FitchRatings

Corporates
Retailing
Germany

# Ceconomy AG

## Ratings

**Ceconomy AG**

| | |
|---|---|
| Long-Term IDR | BB |
| Senior Unsecured Debt - Long-Term Rating | BB |

**Outlook**

| | |
|---|---|
| Long-Term Foreign-Currency IDR | Stable |

Click here for the full list of ratings

2035 Climate Vulnerability Signal: 27

Fitch Ratings' affirmation of Ceconomy AG's rating reflects the recovery in the company's trading performance in FY23 (financial year ending September 2023) from a very weak FY22 and successful improvement in its working capital position, despite a challenging trading environment, particularly in its core markets of Germany and Italy. It also reflects our expectation of a return to positive cash flow generation and to deleveraging from FY23, after leverage peaked in FY22 at a level that was inconsistent with the rating.

The rating continues to reflect Ceconomy's large-scale, well-diversified product offering, omnichannel capabilities, pan-European footprint with operations in a competitive market, low operating margins, a history of volatile free cash flow (FCF) and tight interest coverage metrics. The Stable Outlook reflects our view that it should restore its EBITDA margin towards 2.5% in FY24-FY25 and reduce its EBITDAR net leverage to below 4.0x.

## Key Rating Drivers

**Recovery from Low Profitability**: Ceconomy operates in the largely commoditised mass market of appliances and consumer-electronics retailing, which is exposed to intense competition, limited customer loyalty and increasing online market penetration.

After falling to below 2% in FY22, we expect the EBITDA margin – which we assess at 'B' – to continue its recovery towards 2.5% from FY24. We forecast EBITDA to rise towards EUR600 million by FY25 from EUR368 million in FY22. This will be aided by cost-efficiency measures, product mix initiatives that include increasing the contribution of services and solutions business, as well as, post-FY24, improvement of demand in its core market as consumer confidence recovers.

**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 the challenges of operating in a fiercely competitive and volatile market.

Ceconomy benefits from its strong brand name, sizeable operations with a pan-European footprint, and well-diversified product offering with adequate omnichannel capabilities underlined by its online sales at 25% of total sales in FY22. However, trading performance is predominantly driven by its core market of Germany.

**Resilience to Macroeconomic Challenges:** Ceconomy's geographic diversification defended its revenue in FY23 against weak sales in Germany, where consumers were tightening spending on major non-discretionary items, with the strength of the Turkish market. We expect spending on electronics and appliances to remain subdued in Europe in FY24, albeit supported by remaining availability of accumulated savings stemming from heavy spending restraint and lower volumes in Germany in FY23.

**FCF Recovery; Working Capital Improvements:** Based on 9M23 results, we estimate working capital (WC) to have declined in FY23 resulting in a cash inflow, although only partly reversing the heavy outflows of close to EUR800million suffered in FY21-FY22 in conjunction with supply chain shortages related to the pandemic. While store-related investments remain subdued and store portfolio growth ambitions are limited, Ceconomy is investing in redesigning its logistics model.

Overall, we project that – barring a resumption of dividend payments, which management has ruled out until it has delivered on its strategic plan in FY26 – Ceconomy should be able to increase its FCF to EUR150 million-250 million a year from FY25.

## Applicable Criteria

Corporate Rating Criteria (November 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)

## Related Research

Global Corporates Macro and Sector Forecasts (September 2023)

## Analysts


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**Execution Risks:** In its biggest markets, Ceconomy is shifting from largely relying on third-party distributors and stocking products in the warehouses of each of its stores, to a model with one large nation-wide hub, complemented by smaller regional ones. We see this transformation as carrying some execution risks due to the magnitude of its scope but believe that, once complete, it will lead to more agile management of inventories, enabling it to operate with lower stocks and, once the automation project is also completely implemented, to a reduction of operating costs.

**Leverage Recovery in FY23**: The weak FY22 performance, combined with two years of inflated WC, led to a jump in EBITDAR net leverage to 5.2x, but we estimate this to have now come down closer to the maximum 4.0x that is commensurate with the rating. We see scope for further improvements in FY24 and thereafter.

**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 rely on a store network, we assess and compare financial risk profiles using lease-adjusted leverage metrics, which place Ceconomy's financial structure score in the mid-to-low end of the 'BB' rating category.

