KESKO

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q1/2012 media and analyst briefing on 26 April 2012

Heino Ylisipola of Kaleva, Turun Seudun Sanomat and Väli-Suomen Media: Was Kesko interested in acquiring the R-Kiosk chain before it was sold to Norway about a month ago?

Matti Halmesmäki: Of course, the chain is interesting as a well-known and significant brand. But we did not participate in the final bidding because we decided to concentrate on our own concepts. The eventual price was quite low, but we don't regret it, even if R-kioski is a well managed business. However, there are certain risks associated with the declining sales of magazines, which will reduce customer flow. In addition, games are going online, opening hours have weakened R-kioskis' competitive advantage, and logistics are so expensive that price competitiveness is difficult to maintain.

As for us, we are strongly developing K-citymarket's information and service concept. For example, we will introduce Smartpost automatic parcel points in all K-citymarkets to be operated in connection with the information & customer service desks. Customers can order products online for delivery to the parcel point at any of the over 70 K-citymarkets, plus some of our K-supermarkets. We are aware that with this service, we will support competitors' online trade. But we see customer service as the main thing, and at the same time, the service will help K-citymarkets to increase their own online sales, as it will enable special product sizes or models to be ordered for customers. It is very likely that a comprehensive Smartpost parcel point network would have been built anyway had K-citymarket not made the strategic policy definition. Now marketing is easy, because we can tell customers that a parcel point for receiving and sending will be installed in all K-citymarkets by the end of next year. The increase in online trading brings threats but also opportunities which we aim to leverage as much as possible by, for example, offering diversified services to customers with a multi-channel approach.

Jarmo Aaltonen of Helsingin Sanomat: The 6.5% growth of your food trade is quite good. But if I remember right, it's slightly less than your competitor's. Why is that? And secondly, you seem to be facing tight competition also in the building and home improvement trade even from Sweden. What is the outlook?

Matti Halmesmäki: In the building and home improvement trade, we increased our market share in Finland by 1.3% last year, while our competitors either fell or remained unchanged. We are very pleased with the success of the K-rauta and Rautia stores last year, taking account of increased selling areas. The data is as reliable as possible, provided by the Finnish Hardware Association, DIY.

Last year, the S Group's market share growth in the food trade was bigger than Kesko's. But it was the second year in succession when the growth in comparable K-food stores was bigger. In other words, although we make significant capital expenditure, there is a markedly higher growth in the number of the S Group stores. And last year, for the first time ever, the number of S Group stores exceeded the number of K-food stores. If I remember right, the S Group's food trade growth, including the Baltics and Russia, stood at around 10%. This means that the sales growth of the S Group more or less equals ours.

Merina Salminen of Kauppalehti: You said that based on the first quarter, you expect profit improvements in the building and home improvement trade. Why is that? And secondly, what kind of cost adjustments are you going to make?

Matti Halmesmäki: As a rule, the profit in the building and home improvement trade is made during the three last quarters of the year. We have opened thirty large building and home improvement stores during the last five years in Russia, the Baltic and the Nordic countries. Sales have been good and the gross margin has improved, which will gradually show on the bottom line. Clear improvements have been recorded in Latvia and Estonia and the stores already operating in Russia have significantly increased their sales.

As for the adjustment actions, we have set clear efficiency targets for every key cost line item. Everything starts from sales and the gross margin. Staff cost is important for all units, effectiveness of marketing actions is examined, as well as the cost of capital. Naturally, some costs are relatively fixed, which is why a store's performance per square metre is the best indicator. Taxes and energy also play a significant part; 40% of food prices, for example, and the trading sector itself cannot bear the resulting cost increases. Another cost item for the trading sector are the costs of card payments, which will rise by €60 million within a year or two, resulting from the adoption of chip cards. And while a European standard of 0.31 has been set as the highest price, nearly all operators seem to have adopted it. In this respect, bank competition does not happen in Finland, at least not at the moment, but a solution is being sought. For the K-Group, the additional cost is about €10 million annually. However, card payment also generates savings in money handling and at store checkouts. Therefore, it will be promoted and encouraged also for reasons of safety and ease of payment.

Jarmo Aaltonen of Helsingin Sanomat: How much do you expect the car trade to decline towards the end of the year after such a strong first quarter?

Matti Halmesmäki: I think that in April the number of new registrations will not even reach half of the number recorded in March. Although cars sold so well during the first quarter, the total market has not grown, quite the opposite. But in fact, the prices of low emission models will not rise much, and I expect that smaller and cheaper cars will sell. Therefore, the trend will be seen in terms of euros rather than in the numbers sold. I'd say that new registrations may fall by more than 50% in April, but the sales of trade-in cars will be good. Then the business will gradually pick up and maybe normalise by autumn.