# HORNBACH Holding AG & Co. KGaA
# Federal Republic of Germany, Retail

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2022/23** | **2023/24** | **2024/25E** | **2025/26E** |
| Scope-adjusted EBITDA/interest cover | 11.9x | 10.8x | 10.8x | 9.4x |
| Scope-adjusted debt/EBITDA | 2.7x | 2.5x | 2.5x | 2.4x |
| Scope-adjusted funds from operations/debt | 28% | 31% | 32% | 32% |
| Scope-adjusted free operating cash flow/debt | 10% | 15% | 13% | 3% |

## Rating rationale

The rating is based on the company's equally good business and financial risk profiles (both assessed at BBB-).

HORNBACH's business risk profile benefits from its: i) high market share in large and mature markets with good growth prospects and strong long-term fundamentals in key end-markets; and ii) broad geographic diversification, with approximately half of sales generated outside Germany, as well as an established omni-channel set-up, providing strong access to customers and supporting stable cash flows, thereby minimising operational risk. Weaker profitability due to high asset intensity (own real estate and high inventory levels) constrains the business risk profile.

HORNBACH's financial risk profile is underpinned by strong cash conversion, which helps to maintain the current good level of leverage, as well as strong interest cover.

## Outlook and rating-change drivers

The Stable Outlook is based on continued growth of the company's top line (CAGR of 3-4%) and Scope-adjusted EBITDA (CAGR of between 2-3%), helping leverage remain at current levels (Scope-adjusted debt/EBITDA of around 2.5x) in the coming years. The Outlook includes capex of around EUR 650m, dividend payments of about EUR 125m and a stabilisation of the Scope-adjusted EBITDA margin at around 8% - all for the three years to end-February 2027.

The upside scenario for the ratings and Outlook is:

- Scope-adjusted debt/EBITDA significantly below 2x on a sustained basis.

The downside scenario for the ratings and Outlook is:

- Scope-adjusted debt/EBITDA significantly above 3x on a sustained basis.

## Rating history

| Date | Rating action/monitoring review | Issuer rating & Outlook |
|---|---|---|
| 20 Jan 2025 | New | BBB-/Stable |

### Ratings & Outlook

| | |
|---|---|
| Issuer | BBB-/Stable |
| Short-term debt | S-2 |
| Senior unsecured debt | BBB- |

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### Related Methodologies and research

General Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2024

ESG considerations for the credit ratings of retail corporates; November 2021

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## Rating and rating-change drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • High market share in sizeable and mature markets with good growth prospects and strong long-term fundamentals in key end-markets | • Exposed to one consumer goods category with high seasonality but low cyclicality |
| • Good Scope-adjusted EBITDA margin at the expense of … | • … a large asset base, resulting in modest Scope-adjusted EBITDA return on assets |
| • Robust cash conversion supports high shelf availability and capex needs without external funding, bolstering good leverage levels | • Moderate cash flow cover as capital expenditure increases |
| • Strong interest cover expected to be maintained thanks to stable debt and growing EBITDA | |
| • Solid geographic diversification, with approximately half of sales generated outside Germany and established omni-channel setup[1], providing strong access to customers and supporting stable cash flow, minimising business risk | |

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| • Scope-adjusted debt/EBITDA significantly below 2.0x | • Scope-adjusted debt/EBITDA significantly above 3.0x |

## Corporate profile

The companies of the HORNBACH Group focus on DIY, garden and home improvement retailing. HORNBACH Baumarkt AG operates DIY megastores with garden centres and online shops in nine European countries. The DIY retail segment accounts for around 94% of consolidated sales. Approximately half of these sales are generated in Germany.

With net sales of around EUR 5.8bn (2023/24), HORNBACH Baumarkt AG is the fifth largest DIY retailer in Europe and the number one DIY retailer in Germany in terms of sales per sq m of sales area. With an online share of around 13% of total sales (including Click & Collect), HORNBACH is the market leader in the DIY network business.

The HORNBACH Group's retail activities are supplemented by its regional builders' merchant activities, which are pooled in the HORNBACH Baustoff Union GmbH subgroup. The HORNBACH Group uses retail properties with a total area of about two million sq m as DIY megastores with garden centres.

[1] Also referred to as ‘interconnected retail’ in this report.

