



Kesko Investor Presentation Full Year 2019

**Growth Strategy Yields Record Result**



# K Group and Kesko Today

#1

**Biggest in Finland**,  
#3 in Northern Europe  
with retail sales of over  
**€13,3bn**



Profitable growth  
strategy in **3** core  
divisions



**43,000** employees,  
approx. **1,800 stores** and  
comprehensive **digital**  
services in **8** countries



**Strong financial**  
**position** with good  
dividend capacity



Market cap approx.  
**€6.5bn** with some  
**42,000** shareholders

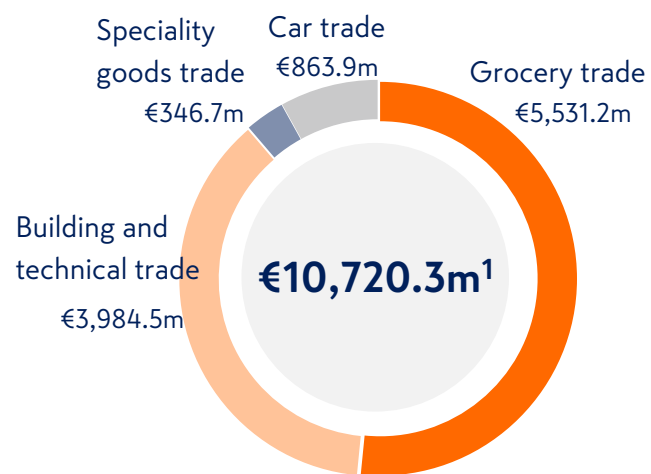


**World's most**  
**sustainable** grocery  
trade company

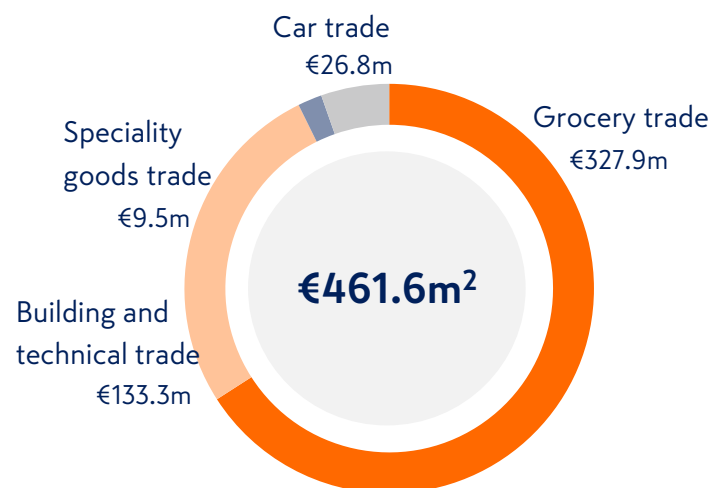
# Kesko's Footprint

## K Group's Retail Sales and Number of Stores

Net sales



Comparable operating profit



	Retail sales <sup>3</sup> € million	Stores
Finland	10,804.3	1,592
Sweden	468	52
Norway	744	81
Baltic countries	940	59
Poland	238	36
Belarus	147	17



<sup>1</sup> Continuing operations

<sup>2</sup> Incl. common functions and eliminations €-35.9 m

<sup>3</sup> Preliminary data, pro forma

# 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
- Good price competitiveness
- 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

# A Strong and More Focused Company Through Successful Portfolio Transformation

## Acquisitions

Investments in Core Business Operations €2.4bn,  
Divestments €1.0bn





# Four Reasons to Invest in Kesko

- 1 Profitable growth strategy and strong track record in strategy execution**

Customer-orientation and quality are at the core of Kesko's growth strategy. We seek focused profitable growth in three strategic areas – the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland – both organically and via acquisitions. We began the execution of our current strategy in 2015, and since then our net sales have annually increased on average by 5.4% and our operating profit on average by 17.2%. During the period, Kesko's core business' net sales have increased by €3.1 billion, and we have invested some €2.4 billion in growth, while divesting €1.0 billion worth of non-core business operations. The improvement in profitability is the result of customer-oriented growth strategies in our divisions, constant improvements in cost efficiency, and efficient capital allocation. We operate as "One unified K" and maximise the utilisation of synergies between our businesses.
- 2 Strong market position**

Kesko is one of the leading retail companies in Northern Europe and the biggest retail operator in Finland. Our objective is to always be among the top two operators in all our businesses to ensure economies of scale. Finland accounts for approximately 78% of our net sales, and Kesko is the second biggest operator in the Finnish grocery trade, and the biggest operator in the Finnish building and technical trade and car trade. We also have strong market shares outside Finland in Sweden, Norway, the Baltics and Belarus.
- 3 Ability to increase shareholder value**

Kesko's good dividend capacity is based on the strong and steady ability of its businesses to generate cash flow. Our objective is a steadily growing, attractive dividend yield. Kesko has paid dividends uninterrupted every year since 1968, and over the past five years, Kesko's dividend yield has averaged 5.4% a year. The total annual shareholder return of a Kesko B share since the beginning of 2015 is 21.7%. Growth in shareholder value is based on making and implementing successful strategic choices and on efficient allocation of capital – these saw Kesko's return on capital employed rise to 9.6% in 2019.
- 4 Corporate responsibility**

Thanks to our extensive long-term corporate responsibility work, Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe, as well as the Global 100 Most Sustainable Corporations in the World list. Kesko's climate work focuses on the purchasing and production of renewable energy and increased energy efficiency. We have set tight Science Based Targets for emissions from our operations and supply chain. We also actively offer our customers convenient ways to reduce their carbon footprint.

# Kesko's Financial Targets

Indicator	Target level	Level achieved in 2019
Comparable operating margin, %	5.0%	4.3%
Comparable return on capital employed, %	11.0%	9.6%
Interest-bearing net debt/EBITDA, excluding the impact of IFRS 16	at maximum 2.5	0.9

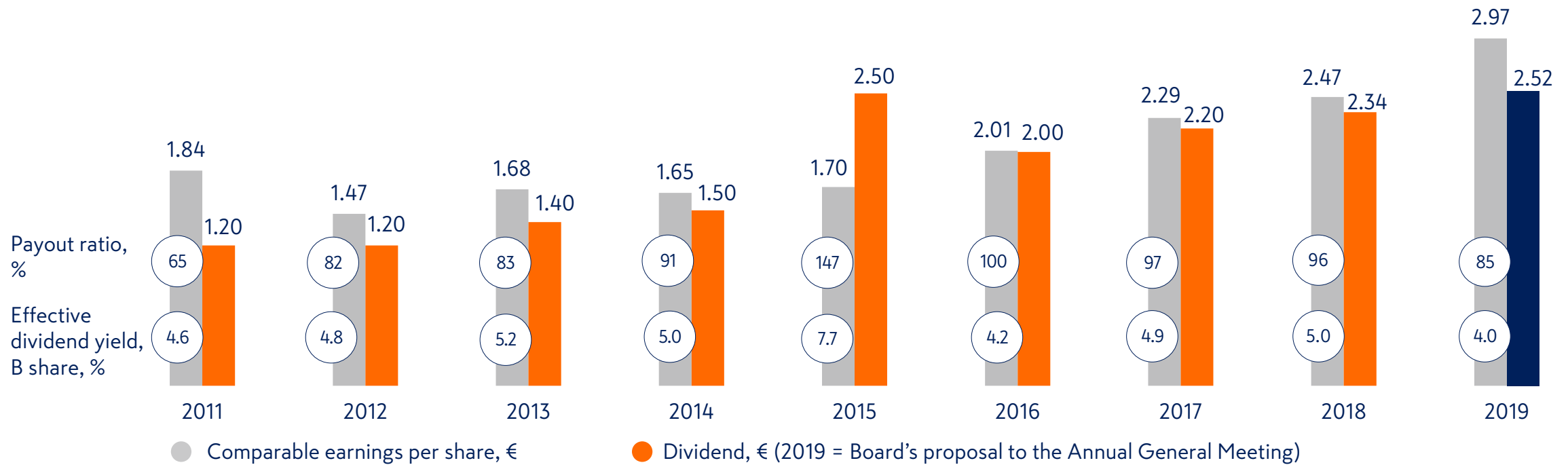
## Main themes and actions to achieve the financial targets

- All business division:
  - Customer driven organic growth
  - Improved efficiency
- Improved cash flow generation
- Focused capital expenditure:
  - Selected acquisitions
  - Limited store sites expansion needs
  - Further development of digitalisation

# Board Proposes a €2.52 Dividend to the AGM

## Dividend proposed to be paid in two instalments

**Kesko's dividend policy:** 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. Kesko has been paying its dividends in two instalments starting with the dividend paid for the year 2018.

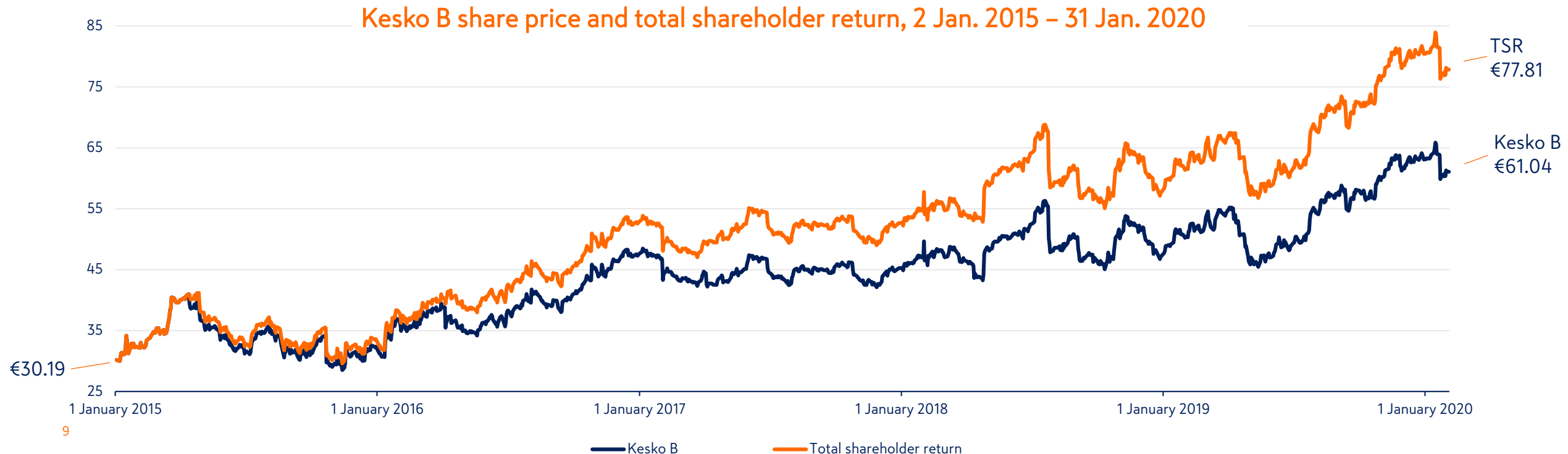




# The Board Proposes to the AGM a 1:4 Share Split





To improve the liquidity of the Company's share, the Board proposes to the Annual General Meeting that shareholders be given three (3) new A shares for each current A share and three (3) new B shares for each current B share without payment. The Board also proposes a related amendment to the Articles of Association.

The total shareholder return of a Kesko B share from the beginning of 2015 to the end of January 2020 is 158%, an increase of €47.28. The value of a B share has more than doubled from €30.19.



