MOODY'S
INVESTORS SERVICE

CREDIT OPINION

1 December 2022

Update

Send Your Feedback

CECONOMY AG

Update following downgrade to Ba3, on review for downgrade

RATINGS

CECONOMY AG

Domicile	Dusseldorf, Germany
Long Term Rating	Ba3 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Guillaume Leglise +33.1.5330.5979
Vice President - Senior Analyst
guillaume.leglise@moodys.com

Victoria Maisuradze +7.495.228.6067
Associate Managing Director
victoria.maisuradze@moodys.com

Fabrizio Marchesi +33.1.5330.1024
VP-Senior Analyst
fabrizio.marchesi@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Summary

On 22 November 2022, we downgraded CECONOMY AG's (Ceconomy) corporate family rating (CFR) to Ba3 from Ba2, reflecting our overall weaker macroeconomic outlook for Europe and weak consumer sentiment, and hence our expectation that Ceconomy is unlikely to significantly recover its earnings and cash flow in the coming quarters. The rating remains under review for further downgrade.

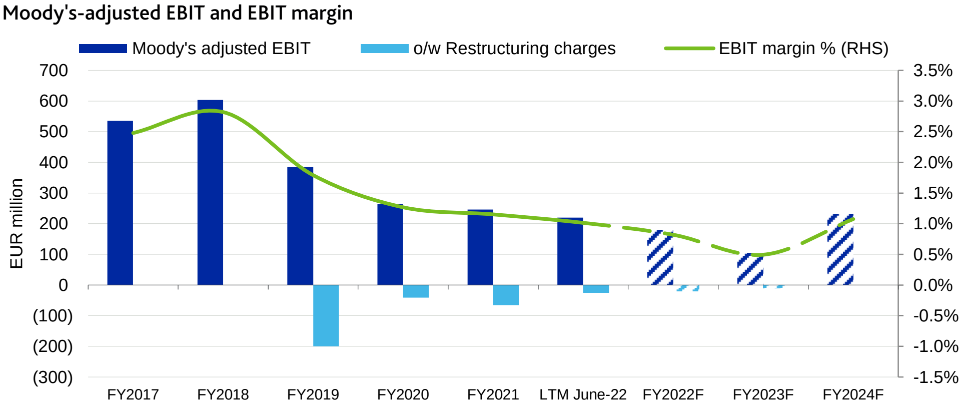
Ceconomy's Ba3 CFR is constrained by weak economic prospects in Europe because of high inflation, which will constrain profitability improvement in the next 12-18 months; the company's historically thin profit margins, comparing weakly with those of peers; the highly competitive, value-driven consumer electronics market, with the accelerated shift to online creating some structural margin dilution; the discretionary and seasonal nature of demand for large parts of the product range; and the company's high management turnover, weak track record of earnings and FCF improvement since 2018.

More positively, the rating incorporates the company's position as Europe's largest electronics retailer, with geographically diversified operations; strong distribution network and improving omnichannel capabilities; conservative financial profile, supported by low funded debt and short lease commitments; and an equity stake of around 24% in FNAC DARTY SA (Fnac, Ba2 stable) and the related potential long-term benefits.

Exhibit 1

We expect Ceconomy's profitability to remain low in the next 12-18 months

Moody's-adjusted EBIT and EBIT margin



Fiscal year ends on 30 September. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Credit strengths

» Largest European consumer electronics retailer, with geographically well-diversified operations across 13 countries

» Leading market positions in Europe, supported by strong brand recognition

» Strong distribution network and improving omnichannel capabilities

» Low funded debt and short lease commitments

Credit challenges

» Very low profitability translating into weak FCF

» A difficult trading environment because of high inflation and weak consumer sentiment

» Exposure to seasonal activities, discretionary products and intense competition

» Highly seasonal business resulting in large working capital swings

» Management turnover and weak track record of earnings and FCF improvement in the last five years

Rating outlook

The ongoing review will focus on the company's ability to noticeably improve profitability and cash flow during the first quarter of the fiscal year ending 30 September 2023 (fiscal 2023) and on the levers that the company has at its disposal to strengthen cash flow and liquidity in the short term. The review will include an assessment of the company's liquidity profile that remains reliant on internally generated cash flow and is highly vulnerable to working capital swings, and its access to a covenanted revolving credit facility (RCF).