## Financial overview

| | | | | Scope estimates | | |
|---|---|---|---|---|---|---|
| **Scope credit ratios** | **2021/22** | **2022/23** | **2023/24** | **2024/25E** | **2025/26E** | **2026/27E** |
| Scope-adjusted EBITDA/interest cover | 12.6x | 11.9x | 10.8x | 10.8x | 9.4x | 9.0x |
| Scope-adjusted debt/EBITDA | 2.5x | 2.7x | 2.5x | 2.5x | 2.4x | 2.5x |
| Scope-adjusted funds from operations/debt | 32% | 28% | 31% | 32% | 32% | 31% |
| Scope-adjusted free operating cash flow/debt | 5% | 10% | 15% | 13% | 3% | 4% |
| Liquidity | 353% | 194% | 339% | 1,052% | 622% | 315% |
| **Scope-adjusted EBITDA in EUR m** | | | | | | |
| EBITDA | 568 | 511 | 501 | 482 | 521 | 540 |
| Other[2] | (1) | (1) | (2) | - | - | - |
| **Scope-adjusted EBITDA** | **567** | **511** | **499** | **482** | **521** | **540** |
| **Funds from operations in EUR m** | | | | | | |
| Scope-adjusted EBITDA | 567 | 511 | 499 | 482 | 521 | 540 |
| less: (net) cash interest paid | (45) | (43) | (46) | (45) | (55) | (60) |
| less: cash tax paid as per cash flow statement | (68) | (80) | (70) | (56) | (66) | (68) |
| Δ Provisions | (1) | (2) | 3 | 1 | - | - |
| **Funds from operations (FFO)** | **452** | **386** | **386** | **382** | **399** | **412** |
| **Free operating cash flow in EUR m** | | | | | | |
| Scope-adjusted FFO | 452 | 386 | 386 | 382 | 399 | 412 |
| Working capital changes | (102) | 22 | 94 | 39 | (19) | (16) |
| Non-operating cash flow | (7) | 27 | (31) | 4 | - | - |
| less: capex (net) | (172) | (198) | (160) | (164) | (230) | (239) |
| less: lease amortisation | (97) | (103) | (107) | (104) | (108) | (109) |
| **Free operating cash flow (FOCF)** | **75** | **133** | **182** | **158** | **43** | **48** |
| **Net cash interest paid in EUR m** | | | | | | |
| Net cash interest as per cash flow statement | 45 | 43 | 47 | 45 | 55 | 60 |
| Δ Others[3] | 0 | 0 | (0) | (0) | (0) | (0) |
| **Net cash interest paid** | **45** | **43** | **47** | **45** | **55** | **60** |
| **Scope-adjusted debt in EUR m** | | | | | | |
| Reported gross financial debt | 1,686 | 1,780 | 1,572 | 1,531 | 1,596 | 1,662 |
| less: cash and cash equivalents | (332) | (437) | (370) | (370) | (370) | (370) |
| add: non-accessible cash | 42 | 30 | 30 | 30 | 30 | 30 |
| add: pension adjustment | 6 | - | 2 | 2 | 2 | 2 |
| **Scope-adjusted debt** | **1,402** | **1,373** | **1,234** | **1,193** | **1,258** | **1,324** |

[2] Includes disposal gains on fixed assets
[3] Includes interest expense on pensions

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## Environmental, social and governance (ESG) profile[4]

| Environment | Social | Governance |
|---|---|---|
| Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency) | Labour management | Management and supervision (supervisory boards and key person risk) |
| Efficiencies (e.g. in production) | Health and safety (e.g. staff and customers) | Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) |
| Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables) | Clients and supply chain (geographical/product diversification) | Corporate structure (complexity) |
| Physical risks (e.g. business/asset vulnerability, diversification) | Regulatory and reputational risks | Stakeholder management (shareholder payouts and respect for creditor interests) |

**Legend**
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

### ESG targets in line with market

In many countries, consumer behaviour can be widely influenced by a company's reputation and responsibility towards the environment, its employees and society. We believe HORNBACH has no issues or reputational risk in this regard. For large brick-and-mortar companies such as HORNBACH, the main challenges are: i) the sustainability of the products sold; ii) the health and safety of employees in a labour-intensive business; and iii) the environmental footprint and the further improvement of energy efficiency while maintaining the right number of stores.

HORNBACH's targets are in line with the EU's goal of achieving climate neutrality by 2050.

The issuer is focusing on Scope 1 and 2 emissions that it can directly control. This includes optimising the operation of stores through better insulation, energy efficiency measures, the replacement of oil- or gas-fired heating systems, LED lighting and the installation of photovoltaic systems. In addition, HORNBACH is improving its fleet management in order to further reduce its carbon footprint.