# Sustainability Strategy –

## The Environment Is at the Core of Our Corporate Responsibility Work

VISION	WE ENABLE SUSTAINABLE LIFESTYLES FOR OUR CUSTOMERS			
STRATEGIC OBJECTIVES	 <p>Sustainability and benefits derived from it drive customer preference in both B2C and B2B</p>	 <p>Investors prefer Kesko as a sustainable investment</p>	 <p>Employees and K-retailers are proud advocates of K Group's sustainability work</p>	 <p>K Group has a significant role in societal discussion through recognised leadership in sustainability</p>

STRATEGIC ACTIONS	1	Pursuing leadership in circular economy solutions
STRATEGIC ACTIONS	2	Strengthening responsible and transparent sourcing in the supply chain
STRATEGIC ACTIONS	3	Commercialisation of sustainability through our own brand products
STRATEGIC ACTIONS	4	Creating data-based services for customers and the society using customer data and AI responsibly
STRATEGIC ACTIONS	5	Expanding communal responsibility initiatives together with K-retailers and our employees
STRATEGIC ACTIONS	6	Reducing energy consumption and increasing our own renewable energy production



All electricity we purchase in Finland is produced with renewable energy



With 34 solar power plants, we are one of the biggest producers and users of solar power in Finland



We are constantly working to improve energy efficiency at our stores



Our logistics emissions are down by 16.8% on year 2011



Our food waste is down by 7.3% from the 2013 base level



We promote circular economy through more efficient recycling at our stores and for our own brand product packaging

# Kesko is the Most Sustainable Grocery Trade Sector Company in the World

- The most sustainable grocery trade sector company in the world in 2020, 2019, 2018, 2017, 2016, 2015  
The Global 100 Most Sustainable Corporations in the World -list
- 2019 Dow Jones Sustainability Indices World and Europe (Food and Staples Retailing)

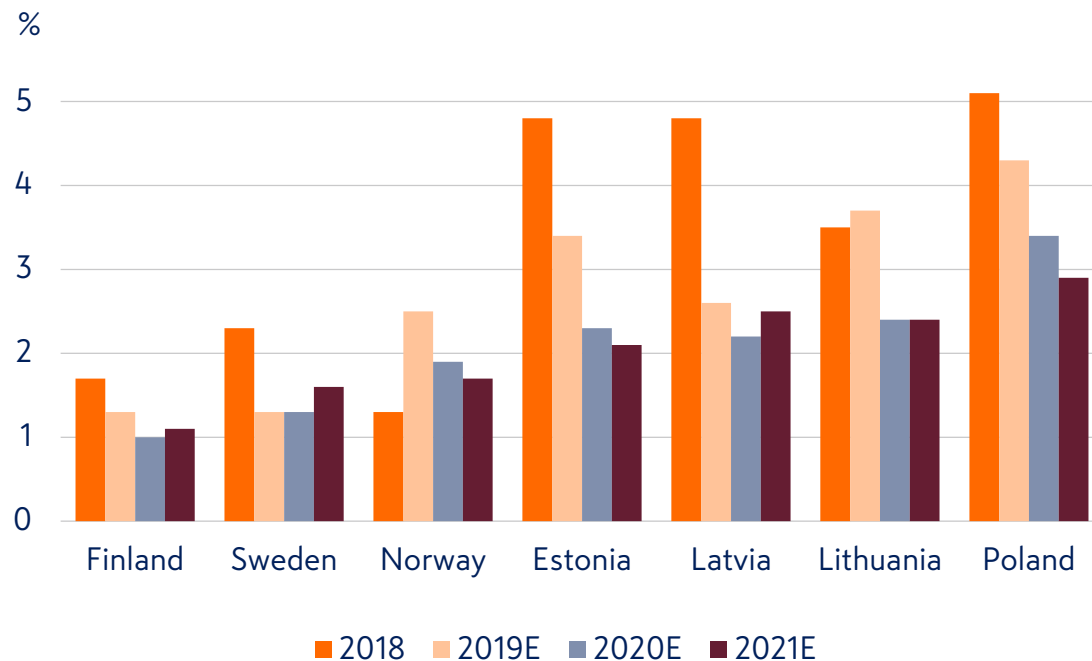


MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



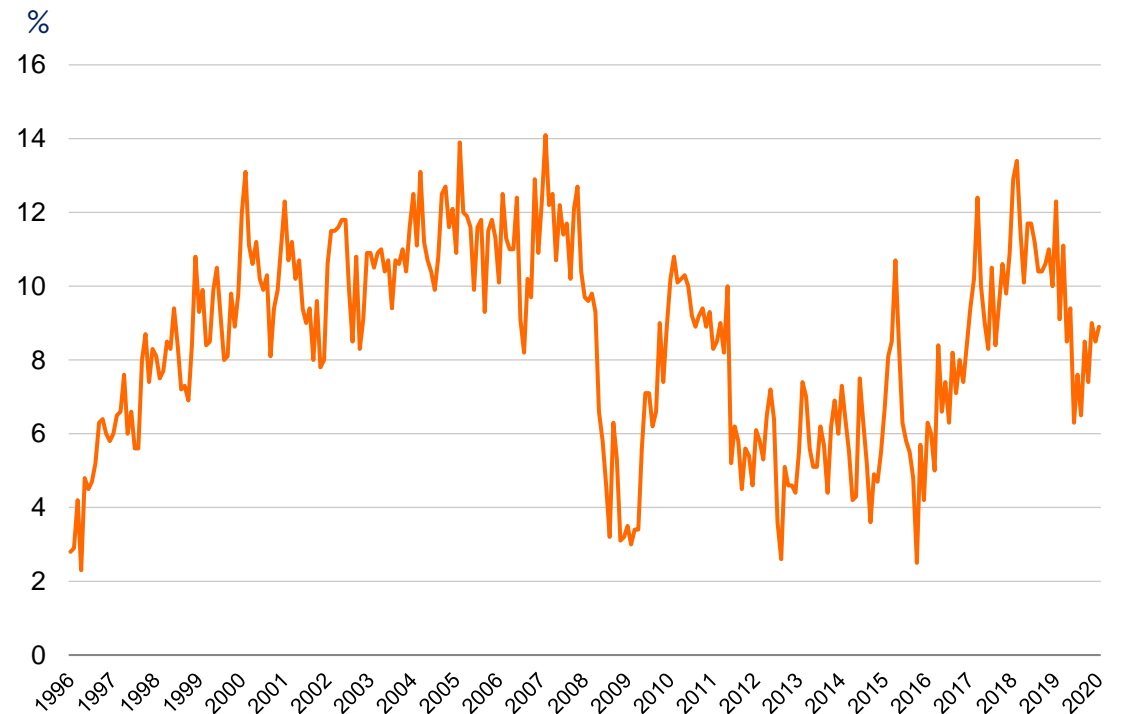
# GDP and Finnish Consumer Confidence

## Expected GDP growth in Kesko's operating countries



Source: Bloomberg, consensus

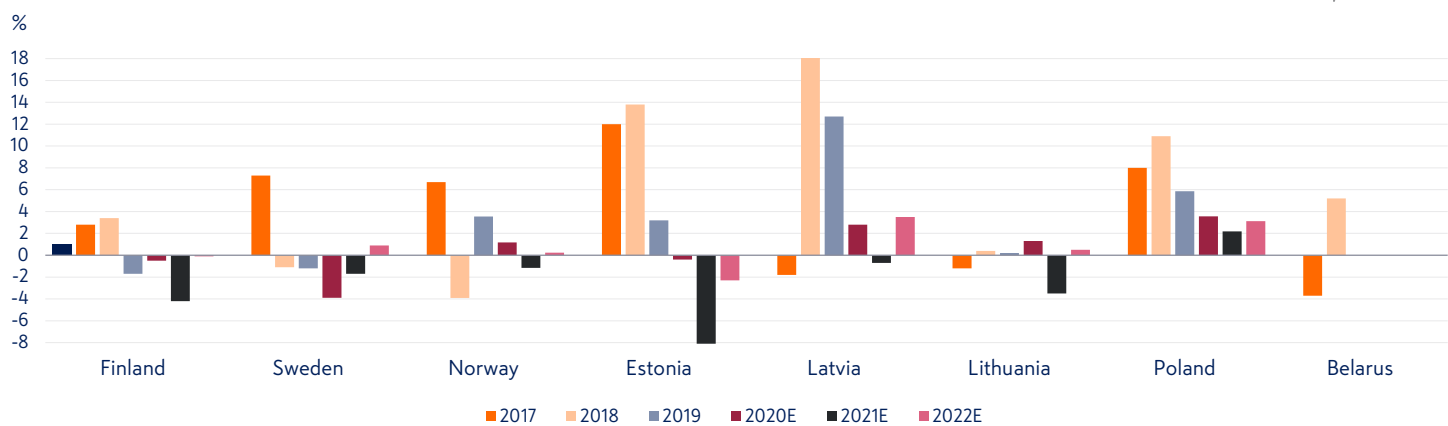
## Finnish Consumers' views on their own economic situation in one year's time (balance)



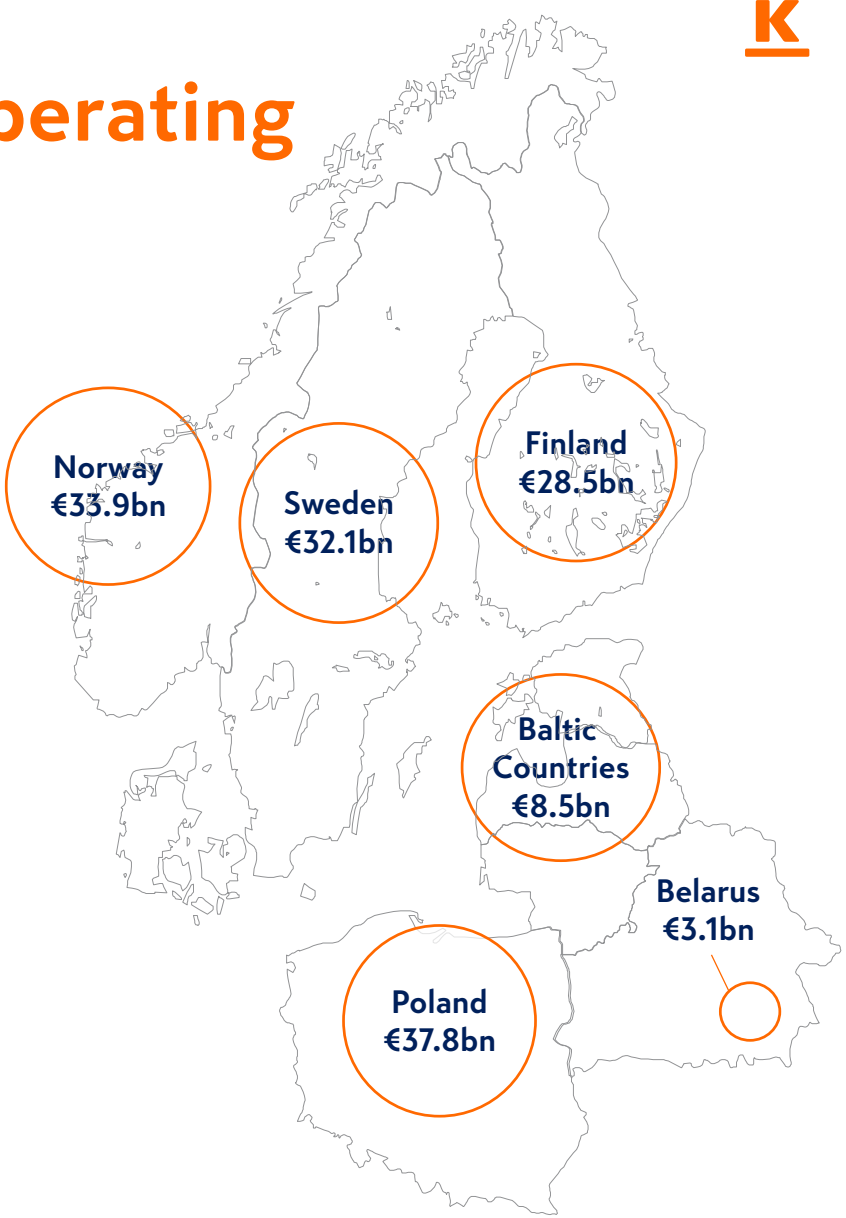
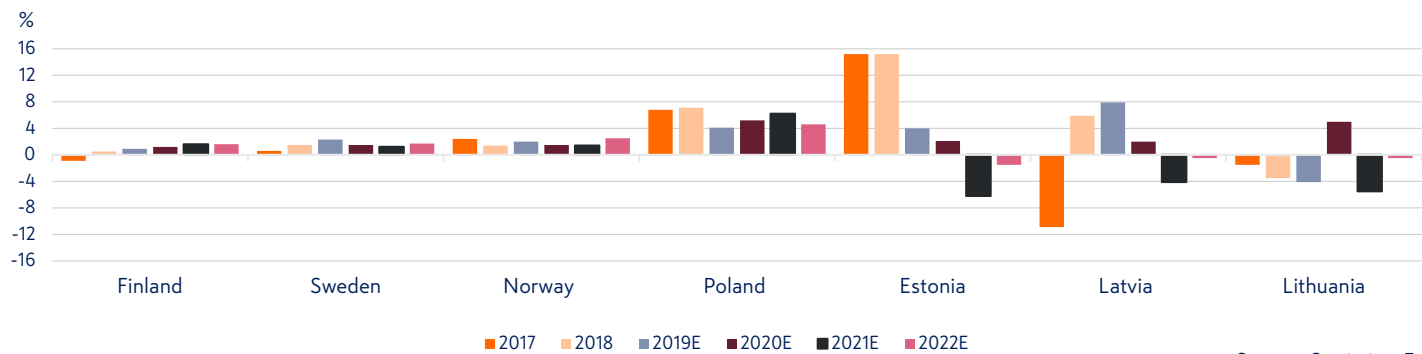
Source: Statistics Finland

