Fnac Darty S.A.
French Republic, Retail

SCOPE BBB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	11.2x	8.1x	7.3x	6.7x
Scope-adjusted debt/EBITDA	2.2x	2.0x	1.9x	1.7x
Scope-adjusted FFO/debt	36%	51%	41%	44%
Scope-adjusted FOCF/debt	-6%	24%	9%	10%

Rating rationale

The Outlook change to Stable from Negative is driven by Fnac Darty's successful deleveraging in 2023, thanks to the better-than-expected results in H2 2023 and the strict cost control programme maintained throughout the year. The Outlook change is also motivated by the decision of the High Court of Justice (UK) in favour of Fnac Darty S.A. with an additional EUR 40m to be received in the first quarter of 2024 in relation to the 2022 Comet group litigation. Finally, the improvement in macroeconomic conditions with lower inflation expected from H2 2024, is also driving the Outlook, which will have a moderately positive impact on Fnac's sales and EBITDA.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Scope-adjusted debt/EBITDA will remain below 2.0x in 2024 and decline towards 1.7x thereafter. Our assumptions include moderate revenue and EBITDA growth due to lower inflation from H2 2024 and an inflow of EUR 40m related to the High Court of Justice (UK) decision in favour of Fnac Darty. Our rating case reflects an EBITDA margin of around 7% in 2024, stable net debt in 2024 due to a neutral impact of working capital movements, capex of EUR 115m, lower dividend payouts, and no M&A transactions. The Outlook also reflects a necessary refinancing of the bond maturing in May 2024, with higher borrowing costs putting pressure on interest coverage.

A positive rating action is unlikely but would be considered if the company's business risk profile were to improve through a significant increase in revenues from operations outside France, leading to improved cash flow diversification, while maintaining credit metrics in line with our rating guidelines.

A negative rating action is possible if the Scope-adjusted debt/EBITDA ratio rises above 2.0x on a sustained basis, or if interest cover deteriorates materially beyond our expectations. An increase in leverage could be the result of a significant deterioration in the business, with an EBITDA margin below 7%, negative working capital changes due to higher inventories and/or material M&A transactions. Higher than expected refinancing costs could lead to negative pressure on interest cover.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
23 February 2024	Outlook change	BBB/Stable
4 April 2023	Outlook change	BBB/Negative
1 April 2022	Upgrade	BBB/Stable
6 May 2021	Affirmation	BBB-/Stable

Ratings & Outlook

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

Analyst

Daniel Felipe Gomez
+33 1 86 26 62 86
d.gomez@scoperatings.com

Related Methodologies

Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

in

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Top three player in Europe and dominant market share in France • Large range of products combining consumer electronics and editorial products • Higher profitability versus most international competitors, expected to grow further thanks to repair services aimed at limiting electronics waste • Fast omnichannel transition due to strong online sales • Relatively low leverage, leading to a good financial risk profile	• Potential pressure on the EBITDA interest cover ratio due to higher interest rates • Inherent threat from e-commerce due to easy substitution of products offered • High seasonality of sales in Q4 • Less geographically diversified than European competitors, with most of exposure to French market • Limited expansion into other countries due to the presence of strong local or international competitors in Europe

Positive rating-change drivers	Negative rating-change drivers
• if the company's business risk profile were to improve through a significant increase in revenues from operations outside France while credit metrics remain within rating guidelines	• Scope-adjusted debt/EBITDA ratio to increase to above 2x on a sustained basis • Pressure on interest cover due to higher than expected refinancing costs.