We had placed Ceconomy's rating on review for downgrade on 20 September 2022.

Factors that could lead to an upgrade

A rating upgrade is unlikely because the rating is on review for further downgrade. Upward pressure could emerge over time if:

» Ceconomy demonstrates sustainable margin enhancement, with Moody's-adjusted EBIT margin of around 3%, to give the company sufficient buffer against external pressures;

» its Moody's-adjusted leverage remains sustainably below 3.5x;

» its FCF turns materially positive on a sustained basis;

» its liquidity improves significantly; and

» the company maintains prudent financial policies

Factors that could lead to a downgrade

A rating downgrade would likely occur if:

» Moody's concludes that the company is unlikely to improve profitability on a sustainable basis such that FCF will not turn positive in fiscal year 2023

» Ceconomy's liquidity weakens, reflecting drawdowns on its RCF or signs that creditor terms are becoming less favourable

» the company fails to sustainably improve Moody's-adjusted EBIT margin to at least 2.0%-2.5%

» Moody's-adjusted EBIT/interest expense remains below 3x

» Gross Moody's-adjusted leverage does not remain below 4.0x

Key indicators

Exhibit 2
CECONOMY AG [1][2][3]

(in EUR billion)	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21	LTM Jun-22	12-to-18 month view
Revenue	21.6	21.4	21.5	20.8	21.4	21.7	21 - 21.5
EBIT / Interest Expense	3.1x	2.9x	2.4x	3.3x	3.1x	2.7x	1.5x - 2.5x
RCF / Net Debt	23.2%	24.6%	36.0%	46.3%	43.9%	10.0%	10% - 30%
Debt / EBITDA	3.4x	3.2x	3.5x	2.9x	3.4x	3.5x	3.2x - 3.8x

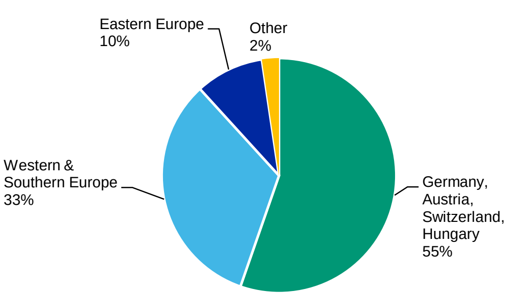
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

Headquartered in Düsseldorf, Germany, Ceconomy is Europe's largest consumer electronics retailer, operating two brands — MediaMarkt and Saturn. The company recorded €21.8 billion of revenue in fiscal 2022. It is listed on the Frankfurt Stock Exchange and had a market capitalisation of around €1.1 billion as of 23 November 2022. The company has five anchor shareholders: Convergenta, Franz Haniel & Cie. GmbH (Haniel, Baa3 stable), Meridian Stiftung, freenet AG and Beisheim.

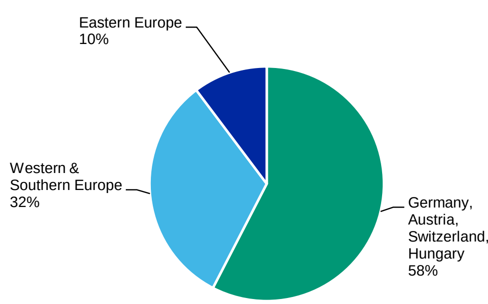
Ceconomy owns an around 24% stake in the French consumer electronics retailer Fnac, and includes its proportion of Fnac's earnings in its reported EBITDA and EBIT. However, in accordance with our standard practice, we remove this income from Moody's-adjusted calculations of the company's profitability and relevant credit metrics.