# Change in Building Volumes in Kesko's Operating Countries

Change in building construction volume in Kesko's operating countries



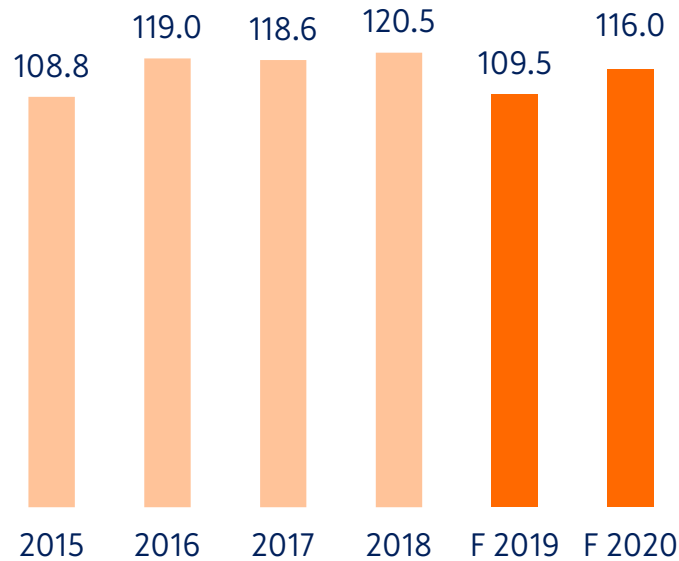
Change in building renovation volume



# New Vehicle Registrations and Future Estimates in Finland

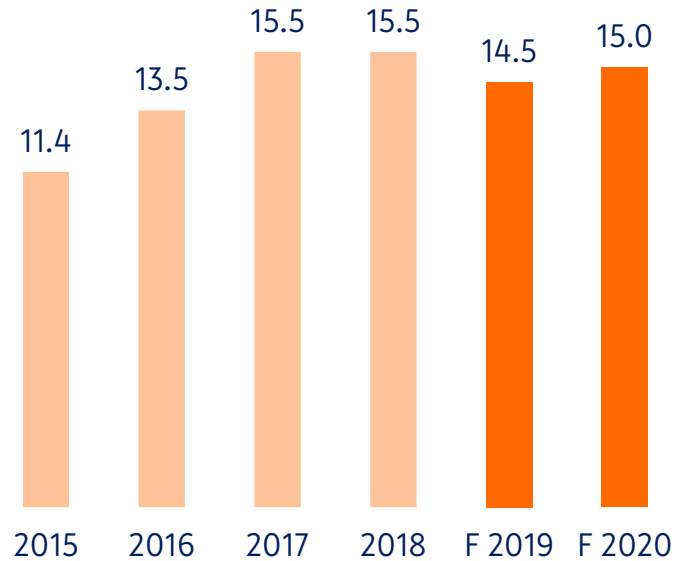
## Passenger cars

'000



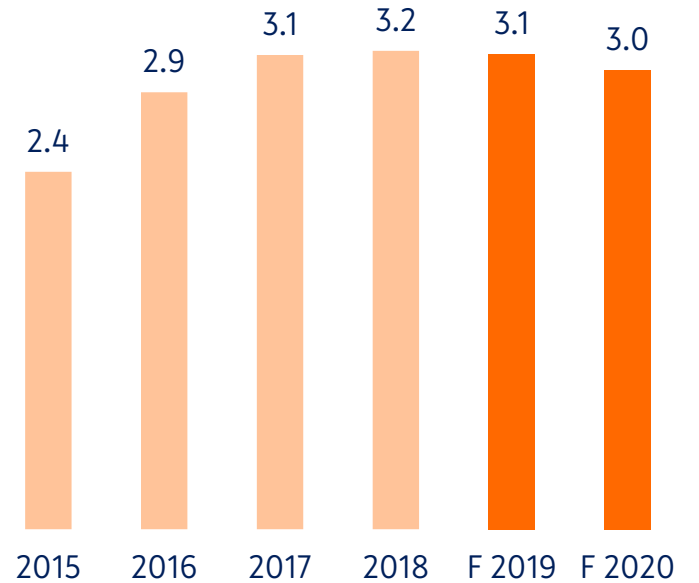
## Vans

'000



## Trucks, >6 tonnes

'000







# All-Time Best Year and Q4

# 2019 Was a Strong Year

- All-time record result
- Strong financial position and cash flow
- Excellent performance in the grocery trade
- World's most sustainable grocery trade company
- Strong growth continued in the building and technical trade
- Profit generation continued good in the car trade despite challenges in market and availability

	1-12/2019	1-12/2018
Net sales, € million	10,720.3	10,382.8
Net sales growth, %	+3.3	-1.0
Operating profit, € million*	461.6	428.5
Operating margin, %*	4.3	4.1
Profit for the period, € million**	339.2	158.0
Earnings per share, basic, €*	2.97	2.45
Cash flow from operating activities, € million	893.1	748.4

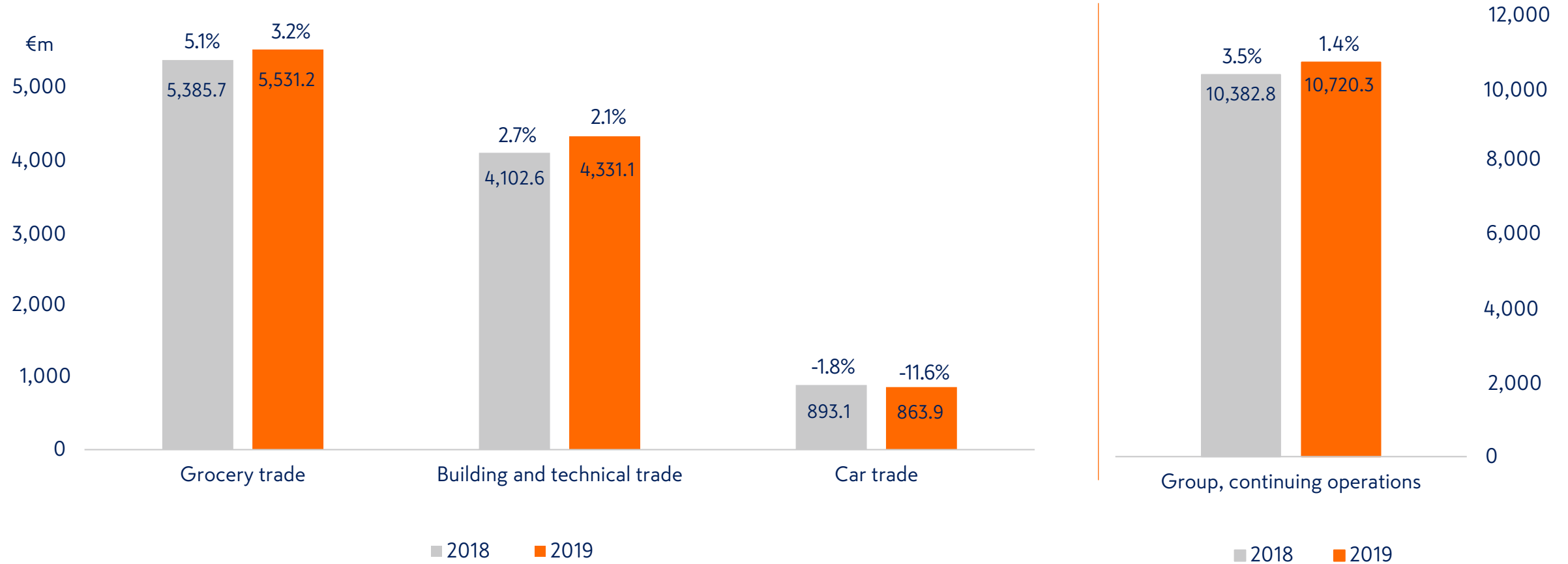
\* Comparable

\*\* To owners of the parent company, contains €+32.9m in items affecting comparability (€-29.4m) and profit for discontinued operations of €11.6m (€-55.9m)



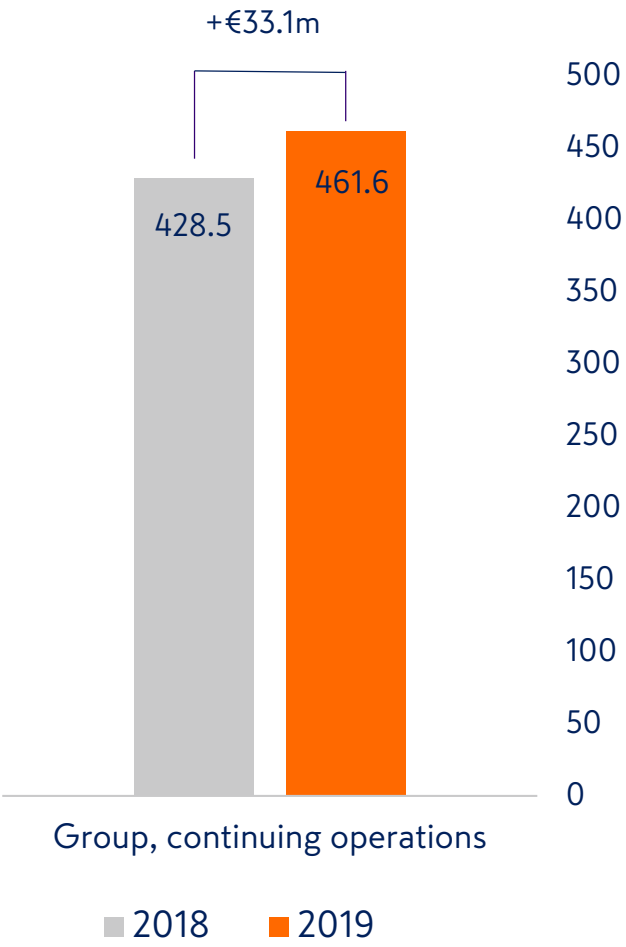
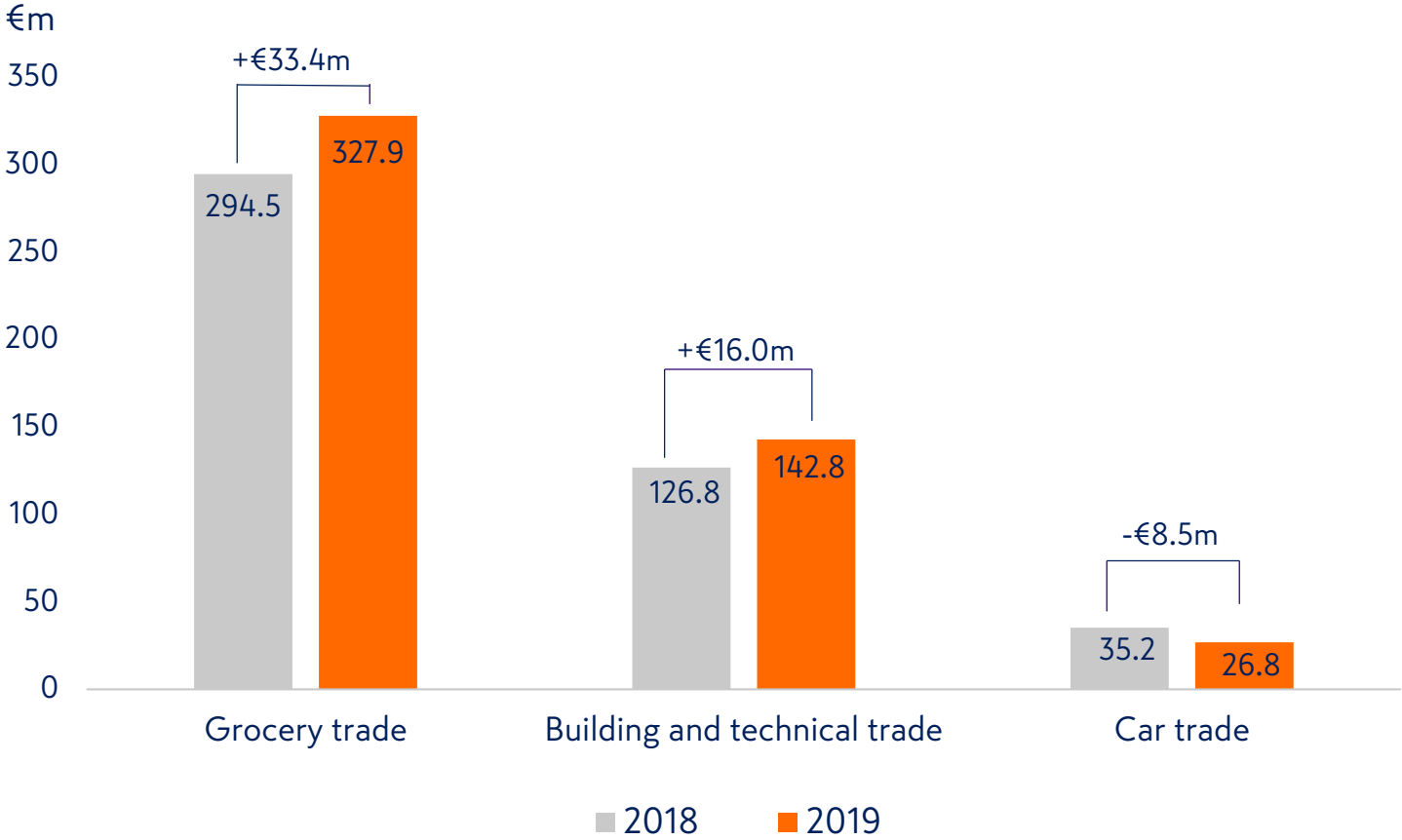
# Net Sales by Division

