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Tear Sheet:

# Ceconomy AG

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**Ceconomy reduced leverage to 2.5x in fiscal year ended Sept. 30, 2023 (fiscal 2023) due to earnings and cash flow exceeding our forecast, but rating headroom is limited due to hefty lease payments.** S&P Global Ratings-adjusted EBITDA was €876 million (3.9% margin) up from €851 million year on year. Even so, EBITDAR coverage ratio (EBITDAR to cash interest plus rent) was 1.4x as a result of higher lease and interest payments. On the positive side, reported free operating cash flow (FOCF) after leases reached €258 million, largely fueled by a €332 million improvement in working capital, from negative €542 million in fiscal 2022.

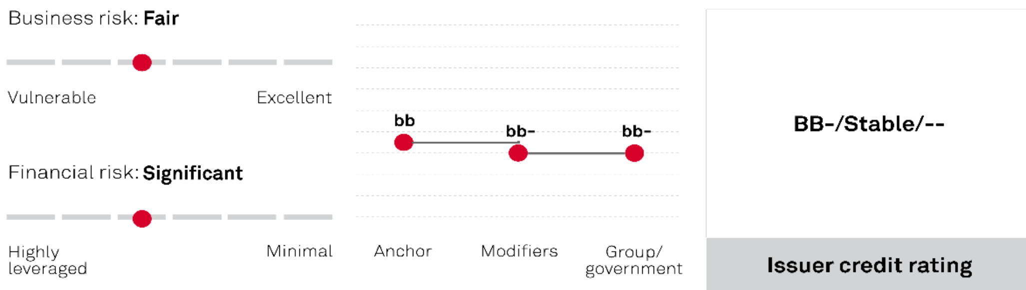
**We expect stagnating gross profit margins due to the weak economy and continued input cost inflation, while operating cost efficiency measures improve EBITDA.** We predict consumer spending will be constrained in 2024, as we anticipate muted demand for high-ticket electronic products amid slowing wage growth and diminished savings. However, demand linked to promotional activity should lead to low single digit like-for-like revenue growth, while lower input cost inflation should prevent gross margin decline. In the absence of one off costs linked to country exits that Ceconomy incurred in 2023, and net positive results from the efficiency program, we forecast adjusted EBITDA will rise to €940 million in fiscal 2024.

**EBITDAR coverage ratio of 1.4x in fiscal 2023 leaves limited rating headroom, but we expect this to improve.** Lease payments increased to €536 million, together with higher cash interest of €82 million, leading to weaker EBITDAR coverage ratio. We expect an improvement to 1.6x in fiscal 2024 due to higher profitability. We anticipate that Ceconomy's short remaining term of lease contracts and shift to smaller stores will lead to a reduction in lease liabilities and payments, and result in EBITDAR coverage approaching 2.0x in the next two-to-three years.

**We anticipate improving FOCF after leases in 2024 absent material worsening of macroeconomic conditions or supply chain disruptions**. We expect capital expenditure (capex) to rise in fiscal 2024 from €176 million (0.8% of sales) in fiscal 2023, as the company targets modernizing 90% of its stores and opening a further 12 Lighthouse stores by fiscal 2026. For now, we have not factored in any impact from freight operators avoiding the Suez Canal that could potentially affect delivery times and stock availability. Due to improved profitability and higher capex, we expect reported FOCF after leases of about €73 million in fiscal 2024.

**Ceconomy's strategy is on track, underpinning our expectation of an improvement in credit metrics from 2025.** In fiscal 2023, the company improved its performance indicators related to stock efficiency, store modernizations, retail media, and marketplace gross merchandise value, while the private label and service solutions share of revenue stayed at the previous year's level. We understand that the subscription repair service MyMediaMarkt Plus, launched in Germany and Poland, with Spain planned for fiscal 2024 is a key contributor to the strategy and predict this will lead to an improvement in profitability from fiscal 2025.

