Ceconomy AG

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BB	Stable	13 Dec 2022

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The 'BB' rating balances Ceconomy's large-scale, well-diversified product offering, omnichannel capabilities and pan-European footprint with operations in a competitive market, low operating margins, volatile free cash flows (FCF) and tight interest cover metrics.

The Stable Outlook reflects our view that the company should be able to restore its EBITDA margin to or above 2.5% in FY24-FY25 (financial year that ends September) and to reduce its EBITDAR net leverage towards 4.0x from a level currently not consistent with the rating. This will mainly be driven by stronger volumes in a recovering macro-economic environment, after temporary trading softness in FY23 amid recessionary pressures, particularly in its main German market.

Key Rating Drivers

Leading European Consumer-Electronics Retailer: Ceconomy is the largest consumer-electronics retailer in Europe, but we place its business profile between the 'BBB' and 'BB' categories due to its scale, market position and diversification, but also given the challenges of operating in a fiercely competitive market.

Ceconomy benefits from the strong brand names through which it operates (MediaMarkt and Saturn), sizeable operations with a pan-European footprint and well-diversified product offering with adequate omni-channel capabilities as evident in its online sales reaching 25% of the total in FY22. However, its trading performance is strongly influenced by Germany and is exposed to a challenging and volatile consumer-electronics market.

Profitability Lower than Sector Peers': Ceconomy operates in the largely commoditised mass-market end of consumer electronics retailing, which is exposed to substantial competitive pressures amid high price comparability. This is exacerbated by increasing online market penetration and retailer-agnostic consumer behaviour.

We assess Ceconomy's EBITDA and fund from operations (FFO) margins at 'B', which could come under further pressure in FY23, as consumers delay their purchases or trade down while the company can only partly pass on inflation-cost increases. We anticipate a restoration of EBITDA and FFO margins towards 2.5% and 1.6%, respectively, (FY22: 1.7% and -0.1%) from FY24, mainly on potentially stronger volumes in a recovering macroeconomic environment.

Volatile FCF: We estimate that FCF will remain prone to high volatility, which we attribute mostly to sizeable inventory-led changes in trade working capital (TWC) and pronounced sales seasonality, combined with an uncertain trading environment.

Based on the company's tighter stock control to manage goods availability and actual consumer demand, we project at least a partial funds release leading to slightly positive TWC cash flow in FY23-FY24. This follows two consecutive years of a large cumulative cash outflow estimated by Fitch at around EUR800 million, which includes company-reported changes in TWC adjusted by Fitch for use of factoring for part of its receivables.

Low Working-Capital Visibility: The visibility of the TWC changes remains extremely low, which may be aggravated by recessionary pressures over the coming months, and will also strongly depend on the success of stock reduction measures supporting cash release. At the same time, irrespective of the timing of the TWC reversal over the rating horizon, we estimate that Ceconomy's liquidity at financial year-end will likely remain under EUR1 billion in the medium term versus around EUR1.3 billion during FY18-FY21.

Applicable Criteria

Corporate Rating Criteria (October 2022)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

EMEA Retail Outlook 2023 (December 2022)

German Retail Sales Under Most Pressure in Eurozone (August 2022)

EMEA Retailers Will Not Be Able to Pass to Pass on all Inflation Costs (August 2022)

EMEA Retail Base Case (July 2022)

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Leverage Weak in FY23: Based on our view of lower trading volumes and cost pressures, we project a temporarily heightened EBITDAR net leverage of around 4.9x in FY23, which is weak for the 'BB' IDR.

From FY24, we estimate that leverage will strengthen to 3.9x on gradually improving macro-economic conditions leading to an EBITDA recovery towards EUR600 million, from a below EUR350 million projected for FY23. This 3.9x leverage is commensurate with the mid-to-low end of the 'BB' rating category for non-food retailers, and is a critical consideration behind the rating.

Lease Adjustments to Leverage: Ceconomy's pure financial debt leverage is low, when capitalised leases contributing most to its lease-adjusted credit metrics are excluded. However, in our rating analysis of non-food retailers, whose business models meaningfully rely on a store network, we assess and compare financial risk profiles using lease-adjusted leverage metrics, which place Ceconomy in the mid-to-low end of the 'BB' rating category.

The 'BB'/Stable IDR is, therefore, heavily predicated on Ceconomy's ability to rebuild its EBITDA towards EUR600 million by FY25, as consumer confidence improves from the currently low point affected by the increased costs of living.