% comparable growth



# Operating Profit by Division

## Comparable





# Highlights Q4

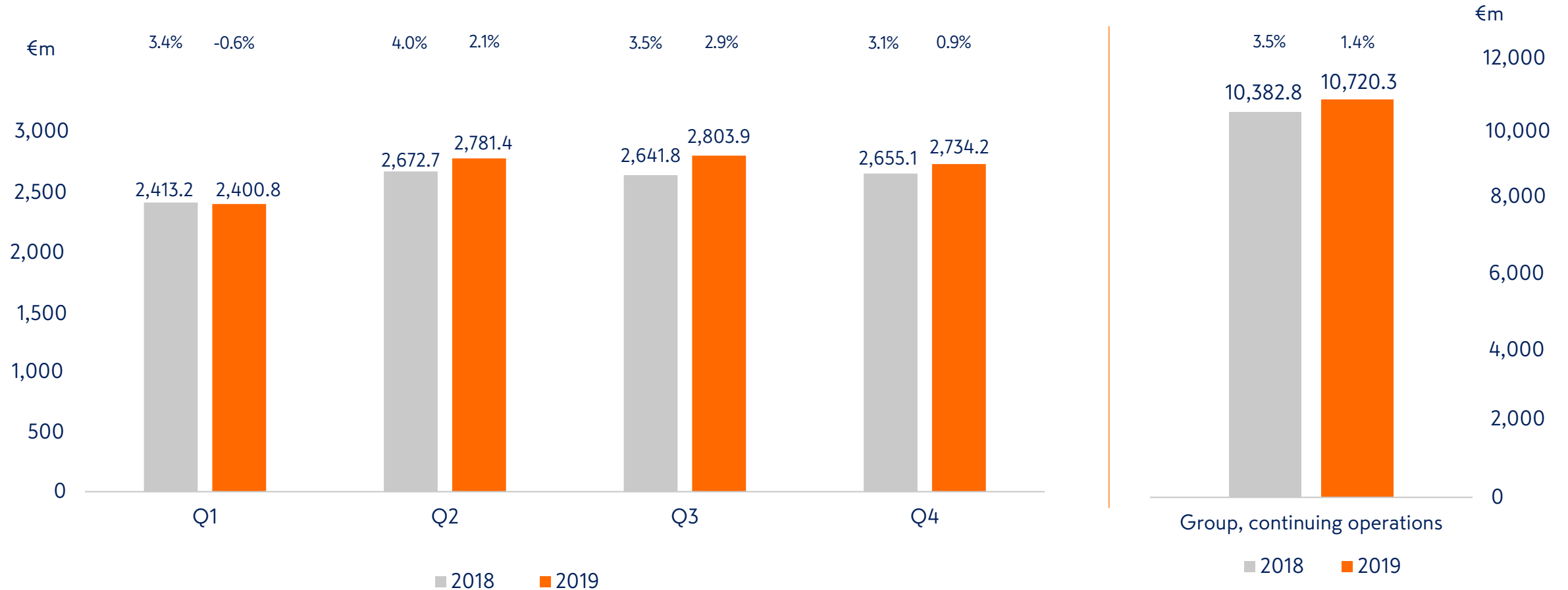
- All-time strongest fourth quarter
- Sales and profitability continued to strengthen in the grocery trade
- Demand remained at a good level in the building and technical trade
- A marked turn for the better in the car trade
- K-Citymarket Järvenpää named the best grocery store in the world



# Net Sales

Q4 net sales up by 3.0%, comparable growth 0.9%

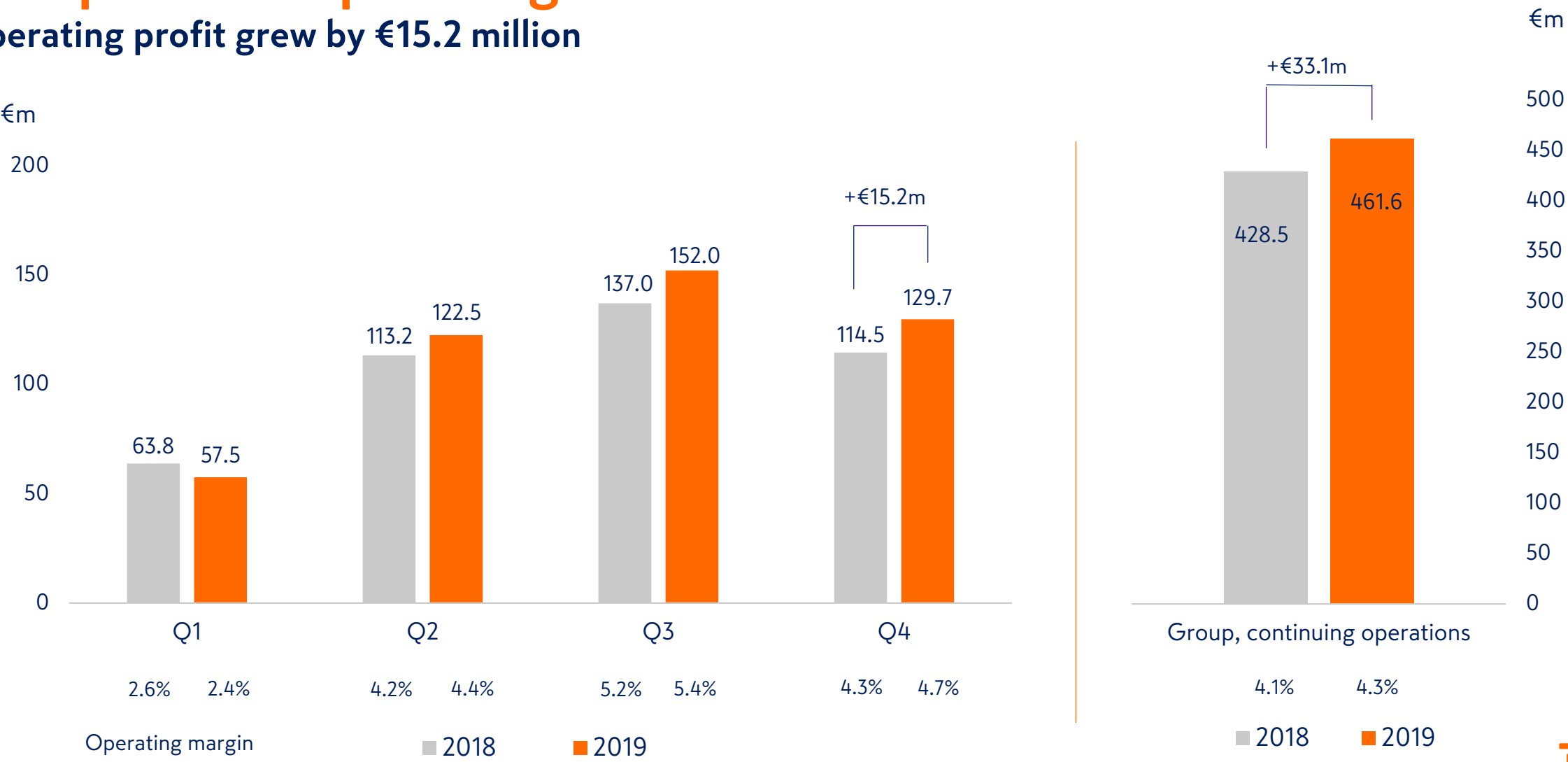
% comparable growth





# Comparable Operating Profit

Operating profit grew by €15.2 million



# Strong Financial Position

Cash flow from operating activities €893.1 million

	31.12.2019	31.12.2018
Liquid assets, € million	169.0	249.6
Cash flow from operating activities, € million	893.1	748.4
Cash flow from operating activities (excl. IFRS 16 impact), € million	564.8	437.1
Interest-bearing net debt excl. lease liabilities, € million	446.1	161.6
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.9	0.4
Lease liabilities, € million	2,422.2	2,289.0
<b>Continuing operations Q4</b>		
Cash flow from operating activities, € million	273.2	209.0
Cash flow from operating activities (excl. IFRS 16 impact), € million	187.7	127.4
Capital expenditure, € million	83.3	67.7

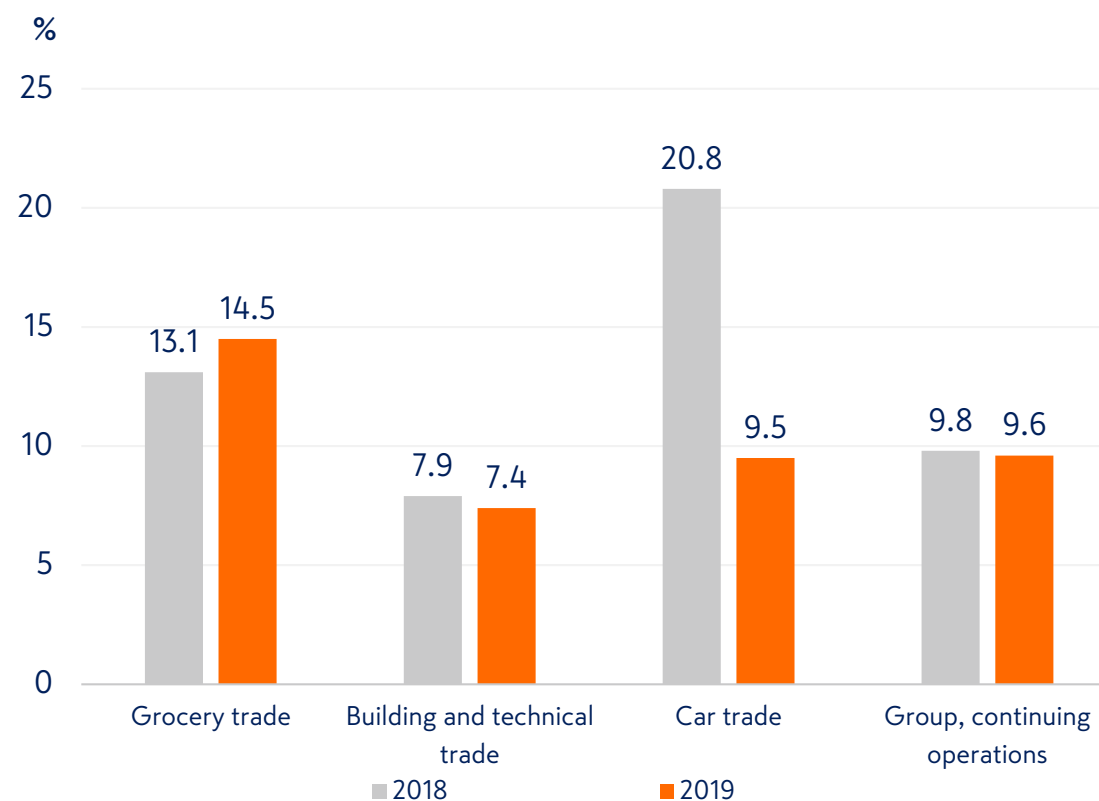
# Investments in Line with Growth Strategy

