



## Rating Action: Moody's downgrades Ceconomy to Ba3; continuing review for further downgrade

---

22 Nov 2022

### Senior unsecured notes downgraded to B1 from Ba3

Paris, November 22, 2022 -- Moody's Investors Service ("Moody's") has today downgraded to Ba3 from Ba2 the corporate family rating (CFR) of CECONOMY AG ("Ceconomy" or "the company") and its probability of default rating (PDR) to Ba3-PD from Ba2-PD. Moody's has also downgraded Ceconomy's senior unsecured notes to B1 from Ba3. The outlook remains unchanged at ratings under review. Concurrently, Moody's affirmed the NP rating of the company's commercial paper program.

A full list of affected ratings can be found at the end of this press release.

#### RATINGS RATIONALE

Today's rating action reflects Moody's expectation that, given the overall weak macroeconomic outlook for Europe and weak consumer sentiment, Ceconomy is unlikely to meaningfully recover its earnings and cash flows in the coming quarters. Moody's believes that given the company's very low margins and negative free cash flows (FCF) in the last two years (fiscals 2021 and 2022, ending 30 September), a rating level in the mid-to-high Ba range is no longer tenable.

Moody's significantly cut its 2023 economic growth forecasts and raised inflation projections for a number of countries in Europe. Moody's now expects a deeper GDP contraction in Europe in 2023, including in Ceconomy's major markets such as Germany and Italy, followed by weak recoveries in 2024. In Germany, which is Ceconomy's main market, Moody's anticipates an economic contraction of 1.9% in 2023, compared to only 0.4% previously. There are significant downside risks to these forecasts. Economic outcomes could be significantly worse in a situation of acute energy shortages that would lead to significant rationing.

European consumer sentiment is under severe pressure and with persistent inflation Moody's expects European consumers to trade down or to rein their discretionary spending in the next 12-18 months. Moody's expects inflation, which, coupled with rising energy costs are likely to weigh negatively on trading in the next few quarters. Weaker consumer demand coupled with rising operational costs will likely translate into continued weak profitability in the next 12-18 months. As a result Moody's expects the company's EBIT margin (as adjusted by Moody's) will be at or below 1% in fiscal 2023 (year ending 30 September 2023), which will likely translate into very limited FCF in the absence of major working capital reversal.

Moody's acknowledges that management has articulated a plan to improve margins and financial flexibility, especially through increased sales of high margin Services & Solutions activities (5.7% of sales in the first 9 months of fiscal 2022), cost and capital spending reductions, increased logistic efficiency and active stock management. However, the rating agency considers that Ceconomy's financial profile is not likely to improve meaningfully given the history of suppressed margins over the past five years, the implementation time needed for the

contemplated improvements, as well as deteriorating macro environment and overall consumer demand Moody's anticipates in the next 12-18 months.

Ceconomy's weaker earnings in 2022, higher inventory levels and some one-off cash payments (Convergenta transaction, pension contribution, buy back of minorities shares from store manager and some reversal of Covid-related tax deferrals) translated into a significant negative FCF generation in the last 12 months to 30 June 2022 (€727 million, Moody's-adjusted).

Ceconomy's liquidity is adequate for now, supported by a full availability under its committed revolving credit facility (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. Having said that, the absolute amount of trade payables, which usually peaks at €8 billion at the end of each calendar year, is very material in the context of the company's overall liquidity profile and weak FCF generation. Moody's believes that a negative shift in supplier's payment terms (which could be prompted by deterioration of macro conditions later in 2023) represents a key risk which may result in material working capital swings during the coming fiscal year and liquidity deterioration.

## STRUCTURAL CONSIDERATIONS

The downgrade of the senior unsecured notes to B1 from Ba3 reflects the downgrade of the CFR. The company's senior unsecured bond is rated one-notch below the CFR, reflecting the presence of large non-debt liabilities, including sizeable trade claims (€4.9 billion at end-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.

## RATIONALE FOR THE REVIEW FOR FURTHER DOWNGRADE

The continuing review will focus on the company's ability to noticeably improve profitability and cash flows during the first quarter of fiscal 2023 and on the levers that the company has at its disposal to strengthen cash flows 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 flows and is very vulnerable to working capital swings, as well as access to a covenanted RCF.

Moody's had placed Ceconomy's ratings on review for downgrade on 20 September 2022 ([https://www.moodys.com/research/--PR\\_469518](https://www.moodys.com/research/--PR_469518)).

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely considering the rating is on review for further downgrade. Upward pressure could arise over time if (1) Ceconomy demonstrates a sustainable margin enhancement with Moody's-adjusted EBIT margin of around 3% to give the company sufficient buffer against external pressures; (2) the company's Moody's-adjusted (gross) debt/EBITDA remains sustainably below 3.5x; (3) FCF turns materially positive on a sustained basis and (4) liquidity headroom materially improves. Moody's would also expect Ceconomy to maintain prudent financial policies.

The ratings could be downgraded 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. Liquidity will need to be strong enough to have a sufficient buffer to sustain material working capital movements throughout the year, while a draw down on its RCF or signs that creditor terms are becoming less favourable would suggest a weakening in liquidity. Moody's estimates

the company would need to improve EBIT margin to at least 2.0-2.5%, maintain the interest cover at 3x or above (Moody's-adjusted EBIT to interest expense) and Moody's gross adjusted leverage below 4.0x to support the Ba3 rating.

## LIST OF AFFECTED RATINGS

### Downgrades:

..Issuer: CECONOMY AG

.... Probability of Default Rating, Downgraded to Ba3-PD from Ba2-PD; Placed Under Review for further Downgrade

.... LT Corporate Family Rating, Downgraded to Ba3 from Ba2; Placed Under Review for further Downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3; Placed Under Review for further Downgrade

### Affirmations:

..Issuer: CECONOMY AG

....Senior Unsecured Commercial Paper, Affirmed NP

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Retail published in November 2021 and available at <https://ratings.moodys.com/api/rmc-documents/356421>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## COMPANY 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 22 November 2022. The company has five anchor shareholders: Convergenta, Franz Haniel & Cie. GmbH (Haniel, Baa3 stable), Meridian Stiftung, freenet AG and Beisheim.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in

relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1288235](https://ratings.moodys.com/documents/PBC_1288235).

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Guillaume Leglise  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's France SAS  
96 Boulevard Haussmann  
Paris, 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Victoria Maisuradze  
Associate Managing Director  
Corporate Finance Group

JOURNALISTS: 44 20 7772 5456

Client Service: 44 20 7772 5454

Releasing Office:

Moody's France SAS

96 Boulevard Haussmann

Paris, 75008

France

JOURNALISTS: 44 20 7772 5456

Client Service: 44 20 7772 5454

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

**MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.**

**ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations – Corporate Governance – Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty

Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.