The company is also working on recording indirect CO2e emissions in its value chain (Scope 3) with the necessary transparency needed to use its negotiating power to influence the CO2 footprint of its suppliers, particularly in the case of private label products. In the case of branded products, the industry is working within a global alliance to improve the transparency of carbon emissions. Once comprehensive data is available, it becomes easier to encourage and help suppliers to set their own targets and negotiate changes in the production cycle. Although this process takes time, many suppliers have their own carbon neutrality targets.

[4] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

## Business risk profile: BBB-

**Industry risk: BBB**

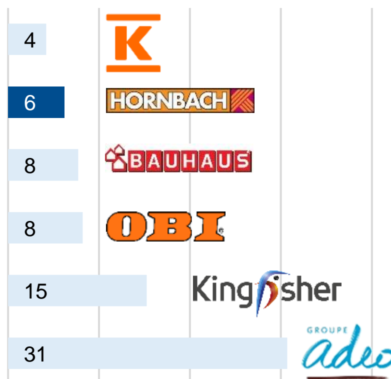
With 94% of consolidated sales in FY 2023/24 coming from its retail arm HORNBACH Baumarkt AG (DIY), we see HORNBACH Holding AG & Co. KGaA as a non-discretionary retailer that benefits from the low cyclicality of its underlying business. The other two major group companies are the wholesaler HORNBACH Baustoff Union GmbH (6% of consolidated sales; wholesaler for construction materials) and HORNBACH Immobilien AG (0% of consolidated sales, internal leasing of retail space), which owns 26%[5] of the sales area used by the retail division.

**High market share in sizeable and mature markets**

HORNBACH benefits from a moderate market position (top five player in European DIY), operating mainly in large and mature markets[6]. This ensures high market visibility and stable cash flow due to limited supply risk, an established infrastructure and relatively high barriers to entry for new players.

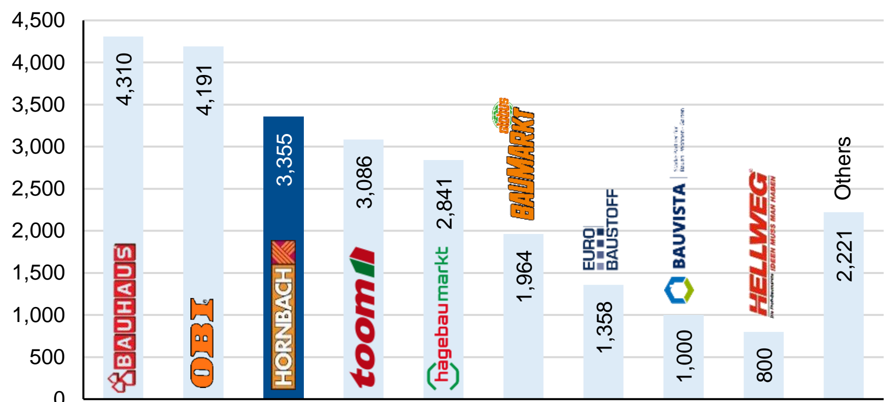
Furthermore, we believe that HORNBACH will be able to easily defend its market shares in the future, driven by a strong position in its main markets. HORNBACH is among the top three peers with high market shares, ranging from 14.5% in Switzerland to 37.7% in the Czech Republic; all as of end-November 2024. The company also has the highest sales per sq m in its home market of Germany, which provides a solid backbone to: i) counteract any (non-) domestic competitive pressure; as well as ii) grow market shares in its other markets.

**Figure 1: Top DIY chains, Europe (gross revenue in 2023; EUR bn)**




Sources: Public info, Scope

**Figure 2: Top DIY chains, Germany (gross revenue in Germany in 2023; EUR m)**




Sources: Public info, Scope

**Good growth prospects with strong long-term fundamentals in key end-markets**

We see good prospects for continued sales growth in the future (2023/24: EUR 6.2bn, down 1.6% YoY; 9M 2024/25: EUR 5.0bn, up 0.5% YoY), leading to improved market shares. This is based on our expectation that HORNBACH's end-markets will grow in view of the increasing need to renovate existing buildings in Europe in order: i) to achieve climate neutrality by 2050; ii) due to higher maintenance requirements to counter damage caused by extreme weather conditions; and iii) to meet societal demand for barrier-free and adequate housing. We also anticipate continued growth in DIY and DIFM (Do-it-for-Me) due to changing consumers' purchasing power.