**Tight Fixed-Charge Coverage**: We see weak EBITDAR fixed-charge coverage remaining below 2.0x, which corresponds 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 coverage 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 less than three years versus sector peers of around eight to 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 Ceconomy's lease-adjusted debt metrics to reflect the roughly one third proportion of its turnover-based leases.

## Financial Summary

| (EURm) | Sep 20 | Sep 21 | Sep 22 | Sep 23F | Sep 24F | Sep 25F |
|---|---|---|---|---|---|---|
| Gross revenue | 20,831 | 21,361 | 21,768 | 22,200 | 22,517 | 22,772 |
| EBITDA | 489 | 442 | 368 | 442 | 496 | 541 |
| EBITDA margin (%) | 2.3 | 2.1 | 1.7 | 2.0 | 2.2 | 2.4 |
| EBITDAR net leverage (x) | 3.6 | 4.0 | 5.2 | 4.1 | 3.9 | 3.6 |
| EBITDAR fixed-charge coverage (x) | 1.7 | 1.7 | 1.5 | 1.6 | 1.7 | 1.8 |

F — Forecast
Source: Fitch Ratings, Fitch Solutions

## 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 and growing competing online penetration. We consequently view Ceconomy's credit profile as being in line with that of the consumer electronics retail sub-sector.

Ceconomy's closest Fitch-rated peer is FNAC Darty SA (BB+/Stable). FNAC is smaller but has superior profitability driven by its stronger focus on premium segments, editorial products and subscription services, and a demonstrated ability to pass on price increases and protect margins. This is underlined in the one-notch rating differential.

Compared with wider non-food retail peers including Marks and Spencer Group plc (M&S) and Kingfisher plc (BBB/Stable), Ceconomy has similarly strong market positions in its respective markets, combined with scale and good diversification. Ceconomy's conservative financial policy and well-managed leased property portfolio are positive for its credit profile, 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, 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 higher profitability than Ceconomy (5.7% for ECI vs. around 2.0% for Ceconomy).

Compared with another direct peer in the consumer-electronics space, UK retailer Currys plc, Ceconomy is around 2x-3x larger in absolute sales, reflecting operations across multiple European countries. Its gross profit and EBITDA margins are similar to Currys' at around 17%-18% and 2%-3%, respectively.

## 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 |
| Kingfisher plc | BBB/Stable | aa | bbb | bbb- | bbb | bbb | bbb- | bb | bbb | bbb+ |
| Levi Strauss & Co. | BB+/Stable | aa- | a- | bb+ | bbb- | bb | bb+ | bbb- | bbb | bbb- |
| FNAC Darty SA | BB+/Stable | a+ | bbb+ | bb+ | bb+ | bb+ | bbb+ | bb- | bb- | bb+ |
| Nordstrom, Inc. | BB+/Stable | aa- | a | bb- | bbb | bbb+ | bbb+ | bb | bb+ | bbb |
| Levi Strauss & Co. | BB+/Stable | aa- | a- | bb+ | bbb- | bb | bb+ | bbb- | bbb | bbb- |
| Ceconomy AG | BB/Stable | a+ | bb+ | bb | bbb- | bbb | bbb+ | b | b+ | bb+ |
| Golden Goose S.p.A. | B+/Stable | a- | bb+ | bb+ | b+ | bb- | bb+ | bbb | b+ | bb- |

Source: Fitch Ratings. Relative Importance of Factor: 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 |
| Kingfisher plc | BBB/Stable | +6 | 0 | -1 | 0 | 0 | -1 | -3 | 0 | +1 |
| Levi Strauss & Co. | BB+/Stable | +7 | +4 | 0 | +1 | -1 | 0 | +1 | +2 | +1 |
| FNAC Darty SA | BB+/Stable | +6 | +3 | 0 | 0 | 0 | +3 | -2 | -2 | 0 |
| Nordstrom, Inc. | BB+/Stable | +7 | +5 | -2 | +2 | +3 | +3 | -1 | 0 | +2 |
| Levi Strauss & Co. | BB+/Stable | +7 | +4 | 0 | +1 | -1 | 0 | +1 | +2 | +1 |
| Ceconomy AG | BB/Stable | +7 | +1 | 0 | +2 | +3 | +4 | -3 | -2 | +1 |
| Golden Goose S.p.A. | B+/Stable | +7 | +3 | +3 | 0 | +1 | +3 | +5 | 0 | +1 |