ROCE 9.6%

## Capital Expenditure 2019, total

	€m
Kruunuvuoren Satama, store sites	85.3
Other store site investments	142.4
Acquisitions	290.5
IT investments	33.9
Other investments	134.0
<b>Total</b>	<b>686.1</b>

## ROCE, Comparable



# 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.



## GROCERY TRADE

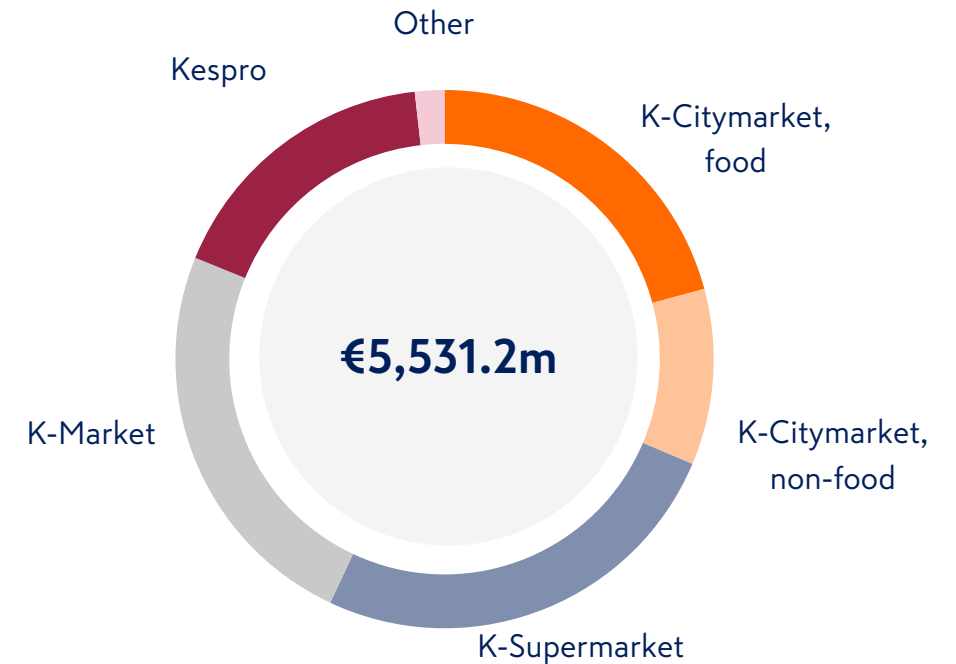
# Growth in Sales and Market Share Based on Good Customer Experience



# Grocery Trade in Brief

- Over 1,200 stores in the retailer business model
- Market share 36.1% (March 2019)
- Some 1.2m customers visit K-food stores daily
- K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations
- Kespro is the leading foodservice provider in Finland

## Net sales





# Success Stories in Grocery Trade Strategy Execution



K-retailer entrepreneurship and store-specific business ideas, multi-store model



Rebranding and store modernisations



Acquisition of Suomen Lähikauppa



New digital services and food online

**PÍRKKA**

Differentiation through own brand products



Market share growth

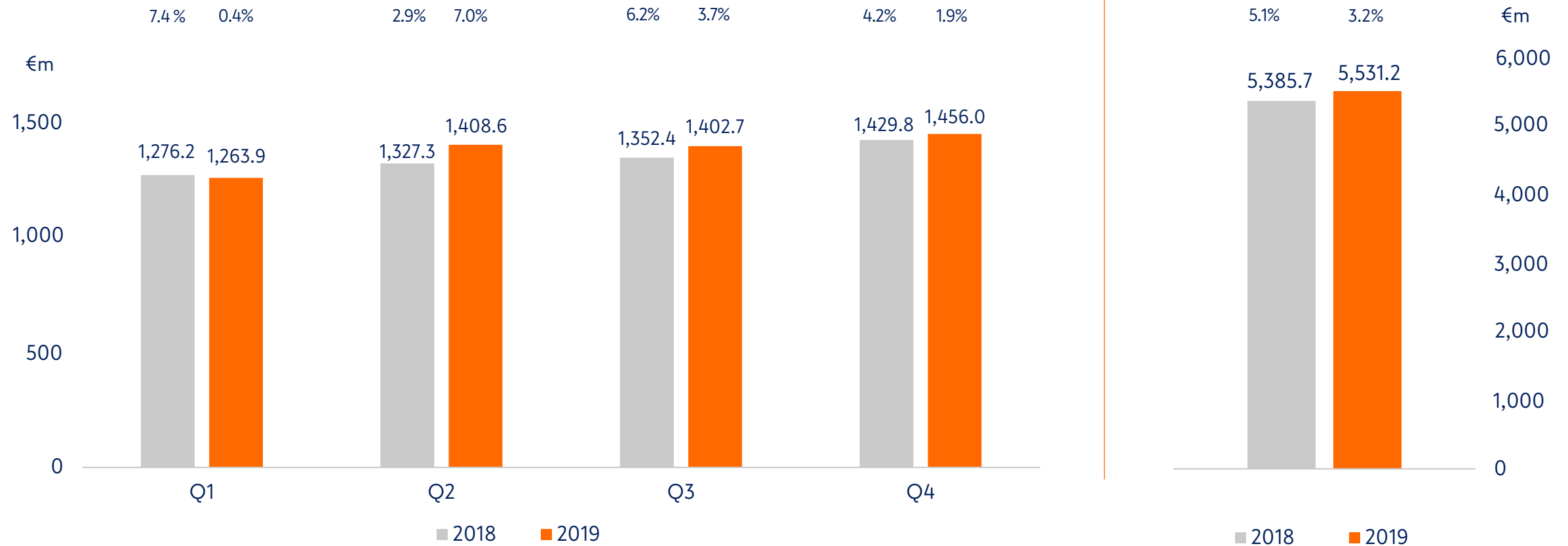


Developing foodservice business

# Net Sales Growth Continued in Grocery Trade

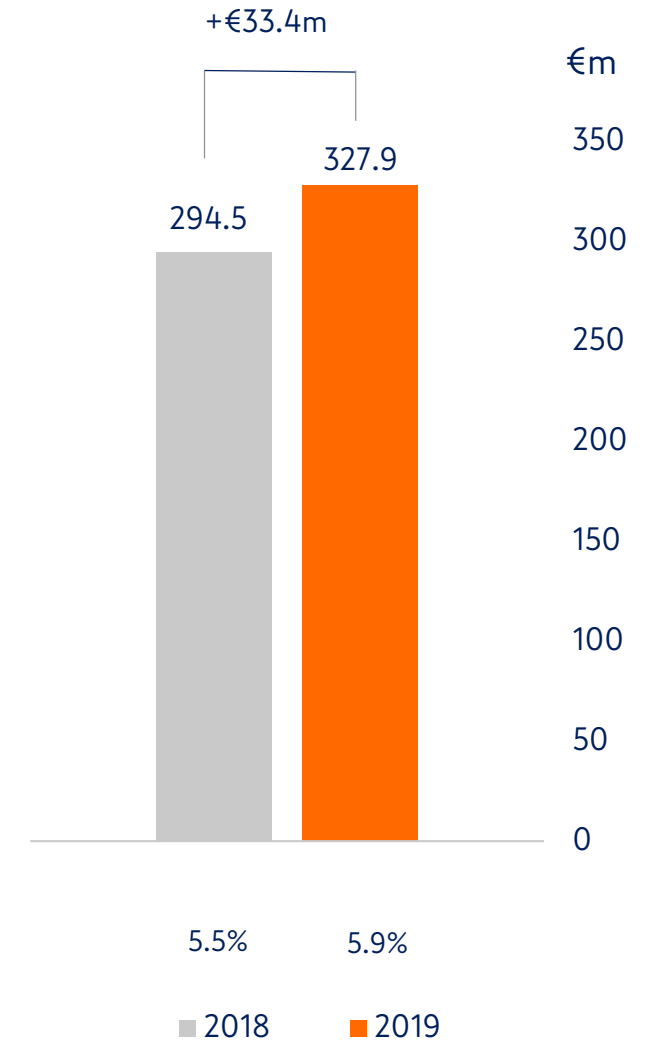
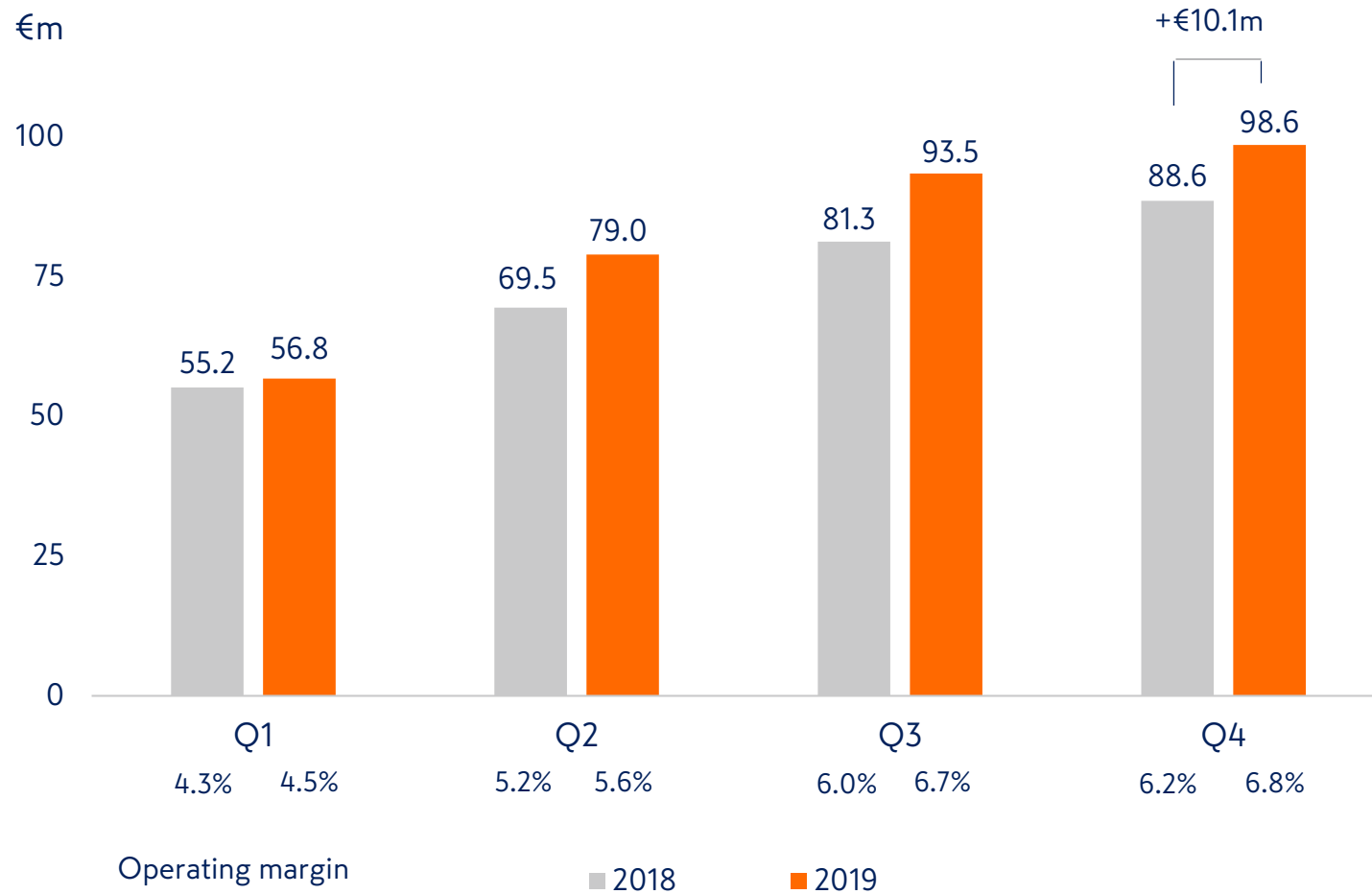
## Comparable Q4 net sales growth 1.9%