## Ratings Score Snapshot




## Recent Research

- Industry Credit Outlook 2024: Retail and Restaurants, Jan. 9, 2024
- European Retailers' Margins Are Unlikely To Regain Their Pre-Pandemic Strength, Nov. 7, 2023
- Germany-Based Electronics Retailer Ceconomy AG Assigned 'BB-' Rating; Outlook Stable, April 13, 2023

## Company Description

Ceconomy is Europe's largest electronics retailer, generating €22.2 billion of revenue and €876 million of adjusted EBITDA in fiscal 2023. The company operates under two brands:

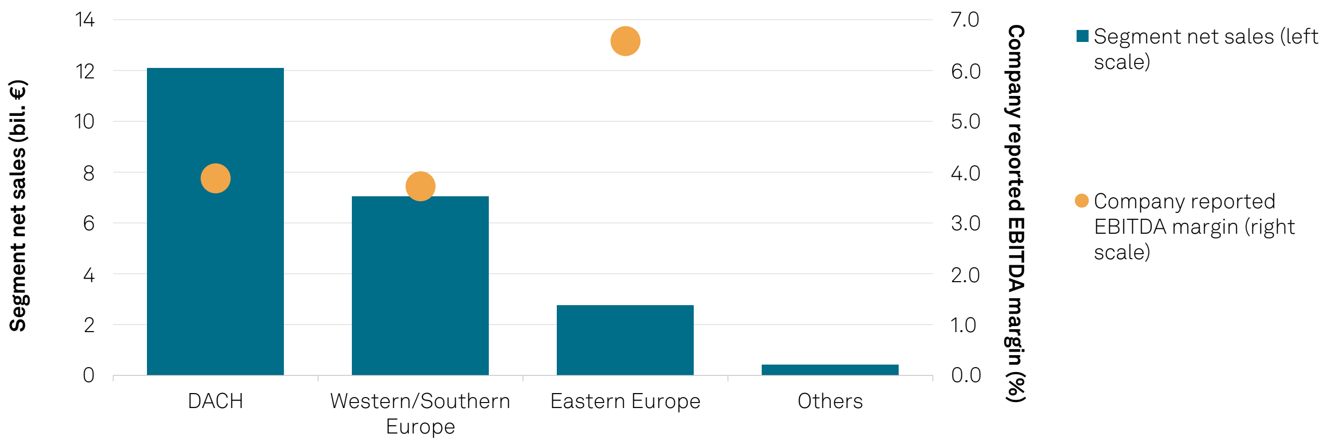
- MediaMarkt, which was founded in 1979 and operates across Europe with 884 stores and 36,000 employees, including 284 stores and 11,000 employees in Germany; and
- Saturn, which was founded in 1961 and operates only in Germany, with 114 stores and about 5,000 employees (as of Sept. 30, 2023).

As of fiscal 2023, the company operates in three key regions: DACH (Germany, Austria, Switzerland, and Hungary; representing 54.4% of sales), Western/Southern Europe (31.7%), and Eastern Europe and other (12.4%). The company holds a 23.4% minority stake in Fnac Darty, which is valued at about €169 million based on its market capitalization as of Jan. 15, 2024. Ceconomy exited from Sweden and Portugal in the first half of 2023, which together contributed €1.27 billion of revenue and negative €8 million of EBIT combined in fiscal 2023.

The company's key shareholders are Convergenta (29.2%) with its ultimate beneficiary being the Kellerhals family (founders of MediaMarkt), Haniel (16.7%), Meridian Stiftung (11.1%), and freenet AG (6.7%). The residual 36.3% of shares are in free float, with Prof. Otto Beisheim Foundations owning 4.8% and Exor Financial Investments 4.2%.

**Ceconomy AG segment split**

Segement net sales and profitability (fiscal 2023)




Note : The 'Others' segment has reported negative EBITDA of €99 million.

Source: Company information; Net sales before consolidation effects



# Outlook

The stable outlook reflects our view that costs incurred from Ceconomy's restructuring program and portfolio adjustments as well as benefits from its restructuring program will improve EBITDA margins toward 4.3% despite ongoing macroeconomic uncertainties. As a result, we anticipate leverage will remain below 3.0x and FOCF after leases will stay positive, despite higher capex and little effect from working capital.

