 50%. We also have other businesses where the decline in sales has been massive, which means the amount of work has dropped significantly, and we respond to this with lay-offs, in compliance with law.

This has nothing to do with dividends: dividends are assets invested by shareholders in a company. The shareholders are entitled to withdraw assets they have invested when the company is profitable and has good dividend capacity. I stress: it is the shareholders' money, not a bonus paid by the company; the shareholders' money, which they most likely will withdraw from Kesko again this year, by a decision the shareholders will make in the Annual General Meeting.

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Hanna Jaakkola, VP, Investor relations: A question from Olli Vilppo, Inderes: Are your stores in all of building and technical trade division's operating countries now open as normal?

Mikko Helander: Yes, all our stores are now open as normal. In Lithuania, all stores were closed, and we were able to open stores there last week.

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Maria Wikström, Danske Bank: A question about grocery trade: at the moment, volumes are good for all operators. If the economy now weakens, Ari Akseli, what are your expectations for the market going forward? In 2014, we saw big price-driven campaigns – is that the direction the market will head towards once the hoarding stage is over?

Ari Akseli, President, grocery trade: This is something we are constantly thinking about. We've identified three phases. The first was the panic phase when restrictions were first announced, followed by a more stable phase, and now we are in a "new normal" phase. We see that people have limited possibility to spend money and seek some joy, and in many ways food has become important in that. Households are clearly spending more time on good food and cooking. We've established significant collaborations with restaurants, selling meals made by them in our grocery stores. This is a completely new business for us on a larger scale. We collaborate, for example, with Finnjäväl.

In the long term, if the economy declines significantly, there is a significant recession and purchasing power decreases, we can expect some consumers to try to save on groceries. We also have very affordable products in all categories, and can offer consumers both delicacies and cheap products, so we have solutions.

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Maria Wikström, Danske Bank: You mentioned you have 1,000 people laid off at the moment. To get a sense of how the lay-offs affect segment-specific estimates, could you elaborate on how the lay-offs are distributed between the divisions?

Mikko Helander: As I said, lay-offs have been implemented in areas where sales have dropped significantly. Kespro is one such area, and there are significant lay-offs in the car trade where sales have dropped significantly. The lay-offs also extend to all other areas, as we've postponed development projects. The measures also concern support functions. The lay-offs concern some 2,000 people at the moment, and currently some 1,000 people are laid off, both in Finland and elsewhere – the figure varies daily and weekly. We are constantly monitoring sales development, and will increase lay-offs in certain areas and ask people to return to work in others.

I again emphasise that the measures concern all our business areas, all businesses, all support functions, and the biggest lay-offs are in areas where sales have dropped the most.

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Maria Wikström, Danske Bank: A question for Jorma Rauhala. Looking at indicators, I have been surprised of how well home improvement and consumer sales in K-rauta have grown. And apparently in B2B sales at the moment, projects have not stopped? However, what is your view in the long term? Indicators before the corona epidemic showed that construction might slow down in the Nordics, yet your sales figures are fantastic. Is it possible that the crisis could be positive for building and technical trade, and that we might avoid a softer cycle in Nordic construction? What is your view for upcoming weeks and the autumn?

Mikko Helander: Please, Jorma, I'm also curious to hear this. As I said, we are very happy with the current situation, and we have managed and continue to forcefully take over market share. It'll be interested to know how the market will develop.

Jorma Rauhala, President, building and technical trade: It might be challenging to find any positives to coronavirus. But as you said, in Finland and elsewhere in Europe we can see that people in lockdown have wanted to stay busy at home or at their cottage, doing small renovation and painting etc. Personally, I expect consumer demand to stay reasonably good for some time, as e.g. foreign travel will be reduced in Finland and other countries and people will likely spend more time at home and cottages.

That's the short-term view. In the autumn, we expect the weakening in the economy to affect professional construction. So, in the short term, the situation looks promising, but in the longer term the epidemic will affect the whole business.

Mikko Helander: As we move forward in Q2 and see how containment measures are lifted and how the global economy develops, we expect to be wiser about the future after Q2.

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Maria Wikström, Danske Bank: The situation is likely to affect the car trade the hardest, and the drop in sales may be considerable. What can you do to maintain a positive result in 2020?

Mikko Helander: It's worth remembering that servicing and spare part sales always play a significant role in the car trade. Sales and services in those areas have not changed significantly, and they provide us with a good, steady cash flow. Johan, could you tell us more about our efforts in new and used car sales? You could also talk about the adjustment measures.

Johan Friman, President, car trade: Like you all have read, the automotive sector has been one of the hardest hit, alongside restaurants and many others. Over the past six weeks, orders for all car brands in

Finland have been down by 50-60%. Used car sales were the first to drop in March, we've now seen a slight pick-up there in past couple of weeks. As Mikko said, it is important for us that volumes stay stable in aftersales services, and so far they have.

But of course, buying a car is not a necessity for most people. Depending on the length of the crisis, there will obviously be an impact on new car orders and used car sales for some time. A positive for us during these difficult weeks is that we are still selling some cars, especially private leasing, which is an area we decided to focus on heavily last autumn. People do not wish to tie up their money in a car like before. But it is very difficult today to say when the situation might improve.

Mikko Helander: And maybe we should stress that when the market start recovering, we are in good shape. As we have said before, our current offering of cars for all our brands is excellent and constantly improving, including excellent electric cars.

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