Exhibit 3
Large geographical reach in Europe, although with some revenue concentration in the DACH region
Revenue breakdown for fiscal 2022



Source: Ceconomy

Exhibit 4
Earnings are also somewhat concentrated in the DACH region
Breakdown of EBITDA before special items for the 12 months that ended 30 June 2022 (excluding the segment "Others")



DACH stands for Germany, Austria and Switzerland.
Source: Ceconomy

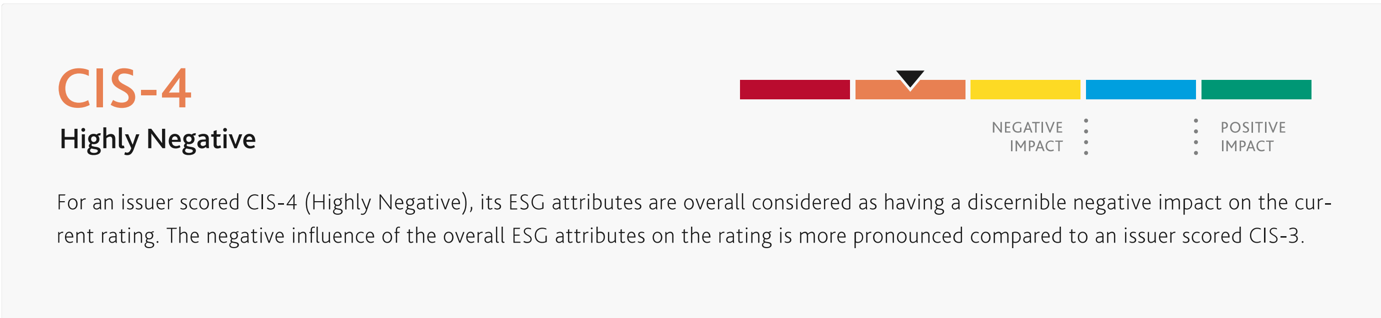
Detailed credit considerations

For a detailed discussion of Detailed Credit Considerations, see the previous Credit Opinion dated 30 September 2022.

ESG considerations

CECONOMY AG's ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 5
ESG Credit Impact Score



Source: Moody's Investors Service

CIS-4. Ceconomy's ESG Credit Impact Score is highly negative, which mostly reflects its exposure to governance risks. Ceconomy's high corporate governance risks, reflects its high management turnover and a limited track record of earnings improvement in the past five years, which is mitigated to some degree by the company's intention to have conservative financial policies. Exposure to environmental and social risks is moderate. Environmental risks mostly relate to carbon transition in the company's retail operations – namely transportation, while social risks reflect Ceconomy's exposure to customer relations and societal trends, notably the shift to online.

Exhibit 6
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

E-3. Ceconomy's varied assortment of products means its environmental risks are moderate and mostly relate to carbon transition in respect of transportation costs to its retail network.

Social

S-3. Social risks are moderate for Ceconomy and mainly relate to customer relations and demographics & societal trends. This mostly reflects business risks associated with the structural shift of the retail consumer electronics sector towards e-commerce, which creates intense competition and margin pressure for incumbent retailers. However, Ceconomy has significantly strengthened its online capabilities in the past 5 years, which somewhat mitigates this risk.

Governance

G-4. Ceconomy's highly negative governance risk score reflects the company's high management turnover and limited track record of earnings improvement in the past 5 years. We believe that the recent deterioration in liquidity as well as the limited track record in being able to reliably forecast earnings and cash flow effects, despite some external events being beyond management's control, translates into a highly negative score for Management Credibility & Track Record. More positively, Ceconomy has low funded debt and has paid very limited dividends to date, which evidences the company's intentions on having conservative financial policies.

The management structure also became more streamlined since 2021 with one CEO and one CFO for both Ceconomy and its MediaMarktSaturn subsidiary. In 2022, Ceconomy also completed the Convergenta transaction, which simplifies the group's structure, will speed up decision-making, and will unlock substantial tax savings going forward.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Ceconomy's weaker earnings in 2022, higher inventory levels and some one-off cash payments (Convergenta transaction and its related dividend payouts, pension contribution, buyback of minority shares from store manager and some reversal of pandemic-related tax deferrals) translated into significant negative FCF in the 12 months that ended 30 June 2022 (€727 million, Moody's-adjusted). Ceconomy's liquidity is adequate, supported by full availability under its committed RCF of €1.06 billion. The company has no major debt refinancing, with only €30 million of short-term commercial paper due over the next 12 months.

However, the absolute amount of trade payables, which usually peak at around €8 billion at the end of each calendar year, is significant in the context of the company's overall liquidity profile and weak FCF. A negative shift in the supplier's payment terms (which could be prompted by deterioration of macro conditions later in 2023) poses a key risk, which may result in significant working capital needs during the next fiscal year and liquidity deterioration. Trade payables begin to unwind at the beginning of each calendar year, and if trading performance during Christmas is weaker than what has been planned by the company, pressure on liquidity could exacerbate. The company had €4.9 billion of trade payables outstanding as of the end of June 2022.