## Downside scenario

We could lower the rating on Ceconomy if the company's operating performance and earnings weaken, translating into any of the following metrics:

- Adjusted EBITDA margin dropping below 4% for a prolonged period;
- An EBITDAR coverage ratio remaining below 1.5x;
- FOCF after leases turning negative for a prolonged time; or
- Adjusted debt to EBITDA approaching 3.5x.

This could stem from higher-than-expected margin erosion amid fierce price competition in its end markets, the inability to stabilize working capital, or Ceconomy falling substantially short of realizing profit accretion from its current strategy. A downgrade could also arise from a more aggressive financial policy than we anticipate, resulting in erosion of the company's large cash cushion and credit metrics.

## Upside scenario

We could raise the rating on Ceconomy if the company's operating performance and cash generation sustainably improve, translating into:

- Meaningful and increasing FOCF after leases;
- Adjusted EBITDA margin approaching 5%;
- An EBITDAR coverage ratio exceeding 2.0x; and
- Adjusted debt to EBITDA well below 3.0x.

This could stem from the successful execution of the company's strategy leading to stronger competitiveness and profitability, tight working capital and capex management, along with more robust consumer discretionary spending than we anticipate.

# Key Metrics

### Ceconomy AG--Forecast summary

| **Period ending** | **Sep-30-2021** | **Sep-30-2022** | **Sep-30-2023** | **Sep-30-2024** | **Sep-30-2025** |
|---|---|---|---|---|---|
| **(Mil. EUR)** | **2021a** | **2022a** | **2023a** | **2024e** | **2025f** |
| Revenue | 21,361 | 21,768 | 22,242 | 22,170 | 22,391 |
| EBITDA (reported) | 951 | 866 | 814 | 940 | 1,050 |
| Plus: Operating lease adjustment (OLA) rent | -- | -- | -- | -- | -- |
| Plus/(less): Other | (16) | (15) | 62 | (0) | (23) |
| EBITDA | 935 | 851 | 876 | 940 | 1,027 |
| Less: Cash interest paid | (62) | (74) | (129) | (127) | (125) |
| Less: Cash taxes paid | (104) | (134) | (109) | (32) | (75) |
| Plus/(less): Other | -- | -- | -- | -- | -- |
| Funds from operations (FFO) | 769 | 643 | 638 | 781 | 827 |
| EBIT | 386 | 139 | 211 | 298 | 402 |
| Interest expense | 67 | 71 | 155 | 145 | 143 |
| Cash flow from operations (CFO) | 351 | 168 | 928 | 794 | 842 |
| Capital expenditure (capex) | 141 | 206 | 176 | 266 | 302 |
| Free operating cash flow (FOCF) | 210 | (38) | 752 | 528 | 540 |
| Dividends | -- | 104 | 3 | -- | -- |
| Share repurchases (reported) | 1 | 132 | -- | -- | -- |
| Discretionary cash flow (DCF) | 209 | (274) | 749 | 528 | 540 |
| Debt (reported) | 797 | 812 | 799 | 774 | 774 |
| Plus: Lease liabilities debt | 2,068 | 1,961 | 1,785 | 1,740 | 1,697 |
| Plus: Pension and other postretirement debt | 401 | 264 | 260 | 260 | 260 |
| Less: Accessible cash and liquid Investments | (1,634) | (715) | (834) | (879) | (970) |
| Plus/(less): Other | 195 | 227 | 215 | 215 | 215 |
| Debt | 1,827 | 2,549 | 2,225 | 2,110 | 1,975 |