Source: Fitch Ratings. Factor Score Relative to IDR: Worse positioned than IDR, Within one notch of 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 a strengthened competitive position or an improved business mix, with Fitch-defined EBITDA margin sustained above 2.5%
- EBITDAR net leverage sustained below 3.5x
- EBITDAR fixed-charge coverage above 1.8x
- Neutral to marginally positive FCF generation and improved cash flow conversion leading to lower year-on-year trade WC 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 a poor business mix, with EBITDA margin remaining below 2%
- EBITDAR fixed-charge coverage below 1.6x
- EBITDAR net leverage sustained above 4.0x
- Mostly negative FCF

## Liquidity and Debt Structure

**Adequate Liquidity**: We estimate Ceconomy's readily available cash balance at a higher level than the EUR769 million of FYE22, which is adequate for its limited debt service requirements in the absence of material contractual debt maturities until FY26. We project low single-digit FCF margins leading to an FY25 cash balance of more than EUR1 billion, closer to the group's historical average.

**Manageable Short-Term Financing Needs**: Ceconomy has access to an undrawn committed revolving credit facility (RCF) of EUR1.06 billion with EUR353 million maturing in 2025 and EUR706 million in 2026, as well as a EUR500 million commercial paper programme to support short-term financing needs (EUR5million utilised as of June 2023) even though we do not include the latter in our liquidity calculation.

We do not restrict the cash balance for WC purposes, as we view its cash position in the fourth quarter of its financial year as a fair representation of the average annual level, despite large WC swings during the year, particularly around the first and third quarters. Our assessment considers that the favourable WC swing between the fourth and first quarters tends to be larger than the cash-absorbing WC swing between the third and fourth quarters.

## ESG Considerations

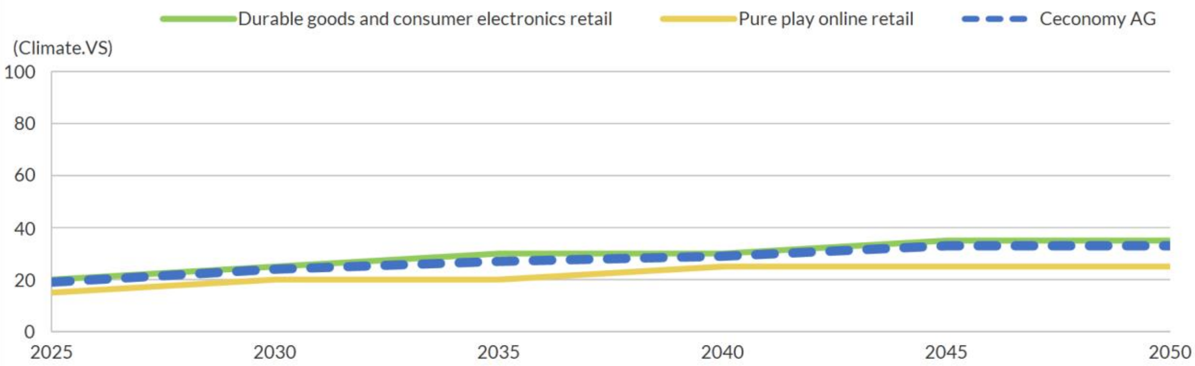
The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch’s Corporate Rating Criteria.

The FY22 revenue-weighted Climate.VS for Ceconomy for 2035 is 27 out of 100, suggesting low exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in the retail sector, see Retail – Long-Term Climate Vulnerability Signals (February 2023).

**Climate.VS Evolution**
As of Sep. 30, 2022




Source: Fitch Ratings

## Liquidity and Debt Maturities

### Liquidity Analysis

| (EURm) | Sep 2023F | Sep 2024F | Sep 2025F | Sep 2026F |
|---|---|---|---|---|
| **Available liquidity** | | | | |
| Beginning cash balance | 769 | 898 | 915 | 1,067 |
| Rating case FCF after acquisitions and divestitures | 229 | 67 | 152 | 135 |
| Other | -100 | — | — | — |
| **Total available liquidity (A)** | **898** | **965** | **1,067** | **1,202** |
| **Liquidity uses** | | | | |
| Debt maturities | — | -50 | — | -500 |
| **Total liquidity uses (B)** | **—** | **-50** | **—** | **-500** |
| **Liquidity calculation** | | | | |
| Ending cash balance (A+B) | 898 | 915 | 1,067 | 702 |
| Revolver availability | 1,060 | 1,060 | 1,060 | 1,060 |
| **Ending liquidity** | **1,958** | **1,975** | **2,127** | **1,762** |
| Liquidity score (x) | Not meaningful | 40.5 | Not meaningful | 4.5 |

