S&P Global
Ratings

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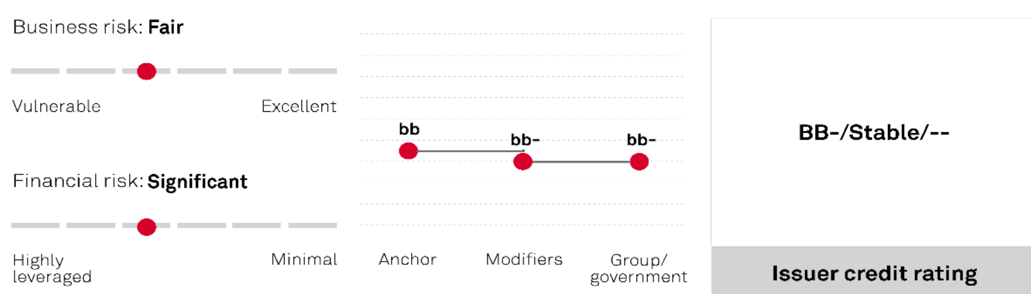
Ceconomy AG

May 13, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Largest European electronics retailer, with €22.2 billion sales in fiscal 2023 and leading market positions in Germany, Italy, Spain, and the Netherlands.	Operations in the consumer electronics segment, which is exposed to intense competition, discretionary spending, and meaningful seasonality
A fairly balanced product mix and strong omnichannel capabilities.	Low S&P Global Ratings-adjusted EBITDA margins of 3.9% with a recovery to 4.6% in fiscal 2024, relying on the execution of cost efficiency measures and its outlined "Experience Electronics" strategy.
A low debt profile, with a committed financial policy to keep company-adjusted leverage below 2.5x. As of fiscal 2023, this ratio stood at 1.9x, translating into S&P Global Ratings-adjusted leverage of 2.7x	Hefty lease payments that lead to a weak lease coverage ratio of only 1.4x in 2023 and limited positive free operating cash flow (FOCF) after leases, which fluctuations in working capital also highly affects.

Ceconomy reduced S&P Global Ratings-adjusted leverage to 2.7x in fiscal 2023 (year ended Sept. 30) due to earnings and cash flow exceeding our forecast, but rating headroom is

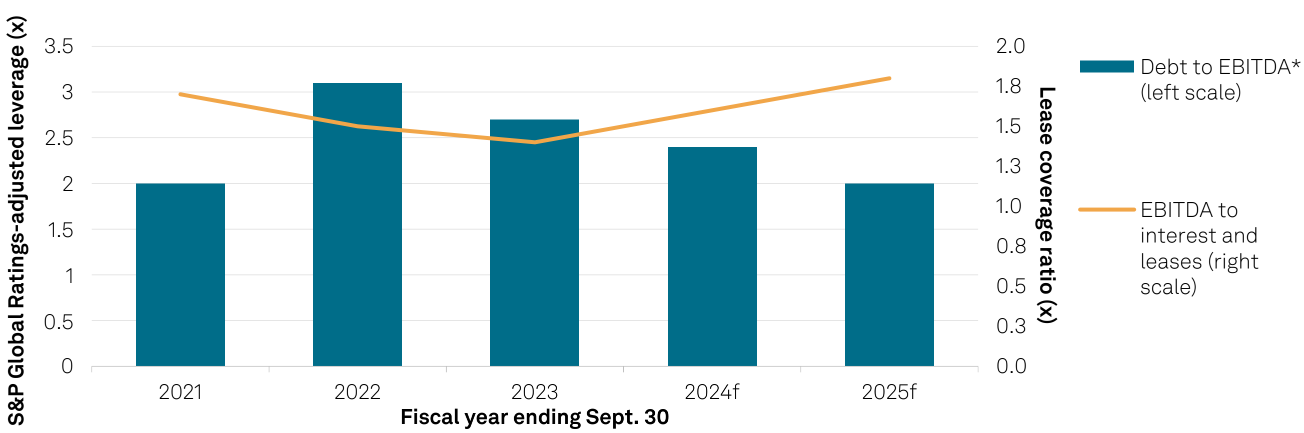
limited due to hefty lease payments. S&P Global Ratings-adjusted EBITDA was €876 million (3.9% margin), up from €851 million year on year. Even so, the EBITDAR coverage ratio (EBITDAR to cash interest plus rent) was 1.4x following higher lease and interest payments. Positively, reported free operating 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. The resilient performance was mainly driven by the companies' East segment, which also includes Turkiye and its recent hyperinflation.

