Q&A with President and CEO Mikko Helander on 3 February 2021
at Kesko's media and analyst briefing for the 2020 financial statements release

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Maria Wikström, Danske Bank: Once we finally have mass vaccinations and recovery in the foodservice business, can you maintain the excellent margin in the grocery trade division? I know you have stated your foodservice business is very profitable, but once it recovers, how will it impact your margin?

Mikko Helander: As I noted, Kespro fared well under difficult circumstances in 2020. Although Kespro managed to stay clearly in profit, its profitability obviously still weakened because of the pandemic. Once we begin to defeat the pandemic and return to some kind of normal, considering its continuously growing market share, we expect significant profit improvement from Kespro.

Maria Wikström, Danske Bank: The sales mix is likely to be different? At the moment, your sales to K-food stores are higher, but once people feel safer going to restaurants and workplace cafeterias again, the sales mix is likely to include more foodservice – what is the difference between the profitability of these businesses under normal circumstances?

Mikko Helander: One of the big strengths of our foodservice business is the seamless cooperation between Kespro and our grocery store chains. There are enormous synergies. The line between grocery stores and restaurants is constantly becoming blurrier, during the pandemic and even more so going forward. So Kespro can sell its services also through K-food stores as restaurant meals and Food Worlds become more prominent in K-food stores.

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Maria Wikström, Danske Bank: You have clearly won over market share in the grocery trade.
The market leading company now has a new CEO, and they are also clearly aiming for higher market share, which is likely to require some changes on their part. You have an effective concept, how do you see the competitive situation, do you expect it to change in upcoming years?

Mikko Helander: We do not currently expect any major changes to the competitive situation. Competition in the grocery trade has been and is likely to remain very tight. Of course we have been interested to see interviews of our competitor's new CEO, and what has struck us are comments such as our competitor needing to pay more attention to their profitability. Of course profitability is the basis for all healthy business, only that enables future growth and success.

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Maria Wikström, Danske Bank: Have you reviewed the EU sustainability taxonomy and do you think you have net sales that would be taxonomy eligible?

Mikko Helander: We have been engaged in determined sustainability efforts in all our business operations for a long time. We are further strengthening those efforts with the appointment of Riikka

Joukio as our new EVP for Sustainability, who will join our Group Management Board this spring or early summer. Our operations are already very sustainable, with the key issue being the transparency of the purchasing chains of all our businesses. Our work continues and we expect it to support our commercial success in upcoming years.

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Svante Krokfors, Nordea: You recently announced new financial targets, with an operating margin target of 5.5%. You already reached 5.4%, how should we interpret this?

Mikko Helander: Well... we have been set clear targets, and we are working hard to reach the new financial targets. If we get there sooner rather than later, that's great. Knowing our Board of Directors, they will likely quickly provide us with new, even more challenging targets. We still need to work to reach 5.5%, but it is doable. And as our profit guidance indicates, it can be doable this year. But it is still early in the year, so let's not get ahead of things.

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Svante Krokfors, Nordea: It seems that last year grocery store sales more than compensated for your losses in foodservice. Is your wide €100 million profit guidance range for 2021 related to building and technical trade, or is it also impacted by grocery trade?

Mikko Helander: We expect sales growth and profit improvement from all our divisions also in 2021, and we are in good position to do so, with functioning strategies and good strategy execution. We have many undeniable strengths that our competitors do not have. Good execution of these lends us good potential for sales growth, market share expansion, and profit improvement in all three divisions.

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Svante Krokfors, Nordea: You hold an over 50% market share in online grocery sales – did your market share grow last year or did competition tighten?

Mikko Helander: Competition has been very tight, but we were able to increase our market share significantly regardless.

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Svante Krokfors, Nordea: I did not see any guidance regarding your CAPEX in 2021. For example, concerning investments in store sites.

Mikko Helander: We are fairly cautious when it comes to establishing new stores, our focus is on developing and redesigning existing stores, which has led to excellent results. For example, in the grocery trade, we can see that sales growth in remodelled stores that are implementing store-specific business ideas has been great. We will be investing significantly in things that have brought good results also in 2021. In building and technical trade, we are doing everything we can to find new acquisition targets and accelerate the division's growth also through acquisitions.

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Svante Krokfors, Nordea: Finally, can you compare the outlook for B2B and B2C in the building and technical trade?

Mikko Helander: As we have noted, we are playing a long game, and therefore the importance of B2B is bigger. Building and renovation are becoming more technical and increasingly done by professionals in Northern Europe. Therefore, we are very happy with our decision a few years back to strongly develop and grow our B2B business. It is one of the main reasons we are able to significantly grow and improve profitability in the building and technical trade from one year to another.

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Maria Wikström, Danske Bank: In your guidance, you say you are comparing your result to €554 million, while the reported result for 2020 was €568 million. Is this related to the discontinuation of your footwear trade chains? Is the difference between the EBIT figures attributable to the footwear trade chains?

Mikko Helander: No. Let's ask Jukka to explain this important issue in detail, so that we get it right.

Jukka Erlund, CFO: In the illustrative operating profit, Kesko Senukai is treated as a joint venture for the full financial year 2020, to make the figure comparable with those we will be reporting in 2021.

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Hanna Jaakkola, VP, Investor relations: We've received some questions via chat: "In terms of online grocery sales, how big of a threat is the expansion of Wolt Market, which can deliver groceries within 30 minutes at competitive prices? Can you enable faster deliveries?"

Mikko Helander: I'm sure we can. It is worth remembering that our very extensive network of brick and mortar stores and our market leading position in the neighbourhood store market enable us to develop these services. Ari, could you please elaborate?

Ari Akseli, President, grocery trade: We hold an over 50% share of the online grocery market, and our online sales grew by nearly 400% last year. We are operating in all segments: in addition to our wide scale online grocery sales with K-Citymarkets and K Transport and pick-up services, we are piloting very fast deliveries from smaller stores. In our view, our great store network combined with online sales lend us a competitive advantage when it comes to fast sales.

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Hanna Jaakkola, VP, Investor relations: A question from Olli Vilppo, Inderes: "What was the main reason for the decrease in the operating profit for the car trade despite a small increase in sales?"

Mikko Helander: There were two main reasons in Q4. Firstly, the profitability in our car trade is by no means at the level we target. Secondly, compared to Q4/2019, there were operational one-off items, such as guarantee provisions and our principal's marketing fees, which boosted that result compared to this one. I stress that we will continue working towards bringing our car trade on a stronger growth track and its profitability aligned with our targets.

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Hanna Jaakkola, VP, Investor relations: Pirkko Tammilehto from Kauppalehti asks: "Where are you in in your dispute with Kesko Senukai's other shareholder? Are you close to an agreement on the company's management?"

Mikko Helander: As I'm an engineer, not a clairvoyant, I cannot predict what is going to happen and when. But as Kesko Senukai's biggest shareholder, we are happy to note that Kesko Senukai is doing well, its sales and profitability developed very well during 2020. We are seeking a solution and continue discussions, and there is an ongoing process in the court of arbitration, which will take some time. Sooner or later, there will be some type of a solution.

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Hanna Jaakkola, VP, Investor relations: Jutta Rahikainen, SEB: "Could you elaborate on the reasoning behind your 2021 profit guidance: what do you expect the market to be like, and how much of the result is expected to come from your own actions, such as savings and restructuring?"

Mikko Helander: For the most part, it is once again down to our own actions, as in previous years. Of course other factors contribute as well. Please, Jukka, would you elaborate?

Jukka Erlund, CFO: I won't go into too much detail, just to say that we have taken into account various scenarios for e.g. the pandemic. As Mikko said, our own actions are the main thing, our ability to improve our operations. As we state in the guidance, obviously the pandemic and progress with vaccinations will have an impact on the economy and consumer behaviour. We have considered various scenarios to end up with this guidance range.

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Hanna Jaakkola, VP, Investor relations: Jutta Rahikainen would also like to know our CAPEX level for 2021.

Mikko Helander: As I said, we invested nearly €400 million last year during a pandemic, of which some €150 million in acquisitions, and we will continue on the same lines. Of course our success on the acquisition front will have a considerable impact on our total investments, one which I won't try to predict. We are determinately executing our growth strategy, and that will involve significant investments also in 2021.

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