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

**Scheduled debt maturities**

| (EURm) | 30 Sep 22 |
|---|---|
| 2023 | |
| 2024 | 50 |
| 2025 | — |
| 2026 | 500 |
| 2027 | 222 |
| Thereafter | — |
| **Total** | **772** |

Source: Fitch Ratings, Fitch Solutions, Ceconomy AG

## Key Assumptions

- Around 1% average annual sales growth over FY24-FY26, from company-reported EUR22.2 billion in FY23
- Fitch-defined EBITDA margin to improve to 2.2% in FY24 (FY22: 1.7%) and gradually expanding to around 3.0% in FY26
- Leases at 2.3%-2.4% of annual sales to FY26
- Trade WC inflow of EUR300 million in FY23 followed by normalisation in FY24 with a marginally positive cash impact over FY25-FY27
- Capex at around EUR300 million a year, corresponding to around 1.3% of sales to FY27
- No dividend payments over FY23-FY25; around EUR100 million a year in FY26 and FY27

## Financial Data

| (EURm) | Sep 20 | Sep 21 | Sep 22 | Sep 23F | Sep 24F | Sep 25F |
|---|---|---|---|---|---|---|
| Gross revenue | 20,831 | 21,361 | 21,768 | 22,200 | 22,517 | 22,772 |
| Revenue growth (%) | -2.9 | 2.5 | 1.9 | 2.0 | 1.4 | 1.1 |
| EBITDA before income from associates | 489 | 442 | 368 | 442 | 496 | 541 |
| EBITDA margin (%) | 2.3 | 2.1 | 1.7 | 2.0 | 2.2 | 2.4 |
| EBITDA after associates and minorities | 485 | 469 | 340 | 442 | 496 | 541 |
| EBITDAR | 1,057 | 989 | 899 | 983 | 1,037 | 1,082 |
| EBITDAR margin (%) | 5.1 | 4.6 | 4.1 | 4.4 | 4.6 | 4.8 |
| EBIT | 245 | 193 | 116 | 190 | 244 | 289 |
| EBIT margin (%) | 1.2 | 0.9 | 0.5 | 0.9 | 1.1 | 1.3 |
| Gross interest expense | -41 | -46 | -49 | -70 | -70 | -69 |
| Pretax income including associate income/loss | -124 | 294 | 49 | 159 | 204 | 249 |
| **Summary balance sheet** | | | | | | |
| Readily available cash and equivalents | 1,234 | 1,332 | 769 | 897 | 915 | 1,067 |
| Debt | 469 | 1,053 | 1,028 | 1,027 | 977 | 977 |
| Lease-adjusted debt | 5,013 | 5,429 | 5,276 | 4,977 | 4,927 | 4,927 |
| Net debt | -765 | -279 | 259 | 130 | 62 | -90 |
| **Summary cash flow statement** | | | | | | |
| EBITDA | 489 | 442 | 368 | 442 | 496 | 541 |
| Cash interest paid | -35 | -41 | -52 | -70 | -70 | -69 |
| Cash tax | 17 | -104 | -134 | -85 | -50 | -39 |
| Dividends received less dividends paid to minorities (inflow/outflow) | -4 | 27 | -28 | — | — | — |
| Other items before FFO | -140 | -94 | -172 | -38 | -70 | -40 |
| FFO | 336 | 244 | -1 | 288 | 336 | 423 |
| FFO margin (%) | 1.6 | 1.1 | — | 1.3 | 1.5 | 1.9 |
| Change in working capital | 315 | -418 | -363 | 307 | 31 | 29 |
| CFO (Fitch-defined) | 651 | -174 | -364 | 594 | 367 | 452 |
| Total non-operating/nonrecurring cash flow | -63 | -37 | — | — | — | — |
| Capex | -112 | -141 | -206 | -280 | -300 | -300 |
| Capital intensity (capex/revenue) (%) | 0.5 | 0.7 | 0.9 | — | — | — |
| Common dividends | — | — | -63 | — | — | — |
| FCF | 476 | -352 | -633 | — | — | — |
| FCF margin (%) | 2.3 | -1.6 | -2.9 | — | — | — |
| Net acquisitions and divestitures | 15 | 19 | 39 | — | — | — |
| Other investing and financing cash flow items | -196 | -113 | 51 | — | — | — |
| Net debt proceeds | 14 | 550 | -86 | -1 | -50 | — |
| Net equity proceeds | -8 | -8 | -158 | — | — | — |
| Total change in cash | 301 | 96 | -787 | 128 | 17 | 152 |
| **Leverage ratios (x)** | | | | | | |
| EBITDA leverage | 1.0 | 2.2 | 3.0 | 2.3 | 2.0 | 1.8 |
| EBITDA net leverage | -1.6 | -0.6 | 0.8 | 0.3 | 0.1 | -0.2 |
| EBITDAR leverage | 4.8 | 5.3 | 6.1 | 5.1 | 4.8 | 4.6 |
| EBITDAR net leverage | 3.6 | 4.0 | 5.2 | 4.1 | 3.9 | 3.6 |
| EBITDAR net fixed-charge coverage | 1.8 | 1.8 | 1.5 | 1.7 | 1.8 | 1.9 |
| FFO adjusted leverage | 5.4 | 6.6 | 9.3 | 5.8 | 5.4 | 4.9 |
| FFO adjusted net leverage | 4.1 | 5.0 | 8.0 | 4.7 | 4.4 | 3.8 |
| FFO leverage | 1.3 | 3.9 | 30.2 | 3.2 | 2.6 | 2.1 |
| FFO net leverage | -2.1 | -1.0 | 7.6 | 0.4 | 0.2 | -0.2 |