% comparable growth



# Grocery Trade Comparable Operating Profit

Operating profit improved further in Q4, growth €10.1 million



Comparable figures

# Grocery Trade Q4

## Market in Q4

- Total market growth 2.9%\*
- Grocery prices up by approx. 1.2%
- Equal number of wholesale selling days to Q4/18
- Changes in tax refund payments impacted purchasing power
- Importance of convenience and quality continues to grow, price also still relevant
- Continued growth in foodservice and the popularity of eating out

\* Kesko's own estimate

## K Group

- K Group's market share rose, grocery sales +3.3%
- Sales grew in all K-food store chains
- Profitability continued to improve thanks to sales growth and improved operational efficiency
- Online sales growth continued strong
- Market Court reviewing the acquisition of Heinon Tukku

# Store-specific Business Ideas Improve Customer Experience and Increase Sales

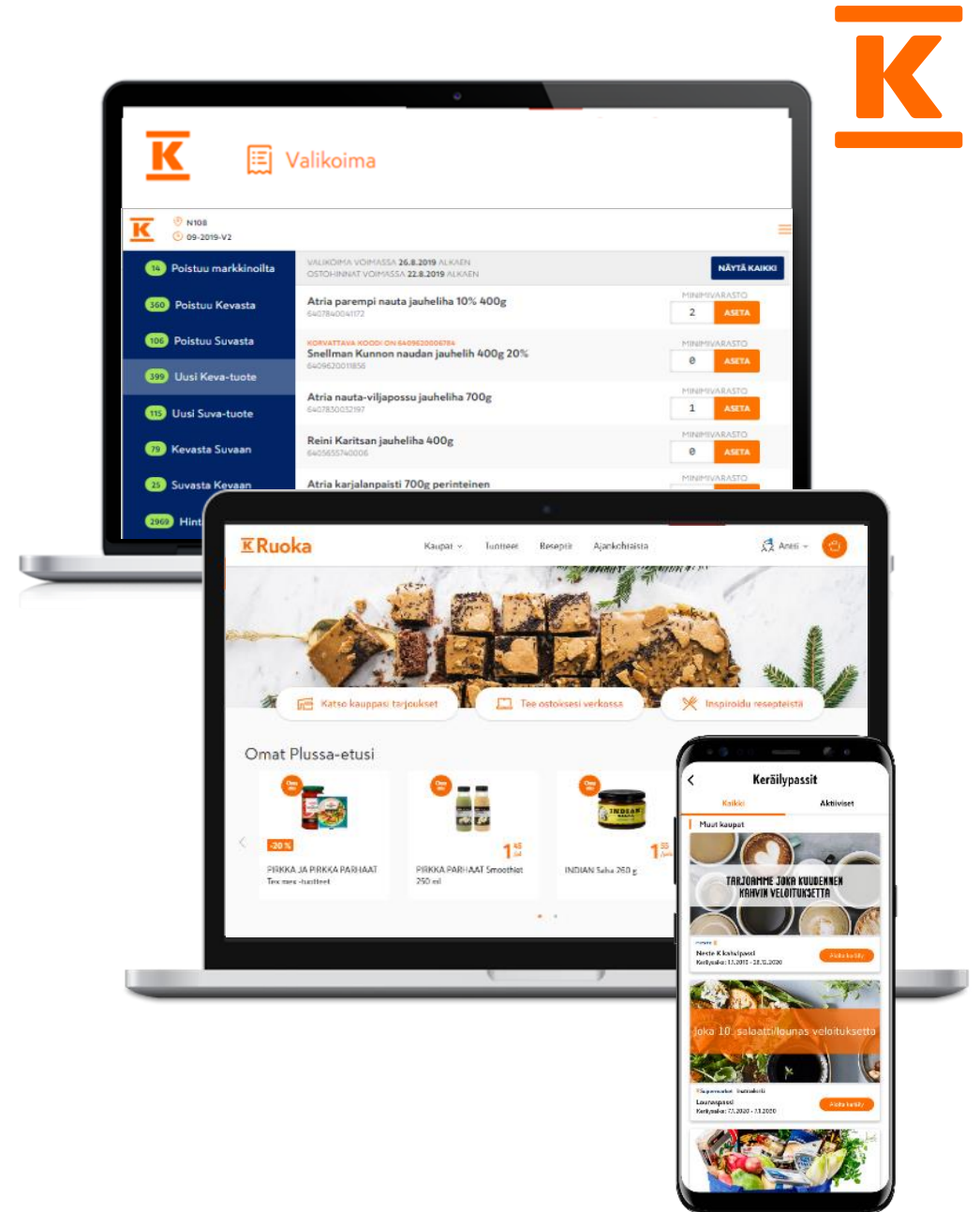
- We stand out from the competition with store-specific business ideas built on top of the chain concepts
- We support K-retailers in creating good store-specific business ideas based on customer data
- Quality selections and competitive pricing have improved customer satisfaction significantly
- Plenty of sales and profit potential in creating store-specific business ideas for all 1,200 K-food stores



K-Citymarket Järvenpää named the best grocery store in the world

# A Forerunner in Trading Sector Digitalisation

- Extensive utilisation of customer data in everything we do
- Obtaining data from and reaching 3.5 million K-Plussa customers in all channels
- Digitalisation of marketing, data driven targeted customer communications
- Versatile, easy-to-use online and mobile services
- Rapidly growing online sales of groceries
- More extensive digital services that enhance customer experience in 1,200 K-food stores







# Most Sustainable Grocery Trade Company in the World

- Kesko ranked the most sustainable grocery trade company in the world for the sixth time
- Transparent purchasing chains at the core of our corporate responsibility work
- Strong involvement in combatting climate change
- Choosing to shop at a K Group store is a responsible act by customers

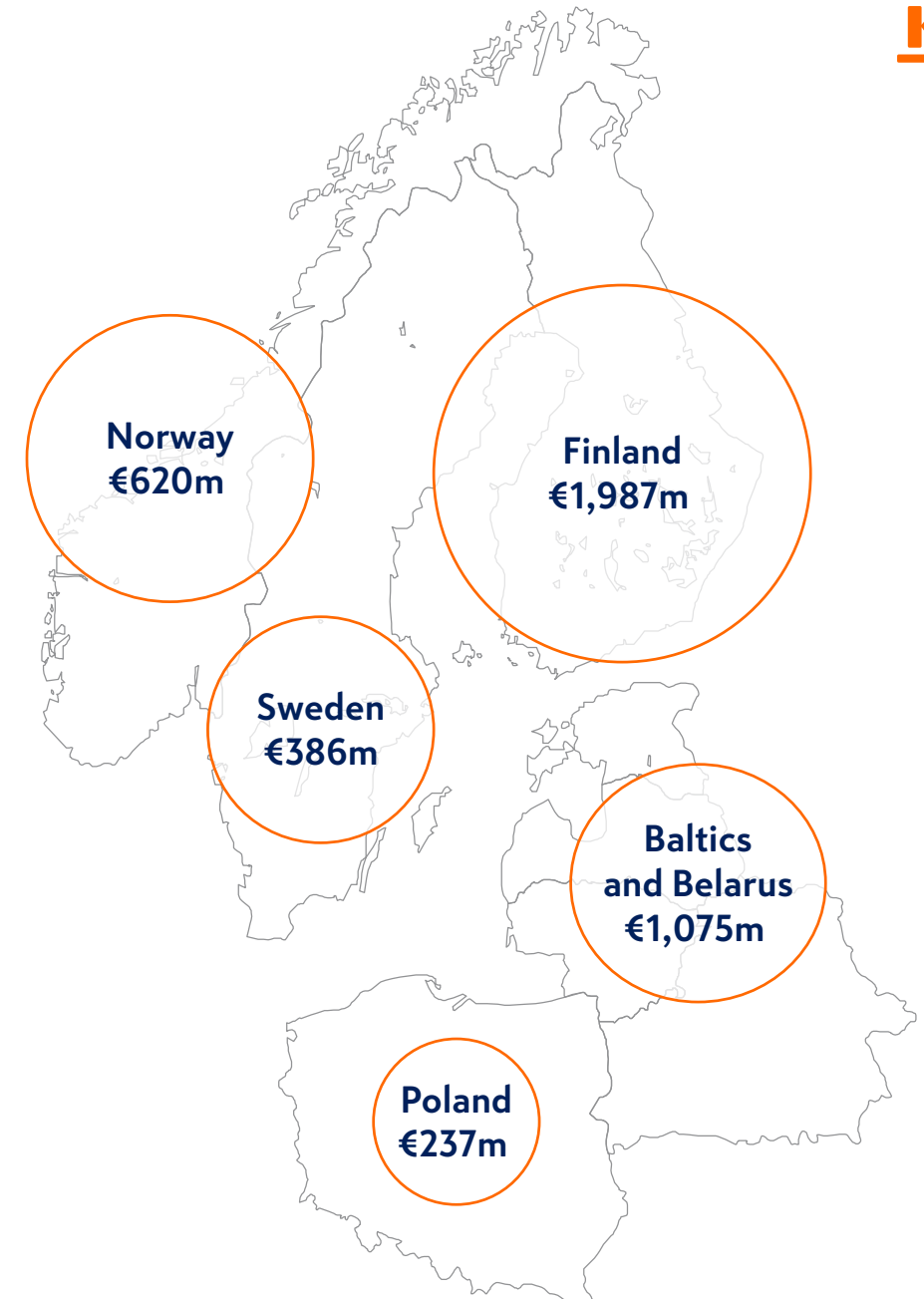


BUILDING AND TECHNICAL TRADE

# Growth and Profit Improvement Continued

# Building and Technical Trade in Brief

- #1 operator in building and technical trade in Northern Europe
- Total net sales €4.3bn, of which specialty goods trade €347m
- Approximately 70% of sales from B2B trade and 30% from B2C
- ~560 stores in 8 countries
- Comprehensive digital services



# Execution of Country-Specific Strategies Bearing Results

## Finland:



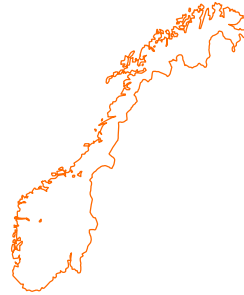
Fully utilising the potential of market leadership in Finland