We believe that HORNBACH's structure, which also includes B2B sales, is particularly conducive to the shift in demand. Firstly, more customers are shifting from DIY to DIFM,

[5] The Group owns 62% of the sales area (HORNBACH Baumarkt: 36%; HORNBACH Immobilien: 26%)
[6] 146 out of 171 locations as at end-February 2024 in countries that benefit from a 'high' country retail strength

as fewer people are tempted to carry out larger projects themselves, with HORNBACH providing either the local network of handymen (electricians, carpenters, etc.) or the service itself with some professionals on its payroll. In this way, HORNBACH provides an ecosystem that brings customers and professionals together (B2B2C). Secondly, DIY continues to provide a hedge against macroeconomic developments that could lead to sales volatility. It also remains the main support for sales levels, as homeowners or tenants are more tempted to carry out renovation/maintenance work themselves in times of an economic slowdown.

**Omni-channel setup provides strong access to customers, supporting stable cash flow**

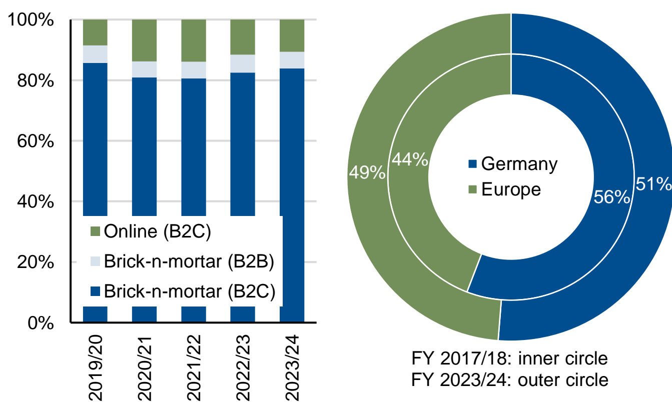
HORNBACH has well-established distribution channels (online, bricks-and-mortar B2C and B2B), including the B2C division HORNBACH Baumarkt (93.8% of sales in FY 2023/24). This benefits from an established integrated retail concept comprising click & collect and direct delivery, which commenced operations in 2010 and contributed 12.7% to HORNBACH Baumarkt's sales in FY 2023/24 – and the predominantly B2B division (HORNBACH Baustoff Union), which contributed 6.2%.

HORNBACH's setup as an omnichannel retailer provides cash flow stability. This was demonstrated when the global disruption caused by Covid, including individual mobility restrictions, led to a sharp decline in footfall in the store network. Nevertheless, HORNBACH's sales continued to grow as most customers switched to click & collect, with online sales reaching up to 17% of HORNBACH Baumarkt's sales in FY 2020/21 and FY 2021/22.

In October 2023, HORNBACH expanded its online presence by introducing a marketplace for independent brands and retailers. We see this as a positive development, as independent brands and retailers will benefit from HORNBACH's brand strength, while HORNBACH will be able to generate margin profits without additional working capital requirements. This consolidates the company's position as one of Europe's largest online retailers by gross merchandise volume (home, garden, DIY) after Kingfisher and France's Leroy Merlin and ManoMano.

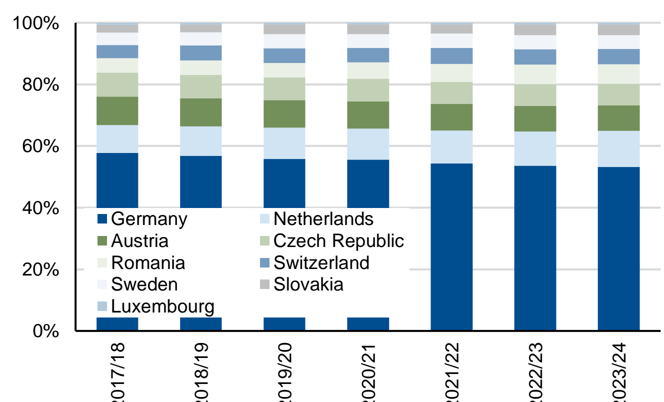
HORNBACH has a flexible logistics network with 18 logistics locations (Points of Sale [PoS] and fulfilment), with suppliers delivering directly to end customers and an established click & collect system. This ensures high levels of online customer loyalty and satisfaction and helps to defend HORNBACH's position in online retailing.

**Figure 3: Sales by distribution channel and geography**




Sources: HORNBACH, Scope

**Figure 4: Sales area by country**




Sources: HORNBACH, Scope

Although HORNBACH Baustoff Union is only present regionally (39 PoS in the southwest of Germany and France), it provides access to a further clientele, namely commercial customers from the construction industry. These customers are offered construction

materials, tools and services in terms of stocking and delivery as well as professional advice for all major product ranges. Although exposed to the more cyclical nature of the construction industry, it offers good cash flow diversification, with seasonal volatility somewhat different to that of the DIY sector.