Corporate profile

Fnac Darty S.A. is a French retailer specialising in consumer electronics and editorial products. Despite a strong focus on France (about 83% of group sales at YE 2023), the group also operates in Switzerland, Belgium, Spain, and Portugal. Fnac Darty came into existence in 2016 through the merger of two French retailers, Fnac and Darty. This resulted in a product range combining Fnac's editorial products and brown goods with Darty's white goods.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	12.1x	11.2x	8.1x	7.3x	6.7x	6.8x
Scope-adjusted debt/EBITDA	1.6x	2.2x	2.0x	1.9x	1.7x	1.7x
Scope-adjusted FFO/debt	49%	36%	51%	41%	44%	47%
Scope-adjusted FOCF/debt	11%	-6%	24%	9%	10%	11%
Scope-adjusted EBITDA in EUR m						
EBITDA	611	552	517	570	598	604
Scope-adjusted EBITDA	**611**	**552**	**517**	**570**	**598**	**604**
Funds from operations in EUR m						
Scope-adjusted EBITDA	611	552	517	570	598	604
less: (net) cash interest paid	-48	-47	-56	-71	-81	-81
less: cash tax paid per cash flow statement	-69	-70	8	-47	-50	-50
less: pension interest	-1	-4	-6	-6	-6	-6
less: capitalized interest	-1	-2	-1	-1	-1	-1
Change in provisions	1	8	79	1	1	1
Funds from operations (FFO)	**492**	**437**	**541**	**446**	**461**	**467**
Free operating cash flow in EUR m						
Funds from operations	492	437	541	446	461	467
Change in working capital	-40	-155	70	6	5	12
less: capital expenditure (net)	-116	-131	-115	-115	-115	-115
less: lease amortisation	-228	-231	-237	-244	-251	-259
Free operating cash flow (FOCF)	**108**	**-80**	**258**	**94**	**99**	**105**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	48	47	56	71	81	81
Pension interest	1	4	6	6	6	6
Change in other items	1	2	1	1	1	1
Net cash interest paid	**51**	**53**	**64**	**78**	**89**	**88**
Scope-adjusted debt in EUR m						
Reported gross financial debt	2,064	2,077	2,068	2,282	2,050	1,970
less: cash and cash equivalents	-1,181	-932	-1,121	-1,415	-1,217	-1,172
add: debt-like provisions items	0	0	0	86	86	86
add: non-accessible cash	118	93	112	142	122	117
Scope-adjusted debt (SaD)	**1,001**	**1,238**	**1,058**	**1,094**	**1,041**	**1,001**

Table of contents

Environmental, social and governance (ESG) profile[1]

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 consideration

ESG well embedded in strategy

Given the group's focus on France, we expect close investor scrutiny of business decisions based on environmental, social and governance aspects. The corporate strategy is well positioned in this realm. According to the group, product durability accounts for half of purchasing decisions. Hence, Fnac Darty has invested heavily in repair services (WeFix and Darty Max) and expects to repair 2.5m products annually by 2025. We consider these initiatives to be positive for overall profitability as services generate higher margins than pure retail sales.

Another initiative that aims to decrease the company's environmental impact is 'enlightened delivery', which allows the consumer to choose a delivery method with a smaller carbon footprint.

We consider these initiatives to be positive for ESG considerations as they not only support profitability and cash flow generation but also reinforce brand strength and, by extension, market share.

Reputational risk is a major criterion for the social side of a retailer. For example, product or labour management practices that have a negative social impact may prompt consumer boycotts, affecting sales, margins and inventory value. Also, the environmental footprint of a company's brick-and-mortar shops will remain fundamental to its development. Retailers will have to continue balancing the challenges of improving the energy efficiency of larger shops (comparable to hypermarkets) and increasing the flexibility of their space to incorporate additional distribution channels (e.g. click and collect) while maintaining a high-quality shopping experience (shop-in-shops).

[1] 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: BB+

Industry risk profile: BB

Based on products sold (mainly electronic goods), Fnac Darty is a discretionary retailer. This leads to an industry risk profile of BB. Although the group has operations within services, these activities are too limited to warrant a blended approach to its business risk profile.

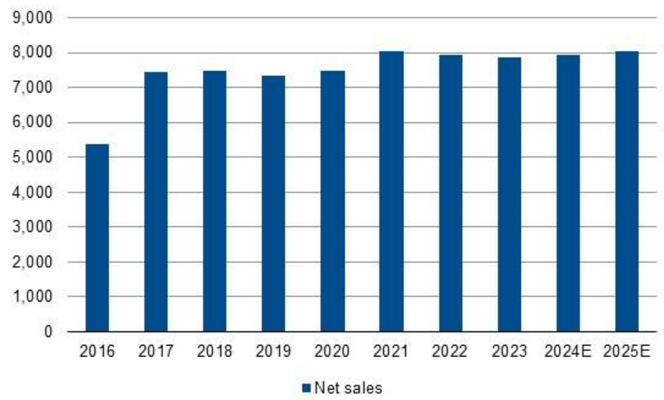
Top three in Europe in physical consumer electronics