Tight Fixed Charge Cover: We see weak fixed-charge cover ratios for Ceconomy, with FFO and EBITDAR based metrics estimated to remain below 2.0x, which correspond to a low 'B' level. This is balanced by its actively-managed leased store network, mitigating the impact of inflation indexation, and leading to broadly flat lease payments in combination with modest cash debt service. However, tightening fixed-charge cover ratios would signal less effective property management and could put ratings under pressure.

Adequately Managed Property Portfolio: Fitch recognises Ceconomy's active management of its operating leases, which provides financial flexibility, given the short-term nature of leases (average remaining lease is over three years versus sector peers of around eight-10 years) as well as the inclusion of early termination clauses, usually linked to store-based profitability metrics.

Fitch uses a lower estimated 7x lease multiple (standard lease multiple is 8x) when computing the company's lease-adjusted debt metrics to reflect the roughly one third proportion of its turnover-based leases.

Financial Summary

Ceconomy AG

(EURm)	Sep 2020	Sep 2021	Sep 2022	Sep 2023F	Sep 2024F	Sep 2025F
Gross Revenue	20,831	21,361	21,768	21,995	22,285	22,359
EBITDA Margin (%)	2.4	2.1	1.7	1.5	2.5	2.7
Free Cash Flow Margin (%)	2.3	-1.6	-3.0	0.2	0.2	-0.4
EBITDAR Net Leverage (x)	3.6	4.3	5.4	4.9	3.9	3.9
EBITDAR Fixed Charge Coverage (x)	1.8	1.6	1.5	1.5	1.9	2.0

F – Forecast
Source: Fitch Ratings, Fitch Solutions, Ceconomy

Rating Derivation Relative to Peers

Ceconomy's 'BB'/Stable combines the 'BBB' traits of its sizeable operations, market position and product offering, with 'B' levels of operating profitability and credit metrics. We also regard as a rating constraint the highly commoditised consumer electronics markets in which Ceconomy operates, with exposure to demand volatility, growing online penetration and shortening product lifecycle due to technological advancements. Consequently, we view Ceconomy's credit profile as in line with that of the consumer electronics retail subsector.

Compared with wider non-food retail peers, including Marks and Spencer Group plc (M&S) and Kingfisher (BBB/Stable), Ceconomy enjoys similarly strong market positions in its respective markets, combined with scale and good diversification. Likewise, we take a positive view of Ceconomy's conservative financial policy and well-managed leased property portfolio, although this is offset by considerably lower profitability versus M&S's and Kingfisher's.

Relative to Spanish department store El Corte Ingles S.A. (ECI), Ceconomy is larger in scale, more geographically diversified (ECI generates 95% of sales in Spain) and better positioned in its online service offering. ECI, however, has a more premium service offering, with prime city store locations and customer loyalty, as well as higher own-brand sales, which translate into a 5.7% EBITDA margin for ECI compared to 2.1% for Ceconomy FY21.

Compared with peers in consumer electronics, UK retailer Currys plc and France's Fnac Darty, Ceconomy is about 2x-3x in absolute sales, reflecting operations in many European countries. Gross profit and EBITDA margins are similar to Currys plc's at about 17%-18% and 2%-3%, respectively, with some pressure emerging as both companies increase lower-margin online sales. However, Ceconomy's EBITDA margins are lower than Fnac Darty's 4%-5%, highlighting a less lean cost base and structural margin pressure in the commoditised end of consumer electronics.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Industry Profile	Market Position	Diversification	Property Management	Profitability	Financial Structure	Financial Flexibility
Capri Holdings Limited	BBB-/Stable	aa	a-	bb	bbb-	bb	bbb-	bbb-	bbb	bbb
Ceconomy AG	BB/Stable	a+	bb+	bb	bbb-	bbb	bbb+	b	b+	bb+
Douglas GmbH	B-/Negative	aa-	bb-	bb-	bb+	bb+	bb	b+	ccc	b
Kingfisher plc	BBB/Stable	aa	bbb	bbb-	bbb	bbb	bbb-	bb	bbb	bbb+

Source: Fitch Ratings.

Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Industry Profile	Market Position	Diversification	Property Management	Profitability	Financial Structure	Financial Flexibility
Capri Holdings Limited	BBB-/Stable	7.0	3.0	-2.0	0.0	-2.0	0.0	0.0	1.0	1.0
Ceconomy AG	BB/Stable	7.0	1.0	0.0	2.0	3.0	4.0	-3.0	-2.0	1.0
Douglas GmbH	B-/Negative	12.0	3.0	3.0	5.0	5.0	4.0	2.0	-2.0	1.0
Kingfisher plc	BBB/Stable	6.0	0.0	-1.0	0.0	0.0	-1.0	-3.0	0.0	1.0

Source: Fitch Ratings.

Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

Factors that could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Improved profitability and like-for-like sales, for example due to strengthened competitive position or improved business mix, with EBITDA margin (Fitch-defined) sustained above 2.5% and FFO margin above 2%.
- EBITDAR net leverage sustainably below 3.5x and FFO-adjusted net leverage below 4.0x.
- FFO fixed-charge cover sustainably above 1.6x and EBITDAR fixed-charge cover above 1.8x.
- Neutral to marginally positive FCF generation and evidence of improved cash flow-conversion cycle leading to reducing year-on-year TWC volatility.

Factors that could, Individually or Collectively, lead to Negative Rating Action/Downgrade:

- Decline in profitability and like-for-like sales, for example, due to increased competition or poor business mix, with EBITDA and FFO margins remaining below 2% and 1%, respectively.
- FFO fixed-charge cover sustainably below 1.4x and EBITDAR fixed charge cover below 1.6x.
- EBITDAR net leverage sustainably above 4.0x and FFO-adjusted net leverage above 4.5x.
- Mostly negative FCF.

Liquidity and Debt Structure

Adequate Liquidity: Ceconomy's readily available cash balances at EUR619 million at FY22 was adequate relative to its volatile FCF generation and low ongoing debt service requirements in the absence of material contractual debt maturities until FYE25. Based on the TWC outflow in FY21 and FY22, we project a lower year-end cash balance of EUR600 million-EUR700 million over the rating horizon, versus an average of EUR1.3 billion of Fitch-calculated freely-available cash during FY18-FY21.

Manageable Short-Term Financing Needs: Ceconomy also has access to an undrawn committed revolving credit facility (RCF) of EUR1.06 billion and a EUR500 million commercial paper programme to support short-term financing needs (EUR30 million used as of September 2022) even though we do not include the latter in our liquidity calculation.

We believe that cash is not inflated at fiscal year-end in September, as this is typically close to its average level of TWC for the year, therefore, we only restrict EUR100 million of cash at year-end.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Liquidity and Debt Maturities

Ceconomy AG
Liquidity analysis

(EURm)	2023	2024F	2025F	2026F
Available liquidity				
Beginning cash balance	619	630	644	567
Rating case FCF after acquisitions and divestitures	60	64	-77	-22
Total available liquidity (A)	**679**	**694**	**567**	**545**
Liquidity uses				
Debt maturities	-49	-50	0	-500
Total liquidity uses (B)	**-49**	**-50**	**0**	**-500**
Liquidity calculation				
Ending cash balance (A+B)	630	644	567	45
Revolver availability	1,060	1,060	1,060	1,060
Ending liquidity	**1,690.0**	**1,704.0**	**1,627.0**	**1,105.0**
Liquidity score (x)	35.5	35.1	Not meaningful	3.2

F – Forecast
Source: Fitch Ratings, Fitch Solutions, Ceconomy

Scheduled debt maturities	**2022**
(EURm)	
2023	49
2024	50
2025	0
2026	500
2027	222
Thereafter	207
Total	**1,028**

Source: Fitch Ratings, Fitch Solutions, Ceconomy

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- About 1% average annual sales growth over FY23-FY26
- Fitch-defined EBITDA margin to decline to 1.5% in FY23 before gradually recovering to 2.7% in FY25
- Leases at 2.5% of annual sales to FY26
- TWC normalisation in FY23 with a largely neutral cash impact over FY24; average TWC outflow at around 0.5% of sales in FY25 and FY26
- Capex at 0.7% of annual sales FY23 before returning to 1.5% (public guidance) from FY24
- No dividends over FY23 and FY24; 40% of prior year's net income assumed by Fitch for FY25