**Strong geographical diversification with half of sales generated outside Germany**

HORNBACH operates 210 PoS (including 171 HORNBACH Baumarkt locations with 2.1 million sq m of sales area) in ten countries (nine HORNBACH Baumarkt locations). The main markets are Germany (53% of sales area at the end of February 2024), the Netherlands (12%) and Austria (8%). The remainder is spread evenly across the Czech Republic, Romania, Switzerland, Sweden, Slovakia and Luxembourg.

Thanks to its diversified PoS network HORNBACH has a broad geographical diversification of sales with an increasing share outside Germany (2023/24: 49%). Strong diversification of sales minimises the business risk associated with individual demand patterns, political stability, regulations and macro-economic swings in a specific country. The geographically well-diversified cash flow also provides the necessary backing to expand outreach, either to increase market share in existing markets or to enter new ones.

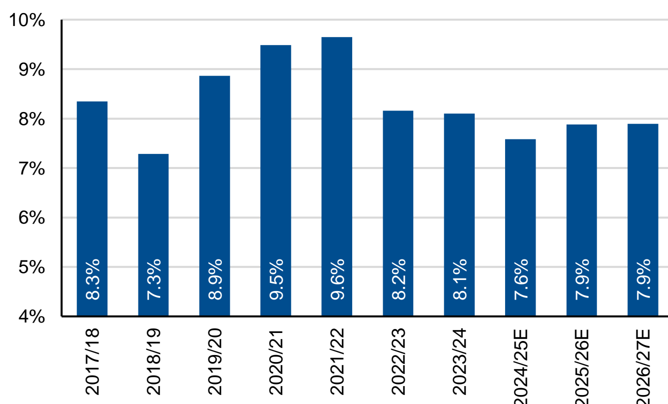
We expect further growth in international sales as: i) HORNBACH has managed to achieve strong market positions in the countries it is exposed to, providing market visibility and pricing power; ii) further openings are planned over the next few years and; iii) we foresee continued growth momentum outside Germany with a five-year CAGR for like-for-like sales of 6.1% (FY 2023/24) compared to 5.4% from German operations.

**Exposed to one consumer goods category with high seasonality but low cyclicality**

The vast majority of HORNBACH sales are in one consumer goods category (home, garden, DIY), which we consider non-discretionary with non-cyclical features as these products mainly focus on repair and maintenance end-markets. Although the repair and maintenance end-market provides cash flow stability, it suffers from a high degree of seasonality given the offered product range, with peaks between March and August.

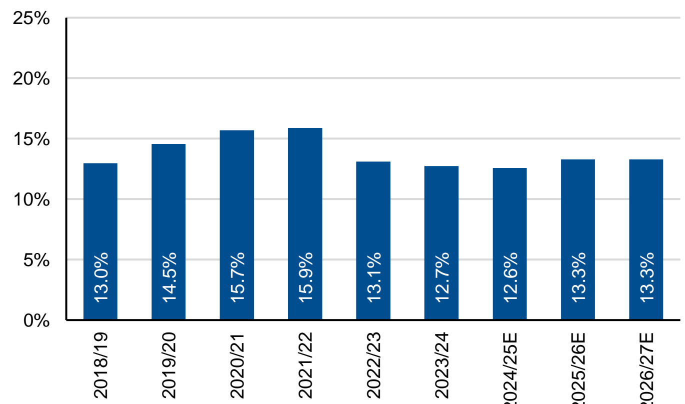
Despite its focus on one consumer goods category, HORNBACH has the highest sales per sq m and the strongest growth in a competitive environment due to successful customer retention and satisfaction. According to management, this is thanks to: i) a broad and deep product range with B2B brands and private labels; ii) expert advice in stores and online; iii) Interconnected Retail (ICR) at all customer touch points; and iv) large quantities available on the market for professional and project-related needs. In addition, HORNBACH also offers services to business customers (B2B sales approx. 20% in FY 2023/24), such as delivery to construction sites and financing solutions.

**Figure 5: Scope-adjusted EBITDA margin**




Sources: HORNBACH, Scope estimates

**Figure 6: Scope-adjusted EBITDA return on assets**




Sources: HORNBACH, Scope estimates

**Strong Scope-adjusted EBITDA margin at the expense of …**

Profitability, as measured by HORNBACH's Scope-adjusted EBITDA margin, is strong compared to other retail peers and has been between 8-10% in recent years, exceeded only by the much larger Kingfisher Plc (10-12%). This level of profitability provides the headroom to protect market share against competition from (non)-domestic peers.