First-quarter fiscal 2024 results were in line with expectations. The Christmas period was muted for Ceconomy as consumer sentiment across Europe recovered only slowly, with modestly declining and stagnating revenue in Germany and Western-Southern Europe respectively. Nevertheless, like-for-like sales increased 3.2% on continued strong development in the East segment, and company-adjusted EBITDA margins improved 30 basis points to 5.8%, mainly from product mix and strict cost management. At the same time, working capital returned to 2021 levels, as the group ensures product availability, and is in line with our expectations of limited positive improvements in the next two fiscal years.

We expect stagnating gross profit margins due to the weak economy and continued input cost inflation, while operating cost efficiency measures improve EBITDA. We forecast consumer spending will be constrained in 2024, because 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 1%-3% like-for-like revenue growth, while lower input cost inflation should prevent gross margin decline. Absent one-off costs linked to country exits in 2023, and net positive results from the efficiency program, we forecast adjusted EBITDA will rise to €940 million in fiscal 2024 and a step up to about €1.03 billion in fiscal 2025, resulting in leverage of about 2.0x.

An 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 a weaker EBITDAR coverage ratio. We expect the ratio to improve 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.

S&P Global Ratings-adjusted leverage to approach 2.0x, while hefty lease payments constrain the group



*S&P Global Ratings-adjusted. f--Forecast. Source: S&P Global Ratings.

We anticipate improving FOCF after leases in 2024 absent material economic worsening 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, invest in IT and plans to open 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 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, pre-launched in Germany and Poland with Spain planned for fiscal 2024, is a key contributor to the strategy and forecast this will improve profitability from fiscal 2025.

Outlook

The stable outlook reflects our view that costs from Ceconomy's restructuring program and portfolio adjustments, as well as benefits from its restructuring program will improve EBITDA margins above 4% despite ongoing economic uncertainty. Despite our anticipation of higher capex and less positive impact from working capital, we forecast FOCF after leases will stay positive and leverage will remain below 3.0x.

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 follow 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 execution of the company's strategy, leading to stronger competitiveness and profitability, tight working capital and capex management, and more robust consumer discretionary spending than we anticipate.

Our Base-Case Scenario

Assumptions

- GDP in Germany to grow at 0.3% in 2024 and 1.2% in 2025 after declining by 0.1% growth in 2023. We expect real GDP growth for the eurozone of 0.7% in 2024 and 1.3% in 2025.
- Inflation to stabilize at 2.7% in Germany in 2024 and 2.2% in 2025. Inflation in the eurozone to normalize at 2.6% in 2024 and 2.1% in 2025, from 5.5% in 2023.
- Continued soft demand in 2024 amid slowing wage growth and ongoing price pressure, which will likely necessitate ongoing promotional activity to spark demand. Proactively managing inventory is essential to mitigate the need to offer deep discounts to clear merchandise.
- Revenue to remain stable or rise marginally in line with the market at nominal rates of 0%-1% in 2024 and 2025. The growth will come from demand for energy efficient products and the service and solutions business.
- The S&P Global Ratings-adjusted EBITDA margin improving to 4.2% in fiscal 2024 from 3.9% in fiscal 2023 due to the easing of inflationary pressure on logistics and energy costs, and tight cost controls. Margins will be additionally supported by a continued centralization of group functions and combined management of its brands that we expect to result in lower stock-keeping units (SKUs) and aligned product offerings that should keep gross profit margins stable. In addition, some benefits from restructuring, changes in product mix, and combined marketing initiatives could improve margins towards 4.6% in fiscal 2025.
- Positive working capital changes of €10 million-€30 million in fiscal 2024 and a neutral contribution thereafter due to product mix and a higher share of services and related receivables.
- Annual capex of €260 million-€320 million in fiscal years 2024 and 2025, reflecting an increase in capex of 1.3%-1.5% of sales, investments in IT, and store modernization. Capex was below 1% in fiscal years 2022 and 2023.
- No dividends or material acquisitions expected.

