



KESKO INTERIM REPORT Q1/2020

# Record Q1 Result, Impact of Coronavirus Epidemic Seen from Mid-March Onwards

CFO JUKKA ERLUND



# Key Events in Q1

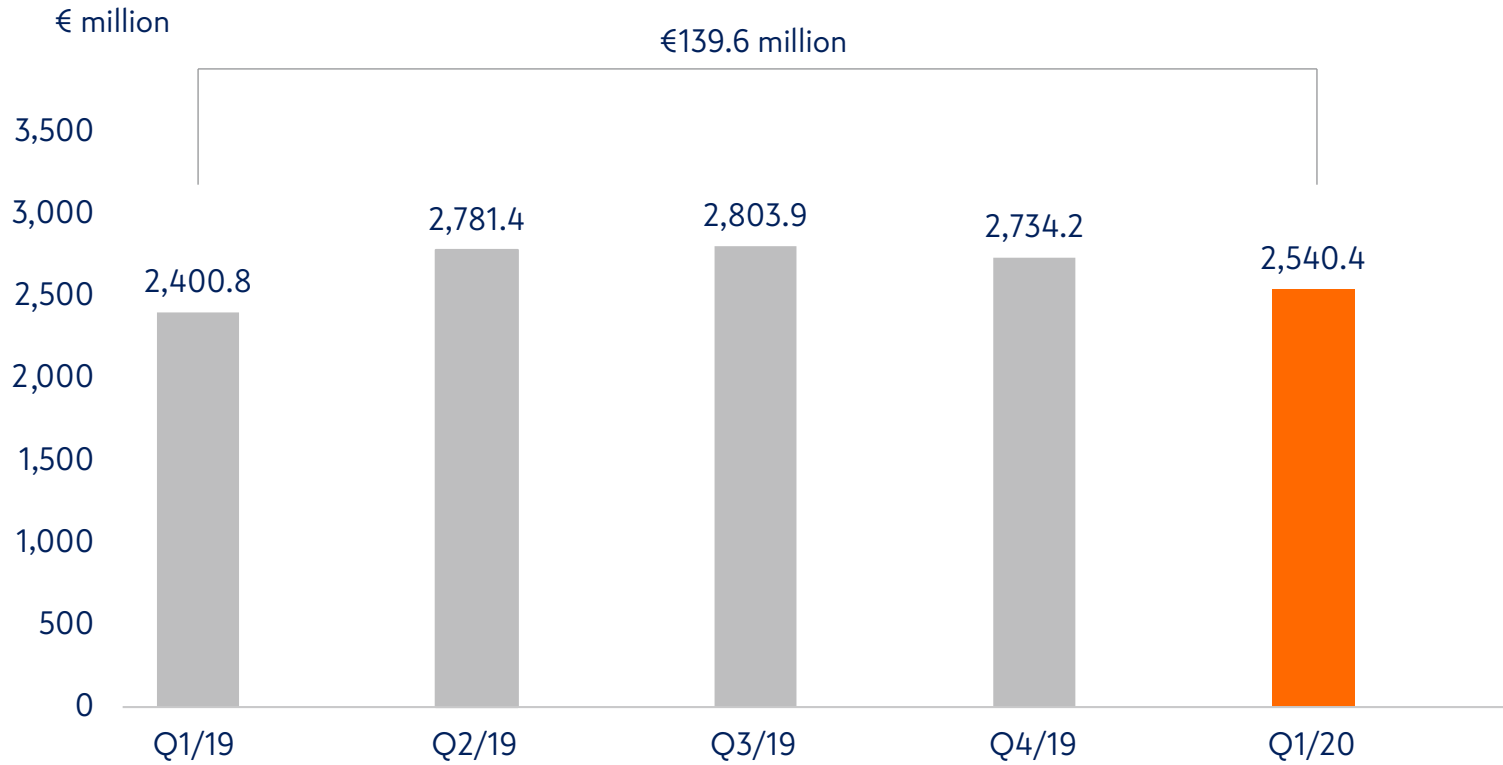
- Market shares strengthened further. K-food stores', K-rauta's and Onninen's market shares growing
- Grocery sales in K-food stores up by 7.8%
- At its highest, online grocery sales growth over 800%
- Strong net sales and profit improvement continued for Onninen
- Konekesko's divestment completed
- Technical wholesale company MIAB acquired in Sweden
- Impact of COVID-19 epidemic seen from March onwards