We expect the Scope-adjusted EBITDA margin to remain around 8% going forward, supported by: i) lower inflationary pressures, which led to a relatively sharp decline in 2022/23 compared to 2021/22 and 2020/21[7]; and ii) high shelf availability, helping to retain customers and outperform peers in terms of sales per sq m and like-for-like sales growth. A constraint will be another large increase in SG&A expenses in 2024/25 as well as higher store costs linked to prospective openings in FY 2024/25 to FY 2026/27.

25% of sales are linked to private labels (issuer target 30%), which are margin-accretive and available across all categories and price points. This supports a sustainable Scope-adjusted EBITDA margin of at least around 8%

**… a large asset base, resulting in modest Scope-adjusted EBITDA return on assets**

The Scope-adjusted EBITDA return on assets is modest and has historically been between 13% and 16%. The main reasons for this are: i) high shelf availability leading to comparatively high working capital needs; and ii) the large PoS network with 171 locations, of which 104 (62% based on selling space) were owned by HORNBACH at the end of February 2024.

Going forward, we do not expect a significant change in the Scope-adjusted EBITDA return on assets. This should remain between 10-15%. given the company's strategy of: i) maintaining high shelf availability; and ii) owning at least 50% of the real estate used for its operations, with lease contracts of seven years on average.

Any improvement will be linked to strong growth in space productivity, while optimising inventory turnover to levels seen before FY 2021/22, i.e. days of inventory outstanding of around 67. We consider this to be realistic, given that no significant supply chain disruptions are expected in the next few years, and lower inflationary pressures should benefit EBITDA development and limit rent increases for leases linked to the CPI.

[7] The relatively high margin levels between 2020 and 2022 are partly attributable to overspending by customers related to cocooning during the pandemic.

## Financial risk profile: BBB-

**Strong cash generation capability to meet high shelf availability and capex needs without external funding**

HORNBACH has typically generated positive Scope-adjusted free operating cash flow (FOCF) due to its good working capital management and the fact that costs generally grow in line with sales. FY 2018/19 was an exception, as HORNBACH prepared more intensively in the fourth quarter for the upcoming DIY spring season (first quarter of 2019/20). The focus was not only on hiring additional specialist sales staff, which led to higher operating expenses, but also on increasing the availability of goods. The latter resulted in a significant rise in inventories. The exceptionally high working capital build-up in FY 2021/22 was related to the increase in inventories to cope with the supply chain disruption during Covid-19. With supply chains fundamentally functioning, working capital levels have been reduced to sustainable levels in FY 2023/24, which are expected to be between 11-12% of sales.

In general, HORNBACH benefits from strong cash conversion, which enables it to cover high shelf availability and capex requirements without external financing needs. FOCF is expected to remain at break-even despite a significant increase in capex (maintenance and expansion) to around EUR 650m for the three years to FY 2026/27 (compared to EUR 530m for the previous three years). This will ultimately help to keep Scope-adjusted debt stable at between EUR 1.2bn and EUR 1.4bn (end-February 2024: EUR 1.2bn). The expenditure is mainly related to expansion investments for up to 15 new PoS openings by the end of February 2027.

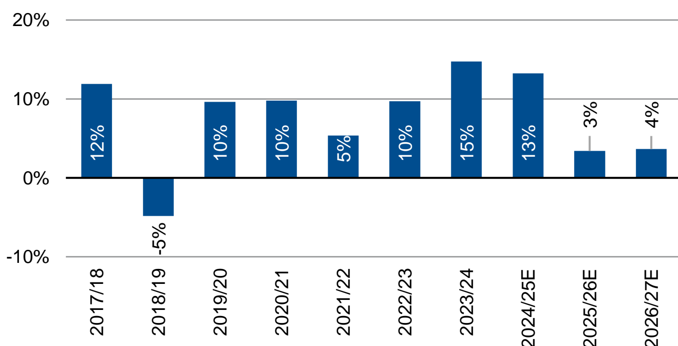
**Moderate FOCF/debt fluctuating between 5-15%**

FOCF/debt has fluctuated in line with the aforementioned development, with a sustainable level seen at around 5% (2023/24: 15%; up 5pp YoY).

Decreases in net working capital (NWC) in the last quarter of each financial year from 2022/23 are linked to HORNBACH's EUR 150m reverse factoring programme. The programme enables payments to be delayed by two months beyond terms granted by suppliers, thus aligning the cash outflow for the build-up of NWC with the absorption of NWC in the high season (Q1 of each financial year).