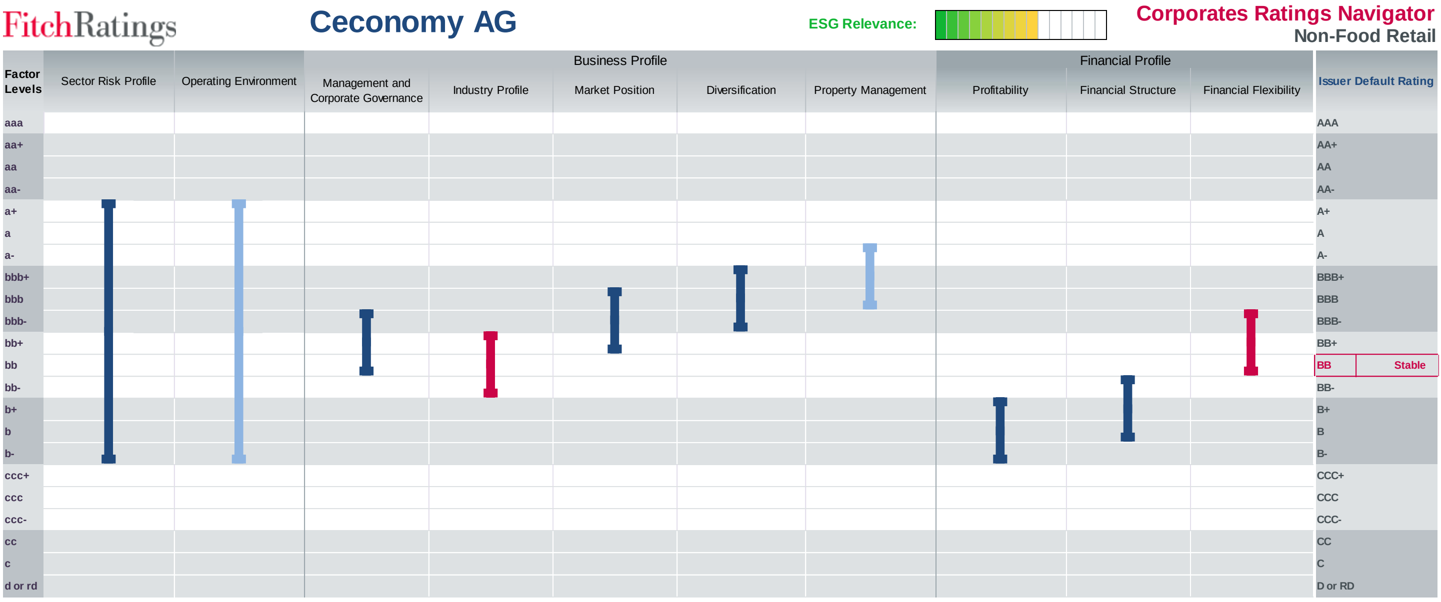
| (EURm) | Sep 20 | Sep 21 | Sep 22 | Sep 23F | Sep 24F | Sep 25F |
|---|---|---|---|---|---|---|
| **Calculations for forecast publication** | | | | | | |
| Capex, dividends, acquisitions and other items before FCF | -160 | -159 | -230 | -365 | -300 | -300 |
| FCF after acquisitions and divestitures | 491 | -333 | -594 | 229 | 67 | 152 |
| FCF margin after net acquisitions (%) | 2.4 | -1.6 | -2.7 | 1.0 | 0.3 | 0.7 |
| **Coverage ratios (x)** | | | | | | |
| FFO interest coverage | 10.3 | 6.6 | 0.7 | 4.5 | 5.4 | 6.7 |
| FFO fixed-charge coverage | 1.5 | 1.4 | 1.0 | 1.4 | 1.5 | 1.6 |
| EBITDAR fixed-charge coverage | 1.7 | 1.7 | 1.5 | 1.6 | 1.7 | 1.8 |
| EBITDA interest coverage | 13.9 | 11.4 | 6.5 | 6.3 | 7.1 | 7.8 |
| **Additional metrics (%)** | | | | | | |
| CFO-capex/debt | 114.9 | -29.9 | -55.4 | 30.6 | 6.9 | 15.5 |
| CFO-capex/net debt | -70.5 | 112.9 | -220.1 | 242.6 | 107.7 | -169.7 |
| CFO/capex | 581.3 | -123.4 | -176.7 | 212.3 | 122.4 | 150.6 |