Financial Data

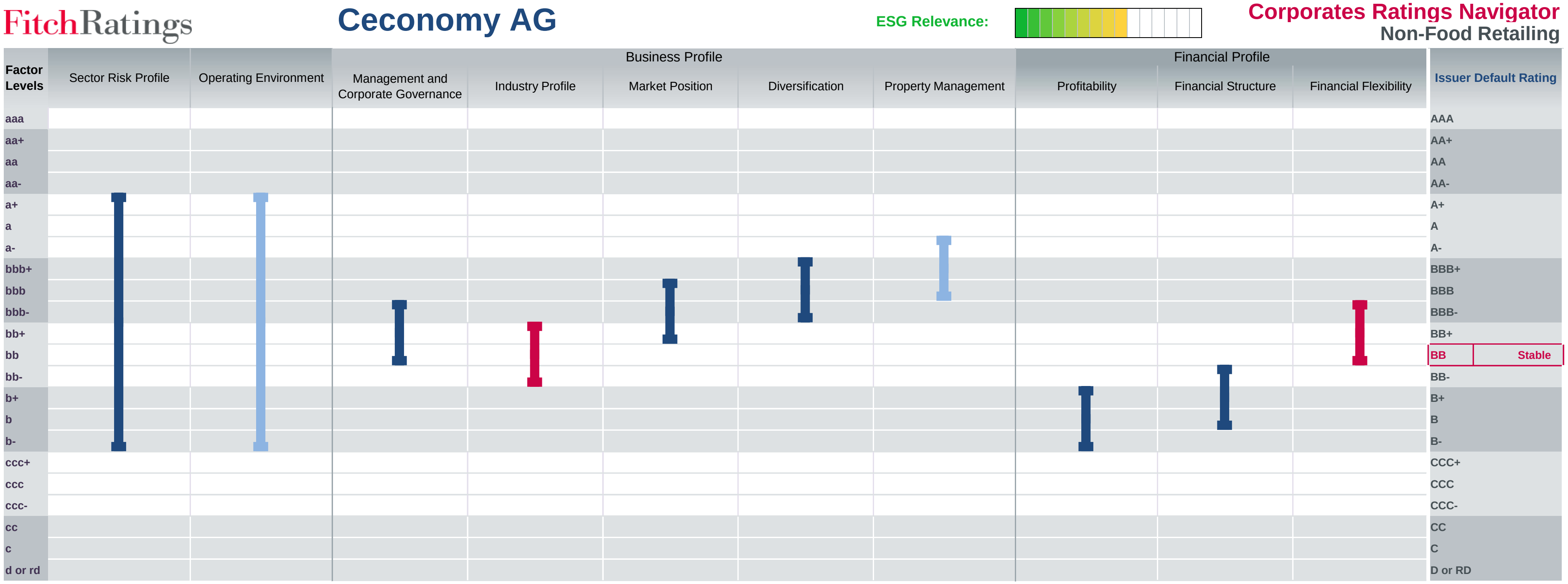
Ceconomy AG						
(EURm)	Historical			Forecast		
Summary income statement	Sep 2020	Sep 2021	Sep 2022	Sep 2023	Sep 2024	Sep 2025
Gross revenue	20,831	21,361	21,768	21,995	22,285	22,359
Revenue growth (%)	-2.9	2.5	1.9	1.0	1.3	0.3
EBITDA (before income from associates)	498	438	367	336	551	593
EBITDA Margin (%)	2.4	2.1	1.7	1.5	2.5	2.7
EBITDAR	1,066	985	898	886	1,108	1,152
EBITDAR margin (%)	5.1	4.6	4.1	4.0	5.0	5.2
EBIT	254	189	115	81	294	332
EBIT margin (%)	1.2	0.9	0.5	0.4	1.3	1.5
Gross interest expense	-41	-46	-49	-31	-31	-30
Pre-tax income (including associate income/loss)	-125	296	49	63	276	314
Summary balance sheet						
Readily available cash and equivalents	1,234	1,332	619	630	644	568
Debt	469	1,053	1,028	979	929	929
Lease-adjusted debt	5,013	5,429	5,276	5,011	5,015	5,028
Net debt	-765	-279	409	349	285	361
Summary cash flow statement						
EBITDA	498	438	367	336	551	593
Cash interest paid	-35	-41	-52	-31	-31	-30
Cash tax	17	-104	-134	-54	-88	-95
Dividends received less dividends paid to minorities (inflow/(out)flow)	-4	-21	-41	0	0	0
Other items before funds from operations (FFO)	-150	-40	-184	-80	-80	-60
FFO	335	246	-27	184	365	421
FFO margin (%)	1.6	1.2	-0.1	0.8	1.6	1.9
Change in working capital	315	-418	-363	20	23	-171
Cash flow from operations (CFO) (Fitch-defined)	650	-172	-390	204	388	250
Total non-operating/non-recurring cash flow	-63	-37	0			
Capex	-112	-141	-206			
Capital intensity (capex/revenue) (%)	0.5	0.7	0.9			
Common dividends	0	0	-63			
Free cash flow (FCF)	475	-350	-659			
Net acquisitions and divestitures	15	19	39			
Other investing and financing cash flow items	-196	-113	51	-50	0	0
Net debt proceeds	14	550	-86	-49	-50	0
Net equity proceeds	-8	-8	-158	0	0	0
Total change in cash	300	98	-813	11	14	-76
Leverage ratios						
EBITDA net leverage (x)	-1.5	-0.7	1.3	1.0	0.5	0.6
EBITDAR leverage (x)	4.7	5.6	6.2	5.7	4.5	4.4
EBITDAR net leverage (x)	3.6	4.3	5.4	4.9	3.9	3.9
EBITDA leverage (x)	0.9	2.5	3.2	2.9	1.7	1.6
FFO-adjusted leverage (x)	5.4	6.6	9.8	6.7	5.3	5.0
FFO-adjusted net leverage (x)	4.1	5.0	8.6	5.8	4.6	4.5
FFO leverage (x)	1.3	3.9	128.5	4.8	2.4	2.1
FFO net leverage (x)	-2.1	-1.0	51.1	1.7	0.7	0.8
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-160	-159	-230	-144	-324	-325
FCF after acquisitions and divestitures	490	-331	-620	60	64	-76
FCF margin (after net acquisitions) (%)	2.4	-1.5	-2.8	0.3	0.3	-0.3
Coverage ratios						
FFO interest coverage (x)	10.3	6.7	0.2	6.5	12.5	14.4
FFO fixed-charge coverage (x)	1.5	1.4	0.9	1.3	1.6	1.7
EBITDAR fixed-charge coverage (x)	1.8	1.6	1.5	1.5	1.9	2.0
EBITDA interest coverage (x)	14.1	10.2	6.3	10.8	17.9	19.5
Additional metrics						
CFO-capex/debt (%)	114.7	-29.7	-58.0	5.1	5.8	-9.2
CFO-capex/net debt (%)	-70.3	112.2	-145.7	14.3	18.9	-23.8