	1-3/2020	1-3/2019
Net sales, € million	2,540.4	2,400.8
Change in net sales, %	5.8	-0.5
Operating profit, € million*	65.1	57.5
Operating margin, %*	2.6	2.4
Profit before tax, € million*	32.7	34.6
Earnings per share, basic, €*	0.33	0.33
Cash flow from operating activities, € million	135.7	157.0

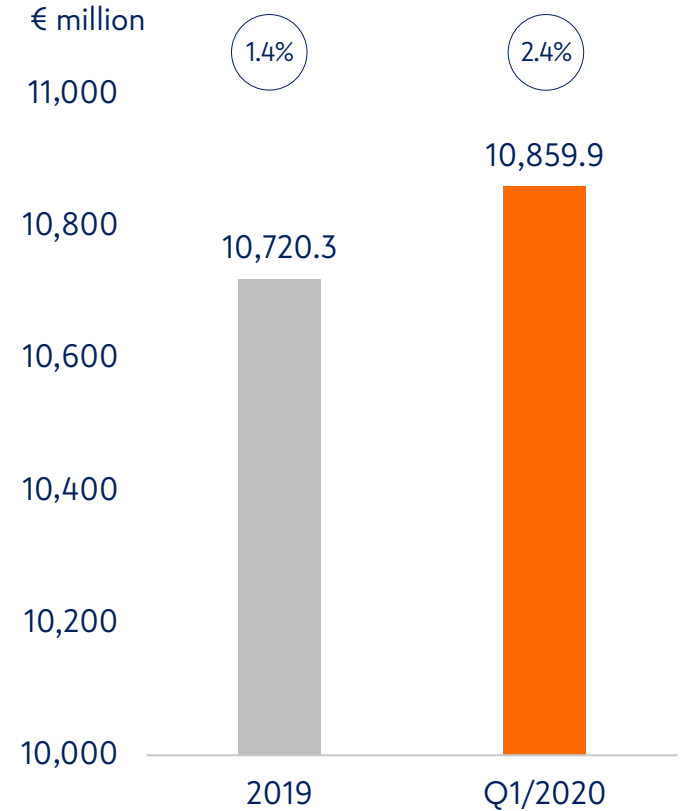
\*Comparable

# Net Sales

Q1 net sales up by 5.8%, or by 4.0% in comparable terms



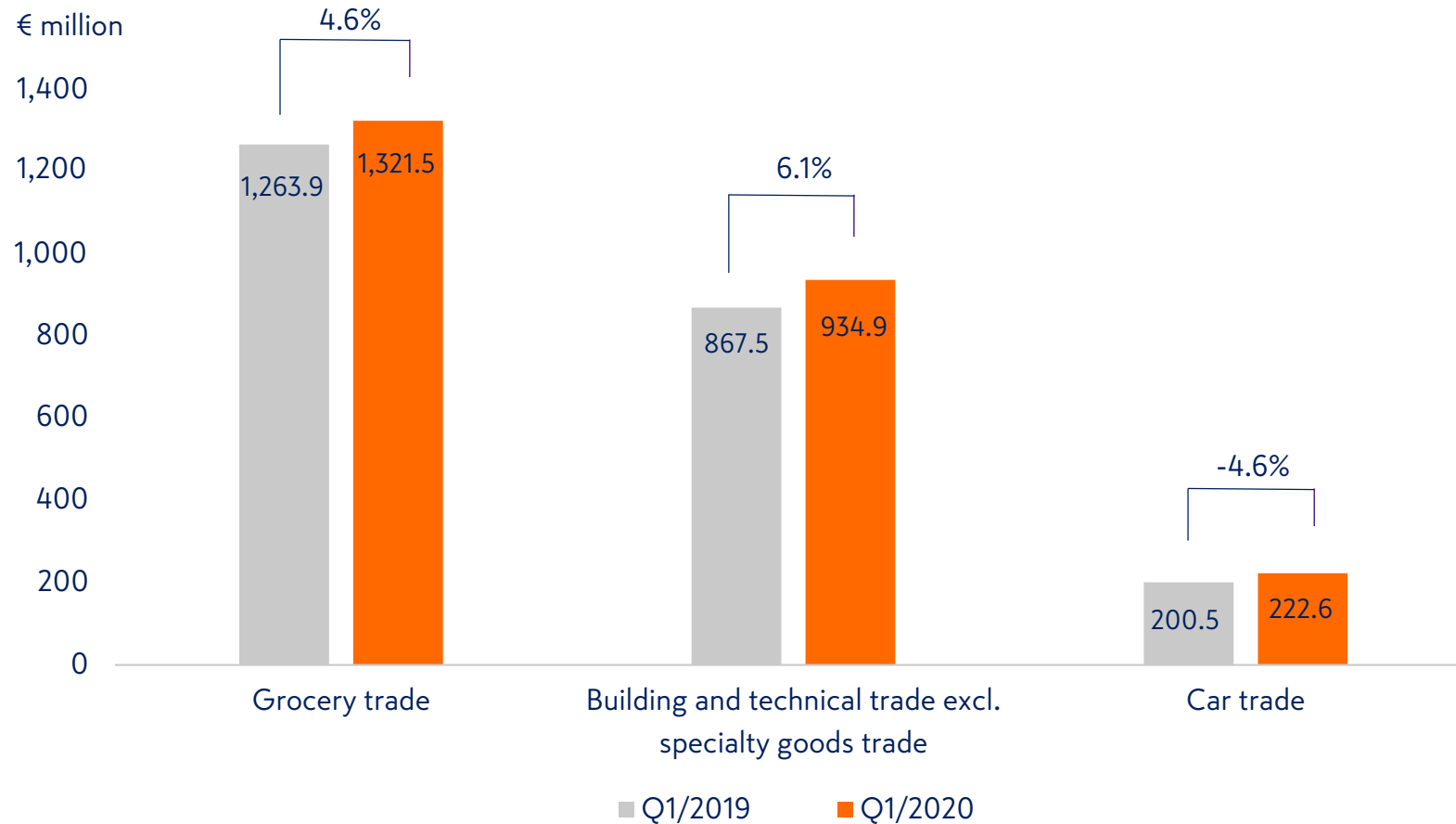
## Rolling 12 months



Continuing operations

# Net Sales by Division

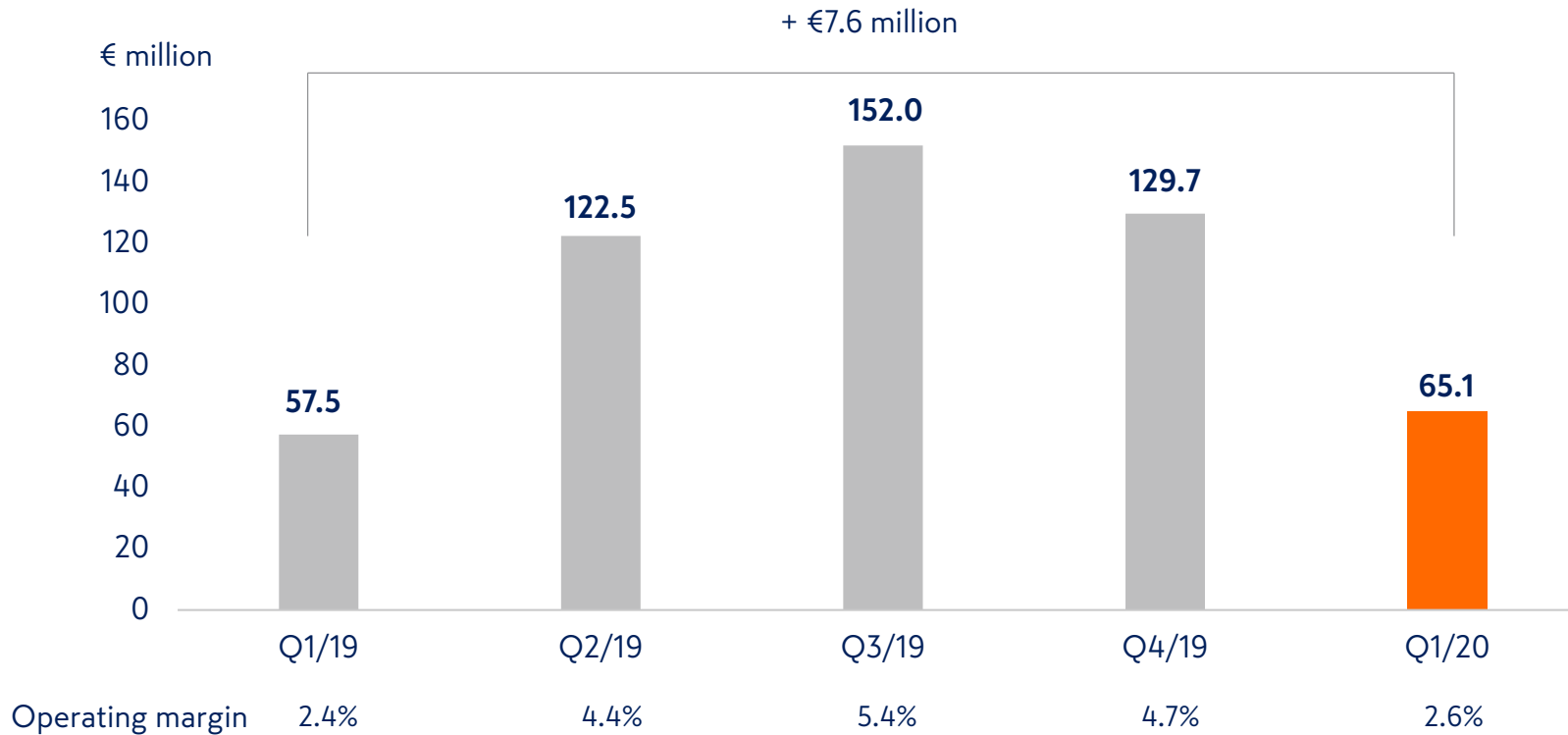