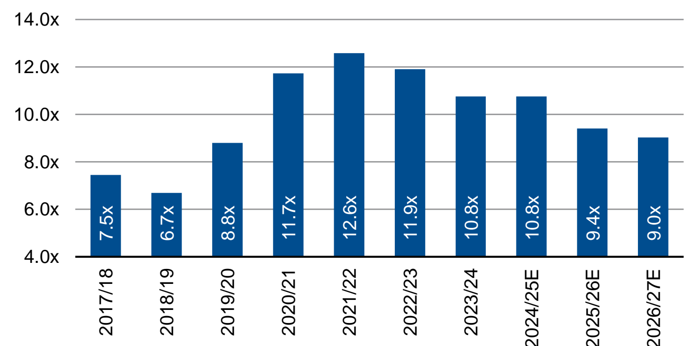
However, HORNBACH aims to reduce the use of its reverse factoring programme and offset the impact on NWC by: i) extending payment terms with suppliers; ii) focusing on inventory management (high availability of fast-moving items, selective low reordering of slow-moving items; and iii) fully factored receivables (debit cards and HORNBACH Card for B2B customers). We believe that this will help NWC to grow at a lower rate than sales. However, it is questionable whether suppliers will extend payment terms in all markets and especially in Germany, given HORNBACH's strong but non-dominant position in its home market.

**Figure 7: Scope-adjusted FOCF/debt**




Sources: HORNBACH, Scope estimates

**Figure 8: Scope-adjusted EBITDA interest cover**




Sources: HORNBACH, Scope estimates

**Strong interest cover expected to be maintained thanks to stable debt and growing EBITDA**

Scope-adjusted EBITDA interest cover is strong and has remained above 7x in recent years. It has benefitted from the low interest rate environment (weighted average cost of debt of 3.2% in FY 2023/24; up 80 bps YoY) and relatively stable Scope-adjusted debt, which has fluctuated between EUR 1.2bn and EUR 1.4bn over the last five years.

We expect Scope-adjusted EBITDA interest cover to remain comfortably above 7x, but declining, thanks to broadly stable debt and Scope-adjusted EBITDA growth (expected CAGR of around 2.5% over the next three years). This will help to manage the increasing interest burden, as the changed interest rate environment is expected to have pushed borrowing costs to a sustainable level two times higher than in H1 2022. We anticipate that the weighted average cost of debt will reach around 3.6% by FY 2026/27.

**Stable profitability and debt support current, good leverage levels**

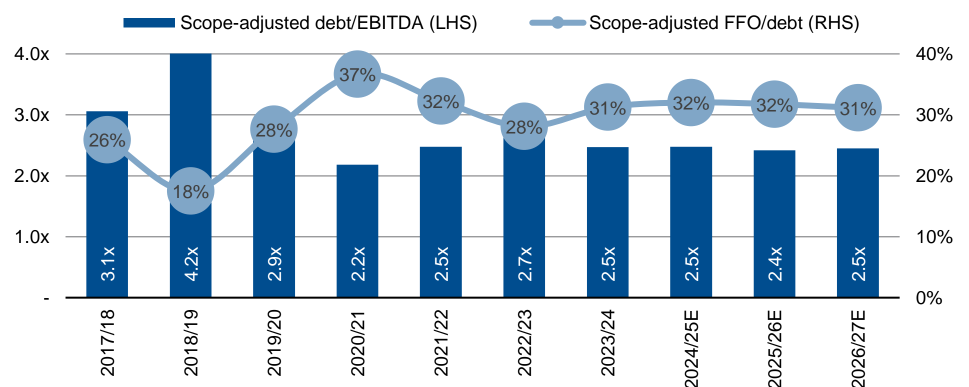
Leverage has stabilised at around 2.5x Scope-adjusted debt/EBITDA in recent years (FY 2023/24: 2.5x, down 0.2x YoY), with debt broadly stable thanks to the company's ability to grow without significant external financing needs.

Inflationary pressures, especially in FY 2022/23, led to a sharp decline in operating profitability and a slight increase in leverage, returning to the 2.5x target in FY 2023/24 despite impaired consumer spending. The company's like-for-like sales decline of 2% (3.2% for the calendar year 2023) was below the German market, which shrank by 3.4%, and HORNBACH's peers, which saw sharper declines[8], thanks to the successful destocking (EUR 187m), which more than offset the reduction in the use of the reverse factoring programme and drove FOCF.

Going forward, we expect leverage to remain at around 2.5x, supported by no significant external financing needs. We foresee EBITDA growing at a CAGR of 2.5% over the next three years, mainly driven by stabilised profitability and top line growth from new store openings as well as improving consumer confidence.