Source: Fitch Ratings, Fitch Solutions, Ceconomy

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

FitchRatings

Ceconomy AG

Corporates Ratings Navigator
Non-Food Retailing

Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'AA'.
b-			
ccc+			

Management and Corporate Governance

bbb	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb-	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bb	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb-			

Industry Profile

bbb-	Long-Term Growth Potential	bb	Core categories, distribution channel, or markets may be under some pressure but opportunities arise in new categories, channels, or markets.
bb+	Volatiliy of Demand	bb	Demand volatility in line with economic cycles.
bb	Threat From Online Retailers/Discounters	b	High online penetration and/or product overlap with discount channel.
bb-	Technology/Fashion Risk	bb	Above average variability from non-economic factors such as shifts in technology and fashion.
b+			

Market Position

bbb+	Trend in Market Share	bb	Steady market share or modest losses relative to competitors.
bbb	Market Position	bbb	Well established position. Leading retailer by revenue in most of its merchandise categories and geographic markets with EBITDAR of at least EUR/USD1.5 billion.
bbb-	Competitive Advantage	bb	Modest competitive advantage. Long term sustainability questionable.
bb+			
bb			

Diversification

a-	Geographical Diversification	bb	Good geographical diversification.
bbb+	Product and Service Offering	bbb	Well diversified.
bbb	Store Formats/Online Presence	bbb	Moderate diversification of store formats and/or online presence and omnichannel capability in line with peers.
bbb-			
bb+			

Property Management

a	Store Ownership/Lease Terms	bbb	Moderate degree of store ownership and/or favorable lease terms.
a-	Quality of Store Locations	bbb	Strong store portfolio in high traffic locations with favourable demographics or highly productive malls.
bbb+	Capex Intensity	bbb	Adequate level of maintenance capex with some revenue-enhancing capex.
bbb			
bbb-			

Profitability

bb-	EBITDAR Margin	ccc	5%
b+	FFO Margin	b	4%
b	Volatility of Profitability and Cash Flow	bbb	Volatility of profits and cash flow in line with industry average.
b-	Profitability Trend	b	EBITDAR margin deteriorating and/or below industry peers.
ccc+			

Financial Structure

bb	EBITDAR Leverage	b	5.0x
bb-	EBITDAR Net Leverage	b	4.5x
b+	FFO Adjusted Leverage	b	5.5x
b	FFO Adjusted Net Leverage	b	5.0x
b-	(CFO-Capex)/Debt	ccc	Flat to Negative

Financial Flexibility

bbb	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb-	Liquidity	a	Very comfortable liquidity. No need to use external funding, except for already committed facilities, in the next 12 months even under a severe stress scenario. Well-spread debt maturity schedule. Diversified sources of funding.
bb+	EBITDAR Fixed Charge Coverage	b	2.0x
bb	FFO Fixed-Charge Coverage	b	2.0x
bb-	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Ceconomy AG has 10 ESG potential rating drivers

- Energy use in manufacturing, distribution, retail, and data centers
- Impact of raw materials, packaging and distribution; socially responsible sourcing
- Extreme weather scenarios (profit concentration on one/two quarters, or product concentration) have the potential to affect profitability
- Data security; customer privacy; dispensing/quality control for pharmacies; material safety for apparel
- Impact of labor negotiations and employee (dis)satisfaction
- Shift in consumer preferences

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	3	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings **Ceconomy AG**

Corporates Ratings Navigator
Non-Food Retailing

Credit-Relevant ESG Derivation

Ceconomy AG has 10 ESG potential rating drivers

- Ceconomy AG has exposure to energy productivity risk but this has very low impact on the rating.
- Ceconomy AG has exposure to waste and impact management risk but this has very low impact on the rating.
- Ceconomy AG has exposure to extreme weather events but this has very low impact on the rating.
- Ceconomy AG has exposure to customer accountability risk and product quality & safety risk but this has very low impact on the rating.
- Ceconomy AG has exposure to labor relations & practices risk but this has very low impact on the rating.
- Ceconomy AG has exposure to shifting consumer preferences but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	3	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Emissions from operations, distribution and refrigeration	Market Position / Scale; Diversification; Property Management; Profitability	5
Energy Management	3	Energy use in manufacturing, distribution, retail, and data centers	Market Position / Scale; Diversification; Property Management; Profitability	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of raw materials, packaging and distribution; socially responsible sourcing	Market Position / Scale; Diversification; Profitability	2
Exposure to Environmental Impacts	3	Extreme weather scenarios (profit concentration on one/two quarters, or product concentration) have the potential to affect profitability	Sector Profile; Market Position / Scale; Diversification; Property Management; Profitability	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; customer privacy; dispensing/quality control for pharmacies; material safety for apparel	Market Position / Scale; Diversification; Profitability; Financial Flexibility	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Market Position / Scale; Diversification; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in consumer preferences	Management and Corporate Governance; Market Position / Scale; Profitability; Financial Structure; Financial Flexibility	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

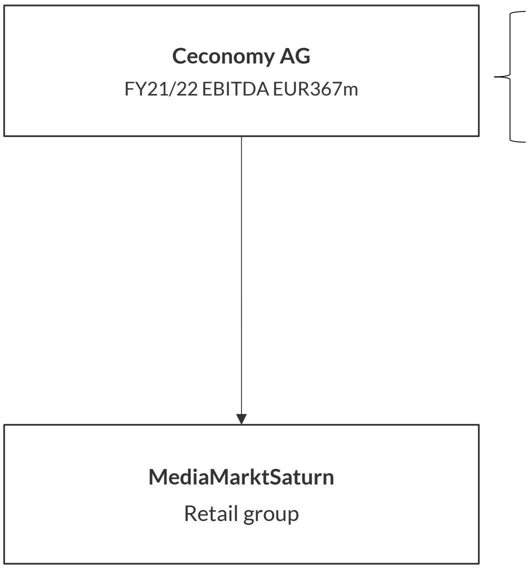
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



- EUR500m bond, 1.750% due 06/2026 – BB
- EUR151m convertible bond, 0.05% due 06/2027
- EUR121m promissory notes: EUR50m due 2024; EUR72m due 2027
- EUR500m multi-currency commercial paper programme
- EUR1,060m syndicated credit facility: EUR353m due 2025; EUR707m due 2026

Source: Fitch Ratings, Fitch Solutions, Ceconomy AG

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	EBITDA margin (%)	FCF margin (%)	EBITDAR leverage (x)	EBITDA interest coverage (x)
Ceconomy AG	BB						
		2022	21,768	1.7	-3.0	6.2	6.3
		2021	21,361	2.1	-1.6	5.6	10.2
		2020	20,831	2.4	2.3	4.7	14.1
Douglas GmbH	B-						
	B-	2022	3,678	8.1	-0.5	8.3	2.4
		2021	3,120	2.3	-3.4	12.9	0.9
		2020	3,233	4.8	-0.9	10.7	1.4
Kingfisher plc	BBB						
	BBB	2022	15,419	9.3	0.7	1.9	55.9
	BBB-	2021	13,835	8.6	7.6	2.2	40.9
	BBB	2020	13,167	6.4	-1.9	2.9	21.2
El Corte Ingles, S.A.	WD						
	BB+	2021	10,432	0.2	-8.3	35.2	0.2
	BB+	2020	15,261	7.4	3.4	3.2	9.2
Marks and Spencer Group plc	WD						
	BB+	2022	12,804	8.4	6.9	3.3	10.3
	BB+	2021	10,276	4.8	3.1	5.6	5.2
	BBB-	2020	11,646	8.5	0.1	3.6	10.5

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(EURm)	Notes and formulas	Reported values	Sum of adjustments	Corp - lease treatment	Corp - factoring	Other adjustments	Adjusted values
30 September 2022							
Income statement summary							
Revenue		21,768					21,768
EBITDAR		896	2			2	898
EBITDAR after associates and minorities	(a)	855	2			2	857
Lease expense	(b)	0	531	531			531
EBITDA	(c)	896	-529	-531		2	367
EBITDA after associates and minorities	(d) = (a-b)	855	-529	-531		2	326
EBIT	(e)	135	-20	-22		2	115
Debt and cash summary							
Other off balance sheet debt	(f)	0					0
Debt[b]	(g)	2,772	-1,744	-1,961	207	10	1,028
Lease-Equivalent debt	(h)	0	4,248	4,248			4,248
Lease-adjusted debt	(i) = (g+h)	2,772	2,504	2,287	207	10	5,276
Readily available cash and equivalents	(j)	769	-150				619
Not readily available cash and equivalents		0	150				150
Cash flow summary							
EBITDA after associates and minorities	(d) = (a-b)	855	-529	-531		2	326
Preferred dividends (Paid)	(k)	0					0
Interest received	(l)	17					17
Interest (paid)	(m)	-74	22	22			-52
Cash tax (paid)		-134					-134
Other items before funds from operations (FFO)		-182	-2			-2	-184
FFO	(n)	482	-509	-509			-27
Change in working capital (Fitch-defined)		-361	-2		-2		-363
Cash Flow from operations (CFO)	(o)	121	-511	-509	-2		-390
Non-operating/non-recurring cash flow		0					0
Capital (expenditures)	(p)	-206					-206
Common dividends (paid)		-63					-63
Free cash flow		-148	-511	-509	-2		-659
Gross leverage (x)							
EBITDAR leverage[a]	(i/a)	3.2					6.2
FFO-adjusted leverage	(i/(n-m-l-k+b))	5.1					9.8
FFO leverage	(i-h)/(n-m-l-k)	5.1					128.5
EBITDA Leverage[a]	(i-h)/d	3.2					3.2
(CFO-capex)/debt (%)	(o+p)/(i-h)	-3.1%					-58.0%
Net leverage (x)							
EBITDAR leverage[a]	(i-j)/a	2.3					5.4
FFO adjusted net leverage	(i-j)/(n-m-l-k+b)	3.7					8.6
FFO net leverage	(i-h-j)/(n-m-l-k)	3.7					51.1
EBITDA net leverage[a]	(i-h-j)/d	2.3					1.3
(CFO-Capex)/debt (%)	(o+p)/(i-h-j)	-4.2%					-145.7%
Coverage (x)							
EBITDAR fixed-charge coverage[a]	a/(-m+b)	11.6					1.5
EBITDA interest coverage[a]	d/(-m)	11.6					6.3
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	7.3					0.9
FFO interest coverage	(n-l-m-k)/(-m-k)	7.3					0.2

[a] EBITDA/R after dividends to associates and minorities
[b] Includes other off balance sheet debt
Source: Fitch Ratings, Fitch Solutions, Ceconomy AG

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