## Baltic Countries:



Successful redesign of stores and selections to continue

## Norway:



Focus on integrations and profitability in Norway

## Sweden:



Comprehensive transformation program ongoing, Fresks chain rebranded to K-Bygg

## Poland:



Successful profitability improvement in Poland



# 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

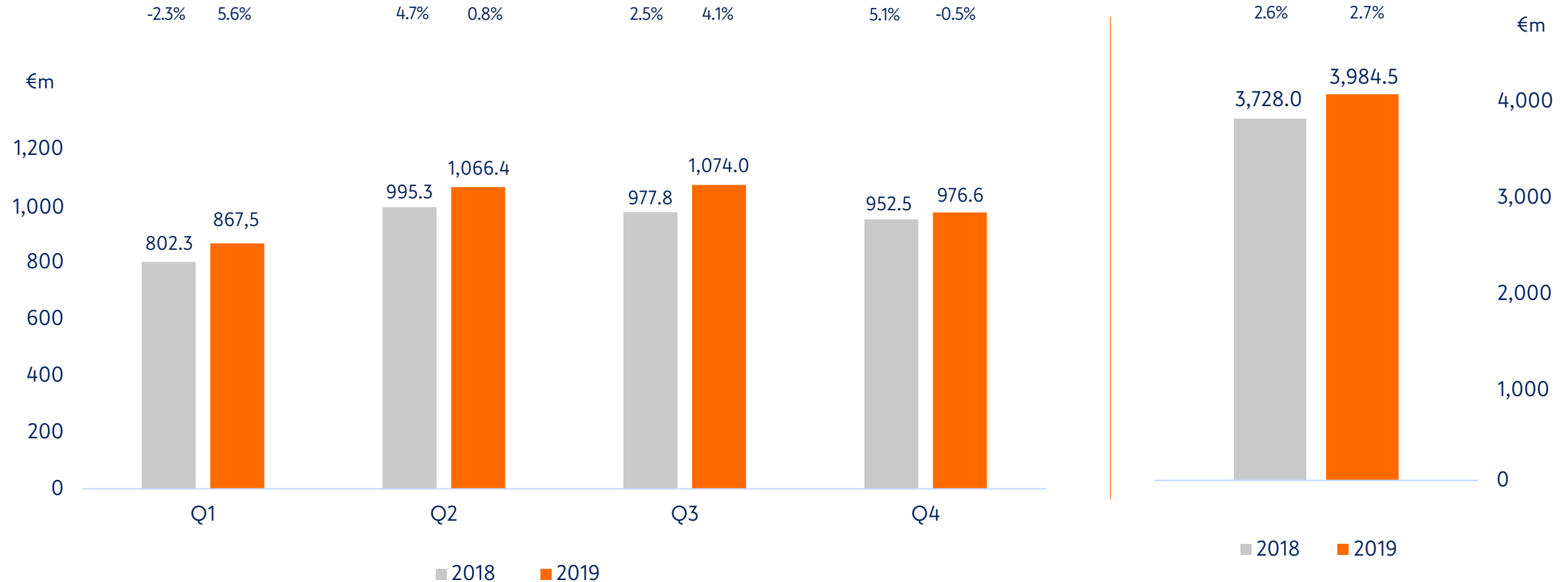


- Renovators
- Home and garden builders
- Decorators
- Gardeners

# Building and Technical Trade Net Sales

Q4 net sales up by 2.5%, comparable change -0.5%

% comparable growth

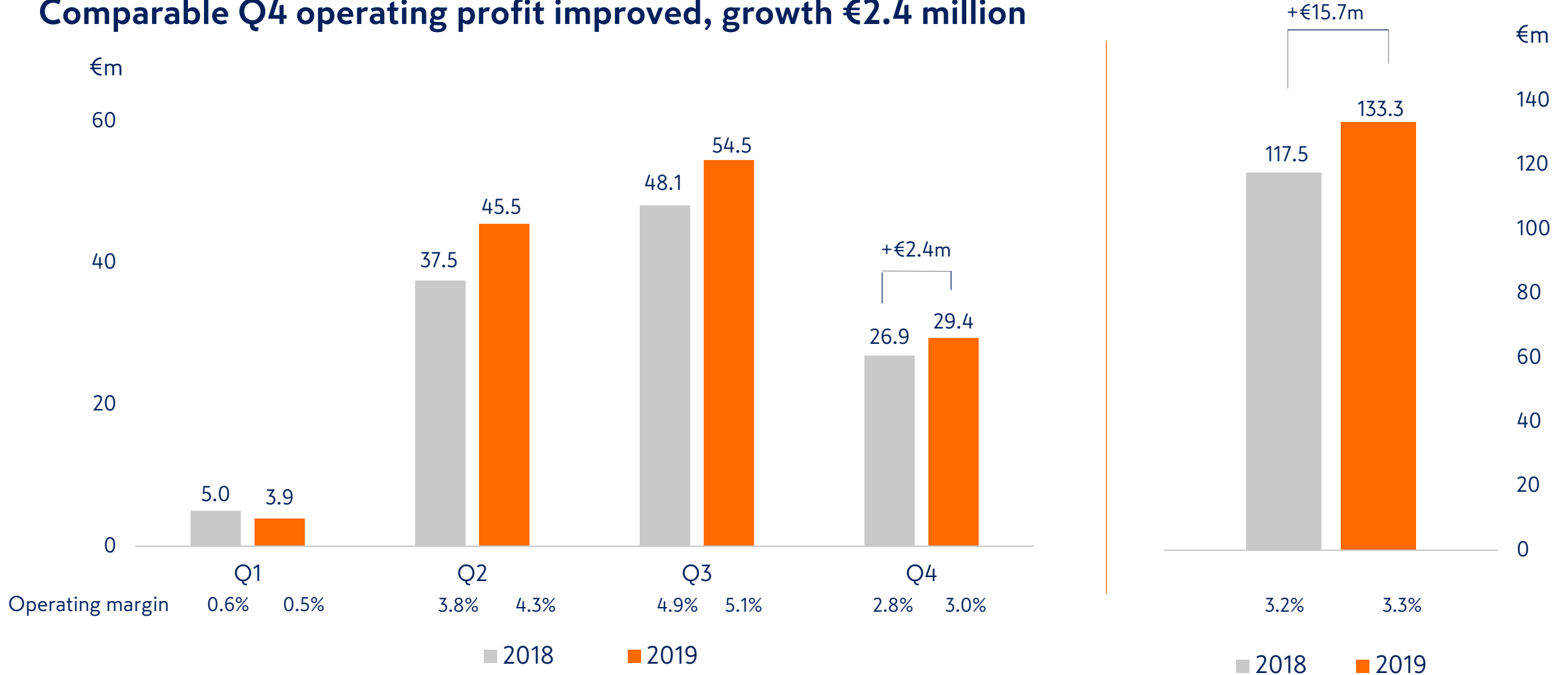


Figures excluding speciality goods trade



# Building and Technical Trade Comparable Operating Profit

Comparable Q4 operating profit improved, growth €2.4 million



Comparable figures, excl. speciality goods trade

# Building and Technical Trade Q4

## Market in Q4

- Overall, construction volumes in Northern Europe have returned to normal levels
- Building and technical trade market in the Nordic countries decreased year-on-year
- Housing construction came down, renovation and infra construction market growing
- Market consolidation continues
- Growing importance of digital services

## K Group

- Net sales for the division grew
- Good performance in K-Rauta in Finland continued, underpinned by growing customer satisfaction
- Good sales and profit development continued in Onninen Finland
- Strong growth in the Baltics and Belarus
- Measures to improve growth and profitability in Sweden and Norway continue
- A good year for the sports trade, mild winter weather decreased sales in Q4

# Onninen Has Developed Well as Part of Kesko

- Onninen has given us strong access to the technical wholesale market
- Net sales have increased and totalled nearly €1.6 billion in 2019
- Significant growth in operating profit, which totalled €50.0 million in 2019
- Market-leading position in Finland has strengthened, market share 38%
- Market and growth outlook for technical wholesale and Onninen good in Finland and elsewhere in Northern Europe



# K-Rauta Growing and Improving Profitability in Finland

- Market-leading position has strengthened, market share approx. 42%
- K-Rauta's sales all-time high
- Significant improvement in profitability
- Well-performing B2B trade alongside the strong consumer business
- Improving customer service and experience and maintaining growth with store-specific business ideas, online sales and extended opening hours





# Market Position in Sweden Clearly Strengthened

- The Fresks acquisition has given us strong access to the growing B2B trade
- Fast and successful integration of Fresks, new K-Bygg brand well-received
- A marked turnaround in Onninen, good progress in the Infra business, loss-making HEPAC business divested successfully
- Measures to improve profitability in K-rauta ongoing
- Sweden an important growth area also going forward



# Significant Growth Potential in Norway



- Market challenging in the end of 2019, demand declined in both building and home improvement trade and technical wholesale
- Sales declined for Bygghjælper and Onninen
- We have strengthened own retailing in the Bygghjælper chain by acquiring 31 chain stores
- Unsatisfactory development in Onninen's sales and profitability, but the situation improved towards the end of the year
- Significant growth potential in Norway in the long term



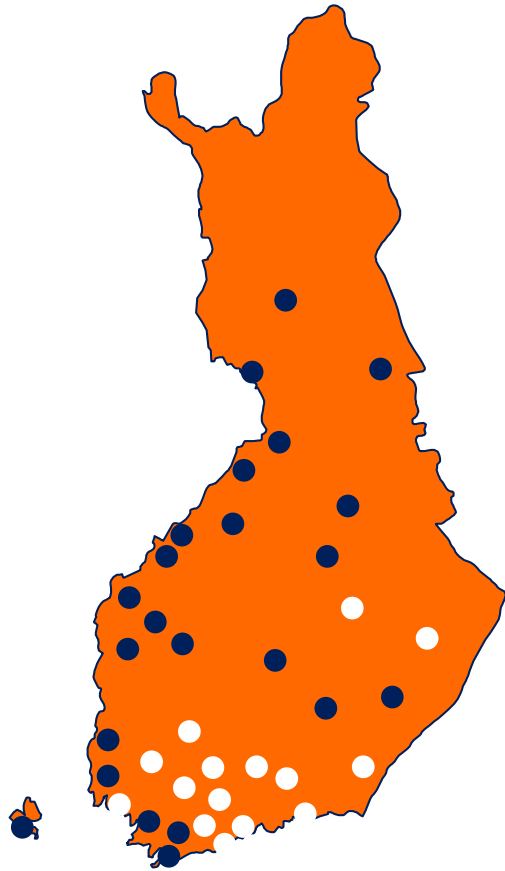


CAR TRADE

Updating Range Strengthens Our  
Competitiveness



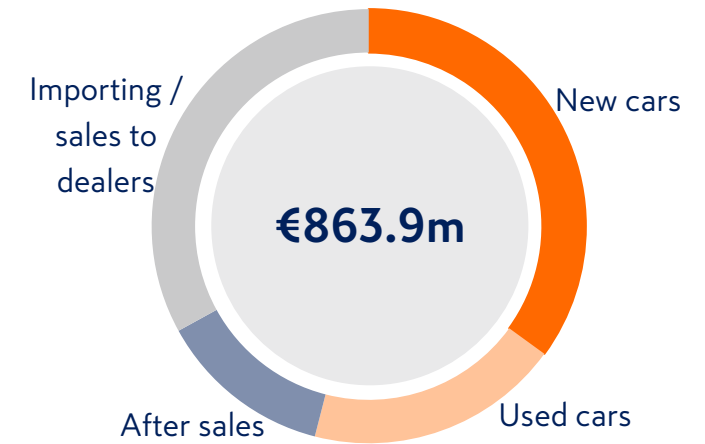
# Strong Footprint in the Recovering Business Environment



- Own retail, K-Caara
- Independent retail

- Operating the Volkswagen Group's business in Finland: Audi, Volkswagen, SEAT, Porsche and MAN as well as Bentley from autumn 2019
- K-Auto is the market leader in Finland
- Value chain includes importing, retailing and after sales as well as an extensive dealer and servicing network
- Various service concepts developed under the K-Caara platform