Scope-adjusted funds from operations/debt have fluctuated between 25-30% in recent years (2023/24: 31%, up 3pp YoY). They are expected to remain at around 30%, despite the expected increase in interest payments, thanks to sales and EBITDA growth and a broadly stable tax burden.

**Figure 9: Leverage**




Sources: HORNBACH, Scope estimates

[8] Kingfisher plc. -3.1% (like-for-like); Groupe Adeo -2.5% based on GMV; Kesko -8.7%; Mr. Bricolage -4.3%.

**Adequate liquidity**

Liquidity is adequate as cash sources (EUR 341m in unrestricted cash and a EUR 450m open committed credit line both at end-February 2024[9]; as well as EUR 249m of Scope-adjusted free operating cash flow forecasted from March 2024 to end-February 2027) cover uses (debt due in FY 2024/25: EUR 90m; FY 2025/26: EUR 134m and FY 2026/27: EUR 266m) by more than 200%. In detail:

| Position in EUR m | 2024/25E | 2025/26E | 2026/27E |
|---|---|---|---|
| Unrestricted cash (t-1) | 340 | 340 | 340 |
| Open committed credit lines (t-1) | 450 | 450 | 450 |
| Free operating cash flow (t) | 158 | 43 | 48 |
| Short-term debt (t-1) | 90 | 134 | 266 |
| **Coverage** | **> 200%** | **> 200%** | **> 200%** |

**Covenants**

Financial covenants are the following:

- Equity ratio of at least 25% (end-February 2024: 43.5%)
- ICR of at least 2.25x (end-February 2024: 8.6x[10])

The company has complied with these covenants with ample headroom.

## Supplementary rating drivers: +/- 0 notches

**Financial policy: neutral**

Financial policy is neutral, even though there are no hard commitments regarding rating levels or credit metrics[11]. This follows the stability of credit metrics in recent years despite the Covid-19-related restrictions, which impacted FY 2018/19.

HORNBACH intends to pay out dividends at the previous year's level at least, resulting in an average payout ratio of approx. 30% of consolidated net income.

**Parent support: neutral**

The rated entity is the ultimate parent.

**Governance: neutral**

We have no observations regarding the governance and structure of the rated entity.

## Long- and short-term debt ratings

**Senior unsecured debt rating: BBB-**

As at end-February 2024, HORNBACH had EUR 467m in outstanding capital market debt. The BBB- senior unsecured debt rating assigned is in line with the issuer rating.

**Short-term debt rating: S-2**

The S-2 short-term debt rating is based on the BBB-/Stable issuer rating. It is supported by better-than-adequate internal and external liquidity, better-than-adequate banking relationships with several (more than 10) banks as well as an adequate standing in the capital markets (EUR 250m bond and four ‘Schuldschein’ loans with a total notional amount of EUR 217m at end-February 2024).

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[9] Maturity 02/09/2028
[10] Only relevant for the RCF
[11] Net debt/EBITDA target level of 2.5x with the aim to reduce to 2.0x and FFO/debt of at least 30% (internal guidance)

## Appendix: Peer comparison

| | HORNBACH Holding AG & Co. KGaA | CEconomy AG | Fnac Darty S.A. | Vöröskő Kft. |
|---|---|---|---|---|
| | BBB-/Stable | BBB-/Stable | BBB under review | BB/Stable |
| Last reporting date | 28.02.2024 | 30.09.2023 | 30.06.2024 | 31.12.2023 |
| **Business risk profile** | | | | |
| Country retail strength | High | High | High | High-medium |
| Market position | Strong with international market share | Strong with international market share | Strong | Strong |
| Revenue size (in EUR m) | 6,161 | 22,242 | 7,920 | 237 |
| Consumer good category | Non-discretionary | Discretionary | Discretionary | Discretionary |
| Geographical exposure | No countries >50% sales | No countries >50% sales | Immediate neighbours | One country |
| Product diversification | 1 category | 2 categories | 2 categories | 2 categories |
| Profitability assessment | Moderate | Weak | Good | Moderate |
| **Financial risk profile** | | | | |
| Scope-adjusted EBITDA/interest cover | 10.8x | 13.1x | 8.0x | 24.3x |
| Scope-adjusted debt/EBITDA | 2.5x | 1.9x | 3.0x | 2.2x |
| Scope-adjusted FFO/debt | 31% | 43% | 27% | 43% |
| Scope-adjusted FOCF/debt | 15% | 27% | 11% | 29% |

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

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