With sales of EUR 7.9bn in 2023 (down 0.9% YoY), Fnac Darty is the third largest consumer electronics retailer in Europe. In 2023, the main market of the group in terms of revenues is France and Switzerland (83%), with the rest from the Iberian Peninsula (9%) and Belgium and Luxembourg (8%). The group expects to open around 30 - 50 new stores in the next three years. Most of these new stores will be opened under franchising agreements. In Europe, Fnac Darty ranks behind its main international counterpart, Germany's Ceconomy that has more than EUR 22.2bn of annual revenues.

Revenue resilience despite difficult environment

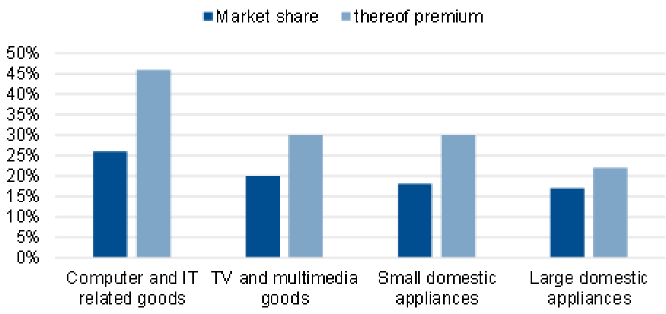
We observe that the competition over the same geographical markets is rather small as the issuer benefits of a strong business model with strong omnichannel and after-sale service strategy. Group revenues were relatively flat in 2023, despite inflationary pressures that negatively impacted customers' discretionary spending. The unchanged performance was supported by the editorial business, which largely offset lower volumes in the electronics and household appliances businesses. We acknowledge the resilience of the group's e-commerce revenues, which have been maintained at around 20% of consolidated revenues in 2023.

Figure 1: Revenue development, 2016 to 2025E, in EUR m



Sources: Fnac Darty, Scope Ratings

Figure 2: Estimated market share in France



Sources: Fnac Darty, Scope Ratings

Leading market shares in France...

In France, Fnac and Darty are both iconic, with brand awareness at 99% for each brand and both being the leading omnichannel retailers nationally. Their longstanding presence in France led each of them to become the largest retailer in its respective sector, with a significant presumed lead over competitors (Conforama, Boulanger, Brut) but close behind pure online player Cdiscount in terms of market share (assumed at less than 10%). The group is therefore first in brick-and-mortar sales and second or third in online sales (after Amazon) in France.

... supported by strong omnichannel deployment

Competition remains high in France as most electronic goods are ordered online (higher online penetration than for other retail consumer goods). Fnac Darty has, however, established its online offering well, with strong omnichannel sales (50% of online sales are click-and-collect sales) leading to high footfall within physical shops, creating a chance of spontaneous purchases (especially for editorial products).

We consider this omnichannel presence to be the cornerstone of the group's market share growth. This is because, as the group claims, 99% of French households can access a Fnac or Darty shop within 15 minutes. In 2021, the group became the first French retailer to join Google's Cloud Retail Search, cementing its online brand recognition.

Development towards B2C services constitutes a large growth driver

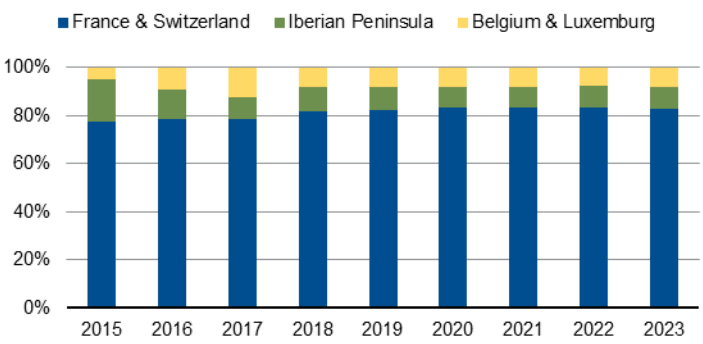
Reinforcing the group's services is expected to increase customer loyalty. Darty Max, a monthly subscription service for repairs of many products bought at Fnac Darty, was launched in June 2021. In 2023, the service has achieved the milestone of 1 million subscribers (vs 800,000 subscribers in 2022), and the issuer's target is to arrive to 2 million subscribers by the end of 2025. DartyMax also displays positive buying behaviour as subscriber purchases are 1.5x more frequent and their basket sizes are 25% higher versus non-subscribers.