Comparable growth



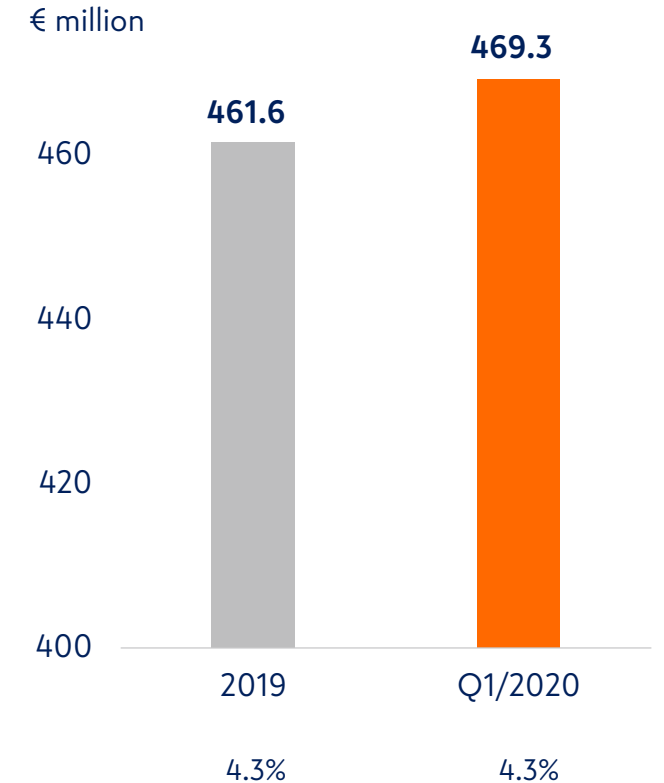
- Grocery trade: net sales grew in all food store chains
- Building and technical trade: net sales continued to grow, growth especially strong for Onninen
- Car trade: net sales grew thanks to acquisitions, comparable net sales down