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)	(75)	(132)	(131)	(129)
Less: Cash taxes paid	(104)	(134)	(109)	(32)	(75)
Plus (less): Other	--	--	--	--	--
Funds from operations (FFO)	769	642	635	776	823
Interest expense	67	72	158	149	147
Cash flow from operations (CFO)	351	167	925	790	838
Capital expenditure (capex)	141	206	176	266	302
Free operating cash flow (FOCF)	210	(39)	749	524	536
Dividends	--	104	3	--	--
Share repurchases (reported)	1	132	--	--	--
Discretionary cash flow (DCF)	209	(275)	746	524	536
Debt (reported)	797	812	799	774	774
Plus: Lease liabilities debt (reported)	2,068	1,961	1,785	1,740	1,697
Plus: Additional S&P lease adjustment	0	67	111	103	93
Plus: Pension and other postemployment 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	2,616	2,336	2,213	2,069
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	3.1	2.7	2.4	2.0
FFO/debt (%)	42.1	24.6	27.2	35.1	39.8
FFO cash interest coverage (x)	13.4	9.6	5.8	6.9	7.4
EBITDAR to interest and leases (x)	1.7	1.5	1.4	1.6	1.8
CFO/debt (%)	19.2	6.4	39.6	35.7	40.5
FOCF/debt (%)	11.5	(1.5)	32.1	23.7	25.9
DCF/debt (%)	11.4	(10.5)	31.9	23.7	25.9

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:

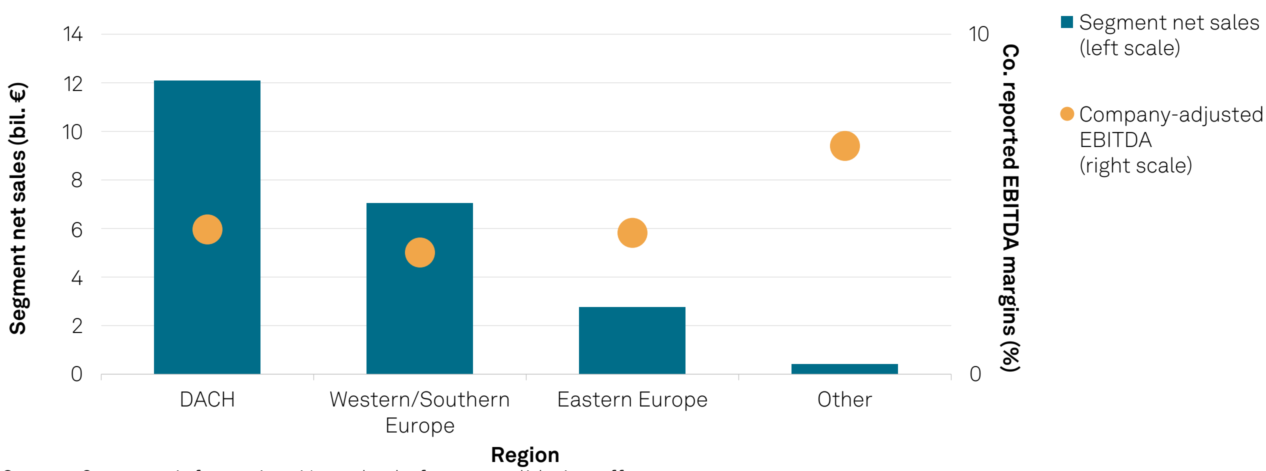
- MediaMarkt, which was founded in 1979 and operates across Europe with 884 stores and 36,000 employees, including 284 stores and 11,000 employees in Germany; and
- Saturn, which was founded in 1961 and operates only in Germany, with 114 stores and about 5,000 employees (as of Sept. 30, 2023).

The company operates in three key regions: DACH (Germany, Austria, Switzerland, and Hungary; representing 54.2% of sales in fiscal 2023), Western/Southern Europe (31.6%), and Eastern Europe and Other (14.2%). 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 first-half 2023, which still contributed €507 million of revenue 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%.

