Credit Rating Announcement

19 April 2023

Scope affirms Ceconomy's BBB- issuer rating and changes the Outlook to Negative from Stable.

The change in Outlook reflects high risk of elevated leverage driven by deterioration of operational performance despite cost cutting efforts and optimization of the group structure.

The latest information on the rating, including rating reports and related methodologies, is available on this LINK.

Rating action

Scope Ratings GmbH (Scope) has affirmed its BBB- issuer rating of Ceconomy AG and revised the Outlook to Negative from Stable. The senior unsecured debt rating and the short-term debt rating have been affirmed at BBB- and S-2 respectively.

Rating rationale

While the results of FY 2022 were in line with last year's forecasts, Scope anticipates a slight decrease of the operating margin in the coming 12-18 months due to inflationary impacts continuing to affect consumer purchases as well as weighting negatively on the operational expenditures. Nonetheless, the restructuring plan announced by the group to take effect by the end of the year is expected to mitigate up to a certain extent the macro headwind.

The business risk profile (assessed at 'BB+' revised from 'BBB-') constrains the rating. Ceconomy continues to benefit from a strong market position across Europe, highlighted by strong diversification and market shares, limiting potential substitution to competitors. The group intends to capitalise on its high brand recognition to further support its market shares by reinforcing its sources of income, complementary to pure retailing (i.e services and solutions, further monetisation of online platforms via Retail Media). In an effort to have a nimbler structure, the group has announced the upcoming disposal of the Swedish activities to Power Retail (expected to be closed in summer 2023). While this disposal is expected to be at loss for the group, the adoption of a clearer long-term vision for development of the group is assessed as positive.

That said, profitability continues to remain the main negative driver in the business risk profile, with a drop in the Scope-adjusted EBITDA margin to 4.4% in FY 2022 (50 bp lower than the average of the last three business years). Scope forecasts that profitability will remain low in FY 2023, as it expects inflation and the associated change of consumer purchasing behaviour will only start waning by the end of Q4 2023-Q1 2024. A medium-term improvement is however forecasted given the group's target of operational expenditures cost cutting.

As a consequence of the expected feeble Scope-adjusted EBITDA margin, Scope-adjusted debt/EBITDA is expected to see a relative dip in FY 2023 (to levels above 2.5x) and to remain elevated in FY 2024 before recovering in the following year. Scope consequently assesses the financial risk profile at BBB- (revised from 'BBB'). Free cash flow generation is expected to be the main focus of the group in the coming year, resulting in an improved working capital management. This is expected to be the consequence of leaner inventory management (faster turnaround of inventory to facilitate the transition of store-centric logistic toward omnichannel infrastructure, gradually increasing the free operating cash flow generation). Scope-adjusted debt is expected to remain relatively stable as no significant debt repayment are scheduled prior to FY 2025 and remains supported by a cash position assumed to oscillate between EUR 600-800m at year ends 2023/2025. Last, liquidity continues to support the rating given a relatively long maturity of debts and the presence of an undrawn revolving cash facility of EUR 1,060m.

Scope currently sees no company-specific ESG factor deemed to have a substantial impact on the overall assessment of credit risk.

Outlook and rating-change drivers

The Outlook is Negative and incorporates a decrease in Ceconomy's Scope-adjusted EBITDA margin to below 4%. This translates into Scope-adjusted debt/EBITDA surpassing 2.5x in FY 2023 and FY 2024 before reverting to below 2.5x in the following years, as Scope expects a certain normalisation of the macroeconomic environment. The Outlook also assumes no M&A or significant debt issuance in the coming years.

A Positive rating action (including a reversal of the Outlook to Stable) could be triggered by an improved Scope-adjusted debt/EBITDA of below 2.5x. This could be due to an early rollout of the restructuring plan or a higher-than-expected rebound of the demand for consumer electronics.

A Negative rating action could result from Scope-adjusted debt/EBITDA sustained above 2.5x for a continued period of time, as it would indicate that the negative macroeconomic conditions have deeper lasting effects than the ones that Scope is currently forecasting.

Long-term and short-term debt ratings

Scope has affirmed the BBB- debt rating for senior unsecured debt issued by Ceconomy and the S-2 short-term debt rating. Scope considers both internally and externally provided liquidity cover to be better than adequate. The group's banking relationships and its standing in capital markets are good.

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 15 July 2022; Retail and Wholesale Rating Methodology, 27 April 2022), are available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of

the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.
Lead analyst: Adrien Guerin, Senior Analyst
Person responsible for approval of the Credit Ratings: Philipp Wass, Executive Director
The issuer Credit Rating/Outlook was first released by Scope Ratings on 27 June 2017. The Credit Rating/Outlook was last updated on 24 May 2022.
The short-term Credit Rating was first released by Scope Ratings on 27 June 2017. The Credit Rating was last updated on 24 May 2022.
The senior unsecured debt Credit Rating was first released by Scope Ratings on 24 June 2021. The Credit Rating was last updated on 24 May 2022.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

Conditions of use/exclusion of liability

About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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