# Operating Profit

Record operating profit for Q1

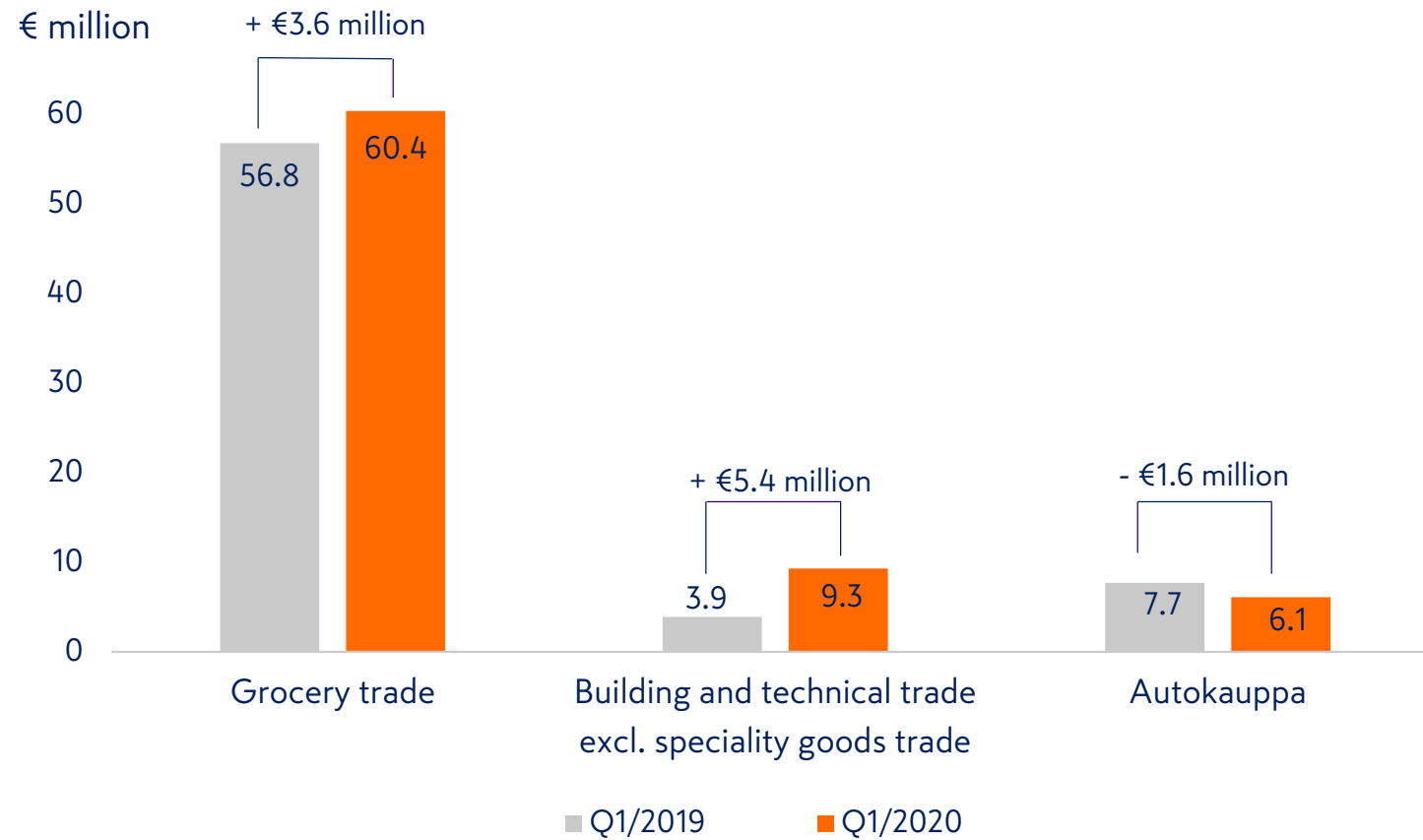


## Rolling 12 months



Comparable operating profit, continuing operations

# Operating Profit by Division



- Grocery trade: profitability improved thanks to strong growth in food sales in K-food stores
- Building and technical trade: operating profit grew thanks to good sales for Onninen and building and home improvement stores
- Car trade: comparable operating profit down due to weakened demand towards the end of the quarter

## Strong Financial Position

Operating cash flow improved by €27 million –  
Q1/2019 cash flow included €48 million return of surplus assets by Kesko Pension Fund

	Q1/2020	Q1/2019
Cash flow from operating activities, € million	135.7	157.0
Cash flow from investing activities, € million	-35.1	-86.0
Capital Expenditure, € million	99.0	97.3
Liquid assets, € million	265.4	237.6
Interest-bearing net debt excl. lease liabilities, € million	482.4	174.6
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	0.9	0.4
Lease liabilities, € million	2,337.4	2,287.1

