

Q&A with President and CEO Mikko Helander on 29 October 2020 at Kesko's media and analyst briefing for the Q3 interim report

*

Maria Wikström, Danske Bank: I have two questions. First, in the Q3 report, you narrowed your guidance range – has something happened since September to make you more confident to raise the lower end of the range by 20 million euros? Secondly, you said some slowing down can be seen at the moment in B2B business in the building and technical trade – what's the breakdown between customer segments there?

Mikko Helander: As for your first question, obviously every day we are getting closer to the end of the year, and that makes it easier for us to specify our estimate. The good Q3 results and sales performance also have an impact. There are three months left of the year, with October almost over. All these factors combined enabled us to specify our full-year estimate and narrow the guidance range.

As for the market outlook for the building and technical trade, the market in both Finland and abroad has developed better than we anticipated, especially back in the spring and even the summer, as evidenced by the good Q3 results for the division. Nonetheless, making estimates is difficult, and it is perhaps especially difficult at the moment in the building and technical trade. Jorma, would you care to elaborate?

Jorma Rauhala, President, building and technical trade: Our view on BC2 trade is fairly positive, we expect people to continue to spend time at home and summer cottages also in 2021. In B2B, we have very different customer segments in our operating countries. We see the most positive outlook in Infra construction. We are also quite positive when it comes to small-scale construction or renovation, where we are very strong. The weakest development will undoubtedly be seen in new construction, new shopping malls and new housing construction – our role in this segment is less significant. So there are big differences, and like we said, the outlook is uncertain, but we are fairly confident when it comes to the remainder of this year and next year, and we do not expect to see any crash.

Mikko Helander: Also, we have fared well against the competition, and we will strive to do so also going forward, and that should also help.

*

Hanna Jaakkola, VP, Investor relations: We've received many questions online. Laura Kukkonen from Helsingin Sanomat asks: "How have you prepared for tightening competition now that Amazon has arrived in Sweden and is getting closer to the Finnish market?"

Mikko Helander: We began a major transformation and growth process in Kesko and K Group in 2015, when we adopted our current strategy. The strategic choices made at the time –

to focus our operations, to grow and expand – were to a large extent based on our understanding that we are operating in a global environment, where competition is set to tighten also in the trading sector, as we have later witnessed. The best way for us to respond to the competition is to continue to execute this growth strategy for Kesko and K Group: grow in the grocery trade, develop and make Kesko an even stronger European player in the building and technical trade. It's also worth noting that typically international online trade is the least active in areas we, in turn, are growing. That has been a carefully selected approach for us. As the figures presented today indicate, our strategy has been successful and we expect it to be successful also going forward.

*

Hanna Jaakkola, VP, Investor relations: Next, a question from Tiina Tenkanen, UP-Uutispalvelu: “Congratulations on your record result. Will Kesko be including store sales staff in its bonus system?”

Mikko Helander: We have very functional remuneration systems, and everything is based on competitive wages, paid based on agreements made in our operating countries. We also have extensive bonus systems, they have worked well and I believe that they work well also under current conditions. We have areas where there are no bonuses at the moment – whether this is the way also going forward is something we have to consider as part of the normal development of our operations. As for the current situation with the epidemic, we have and continue to constantly review what needs to be done under these exceptional circumstances. At the moment, there are no news regarding remuneration on this front.

*

Hanna Jaakkola, VP, Investor relations: Svante Krokfors from Nordea has a question on costs: “What new long-term savings measures has Kesko been able to find, and has Kesko extended its short-term savings measures?”

Mikko Helander: As you all probably remember, we carried out extensive major adjustment measures in the spring and partly also in the summer, especially in the business areas that were most affected by the epidemic. Lately, there has been clearly less need for such measures. We have, however, improved cost efficiency across the board. We have made some cost cuts, and some of those will be permanent. Our figures clearly show that while our sales and margins have improved, so has our cost efficiency.

*

Hanna Jaakkola, VP, Investor relations: A second question from Svante Krokfors, on acquisitions: “Are there potential acquisition targets left, and how has their price developed this year?”

Mikko Helander: There are undoubtedly potential acquisition targets. It's worth remembering that we see the biggest potential for growth in the building and technical trade division, specifically in strong development in Finland combined with further expansion abroad. A key cornerstone of our strategy is to participate in the consolidation of the building and technical trade in Northern Europe, and we have

been successful in doing so. We see plenty of potential and opportunities on this front, and we are constantly working on it in various operating countries.

*

Hanna Jaakkola, VP, Investor relations: A few questions from Pirkko Tammilehto, Kauppalehti: “Could you elaborate on the situation with Kesko Senukai in Belarus? What are the issues with management and how does the crisis in Belarus affect business going forward? Do you expect to reach a solution before the end of the year?” And a second question: “What is the reason behind the significant drop in net sales in the speciality goods trade?”

Mikko Helander: Like I said in the presentation, the drop in net sales in the speciality goods trade is due to the fact that, in line with our strategy, we divested our machinery trade operations. The comparison figures for last year contained 52 million euros of net sales for the machinery trade. That’s the main reason. Our speciality goods trade and leisure trade have fared very well in the market, the development has been good and we are also very happy with the profitability.

As for Belarus, we have no problems in the country. Our strategic review concerns our business operations in the Baltics and Belarus. Our management in Belarus is very good, even under the current exceptional circumstances they have performed well and managed the business very well despite the political tensions. Like I said, we continue the strategic review process, and have seen some positive developments, as Kesko Senukai’s sales and profit have developed as planned. It’s difficult to predict what will happen. We continue negotiations with Kesko Senukai’s other owner, and it will take as long as necessary. We’ll find a solution sooner or later, and will get back to this as soon as that happens.

*

Hanna Jaakkola, VP, Investor relations: Another question from Pirkko Tammilehto: “How do you view the labour market situation? The forest industry in Finland has decided to discontinue collective bargaining – do you expect other employer unions to follow suit? What is the labour market situation in the trading sector?”

Mikko Helander: It’s difficult to predict what will happen. It’s clear that local bargaining will gain ground in Finland, and we will see various ways in which local bargaining is increased in different sectors. I believe all parties will benefit from this: employees, companies and employers, and the country. The forest industry made its own decision, but collective agreements in different sectors cover different things, situations vary considerably as does what is sensible to agree locally. I believe each sector will consider these issues independently. In the trading sector, the situation is quite good. There is a collective agreement in force, and we operate based on that. But again it is important that we together follow how the epidemic develops, how long we have to live with it, and how it affects our operating environment. That may result in a need for dialogue in individual companies.