Other new services aimed at increasing customer loyalty include those that tailor advice to customer needs, including live chats (conversion rate reported to be 2x - 3x higher than for a standard web customer) and livestreams.

Diversification constrained by weight of France…

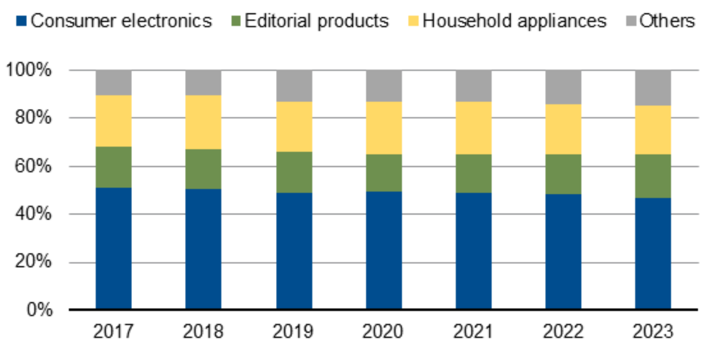
Geographical diversification remains good. However, France's dominance in revenues and EBIT (almost 90%) continues to limit a better assessment of the company's business risk profile. The latest Mediamarkt'[2] acquisition in Portugal helped the issuer to improve its sales mix by region. However, the Iberian region including Spain still represents only 9% of consolidated revenues in 2023. In our view, a major acquisition abroad would be needed to improve the geographical diversification assessment, as it would reduce the group's dependence on the French economy.

Figure 3: 2015 – 2023 Revenue evolution by country (%)



Sources: Fnac Darty, Scope Ratings

Figure 4: 2017 – 2023 Revenue by product category (%)



Sources: Fnac Darty, Scope Ratings

… but benefits from large array of products

Fnac Darty is active in more product segments than omnichannel peers by providing a mixture of consumer electronics (white, grey, and brown goods) and editorial products (audio, video, and books). Editorial products tend to be purchased spontaneously, which has been particularly supportive of the group's sales in 2023.

In previous years, the group's household goods (IT and domestic appliances) have ensured moderate growth. However, due to the lower consumer confidence towards these products, sales and volumes were heavily impacted in 2023. We highlight that issuer's offering is well diversified, with an increasing focus on services that complement its retail activities, offsetting the negative impact of lower volumes. Hence, we expect that after-sale services to increase customer loyalty further and reducing the group's vulnerability to macroeconomic headwinds.

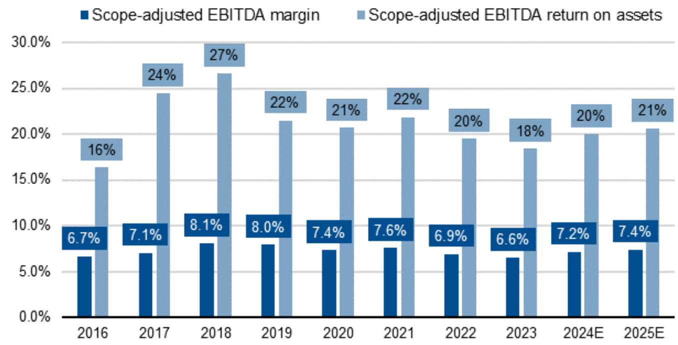
[2] MediaMarkt: Portugal household retailer with 450 employees, ten physical stores, one marketplace, and EUR 126m of revenues during 2022 – 2023. With the acquisition, Fnac has become the number 2 in the country in terms of household and electronics appliances.

Growth in online sales

The group's development of its distribution channels is the main rating driver and remains the cornerstone of the issuer's future growth. One of the main goals is maintaining online sales at above 30% of total sales by 2025. Rapid growth in online sales, while impressive, is normal in its sub-industry, with international competitors having seen similar growth rates.