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

**How to Interpret the Forecast Presented**

The forecast presented above 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 Colors = Relative Importance | ⇧ Positive |
| Higher Importance | ⇩ Negative |
| Average Importance | ⇳ Evolving |
| Lower Importance | ☐ Stable |

FitchRatings

# Ceconomy AG

**Corporates Ratings Navigator**
**Non-Food Retail**

### 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+ | (CFO-Capex)/Debt | ccc | Flat to Negative |
| b | | | |
| b- | | | |

### Financial Flexibility

| | | | |
|---|---|---|---|
| bbb | Financial Discipline | a | Clear commitment to maintain a conservative policy with only modest deviations allowed. |
| bbb- | Liquidity | | 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 | FX Exposure | bbb | Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place. |
| bb- | | | |

**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 Retail**

## 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

| | | | ESG Relevance to Credit Rating |
|---|---|---|---|
| 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) Relevance Scores

| General Issues | E Score | Sector-Specific Issues | Reference | E Relevance |
|---|---|---|---|---|
| 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 |

**How to Read This Page**
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
**The Credit-Relevant ESG Derivation** table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.
**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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

## Social (S) Relevance Scores

| General Issues | S Score | Sector-Specific Issues | Reference | S Relevance |
|---|---|---|---|---|
| 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) Relevance Scores