### Ceconomy AG--Forecast summary

| | | | | | |
|---|---|---|---|---|---|
| Reported FOCF after leases | (242) | (542) | 258 | 73 | 98 |
| Cash and short-term investments (reported) | 1,757 | 769 | 897 | 945 | 1,043 |
| **Adjusted ratios** | | | | | |
| Annual revenue growth (%) | 2.5 | 1.9 | 2.2 | (0.3) | 1.0 |
| EBITDA margin (%) | 4.4 | 3.9 | 3.9 | 4.2 | 4.6 |
| Debt/EBITDA (x) | 2.0 | 3.0 | 2.5 | 2.2 | 1.9 |
| FFO/debt (%) | 42.1 | 25.2 | 28.7 | 37.0 | 41.8 |
| FFO cash interest coverage (x) | 13.4 | 9.7 | 5.9 | 7.2 | 7.6 |
| EBITDAR to interest and leases (x) | 1.7 | 1.5 | 1.4 | 1.6 | 1.8 |
| CFO/debt (%) | 19.2 | 6.6 | 41.7 | 37.6 | 42.6 |
| FOCF/debt (%) | 11.5 | (1.5) | 33.8 | 25.0 | 27.3 |
| DCF/debt (%) | 11.4 | (10.8) | 33.7 | 25.0 | 27.3 |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. EUR—euro.

# Financial Summary

### Ceconomy AG--Financial summary

| Period ending | Sep-30-2019 | Sep-30-2020 | Sep-30-2021 | Sep-30-2022 | Sep-30-2023 |
|---|---|---|---|---|---|
| Reporting period | 2019a | 2020a | 2021a | 2022a | 2023a |
| Display currency (mil.) | EUR | EUR | EUR | EUR | EUR |
| Revenues | 21,455 | 20,831 | 21,361 | 21,768 | 22,242 |
| EBITDA | 1,037 | 1,013 | 935 | 851 | 876 |
| Funds from operations (FFO) | 718 | 976 | 769 | 643 | 638 |
| Interest expense | 178 | 60 | 67 | 71 | 155 |
| Cash interest paid | 166 | 54 | 62 | 74 | 129 |
| Operating cash flow (OCF) | 330 | 1,166 | 351 | 168 | 928 |
| Capital expenditure | 154 | 112 | 141 | 206 | 176 |
| Free operating cash flow (FOCF) | 176 | 1,054 | 210 | (38) | 752 |
| Discretionary cash flow (DCF) | 147 | 1,046 | 209 | (274) | 749 |
| Cash and short-term investments | 1,184 | 1,569 | 1,757 | 769 | 897 |
| Gross available cash | 1,184 | 1,569 | 1,757 | 769 | 897 |
| Debt | 1,843 | 1,572 | 1,827 | 2,549 | 2,225 |
| Common equity | 784 | 548 | 757 | 554 | 434 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 4.8 | 4.9 | 4.4 | 3.9 | 3.9 |

| | | | | | |
|---|---|---|---|---|---|
| Return on capital (%) | 17.8 | (1.2) | 16.4 | 4.9 | 7.3 |
| EBITDA interest coverage (x) | 5.8 | 16.9 | 14.0 | 12.0 | 5.7 |
| FFO cash interest coverage (x) | 5.3 | 19.1 | 13.4 | 9.7 | 5.9 |
| Debt/EBITDA (x) | 1.8 | 1.6 | 2.0 | 3.0 | 2.5 |
| FFO/debt (%) | 39.0 | 62.1 | 42.1 | 25.2 | 28.7 |
| OCF/debt (%) | 17.9 | 74.2 | 19.2 | 6.6 | 41.7 |
| FOCF/debt (%) | 9.5 | 67.1 | 11.5 | (1.5) | 33.8 |
| DCF/debt (%) | 8.0 | 66.5 | 11.4 | (10.8) | 33.7 |

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. EUR—Euro.