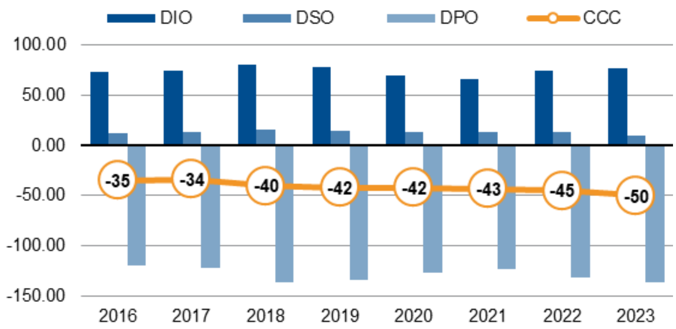
In 2023, omnichannel still represents 50% of Fnac Darty's online sales (click and collect). This high share of omnichannel in sales, combining e-commerce and brick and mortar, supports the group's development and maintains high footfall in shops, making it a main rating driver.

Figure 5: Profitability margins, 2016 to 2025E



Sources: Fnac Darty, Scope Ratings

Figure 6: Cash conversion cycle and related components, 2016 to 2023[3]



Sources: Fnac Darty, Scope Ratings

EBITDA margin resilience despite high inflation, energy costs and salaries

In 2023, the issuer's Scope-adjusted EBITDA margin has slightly decreased to 6.6% (vs 6.9% in 2022). The gross margin was maintained at 30%, demonstrating the issuer's ability to pass on the impact of cost inflation to customers. The negative development of the EBITDA was mainly due to higher wages, store closures and energy costs. However, the issuer's cost efficiency plan, implemented throughout the year, contributed to a more muted increase in operating expenses (+1.4%, YoY) than inflation.

Expected EBITDA margin to range 7% from 2024 onwards

We expect Scope-adjusted EBITDA margin to improve to between 7.0% and 7.5%, benefitting from (i) easing inflation leading to a moderate increase in consumer spending, (ii) strict cost control as well as (iii) a reinforcement of the service offering.

We highlight that energy costs (between EUR 40m and EUR 60m per year) can still put pressure on profitability as 40% of the group's energy sourcing is subject to fluctuations in market prices (the rest being hedged). However, the issuer has the willingness to keep a strict control on operating expenses including its energy efficiency plan that has been executed in 2023 (60% of the lightning in stores has been changed to LED; 100% to be changed by end-2024). We believe that these measures will help to partially mitigate the increase in energy costs and thus support the recovery of the Scope-adjusted EBITDA margin in 2024 and beyond.

Services should be a strong profitability driver in upcoming years

The reinforcement of the services offering is expected to carry profitability in upcoming years as services are more lucrative than pure retail. This is highlighted by the strong growth in Darty Max subscribers and the number of WeFix stores (specialised in smartphone repair). We therefore expect the Scope-adjusted EBITDA margin to recover to near 2020 levels (close to 7.5%) in 2025 and 2026.

[3] CCC: cash conversion cycle; DIO: days inventory outstanding; DSO: days sales outstanding; DPO: days payable outstanding.

Financial risk profile: BBB+

Successful deleverage to 2.0x, down 0.2x (YoY) in 2023

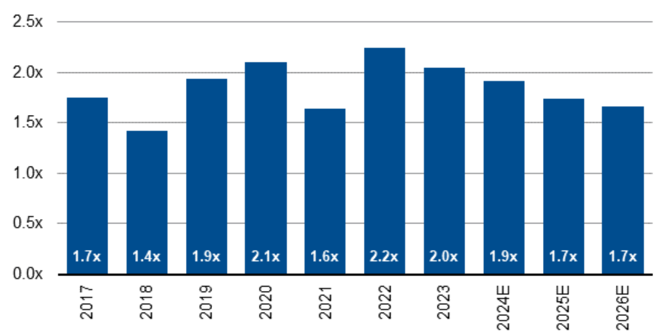
The financial risk profile continues to support the issuer rating. During 2023, the issuer's net financial debt benefited of a stronger-than-expected cash position due to an inflow of EUR 97m from the Comet Group litigation and the positive working capital changes of EUR 70m. Consequently, Scope-adjusted debt decreased to EUR 1.05bn at YE 2023 from EUR 1.23bn a year earlier, benefiting leverage, exemplified by Scope-adjusted debt/EBITDA, that decreased to 2.0x (down 0.2x YoY).