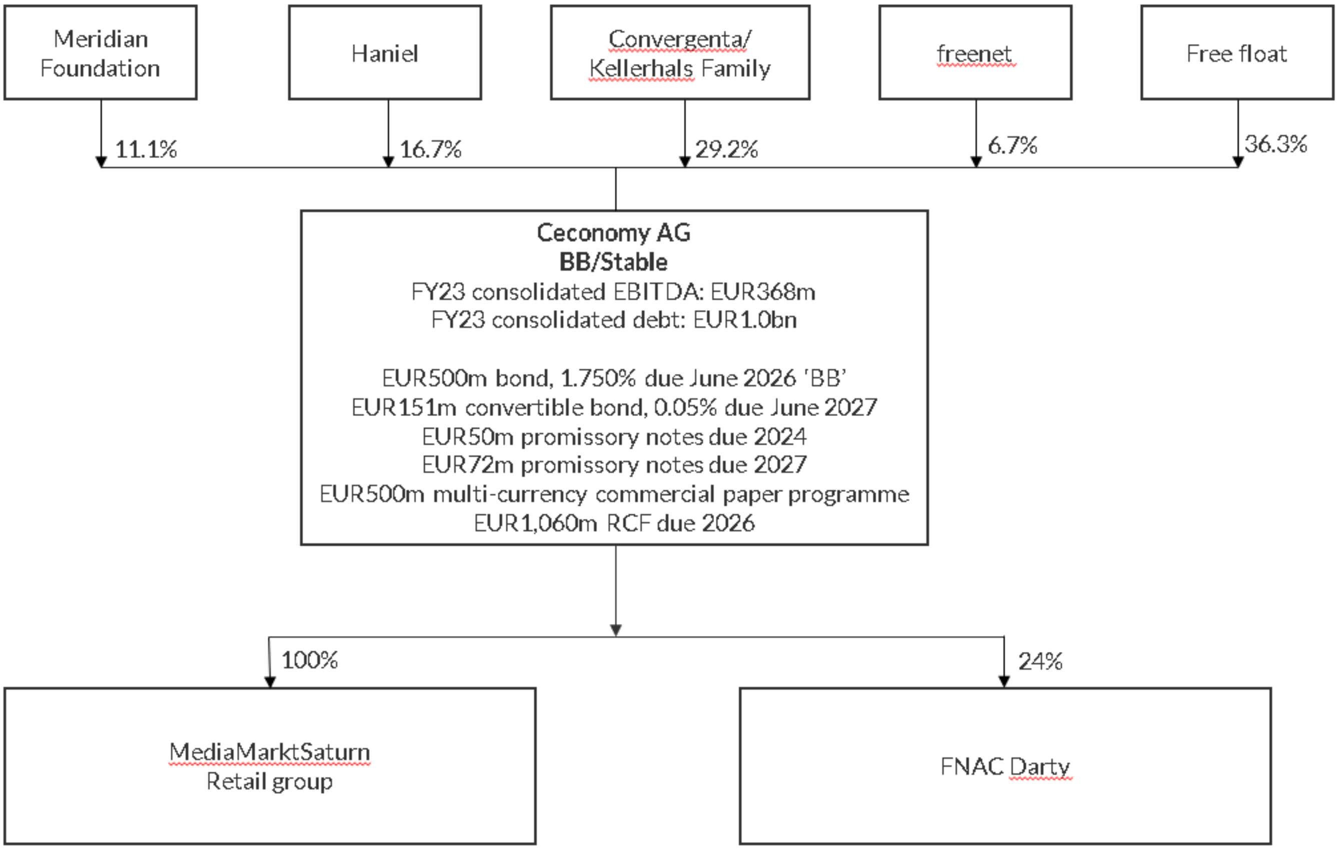
| General Issues | G Score | Sector-Specific Issues | Reference | G Relevance |
|---|---|---|---|---|
| Management Strategy | 3 | Strategy development and implementation | Management and Corporate Governance | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration | 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 |

