Paris, April 10, 2020 – Moody's Investors Service ("Moody's") has today downgraded CECONOMY AG's ('Ceconomy') long-term issuer rating to Ba1 from Baa3. Concurrently, Moody's has assigned a Ba1 corporate family rating (CFR) and a Ba1-PD probability of default rating (PDR) to Ceconomy. The issuer's short-term issuer rating and Commercial Paper rating have also been downgraded to Not Prime (NP) from P-3. The outlook remains negative.

"Ceconomy's downgrade and negative outlook reflects our expectation that the spread of the coronavirus and store closures will hurt the company's profitability and free cash flow in 2020 and that a weaker economic outlook will challenge the company's ability to sustainably improve its margins and cash flow generation in the next 12-18 months" said Guillaume Leglise, Moody's lead analyst on Ceconomy and Assistant Vice President. "Ceconomy's good liquidity position, conservative financial policy and recent measures to drive greater operational efficiencies are, however, strong mitigating factors, which will help absorb the shock of the current store lockdown", adds Mr Leglise.

RATINGS RATIONALE

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The non-food retail sector is one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment.

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on Ceconomy of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

More specifically, Ceconomy's weak Moody's adjusted EBIT margins of 2.0% in the 12 months to December 2019, weak cash flow generation relative to similarly-rated peers, and its exposure to discretionary spending, have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions. Moody's believes that Ceconomy is particularly vulnerable to the coronavirus crisis because of its large store base (1,029 stores at end-December 2019), mostly in Germany and across Europe. Moody's expects that the nationwide lockdown imposed in many European countries, including Germany, will materially hurt Ceconomy's revenues with a consequent impact on its EBITDA and cash flow generation in 2020. As such, Moody's expects that the company's key credit metrics, including earnings, margins, and free cash flows will be weaker than initially anticipated by the rating agency and no longer commensurate with an investment grade rating.

Moody's expected that initiatives implemented by Ceconomy's new management team in order to improve the efficiency of its operations, would strengthen EBIT margins (as adjusted by Moody's) to around 3.0% towards the end of fiscal 2021 and continue to increase thereafter such that free cash flow would turn positive on a sustainable basis. However, Moody's now forecasts a far weaker economic environment in the medium term, with fierce competition and pricing pressure once stores reopen. Moody's expects far weaker demand for discretionary products in the next 12 to 18 months. Moody's also believes that this weaker economic backdrop will likely delay the execution of the company's ongoing transformation program.

Today's rating action incorporates the fact that most governments in Europe, including Germany, have announced a package of measures to support corporates such as partial unemployment for employees and tax deferrals. These measures will limit the negative effects during the lockdown period. The impact of the store lockdown will be mitigated to some degree by the company's growing online capabilities (16.7% of sales in fiscal 2019) and the fact that stores in some European countries remain open. Demand for consumer electronics, notably brown goods, also surged recently because consumers, due to the lockdown, were increasingly shopping online and working from home.
Ceconomy's good liquidity positions the company well to sustain a prolonged shut down, with weaker sales in a more challenging economic environment and the potential for continued negative free cash flows. The company has taken steps to conserve cash in the months ahead, including postponements to capital spending and reducing stock purchasing.

Moody's expects the company will maintain its conservative financial policy, with no dividends in the foreseeable future and very limited funded debt. While Ceconomy needs a large liquidity buffer, because of the very large working capital seasonality, Moody's considers the company's liquidity will remain adequate in the next quarters. As at end-December 2019, the company had a total liquidity of €3.5 billion, comprising cash of €2.5 billion, an undrawn syndicated committed credit facility of €550 million, and €430 million available multyyear bilateral credit facilities.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the uncertainty surrounding the losses, demand and potential impact on the supply chain as a result of the coronavirus outbreak, and the impact this crisis may have for the company's credit profile over the medium term. The outlook also considers that Ceconomy remains vulnerable to a prolonged period of lockdown, unfavorable discretionary consumer spending and the uncertainty regarding the pace at which consumer spending will recover once stores reopen.

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

The ratings are unlikely to be upgraded in the short term because the company's ratings are on negative outlook. A stabilisation of the rating also is unlikely to arise until the coronavirus outbreak has been brought under control, stores reopen, and it is evident that consumer sentiment has not materially affected demand for Ceconomy's products over the medium to longer-term.

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) its 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) is sustainably above 25%. Moody's would also expect Ceconomy to maintain prudent financial policies and generate positive free cash flow on a sustained basis.

Conversely, a negative rating action could arise in the event of a prolonged shut down of stores or evidence that the macro environment will weaken earnings through 2021 relative to 2019 levels - meaning that measures initiated by the company have been fully offset by external pressures. Sustained negative free cash flow 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; (2) its RCF/net debt is below 20% on a sustained basis; and (3) Moody's adjusted EBIT margins are expected to be sustainably below 2%.

PRINCIPAL 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 €21.4 billion in the 12 months to 31 December 2019. The company has four anchor shareholders: Haniel, Meridian Stiftung, Beisheim and, since summer 2018, freenet AG. In aggregate, these shareholders own around 53% of Ceconomy's voting shares.

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.

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 ratings tab on the issuer/entity page for the respective issuer on www.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 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 www.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://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to one of the credit rating outcomes announced and described above.

Please see www.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 ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Guillaume Leglise
AVP-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
CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATING AFFILIATES ARE MOODY'S 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 INVESTORS SERVICE 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 MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE 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 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 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 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 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 $2,700,000. 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 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 JPY125,000 to approximately JPY250,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.