Leverage forecasted to decrease below 2.0x from 2024

For 2024, Scope expects Scope-adjusted debt/EBITDA to decrease to below 2.0x thanks to the progressive improvement of EBITDA reflecting a stable cash flow generation. The issuer will obtain a EUR 40m cash inflow during the first quarter of 2024 thanks to a decision of the High Court of Justice (UK) in favour of Fnac Darty S.A. related to the Comet Group litigation (accrued interest and legal cost incurred during the litigation process). This amount would partially offset, in case of materiality, the last year French Competition Authority (ADLC)[4] grievance of EUR 86m related to Darty's vertical integration with some of its distributor in 2014 and years before.

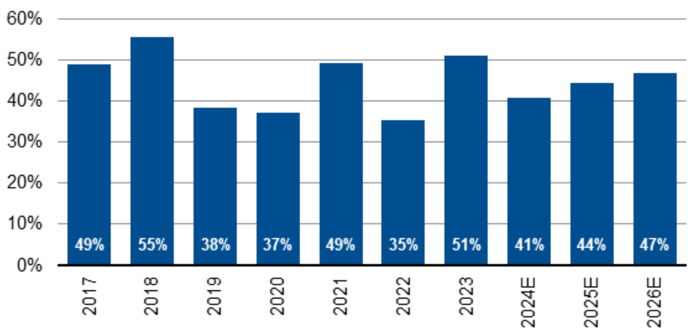
In our base case, EUR 86m were added to Scope-adjusted debt as debt-like provision, reflecting the likelihood of payment during 2024 with limited impact on leverage and credit metrics. We forecast Scope-adjusted debt to remain stable at around EUR 1.0bn over the next three years. We therefor expect a gradual improvement in Scope-adjusted debt/EBITDA to around 1.7x in 2025 and 2026 driven by positive EBITDA development. Fnac's management has the willingness to deleverage towards 1.5x in medium-term.

Figure 7: Scope-adjusted debt/EBITDA – 2016 to 2026E



Sources : Fnac Darty, Scope estimates

Figure 8: Scope-adjusted FFO/debt – 2016 to 2026E



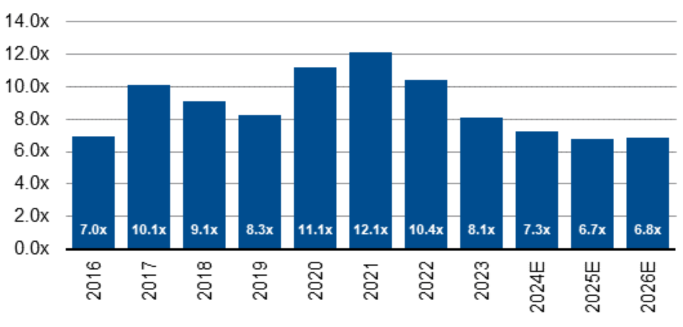
Sources: Fnac Darty, Scope estimates

Strong deterioration in EBITDA interest expense due to higher interest rates

In 2023, interest cover metric decreased to 8.1x due to an important growth of interest payments on leases that grew by 46% (YoY) to EUR 33.7m. We anticipate interest cover to decrease towards 6.5x to 7.0x, mainly reflecting the impact of the higher borrowing costs going forward.