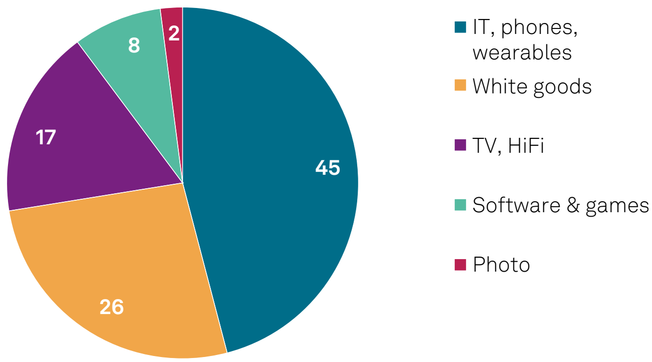
Ceconomy AG--Segment Split

Segment net sales and profitability (Fiscal 2023)



Source: Company information. Net sales before consolidation effects.

Product sales by category
Fiscal 2023



Source: Company information.

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	2023-12-31	2024-02-03	2023-12-31	2024-02-03
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	22,242	520,005	40,269	7,875	22,118
EBITDA	876	108,643	3,169	495	2,404
Funds from operations (FFO)	635	93,554	2,524	447	1,804
Interest	158	5,038	142	62	357
Cash interest paid	132	4,975	141	56	378
Operating cash flow (OCF)	925	84,235	1,989	517	1,322
Capital expenditure	176	47,704	737	139	894
Free operating cash flow (FOCF)	749	36,531	1,252	378	427
Discretionary cash flow (DCF)	746	36,531	194	347	224
Cash and short-term investments	897	78,509	1,341	1,121	958
Gross available cash	897	78,509	1,341	1,121	958
Debt	2,336	71,315	2,695	1,130	5,173
Equity	434	182,635	2,829	1,538	3,834
EBITDA margin (%)	3.9	20.9	7.9	6.3	10.9
Return on capital (%)	7.2	16.0	31.2	4.5	15.3

Ceconomy AG--Peer Comparisons

EBITDA interest coverage (x)	5.6	21.6	22.3	8.0	6.7
FFO cash interest coverage (x)	5.8	19.8	18.9	8.9	5.8
Debt/EBITDA (x)	2.7	0.7	0.9	2.3	2.2
FFO/debt (%)	27.2	131.2	93.7	39.5	34.9
OCF/debt (%)	39.6	118.1	73.8	45.7	25.6
FOCF/debt (%)	32.1	51.2	46.5	33.4	8.3
DCF/debt (%)	31.9	51.2	7.2	30.7	4.3

Business Risk

Ceconomy's business risk profile is supported by its leading position as the largest European electronics retailer. The group has 998 stores and operations in 11 markets (including leading positions in nine). It operates as a market leader, with its key regions in Europe being Germany and Spain. The group also benefits from its large scale, with revenue of €22.2 billion in fiscal 2023, and its brand equity in key markets like Germany, where it was founded. Ceconomy has a No. 1 or 2 position in its largest markets: Germany (44% of revenue), Italy (10%), Spain (10%), and the Netherlands (7%) and exposure to emerging markets like Poland, Hungary, or Turkey. The company follows a lead-or-leave approach, as seen in exits from Sweden (29 stores) and Portugal (10), where it did not have a No. 1 or 2 position.

We see the group's geographic diversity as reducing earnings volatility. Economic patterns, COVID-19-related restrictions, and reactions to geopolitical conflicts have varied across markets in which Ceconomy operates. While the DACH segment--which consists of Germany, Austria, Switzerland, and Hungary--saw company-adjusted EBITDA decline 28% over the past three years to €536 million in fiscal 2023 from a peak of €744 million in fiscal 2020, adjusted EBITDA of the group's other segments combined increased 29% to €373 million.

We think Ceconomy's omnichannel capabilities helped mitigate the pressure other brick-and-mortar retailers felt during the pandemic. The group quickly increased online sales (including click and collect) to 32% in fiscal 2021, at the height of the pandemic, from 14% in fiscal 2019, retaining revenue of €21.4 billion-€22.2 billion in the past three years. We understand that the omnichannel flexibility positions Ceconomy well to react quickly to changes in consumer habits and behaviors, and online's share of revenue will not materially change over the forecast period (22.2% as of fiscal 2023).