# Peer Comparison

### Ceconomy AG--Peer Comparisons

| | Ceconomy AG | Amazon.com Inc. | Best Buy Co. Inc. | FNAC Darty SA | Macy's Inc. |
|---|---|---|---|---|---|
| Foreign currency issuer credit rating | BB-/Stable/-- | AA/Stable/A-1+ | BBB+/Stable/-- | BB+/Negative/-- | BB+/Stable/B |
| Local currency issuer credit rating | BB-/Stable/-- | AA/Stable/A-1+ | BBB+/Stable/-- | BB+/Negative/-- | BB+/Stable/B |
| Period | Annual | Annual | Annual | Annual | Annual |
| Period ending | 2023-09-30 | 2022-12-31 | 2023-01-28 | 2022-12-31 | 2023-01-28 |
| Mil. | EUR | EUR | EUR | EUR | EUR |
| Revenue | 22,242 | 480,923 | 42,652 | 7,949 | 23,312 |
| EBITDA | 876 | 78,351 | 3,345 | 558 | 2,697 |
| Funds from operations (FFO) | 638 | 69,031 | 2,980 | 441 | 1,863 |
| Interest | 155 | 3,883 | 108 | 50 | 384 |
| Cash interest paid | 129 | 3,673 | 105 | 47 | 416 |
| Operating cash flow (OCF) | 928 | 50,354 | 2,323 | 299 | 1,578 |
| Capital expenditure | 176 | 59,551 | 857 | 130 | 1,173 |
| Free operating cash flow (FOCF) | 752 | (9,197) | 1,466 | 170 | 405 |
| Discretionary cash flow (DCF) | 749 | (14,811) | (195) | 114 | (308) |
| Cash and short-term investments | 897 | 65,522 | 1,726 | 932 | 794 |
| Gross available cash | 897 | 65,522 | 1,726 | 932 | 794 |
| Debt | 2,225 | 90,759 | 2,292 | 1,270 | 5,316 |
| Equity | 434 | 136,649 | 2,575 | 1,523 | 3,761 |
| EBITDA margin (%) | 3.9 | 16.3 | 7.8 | 7.0 | 11.6 |
| Return on capital (%) | 7.3 | 7.5 | 39.3 | 7.4 | 19.8 |
| EBITDA interest coverage (x) | 5.7 | 20.2 | 30.9 | 11.2 | 7.0 |
| FFO cash interest coverage (x) | 5.9 | 19.8 | 29.5 | 10.4 | 5.5 |
| Debt/EBITDA (x) | 2.5 | 1.2 | 0.7 | 2.3 | 2.0 |
| FFO/debt (%) | 28.7 | 76.1 | 130.0 | 34.7 | 35.0 |

### Ceconomy AG--Peer Comparisons

| | | | | | |
|---|---|---|---|---|---|
| OCF/debt (%) | 41.7 | 55.5 | 101.3 | 23.6 | 29.7 |
| FOCF/debt (%) | 33.8 | (10.1) | 64.0 | 13.3 | 7.6 |
| DCF/debt (%) | 33.7 | (16.3) | (8.5) | 8.9 | (5.8) |

# Environmental, Social, And Governance

Environmental factors are a neutral consideration in our credit rating analysis of Ceconomy. The company publishes an annual sustainability report. In fiscal 2023, Ceconomy committed to participate in the Science Based Target initiative and is formulating and implementing additional climate targets. We see topics related to the circular economy incorporated in the company's business strategy that can support higher customer retention.

Social factors are also a neutral consideration. In fiscal 2023, Ceconomy was one of Europe's largest retail employers, with 47,530 employees and 20,266 in Germany. In the previous year, 80.46% of German employees had a collective bargaining agreement. We anticipate inflation in Germany to reduce to 3% in fiscal 2024, with real incomes set to rise because of disinflation and resilient labor markets.

Governance factors are also a neutral consideration. The company's corporation and legal bodies (the management board, supervisory board, and general assembly) are governed by German stock corporation law. Of the supervisory body, 50% is composed of elected employee representatives. We estimate that the buyout of minority shareholders at the local store level and the Convergenta transaction in fiscal 2022 simplified Ceconomy's governance structure and improved transparency. The company's main shareholder is the Kellerhals Family, with a 29.2% share.

### Rating Component Scores

| | |
|---|---|
| **Foreign currency issuer credit rating** | BB-/Stable/-- |
| **Local currency issuer credit rating** | BB-/Stable/-- |
| **Business risk** | Fair |
| Country risk | Low |
| Industry risk | Intermediate |
| Competitive position | Fair |
| **Financial risk** | Significant |
| Cash flow/leverage | Significant |
| **Anchor** | bb |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Adequate (no impact) |
| Management and governance | Neutral (no impact) |
| Comparable rating analysis | Negative (-1 notch) |
| **Stand-alone credit profile** | bb- |

# Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011