Structural considerations

The senior unsecured notes are rated B1, one notch below the Ba3 CFR, reflecting the presence of large non-debt liabilities, including sizeable trade claims (€4.9 billion as of the end of June 2022) and short-term lease liabilities, both located at the operating subsidiary level. The magnitude of these non-debt liabilities creates structural subordination for debt at the holding company level, including the senior unsecured notes, which do not benefit from upstream guarantees. Ceconomy's capital structure also includes around €122 million of promissory notes and the €1.06 billion syndicated RCF.

In addition, assets owned by Ceconomy, notably its 24% stake in Fnac, previously provided some mitigation to structural subordination. However, the protection for the senior unsecured notes is weaker than in the past given the decline in the value of Fnac's stake, worth only around €200 million as of the end of September 2022.

Methodology and scorecard

The principal methodology used in these ratings was the Retail Industry methodology, published in November 2021. The scorecard-indicated outcome based on Ceconomy's financials in the 12 months that ended June 2022 and our forward-looking view is Ba2. The difference with the CFR is explained by the company's very low operating margins and weak FCF, which are not likely to improve significantly in the next 12-18 months given the weak macroeconomic prospects.

Exhibit 7

Rating factors

CECONOMY AG

Retail Industry Scorecard [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$24.5	Baa	$24.8 - $25.4	A
Factor 2 : Business Profile (30%)				
a) Stability of Product	Ba	Ba	Ba	Ba
b) Execution and Competitive Position	B	B	B	B
Factor 3 : Leverage and Coverage (45%)				
a) EBIT / Interest Expense	2.7x	Ba	1.5x - 2.5x	B
b) RCF / Net Debt	10.0%	B	10% - 30%	Ba
c) Debt / EBITDA	3.5x	Baa	3.2x - 3.8x	Ba
Factor 4 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba2
b) Actual Rating Assigned		Ba3		Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 21/11/2022.
[3] This represents Moody's forward view, not the view of the issuer, and unless stated in the text, does not incorporate significant acquisitions and divestures.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
CECONOMY AG	
Outlook	Rating(s) Under Review
Corporate Family Rating	Ba3
Senior Unsecured -Dom Curr	B1/LGD5
Commercial Paper -Dom Curr	NP

Source: Moody's Investors Service

Appendix

Exhibit 9

Moody's-adjusted debt reconciliation

CECONOMY AG

(in EUR million)	FYE Sep-17	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	LTM Jun-22
As Reported Total Debt	**544**	**440**	**302**	**2,422**	**2,865**	**2,915**
Pensions	622	530	556	496	442	442
Operating Leases	3,170	3,140	3,060	0	0	0
Non-Standard Adjustments	0	0	14	0	0	0
Moody's Adjusted Total Debt	**4,336**	**4,110**	**3,932**	**2,918**	**3,307**	**3,357**

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA reconciliation for CECONOMY AG[1][2]

	FYE	FYE	FYE	FYE	FYE	LTM
(in EUR million)	Sep-17	Sep-18	Sep-19	Sep-20	Sep-21	Jun-22
As Reported EBITDA	**641**	**494**	**516**	**739**	**1,120**	**919**
Operating Leases	634	628	612	0	0	0
Pensions	(12)	(3)	0	0	(1)	(1)
Unusual	0	202	3	13	0	0
Non-Standard Adjustments	0	(21)	(22)	267	(154)	48
Moody's Adjusted EBITDA	**1,263**	**1,300**	**1,109**	**1,019**	**965**	**966**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Exhibit 11

Peer comparison[1][2]