The reiteration and clear targets set for the "Experience Electronics" strategy are supportive. Management has outlined key performance indicators for this strategy, which focuses on profitability and improved cash flow rather than store expansion and revenue growth. Although the core retail business is supporting growth in services, private labels, marketplace, and retail media, we don't expect it to materially contribute to the higher company-adjusted EBIT guidance of more than €500 million in fiscal 2026 from €243 million in fiscal 2023. As of first-quarter 2024, the company has taken first steps, with core, marketplace, and retail media appearing to be on track, while own brands share and service income stagnating. Of note, the subscription repair service was launched in Germany and Poland only in

October 2023. Improved transparency of Ceconomy's growth ambition supports our current forecast of EBITDA margin improvement to 4.6% in fiscal 2025 from 3.9% in fiscal 2023.

We anticipate that competition in the consumer electronics industry will remain fierce and view it as value-driven and highly dependent on discretionary spending. The high price transparency online and in stores constrains gross margins. We see limited barriers of entry for the online segment, which results in fierce competition from pure online retailers like Otto in Germany or Amazon across Europe, combined with global supply chain disruptions and rapid increases in logistics costs. The proximity of its stores to its customers, however, should somewhat mitigates this, as the group offers click and collect and is rolling out repair subscription models to increase service revenue. Recently, the company also started a collaboration with Uber in Germany to deliver some goods to customers within 90 minutes, directly competing with same-day delivery options of peers.

The mature electronics market, short product release cycles, and exposure to discretionary spending limits top-line growth. Revenues for Ceconomy grew slightly in 2023 to €22.2 billion (4.1% like-for-like), although this is mainly due to Turkiye, which is classified as a hyperinflation country. The remaining countries, especially Germany, Italy, and Spain, saw lower revenue. We don’t expect the group to expand meaningfully, which also relates to the maturity of the electronics market in Europe. In addition, the short release cycle of technology related products (mainly IT, phones, and wearables, which that make up about 45% of group sales) lead to discounts for existing products.

Low S&P Global Ratings-adjusted EBITDA margins of 3.9% constrain the business and we think a recovery relies on the execution of cost-efficiency measures. We expect a recovery of margins in its key markets to 4.2% in 2024 and 4.6% in 2025. This is supported by its cost-efficiency measures to reduce headquarter costs, digitize processes, and align SKUs and marketing campaigns between Saturn and MediaMarkt in Germany. We think Ceconomy can improve margins through promoting own-label products, partnering with manufacturers to leverage advertising, and its "lighthouse" strategy, a space-as-a-service model that focuses on increasing rental income. The margin-accretive "experience electronics" strategy complements the program. Nevertheless, we see execution risk because higher inflation-driven fixed costs, a potential slower recovery of consumer confidence, or worsening economic situation weighing on discretionary spending could offset cost savings.

Financial Risk

Our assessment of financial risk mainly reflects Ceconomy's high lease burden that pressures our lease coverage ratios, as well as volatile reported free cash flow after lease payments resulting from sizable working capital changes.

A significant portion of liabilities relates to lease obligations, reflecting 58% of S&P Global Ratings-adjusted gross debt as of fiscal 2023. EBITDAR interest coverage ratio was 1.4x in fiscal 2023, leaving limited rating headroom, but we expect it to improve to 1.6x-1.9x in next two years benefiting from easing of inflation and increased bargaining power for short-duration lease contracts with lease payments decreasing to about €500 million in 2025 from €536 million last year. As a result of the low lease multiple of 3.8x in fiscal 2023, we add €111 million of additional lease liabilities to the reported liabilities, arriving at a lease multiple of 4.0x that we deem to be the minimum for European non-food retailers.

Ceconomy’s S&P Global Ratings-adjusted debt to EBITDA stood at 2.7x in fiscal 2023, versus our projection of about 3x previously, reflecting stable debt levels and better EBITDA earnings, with the adjusted EBITDA increasing to €876 million from €851 million in fiscal 2022. S&P Global