# Impacts of the COVID-19 epidemic and measures taken





**The COVID-19 epidemic began to affect our operations significantly from mid-March onwards**

**Despite ongoing worldwide efforts to stop the epidemic, we must prepare for the possibility that exceptional circumstances will last for some time**

**In response, we have adjusted our management practices and operations as necessary**

# Impacts of the Pandemic on the Economy Depend on the Duration and Success of Containment Measures



## Finland:



COVID-19 strategy:  
Emergency Powers Act, tight  
restrictions, preparations to  
ease restrictions

Epidemic currently  
under control

Estimated GDP development  
-6.0%

## Sweden:

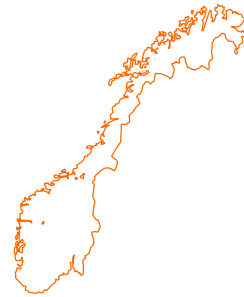


COVID-19 strategy:  
No tight restrictions,  
voluntary recommendations

Cases and mortality higher than  
in other Nordic countries

Estimated GDP development  
-6.8%

## Norway:



COVID-19 strategy:  
Tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-6.3%

## The Baltic Countries:



COVID-19 strategy:  
Very tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-7.5-8.6%

## Poland:



COVID-19 strategy:  
Very tight restrictions, gradual  
easing of restrictions ongoing

Epidemic currently  
under control

Estimated GDP development  
-4.6%

# Key Measures

- # Ensuring the safety of customers and personnel
- # Ensuring functioning purchasing and supply chains under all circumstances
- # Growing online sales services fast
- # Postponing development projects, focus on dealing with the situation
- # Securing cash flow:
  - Savings in personnel costs, over 1,000 people currently laid off
  - Cuts to other fixed costs
  - Cutting cash flows from investing activities below €200 million in 2020
  - Efficient management of credit risk and amounts due from customers
- # Ensuring the availability and sufficiency of financing



**Epidemic well under control in K Group**

**Significant investments made in protection,  
constant efforts to improve safety**

**Testing has begun and will be expanded**

**Some 40 confirmed cases at the moment**

**Preparations to safely return back to normal  
have begun**

# Impacts Vary within Grocery Trade

## Impact on K Group

- Strong food sales growth in K-food stores and online
- Kespro's sales down by approx. 50% due to restrictions on restaurants and cafeterias
- Sales of home and speciality goods in K-Citymarkets down due to lower customer numbers
- Reduced traffic has had a significant impact on sales for Neste K service stations

## Impact on market

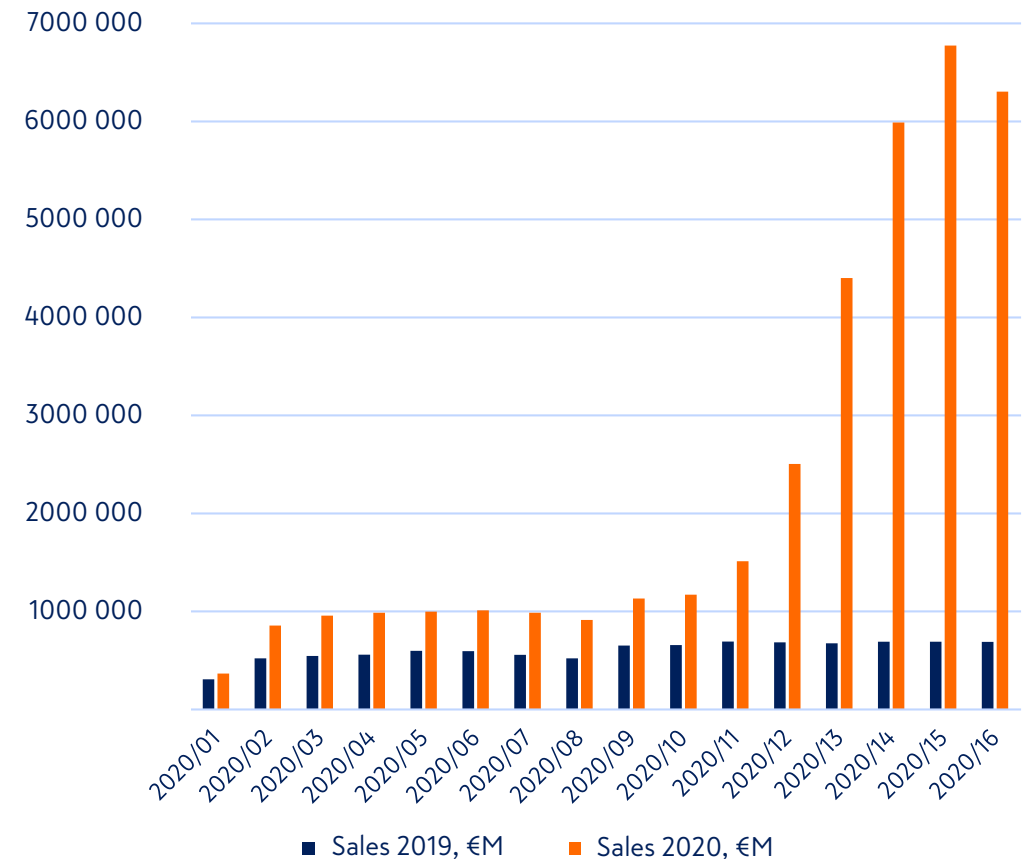
- Significant growth in food retail
- Hoarding seen in individual product categories
- Fewer customer visits, but bigger average purchase
- Strong growth in demand for online sales of groceries
- Strong decrease in demand in the foodservice business due to containment measures
- Service station sales down due to reduce traffic

# Strong Growth in Online Grocery Sales

K-ruoka.fi has become the biggest online grocery service in Finland, highest growth rate over 800% a week

- We have been able to successfully respond to strong growth in online demand
- Our K-ruoka.fi network is expanding fast, some 20 new stores added to the network every week
- Currently over 400 K-food stores offer online grocery sales services at K-Ruoka.fi
- Very high customer satisfaction, NPS 82
- Online's share of retail sales rose to 5% in April

Online sales weeks 1-16/2020



# Moderate Impact So Far on Building and Technical Trade Sales

## Impact on K Group

- Sales development in building and home improvement B2C trade has been good in Finland and Sweden
- Sales levels have also stayed good in B2B trade
- Onninen's sales development very good so far
- Steep drop in sales in Lithuania due to stores being closed until 16 April
- Significant decline in leisure trade sales

## Impact on market

- Activity on construction sites has continued without major disruptions
- Home decoration and renovation have increased
- Fewer new construction starts
- Difficult to predict trends in demand in the longer term
- Stimulus measures could accelerate economic turnaround and increase demand

# Significant Decrease in Demand in Car Trade

## Impact on K Group

- New car sales and orders significantly below normal levels
- Used car sales also clearly down
- Servicing and spare part service sales almost at a normal level
- Production shutdowns at Volkswagen Group plants, but plenty of previously imported cars available for sale
- Car pick-up and return services expanded

## Impact on market

- Overall, orders for new passenger cars down by approx. 60%, orders for vans down by 40%
- Demand has weakened significantly among both consumer and corporate customers
- Used car sales also down significantly



# Growth Strategy Execution Continues, but Right Now Our Focus Is on Crisis Management

**Growth Strategy**

**Focus**

-  Grocery trade
-  Building and technical trade
-  Car trade

One unified 

 Sustainability and  
combatting climate change

# Outlook and Guidance for 2020

Outlook for Kesko Group's continuing operations is given for year 2020, in comparison with year 2019.

**Due to the COVID-19 pandemic and global economic uncertainty, the company estimates that its comparable operating profit for continuing operations will amount to €400–450 million in 2020, thus falling somewhat short of the 2019 comparable operating profit of €461.6 million.**

**The company does not issue a guidance regarding net sales.**

Kesko estimates that consumer demand for food will remain good despite the exceptional circumstances brought on by the COVID-19 pandemic. Sales are expected to grow in grocery stores and especially in the online sales of groceries. In the foodservice business and home and speciality goods trade, sales are expected to decrease. Under the current circumstances, it is difficult to provide assessments on sales development in the building and technical trade. A weakening in the overall economy is expected to be reflected in sales to B2B customers. In addition, restrictions on store opening hours affect sales development. In the car trade, both new and used car sales are expected to decrease compared to 2019.

# Contact

Hanna Jaakkola

Vice President, Investor Relations

+358 40 5666 070

[hanna.jaakkola@kesko.fi](mailto:hanna.jaakkola@kesko.fi)



**K**