MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Ceconomy's outlook to stable from negative; affirms Ba1 rating

19 May 2021

Paris, May 19, 2021 -- Moody's Investors Service, (Moody's) has today changed the outlook of CECONOMY AG ("Ceconomy" or "the company") to stable from negative. Concurrently, Moody's has affirmed the company's Ba1 corporate family rating (CFR), its probability of default rating (PDR) at Ba1-PD and its Not Prime (NP) commercial paper rating. Concurrently, the company's Ba1 long-term and NP short-term issuer ratings have been withdrawn due to business reason.

"The stabilisation of the outlook reflects Ceconomy's resilient sales performance during 2020 and the first half of its fiscal year 2021, ending in September despite the impact of ongoing store lockdown restrictions, notably in Germany, its core market. While margins are still low and earnings will be below our initial expectations for fiscal 2021, we expect Ceconomy's debt-protection metrics and liquidity to remain good for the rating category over the next 12-18 months", says Guillaume Leglise, a Moody's Vice President -- Senior Analyst and lead analyst for Ceconomy.

Moody's has decided to withdraw the ratings for its own business reasons. Please refer to the Moody's Investors Service Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

RATINGS RATIONALE

Today's rating action primarily reflects Moody's expectation that Ceconomy's sales and earnings will recover over the next 12 to 18 months, reflecting improving trading conditions. Moody's expects shopping restrictions will gradually ease in Europe, including in Germany, during the second half of this year, while vaccine rollouts will lift consumer confidence. Ceconomy has well managed the pandemic and limited the impact that the crisis has had on its operations and financials in the last 12 months. While the company has been negatively affected by store lockdown restrictions during Q2 (quarter ended 31 March 2021), its sales have been resilient during the pandemic, thanks to strong online penetration. Demand for the company's products has to some extent benefitted from lower consumer spending on travel, leisure, and apparel due to stay-at-home orders.

Moody's estimates that Ceconomy's leverage, as measured by Moody's-adjusted gross debt to EBITDA, was around 2.8x at 31 March 2021, a low level for the rating category. The rating agency expects the company's leverage will remain below 3.0x over the next 12 to 18 months, supported by improving sales and earnings, as well as the maintenance of a low level of funded debt. While the company's leverage is currently very close to Moody's upward rating trigger, some other key credit metrics, such as absolute earnings and margins, are still weak and constrain the rating for now.

Ceconomy's margins are weak and lower than rated peers, with an EBIT margin of around 1.5% as adjusted by Moody's in the 12 months to 31 March 2021. This low margin level reflects the company's high-fixed cost structure and increased online penetration, which dilutes the company's margins. After considering the negative impact of prolonged lockdown restrictions Moody's now expects the company's absolute EBIT to be below the rating agency's original expectations for fiscal 2021, and well below the company's initial EBIT guidance of €320-370 million published by the company in December 2020. Moody's now expects the company's EBIT (as adjusted by the company) to be between €220-250 million in fiscal 2021, compared to €236 million in 2020, and well below the pre-crisis levels (€402 million in fiscal 2019).

Ceconomy's corporate governance has been a credit weakness since 2018 because of the group's complex corporate structure, and several management changes, including the recent appointment of a new CEO, expected to start in August 2021. The management structure will, however, become more streamlined with one CEO and one CFO for both Ceconomy and its MediaMarktSaturn subsidiary. In addition, Moody's positively views the acquisition of the Convergenta's 21.62% stake in MediaMarktSaturn, because it simplifies the group's structure and it appears that the Kellerhals family (owner of Convergenta) is now more aligned with the group's overall strategy. While the transaction has a marginal negative impact in terms of net debt, it unlocks substantial tax savings going forward.

Social risks are increasing because of changing consumer preferences and spending patterns. The shift to online has increased the margin pressure on incumbent retailers like Ceconomy. The company will need to continue investing in digital and logistic operations to improve the customer experience, especially in stores, a key component of the company's operations and business model. The company's new strategic initiatives announced in December 2020 target further enhancement of its omnichannel capabilities, but in the context of the continued coronavirus outbreak, Moody's believes there are some execution risks on the completion of these initiatives by 2023.

LIQUIDITY

Ceconomy has good liquidity. As at 31 March 2021, the company had €901 million of cash and access to undrawn committed credit facilities for a total of €2.7 billion, including the €1.7 billion tranche with KfW. On 6 May 2021, Ceconomy announced the signing of new ESG-linked credit facilities for €1.06 billion, with a consortium of 13 banks. These new facilities will become effective once the existing syndicated credit lines with the involvement of Kreditanstalt fuer Wiederaufbau (KfW, Aaa stable) have been terminated, at the sole discretion of Ceconomy.

Ceconomy needs a large liquidity buffer because of the high seasonality of its activities. Ceconomy recorded positive free cash flow (FCF) generation in fiscal 2020 mostly because of large working capital inflows (€297 million), reflecting its solid sales performance in the second part of the year. Moody's expects a reversal in working capital in 2021, which, together with weak earnings, higher capital spending and some restructuring charges, will lead to a negative FCF generation in fiscal 2021. However, Moody's expects the company to generate positive FCF again from fiscal 2022 as trading conditions normalise and earnings gradually recover.

OUTLOOK RATIONALE

The stable outlook reflects Moody's expectations that trading conditions will improve during the second half of 2021, supporting the company's key credit metrics, which are expected to remain adequate for the rating category in the next 12-18 months. Moody's expects a gradual recovery of Ceconomy's profitability over time as the company progresses in the execution of its medium-term transformation plan. The outlook also assumes that the company will maintain conservative financial policies and a good liquidity profile.

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

Upward pressure could arise over time if (1) Ceconomy demonstrates a sustainable margin enhancement with Moody's-adjusted EBIT margin of around 3.5%, (2) the company's Moody's-adjusted (gross) debt/EBITDA remains below 3.0x; and (3) its ratio of retained cash flow to net debt (Moody's-adjusted RCF/net debt) remains sustainably above 25%. Moody's would also expect Ceconomy to maintain prudent financial policies and generate positive FCF on a sustained basis.

Conversely, a negative rating action could arise if the macro environment weakens and consumer spending is sustainably affected. Sustained negative FCF generation and a weaker level of liquidity, would also likely lead to downward pressure. Quantitatively, downward pressure would likely occur if (1) Ceconomy's (gross) leverage (including Moody's adjustments) is expected to be sustainably above 4.0x; and (2) its RCF/net debt is below 20% on a sustained basis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Retail Industry published in May 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1120379 . Alternatively, please see the Rating Methodologies page on www.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: Media-Markt and Saturn. The company generated revenue of €21 billion in the 12 months to 31 March 2021. The company is listed on the Frankfurt Stock Exchange and has four historical anchor shareholders: Haniel, Meridian Stiftung, freenet AG, and Beisheim. Following an agreement announced in December 2020, Convergenta is expected to become Ceconomy's largest shareholder, with 25.9% of voting rights once an agreed capital increase closes during the summer 2021. Ceconomy is listed on the Frankfurt Stock Exchange and has a current market capitalisation of around €1.9 billion.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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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

Jeanine Arnold
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

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