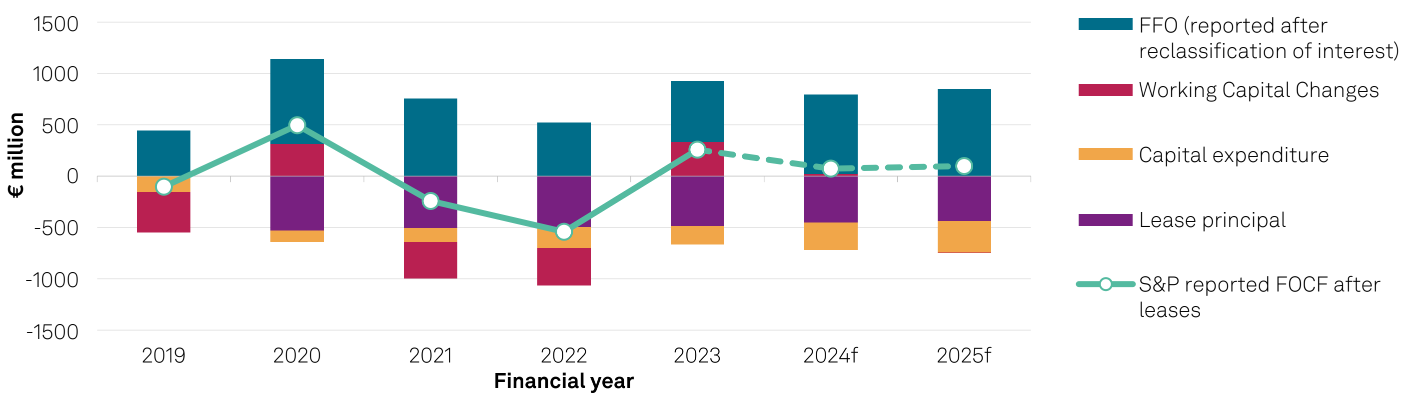
Ratings-adjusted EBITDA for fiscal 2025 is expected to increase to about €1.03 billion, bolstered by cost optimization measures, an increase in profit margins for white goods products, and a greater contribution from the services and solutions business.

Based on the company's conservative financial policy to maintain company adjusted net leverage below 2.5x, we anticipate S&P Global Ratings-adjusted leverage to further reduce to about 2.0x by 2025, following the deleveraging to 2.7x in 2023. Additionally, we do not anticipate any initiation of dividend payments or acquisitions before the group achieves its targets outlined for fiscal 2026.

The business' high seasonality and long payment terms with suppliers, leads to extremely high negative working capital of about €700 million, where modest deviations can meaningfully affect free cash flow, as seen in fiscal 2022, and leads to a high working capital swing of about €1.5 billion as of first-quarter 2024, which reflects the Christmas period where the group generates more than 40% of its company adj EBITDA.

S&P Global Ratings-reported FOCF after leases will remain positive but below 2023 levels

Improvements in FFO are offset by higher investments



f--Forecast; Values reflect midpoint of guided range

Debt maturities

As of September 2023Ceconomy had the following financial maturities:

- Fiscal 2024: €50 million promissory notes
- Fiscal 2025: None
- Fiscal 2026: €500 million
- Fiscal 2027: €223 million (€151 million convertible bond and €72 promissory notes)

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

Ceconomy AG--Financial Summary

EBITDA	1,037	1,013	935	851	876
Funds from operations (FFO)	718	976	769	642	635
Interest expense	178	60	67	72	158
Cash interest paid	166	54	62	75	132
Operating cash flow (OCF)	330	1,166	351	167	925
Capital expenditure	154	112	141	206	176
Free operating cash flow (FOCF)	176	1,054	210	(39)	749
Discretionary cash flow (DCF)	147	1,046	209	(275)	746
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	2,616	2,336
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	7.2
EBITDA interest coverage (x)	5.8	16.9	14.0	11.9	5.6
FFO cash interest coverage (x)	5.3	19.1	13.4	9.6	5.8
Debt/EBITDA (x)	1.8	1.6	2.0	3.1	2.7
FFO/debt (%)	39.0	62.1	42.1	24.6	27.2
OCF/debt (%)	17.9	74.2	19.2	6.4	39.6
FOCF/debt (%)	9.5	67.1	11.5	(1.5)	32.1
DCF/debt (%)	8.0	66.5	11.4	(10.5)	31.9

Reconciliation Of Ceconomy AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Sep-30-2023									
Company reported amounts	799	463	22,242	814	(21)	138	876	1,004	3	176
Cash taxes paid	-	-	-	-	-	-	(109)	-	-	-
Cash interest paid	-	-	-	-	-	-	(129)	-	-	-
Trade receivables securitizations	184	-	-	-	-	-	-	5	-	-
Lease liabilities	1,785	-	-	-	-	-	-	-	-	-
Incremental lease liabilities	111	-	-	-	3	3	(3)	(3)	-	-
Debt-like hybrids	31	(31)	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	260	-	-	1	1	17	-	-	-	-