**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




Source: Fitch Ratings, Fitch Solutions, Ceconomy, as of 30 June 2023

## Peer Financial Summary

| Company | Issuer Default Rating | Financial statement date | Gross revenue (EURm) | EBITDA (EURm) | EBITDA margin (%) | EBITDAR net leverage (x) | EBITDAR fixed-charge coverage (x) |
|---|---|---|---|---|---|---|---|
| Ceconomy AG[a] | BB | | | | | | |
| | BB | FY22 | 21,768 | 368 | 1.7 | 5.2 | 1.5 |
| | | FY21 | 21,361 | 442 | 2.1 | 4.0 | 1.7 |
| | | FY20 | 20,831 | 489 | 2.3 | 3.6 | 1.7 |
| FNAC Darty SA | BB+ | | | | | | |
| | | FY22 | 7,949 | 340 | 4.3 | 3.8 | 2.2 |
| | | FY21 | 8,043 | 394 | 4.9 | 3.0 | 2.4 |
| | | FY20 | 7,491 | 328 | 4.4 | 3.6 | 2.2 |
| Pepco Group N.V[c] | BB | | | | | | |
| | | FY22 | 4,823 | 410 | 8.5 | 3.9 | 2.3 |
| | | FY21 | 4,122 | 373 | 9.0 | 3.4 | 2.2 |
| | | FY20 | 3,518 | 189 | 5.4 | 5.2 | 1.7 |
| Kingfisher plc[c] | BBB | | | | | | |
| | BBB | FY22 | 15,839 | 1,475 | 9.3 | 1.5 | 4.0 |
| | BBB | FY21 | 13,952 | 1,203 | 8.6 | 1.5 | 3.5 |
| | BBB- | FY20 | 13,674 | 879 | 6.4 | 2.9 | 2.6 |
| Levi Strauss & Co.[d] | BB+ | | | | | | |
| | BB+ | FY22 | 5,974 | 895 | 15.0 | 2.6 | 3.3 |
| | BB+ | FY21 | 5,144 | 799 | 15.5 | 2.3 | 3.2 |
| | BB | FY20 | 3,745 | 301 | 8.0 | 3.7 | 1.7 |
| Nordstrom, Inc.[e] | BB+ | | | | | | |
| | BB+ | FY23 | 14,294 | 972 | 6.8 | 3.6 | 2.8 |
| | BBB- | FY22 | 13,278 | 995 | 7.5 | 3.8 | 2.8 |
| | BBB- | FY21 | 8,829 | -209 | -2.4 | 51.2 | 0.2 |
| Golden Goose S.p.A.[b] | B+ | | | | | | |
| | B | FY22 | 501 | 131 | 26.1 | 4.0 | 2.7 |
| | B | FY21 | 386 | 96 | 25.0 | 4.9 | 2.2 |

[a] September year-end. [b] December year-end. [c] January year-end. [d] November year-end. [e] January year-end. Note: Rating as at the end of each calendar year.
Source: Fitch Ratings, Fitch Solutions

## Fitch Adjusted Financials

| (EURm as of 30 September 2022) | Standardised values | Lease treatment | CORP - factoring | Other adjustments | Adjusted values |
|---|---|---|---|---|---|
| **Income statement summary** | | | | | |
| Revenue | 21,768 | — | — | — | 21,768 |
| EBITDA | 897 | -531 | — | 2 | 368 |
| Depreciation and amortisation | -761 | 509 | — | — | -252 |
| EBIT | 136 | -22 | — | 2 | 116 |
| **Balance sheet summary** | | | | | |
| Debt | 2,772 | -1,961 | 207 | 10 | 1,028 |
| Of which other off-balance-sheet debt | — | — | — | — | — |
| Lease-equivalent debt | — | 4,248 | — | — | 4,248 |
| Lease-adjusted debt | 2,772 | 2,287 | 207 | 10 | 5,276 |
| Readily available cash and equivalents | 769 | — | — | — | 769 |
| Not readily available cash and equivalents | — | — | — | — | — |
| **Cash flow summary** | | | | | |
| EBITDA | 897 | -531 | — | 2 | 368 |
| Dividends received from associates less dividends paid to minorities | -28 | — | — | — | -28 |
| Interest paid | -74 | 22 | — | — | -52 |
| Interest received | 17 | — | — | — | 17 |
| Preferred dividends paid | — | — | — | — | — |
| Cash tax paid | -134 | — | — | — | -134 |
| Other items before FFO | -170 | — | — | -2 | -172 |
| FFO | 508 | -509 | — | — | -1 |
| Change in working capital | -361 | — | -2 | — | -363 |
| CFO | 147 | -509 | -2 | — | -364 |
| Non-operating/nonrecurring cash flow | — | — | — | — | — |
| Capex | -206 | — | — | — | -206 |
| Common dividends paid | -63 | — | — | — | -63 |
| FCF | -122 | -509 | -2 | — | -633 |
| **Gross leverage (x)** | | | | | |
| EBITDA leverage | 3.2 | — | — | — | 3.0 |
| (CFO-capex)/debt (%) | -2.1 | — | — | — | -55.4 |
| **Net leverage (x)** | | | | | |
| EBITDA net leverage | 2.3 | — | — | — | 0.8 |
| (CFO-capex)/net debt (%) | -2.9 | — | — | — | -220.1 |
| **Coverage (x)** | | | | | |
| EBITDA interest coverage | 11.7 | — | — | — | 6.5 |

CFO - Cash flow from operations
Notes: The standardised items presented above are based on Fitch's taxonomy for the given sector and region. Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly. Debt includes other off-balance-sheet debt.
Source: Fitch Ratings, Fitch Solutions, Ceconomy AG

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