	CECONOMY AG Ba3 RUR DG			Best Buy Co., Inc. A3 Stable			Mobilux 2 SAS (BUT) B2 Stable			FNAC DARTY SA Ba2 Stable			Maxeda DIY Group BV B2 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	FYE	FYE	FYE	LTM	FYE	FYE	LTM
(in USD million)	Sep-20	Sep-21	Jun-22	Jan-21	Jan-22	Jul-22	Jun-20	Jun-21	Jun-22	Dec-20	Dec-21	Jun-22	Jan-21	Jan-22	Apr-22
Revenue	23,329	25,533	24,475	47,262	51,761	49,251	1,786	2,404	2,447	8,549	9,516	9,030	1,797	1,769	1,752
Operating Profit	279	250	241	2,746	3,107	2,375	78	231	197	227	315	283	163	79	92
EBITDA	1,141	1,153	1,090	4,322	4,688	3,970	210	351	336	619	723	663	281	212	222
Total Debt	3,422	3,833	3,510	4,161	4,097	4,208	924	1,043	949	3,384	2,569	2,281	1,171	1,178	1,083
Cash & Cash Equiv.	1,740	1,833	471	5,494	2,936	840	481	140	200	1,919	1,343	366	104	67	61
EBIT / Interest Exp.	3.3x	3.1x	2.7x	21.3x	33.6x	25.0x	1.3x	3.1x	3.6x	3.5x	4.8x	4.3x	2.7x	1.4x	1.6x
Debt / EBITDA	2.9x	3.4x	3.5x	1.0x	0.9x	1.1x	4.3x	3.0x	3.1x	5.1x	3.7x	3.7x	4.0x	5.9x	5.3x
RCF / Net Debt	46.3%	43.9%	10.0%	-234%	298.9%	84.5%	31.8%	-0.1%	28.7%	32.9%	44.2%	22.5%	22.1%	13.1%	14.0%
FCF / Debt	15.0%	-10.3%	-21.7%	87.3%	44.2%	1.7%	12.7%	-19.3%	9.4%	5.1%	5.1%	-5.4%	13.5%	-2.1%	-0.9%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments.
[2] FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted metrics

(in EUR million)	FYE Sep-18	FYE Sep-19	FYE Sep-20	FYE Sep-21	LTM Jun-22	FYE Sep-22 (F)	FYE Sep-23 (F)	FYE Sep-24 (F)
INCOME STATEMENT								
Revenue	21,418	21,455	20,831	21,361	21,700	21,840	21,100	21,500
EBITDA	1,300	1,109	1,019	965	966	925	850	977
EBIT	604	384	264	246	220	179	104	231
Interest Expense	208	163	80	80	83	75	76	76
BALANCE SHEET								
Cash & Cash Equivalents	1,115	1,213	1,484	1,582	451	707	612	699
Total Debt	4,110	3,932	2,918	3,307	3,357	3,087	3,057	3,007
CASH FLOW								
Capital Expenditures	(739)	(695)	(714)	(720)	(741)	(710)	(760)	(800)
Dividends	120	29	24	21	105	104	0	0
Retained Cash Flow (RCF)	736	980	664	758	290	435	719	836
RCF / Debt	17.9%	24.9%	22.8%	22.9%	8.6%	14.1%	23.5%	27.8%
Free Cash Flow (FCF)	296	(164)	439	(339)	(727)	(702)	(41)	136
FCF / Debt	7.2%	-4.2%	15.0%	-10.3%	-21.7%	-22.7%	-1.3%	4.5%
PROFITABILITY								
% Change in Sales (YoY)	-0.9%	0.2%	-2.9%	2.5%	1.1%	2.2%	-1.9%	1.9%
EBIT margin %	2.8%	1.8%	1.3%	1.2%	1.0%	0.8%	0.5%	1.1%
EBITDA margin %	6.1%	5.2%	4.9%	4.5%	4.5%	4.2%	4.0%	4.5%
INTEREST COVERAGE								
EBIT / Interest Expense	2.9x	2.4x	3.3x	3.1x	2.7x	2.4x	1.4x	3.0x
EBITDA / Interest Expense	6.2x	6.8x	12.8x	12.0x	11.6x	12.3x	11.2x	12.8x
(EBITDA - CAPEX) / Interest Exp.	2.7x	2.5x	3.8x	3.1x	2.7x	2.9x	1.2x	2.3x
LEVERAGE								
Debt / EBITDA	3.2x	3.5x	2.9x	3.4x	3.5x	3.3x	3.6x	3.1x
Debt / (EBITDA - CAPEX)	7.3x	9.5x	9.6x	13.5x	14.9x	14.4x	33.8x	17.0x

Source: Moody's Financial Metrics™

REPORT NUMBER 1349331

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's INVESTORS SERVICE