Reconciliation Of Ceconomy AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Accessible cash and liquid investments	(834)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	1	-	-	-	-	-	-
Dividends from equity investments	-	-	-	9	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	50	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	58	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(81)	-	-
Noncontrolling/ minority interest	-	2	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	1	1	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	172	-	-	-	-	-
Total adjustments	1,537	(29)	-	62	235	20	(241)	(79)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,336	434	22,242	876	214	158	635	925	3	176

Liquidity

We assess Ceconomy's liquidity as adequate. We estimate that cash sources will cover liquidity uses by more than 1.5x over the 12 months starting Jan. 1, 2024, even if EBITDA declines by 15%. However, the group is exposed to structurally high seasonality in earnings and working capital. In our opinion, the peak's magnitude accounts payable position of €7.7 billion at the end of first-quarter fiscal 2024 could expose the company to unexpected deterioration in liquidity if challenging trading conditions hampered full-price sales or a substantial share of payment terms were to change unexpectedly, for example, for regulatory reasons.

Ceconomy has a two-tranche ESG-linked revolving credit facility (RCF), with a total volume of €1.06 billion. The €353 million RCF is due in May 2026, while the €707 million RCF is due in May 2026 and can be extended to May 2027.

Principal liquidity sources

- About €2.35 billion in unrestricted cash and equivalents at Dec. 31, 2023;
- Undrawn €353 million RCF due in 2026 and €707 million due in 2026;
- Cash FFO of €330 million-€350 million, net of lease payments; and
- Working capital inflow of up to €50 million.

Principal liquidity uses

- Short-term debt maturities of about €110 million;
- Seasonal working capital swings (intrayear) of €1.5 billion from first-quarter 2023-2024;
- Capex of €250 million-€300 million; and
- No dividends.

Covenant Analysis

Requirements

The €1.06 billion ESG-linked RCF facility has a financial maintenance covenant that is tested in March and September of each year.

Compliance expectations

We estimate the group has significant headroom under its maintenance covenants.

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 group'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 fall to 3% in fiscal 2024, with real incomes set to rise on resilient labor markets.

Governance factors are a neutral consideration as well. 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. The chairman of the supervisory board is the independent Thomas Dannenfeldt and representatives need to fit the diversity policy and the competence profile. The overall supervisory board has a minimum gender quota of 30% overall and more than 50% of the shareholder elected representative need to be independent, which we view positive. 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 has 36.3% free float and its major shareholders are the Kellerhals Family (29.2%), Haniel (16.7%), Meridian Foundation (11.1%) and Freenet (6.7%) as of Sept. 20, 2023.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate the €500 million unsecured bond maturing in 2026 'BB-', in line with the issuer credit rating.
- The recovery rating on these instruments remains at '3', indicating our expectation of meaningful recovery prospects (50%-70%; rounded estimate: 65%) in the event of default.
- Our hypothetical default scenario assumes intense competition in the European electronics retail market along with severe economic downturn leading to deterioration in the group's margins and operating performance.
- We value Ceconomy as a going concern, underpinned by its strong position in European electronics and home appliances retail market, with an omnichannel presence and its strong store network and solid brand equity in its key markets.

Simulated default assumptions

- Year of default: 2028
- Jurisdiction: Germany

Simplified waterfall

- Emergence EBITDA: €283 million (capex represents 1.0% of average sales for the past three years; cyclicality adjustment of 5%, in line with the industry subsegment)
- EBITDA multiple: 5.0x
- Gross enterprise value: €1.42 billion
- Net recovery value for waterfall after administrative expense (5%) and pension consideration: €1.2 billion
- Estimated senior unsecured debt claims: €1.75 billion
- --Recovery range: 50%-70% (rounded estimate: 65%)
- --Recovery rating: 3

All debt amounts include six months' prepetition interest. Debt claims include the €1.06 billion RCF, which we assumed 85% drawn at default.

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
- Criteria For Determining 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

Related Research

- Full Analysis: Tear Sheet: Ceconomy AG, Jan. 26 2024
- 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

Ratings Detail (as of May 13, 2024)*

Ceconomy AG	
Issuer Credit Rating	BB-/Stable/--
Senior Secured	BB-
Issuer Credit Ratings History	
13-Apr-2023	BB-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.