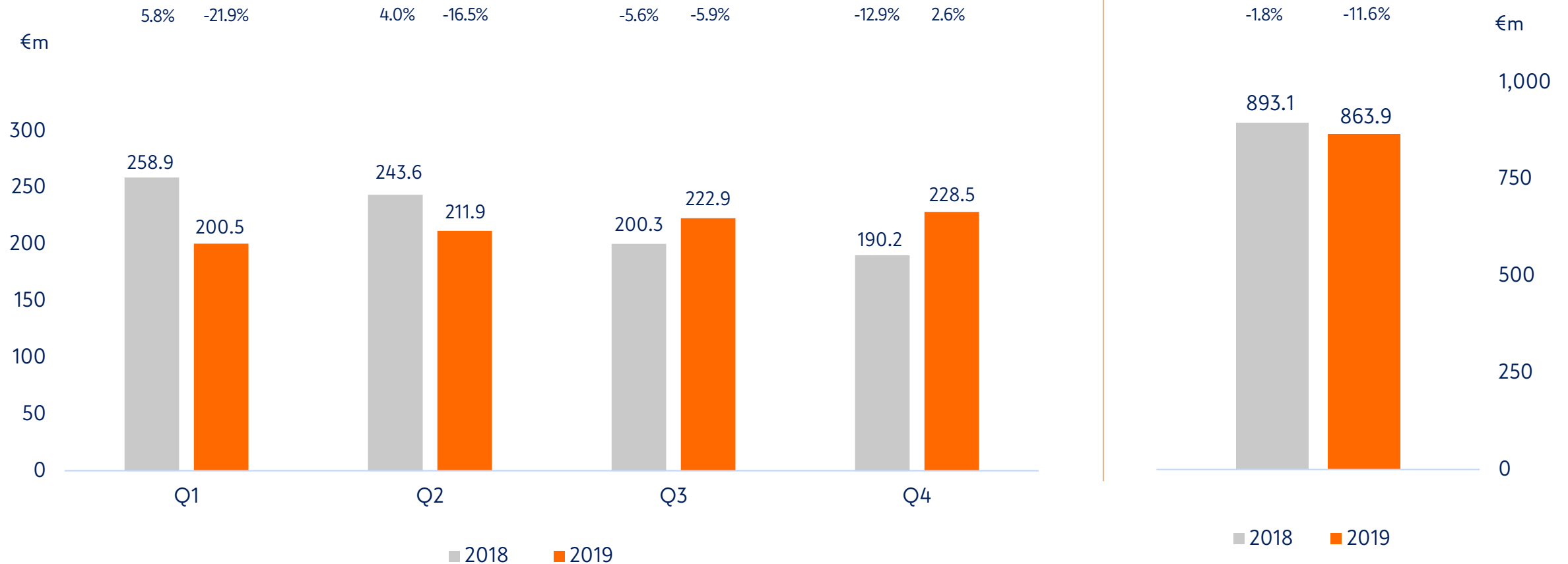
## Net sales



# Car Trade Net Sales

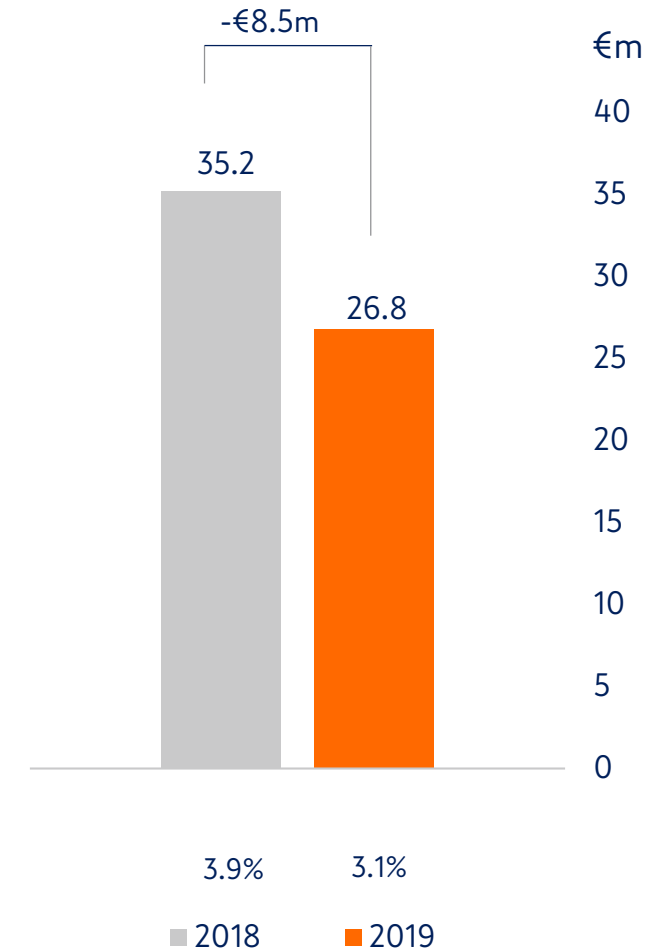
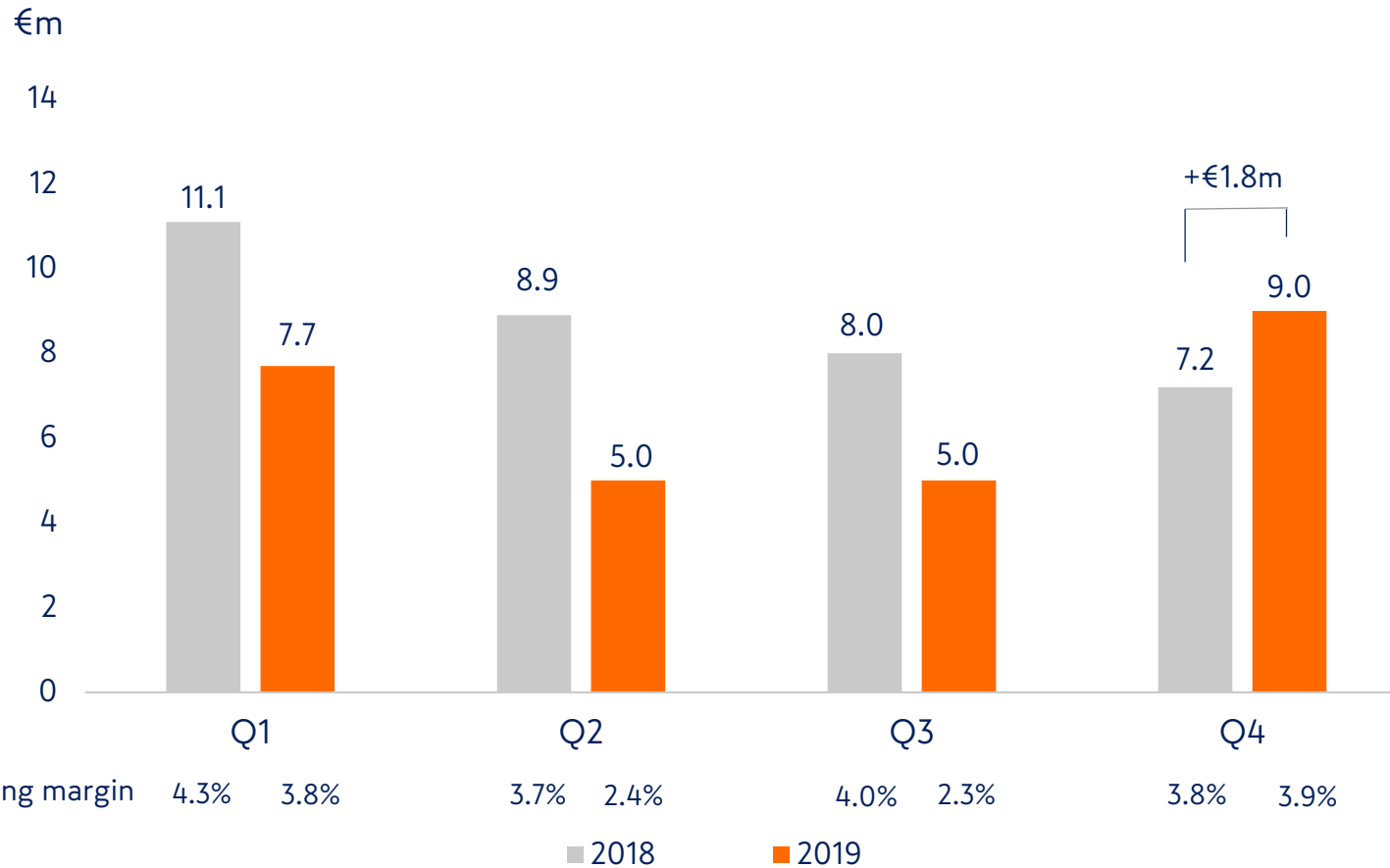
Q4 net sales up by 20.1%, comparable growth 2.6%

% comparable growth



# Car Trade Comparable Operating Profit

Q4 operating profit growth €1.8 million



# Car Trade Q4

## Market in Q4

- Car trade in Europe has recovered
- Importing of used cars has continued
- First registrations up by 11.6%
- Debate over car taxation and motive power choices continued in Finland

## K Group

- Car trade sales grew and operating profit improved
- Demand for electric cars clearly growing
- Leasing fleet has grown to some 1,900 cars
- Market share of brands we represent 16.4%
- Significant cost adjustment measures carried out

# Operating Conditions Have Improved in the Car Trade

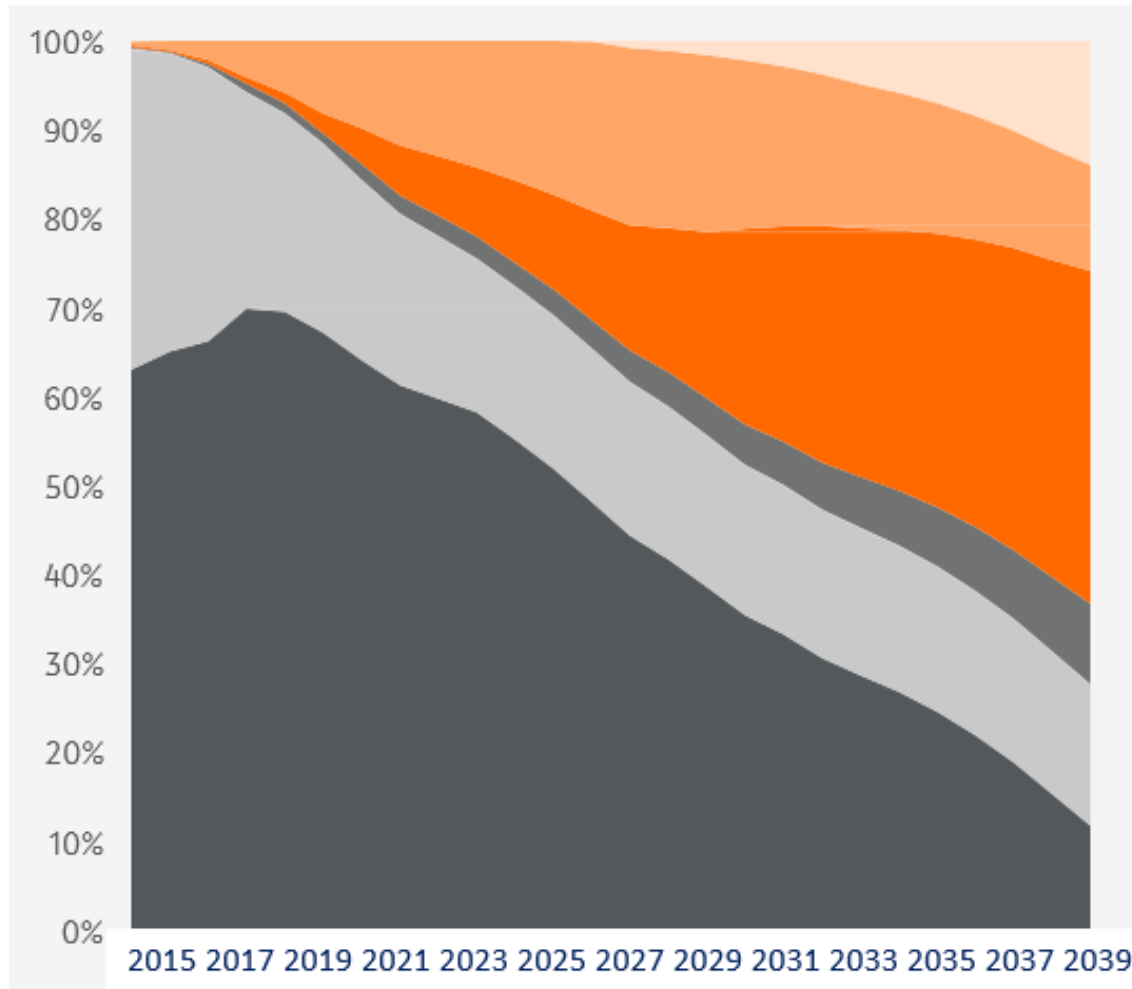
- Improved availability of cars
- Range being updated fast
- We have strengthened our dealer network by acquiring independent dealers
- Integration of acquired retail outlets has been fast and successful
- Strong growth in new leasing services



Audi e-tron GT concept



# Changes in Powertrain Choices



## Estimate of New Registrations, %

- Petrol (incl. hybrid)\*
- Diesel (incl. hybrid)\*
- Gas \*
- Electric
- Plug-in hybrid
- Hydrogen

\*) Petrol, diesel and gas include also biofuels in addition to fossil fuels. Petrol includes also full hybrid cars.

**New business  
services off to a good  
start: K-Caara leasing,  
car sharing, nationwide  
K Charge network for  
electric cars**



**K Lataus**

Paikka varattu vain  
sähköautoille



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