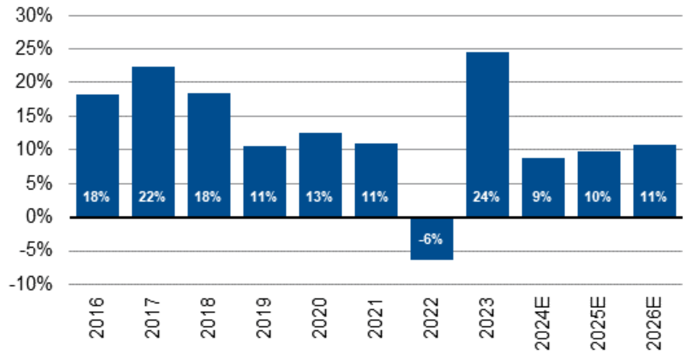
[4] At the end of February 2023, A number of players in the manufacture and distribution of household electrical appliances have received a statement of objections from the investigating departments of the French Competition Authority (Autorité de la concurrence), in which a number of suppliers are accused of taking part in a vertical agreement with some of their distributors. Of all the objections raised by the Competition Authority, only one concerns Darty and covers a limited period ending in December 2014, (prior to the acquisition of Darty by Fnac in 2016). In addition, this grievance only concerns a limited number of clearly identified product categories. In order to quickly put an end to a complex procedure, Fnac Darty has decided not to contest the only grievance notified to it and to request the benefit of the settlement procedure provided for in Article L. 464-2 of the French Commercial Code. According to the issuer, this choice constitutes neither an admission nor an acknowledgement of responsibility on the part of Darty.
The exact amount of the penalty likely to be imposed on Darty will only be known at the end of the procedure, which should in principle take place during 2024. In anticipation of the Authority's decision, which will be rendered on that date, the Group has set aside a provision of c. EUR 86 m.

Figure 9: EBITDA interest cover – 2016 to 2026E



Sources : Fnac Darty, Scope estimates

Figure 10: Scope-adjusted FOCF/debt – 2016 to 2026E



Sources: Fnac Darty, Scope estimates

Free operating cash to stay positive but low due to high leases payments and NWC volatility

Free operating cash flow/debt was negative in 2022. Due to positive working capital changes, the metric returned to positive territory in 2023 at around 25%. We expect the ratio to remain positive, but low - between 5% and 10% - due to relatively high operating lease payments, annual capex of EUR 100m to EUR 120m and subject to volatile net working capital movements.

Adequate liquidity

We assess liquidity as adequate, with unrestricted cash of EUR 1.1bn in addition to EUR 800m of undrawn committed credit facilities (EUR 300m undrawn term loan and EUR 500m of revolving credit facility) as at end-2023 covering the refinancing of Fnac Darty's outstanding senior bonds issued in 2019 and maturing in 2024 by more than 200%.

Financial policy

Financial policy is seen as neutral due to a conservative dividend policy and limited management appetite for debt-driven growth. The 2023 dividend payout has decreased to EUR 0.45 per share (from EUR 1.40 in 2022) reflecting management's strong commitment to maintaining sufficient liquidity and reducing leverage.

Balance in EUR m	2024E	2025E	2026E
Unrestricted cash (t-1)	1,009	1,274	1,095
Open committed credit lines (t-1)	800	800	800
Free operating cash flow	94	99	105
Short-term debt (t-1)	319	270	120
Coverage	**>200%**	**>200%**	**>200%**

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB

We have affirmed Fnac Darty S.A.'s senior unsecured debt rating at BBB, in line with the issuer rating.

Short-term debt rating: S-2

We have affirmed the short-term debt rating at S-2. This affirmation reflects the company's underlying BBB/Stable issuer rating and its adequate liquidity profile, with upcoming debt maturities comfortably covered by internal cash sources, committed credit lines of EUR 800m and good access to external funding (bank and capital market debt).

Appendix: Peer comparison (as at last reporting date)

	Fnac Darty S.A.	Ceconomy AG	Vöröskö Kft.	Otto GMBH & CO KG*
	BBB/Stable	BBB-/Negative	BB/Stable	
Last reporting date	31 December 2023	31 September 2022	30 June 2023	28 February 2023
Business risk profile				
Country retail strength	High	High	High-Medium	High
Market position	Strong	Strong with international market shares	Strong	Strong
Revenue (in EUR m)	7,875	21,768	232	16,190
Consumer goods category	Discretionary	Discretionary	Discretionary	Discretionary
Geographical exposure	Immediate neighbours	No countries >50% sales	One country	No countries >70% sales
Profitability (EBITDA margin)	6.6%	4.3%	5.8%	3.6%
Financial risk profile				
Scope-adjusted EBITDA interest cover	8.1x	19.6x	15.9x	1.5x
Scope-adjusted debt/EBITDA	2.0x	2.4x	2.4x	4.5x
Scope-adjusted FFO/debt	51%	32%	39%	34%
Scope-adjusted FOCF/debt	24%	-14%	-8%	5%

* Subscription ratings available on ScopeOne

Sources: public information, Scope

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer