

Q&A with President and CEO Mikko Helander on 28 April 2021 at Kesko's media and analyst briefing for the Q1/2021 interim report

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Jutta Rahikainen, SEB: You estimated that less than half of your profit improvement last year was due to Covid-19 related factors. Can you give an estimate regarding the impact on this year's guidance or on Q1?

Mikko Helander: That is probably the most difficult question: answering it is challenging because none of us know for certain what the post-pandemic world will look like. We want to stress the message of our Q1 presentation: we have a very positive view of the future for all our divisions – grocery trade, building and technical trade and car trade – in upcoming years. This is especially because our growth strategy is working and being successfully executed in all divisions. It also seems that consumer demand in Northern Europe at least will be very strong in upcoming years. We believe this will give a good boost to our businesses as well. But I can't give any predictions of exact figures at this point.

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Jutta Rahikainen, SEB: You have been working towards improving profitability in the building and home improvement trade and Onninen in Sweden and Norway, perhaps also Finland – did we see the first results of this in Q1, which was very strong? Are things moving in the right direction in Sweden and Norway as we go into Q2 and Q3, which are typically the strongest quarters?

Mikko Helander: Things are proceeding according to plans. And by no means are these “the first results” of our efforts. As you know, we have been determinedly executing our growth strategy in the building and technical trade division under Jorma Rauhala for several years now. During that time, we have been successfully putting fundamentals in order in all the division's businesses and operating countries. These efforts are now bearing fruit, and that is why our sales and profitability have been on a good track for some time. Jorma, would you like to elaborate on what you have done and continue to do in terms of executing the growth strategy?

Jorma Rauhala, President, building and technical trade: Our efforts have been very systematic. For example, in Norway we used to operate under a light wholesale model, but now most of the building and home improvement business in the country is our own retailing. We are now integrating the selections and pricing of the acquired Bygghem and Carlsen Fritzøe businesses and improving online sales. We have done a lot, but there is still more to do, so I see significant potential. In Sweden, we are developing slightly different things in K-Bygg and K-Rauta. We want to make K-Bygg a future growth platform for B2B. We are proceeding according to plans, specifying those plans along the way.

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Maria Wikström, Danske Bank: Food prices have been rising at a fairly moderate one percent rate, but now some producer price indices have gone up. What is your view of food price development going forward?

Mikko Helander: That is another difficult question. It is quite exceptional that food price inflation has remained so modest for several years. The future depends to a large extent on how the agriculture sector develops and recovers and the extent of damage caused by pandemic globally on agriculture. Situations also vary in the food industry. These are the main factors. Consumer demand also has an impact, but we expect consumer demand to stay very strong. Overall, the development has been very flat, perhaps even surprisingly so. Ari, would you like to make any guesstimates regarding price inflation? Am I right in thinking that the latest 1.4% figure is impacted by alcohol and tobacco tax related factors?

Ari Akseli, President, grocery trade: Yes, alcohol and tobacco taxes play a very dominant role in that. Furthermore, agricultural production input costs – fertilisers, energy, fuel and such – have been rising for some time. This will undoubtedly be reflected in producer prices at some point. This in turn should be reflected in consumer prices, but market competition is extremely tight, which keeps prices in check. We have been able to utilise the fact that consumers want to buy higher quality. We have worked hard on our sales mix, and offer more high quality premium products.

Mikko Helander: Earnings for agricultural producers in Finland, and perhaps globally, continue to be poor. We hope there'll be positive development and better earnings for the producers.

Ari Akseli, President, grocery trade: Yes, there is a very evident issue there.

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Maria Wikström, Danske Bank: If we look at comparable sales growth in the building and technical trade in the first three months of the year, the figures differ: January -0.8%, February +5% and March +18%. The March comparison figures from last year were impacted by a near shutdown, before demand picked up again properly in May 2020. With the comparison figures for Q2 being higher, do you still expect headwinds to continue and more growth from the consumer side?

Mikko Helander: We expect building and renovation activity to continue strong in Northern Europe. We also expect the trend of people outsourcing building and renovation to professionals to continue. Our heavy involvement on the B2B side today sets us up well for the future. When we established our current strategy in 2015, B2B sales accounted for 20-30% of the total net sales in building and technical trade – today the share is 70%. We also expect B2C trade to continue strong, but there will likely be a return to more normal levels. Whether that happens this year or later on, remains to be seen. All in all, we expect total demand to be strong. We have gained market share also in building and technical trade and intend to gain more – that also supports our strong sales growth. Thirdly, we are determinately executing our growth strategy, and that also involves acquisitions. We will continue to try and

strengthen our sales growth further via acquisitions, and have been very successful in doing so in the building and technical trade division.

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Maria Wikström, Danske Bank: What is the situation with Kesko Senukai? Was the slight decrease in net sales in the Baltics in Q1 related to Covid-19 restrictions on stores or is the situation in Kesko Senukai preventing you from taking actions to increase net sales?

Mikko Helander: As we all know, the pandemic situation in the Baltic countries has been very difficult this year. Kesko Senukai has been able to navigate the difficult circumstances successfully. This is reflected in Kesko Senukai's sales, market share and profitability. There are no deviations or reasons for concern. The business is run and managed professionally. We continue to make investments and are prepared to make more once the situation returns to normal. The Baltic countries offer interesting growth opportunities that we want to take advantage of. We continue to work on the differences of opinion between us and the other shareholder, and will use mediators if necessary – I don't wish to comment on such ongoing matters further at this stage.

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Pirkko Tammilehto, Kauppalehti: You appointed a new President for the car trade division. Was this because you updated the division's strategy and wanted someone new to execute it? Could Matti Virtanen elaborate on how he intends to accelerate growth in the division?

Mikko Helander: I'm sure Matti will be happy to. For my part, I'll repeat what was said before: Johan Friman worked hard at Kesko for four years, but decided to leave the company. This was amicably agreed. Matti Virtanen has now taken over the car trade division and will lead it based on the strategy we updated earlier this year.

Matti Virtanen, President, car trade division: There are three key pillars to the profitable growth strategy of the car trade division. The first one is customer experience: we want to create the best customer experience in the business. Typically, customer experience has not always been the main focus in the car trade sector. We want to take that position, and have every opportunity to do so. Secondly, we will focus more on digitalisation. We will use it to both make operations more cost-effective, efficient and faster internally, and employ modern digital tools and our fairly extensive retail network to improve customer experience and manage the customer path. Thirdly, we'll put fundamentals in order. That covers a variety of issues, including examining whether our cost structure fits the market and the transformation ongoing in the automotive industry. Fundamentals also cover our sales work, sales management, sales tools and marketing efficiency. We will actively and systematically focus on these issues.

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Pirkko Tammilehto, Kauppalehti: You said that online grocery sales are profitable business for Kesko – are they also profitable for the K-retailers?

Mikko Helander: I want to repeat that online grocery is a profitable business for us. In terms of K Group, it is important to look at the whole picture: how online services have improved customer loyalty and brought in new customers. This has strongly influenced the overall growth in K Group's sales and market share, and all this is reflected in Kesko's profitability. It is no coincidence that Kesko's profitability in grocery trade has developed very well at the same time as online sales have grown forcefully. As for the retailers, there are big differences at the moment. However, in many cases, once the stores learn the ropes and hone their processes and their online volumes grow, as a whole it is often positive business for the retailers as well.

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Pirkko Tammilehto, Kauppalehti: Are you upset that Valio acquired Heinon Tukku?

Mikko Helander: When I look at our record result, I can hardly be upset. We have not been in the habit of commenting on decisions made by competitors. We know that Heinon Tukku is a fine company, and possibly the second biggest operator on the market. Our Kespro is the undisputed market leader. Competition is tight, and I'm sure it will remain tight, and that is of course positive.

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Hanna Jaakkola, VP, Investor relations: We have a question online: "How have the sales of luxury cars, namely Bentley and Porsche, developed during the pandemic?"

Mikko Helander: The development has been good. Finns have been spending more money on their homes and leisure homes and also on cars, which is reflected in very good sales for e.g. Porsche. Bentley is unlikely to become a car for the masses any time soon, but Bentley sales are in line with our expectations.

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