Ceconomy AG

Federal Republic of Germany, Retail

Rating composition

Business risk profile		
Industry risk profile	BB	BBB-
Competitive position	BBB	
Financial risk profile		
Credit metrics	BBB-	BBB-
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Scope-adjusted EBITDA interest cover	13.1x	5.8x	5.2x	5.3x
Scope-adjusted debt/EBITDA	1.9x	2.0x	1.9x	1.8x
Scope-adjusted funds from operations/debt	43%	39%	41%	44%
Scope-adjusted free operating cash flow/debt	29%	12%	13%	11%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the rating and Outlook (individually):

- Debt/EBITDA sustained below 1.5x and free operating cash flow/debt above 5%
- Remote: further improvement of the business risk profile, through for example better profitability while keeping credit metrics at current level

The downside scenario for the rating and Outlook:

- Debt/EBITDA of well above 2.5x on a sustained basis

**All credit metrics refer to Scope-adjusted figures.*

Issuer
BBB-

Outlook
Stable

Short-term debt
S-2

Senior unsecured debt
BBB-

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Retail and Wholesale Rating Methodology, April 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Europe's leading electronics retailer by size and market share • High diversification by geography and product and service assortment • Strong balance sheet with limited debt and long maturities • High interest cover	• Revenue under pressure from stagnating demand in parts of Europe • Low profitability among international peers • Large store bases with significant leasing obligations • Interest cover, while still high, under pressure from bond refinancing and high leasing obligations

2. Rating Outlook

The **Stable Outlook** reflects our expectation of moderate EBITDA growth, supported by resilient sales and a conservative cost strategy, and allows for debt/EBITDA of around 2x, positive operating free operating cash flow and EBITDA interest coverage of above 5x.

3. Corporate profile

Ceconomy is the top electronics retailer in Europe, generating around EUR 22bn in annual revenue and employing around 50,000 people (FY 2023/24). Operating 1,030 stores across 11 European countries (following planned divestitures), it holds #1 or #2 position in nine of those markets. Ceconomy's major shareholders include Convergenta Invest GmbH (the largest, with 29% voting rights), Haniel, Meridian Stiftung, Freenet AG, and Beisheim.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
01 Apr 2025	Affirmation	BBB-/Stable
04 Apr 2024	Outlook change	BBB-/Stable
19 Apr 2023	Outlook change	BBB-/Negative

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
EBITDA interest cover	15.9x	13.1x	5.8x	5.2x	5.3x	5.4x
Debt/EBITDA	2.4x	1.9x	2.0x	1.9x	1.8x	1.7x
Funds from operations/debt	33%	43%	39%	41%	44%	47%
Free operating cash flow/debt	-21%	29%	12%	13%	11%	13%
Liquidity	>200%	>200%	>200%	>200%	>200%	No ST Debt
EBITDA						
Reported EBITDA	944	821	916	968	976	996
add: recurring dividends from associates	-	9	3	3	3	3
less: capitalised expenses	13	9	-	-	-	-
Other items (incl. one-offs)[1]	30	224	61	-	-	-
EBITDA	**987**	**1,063**	**980**	**971**	**979**	**999**
Funds from operations (FFO)						
EBITDA	987	1,063	980	971	979	999
less: interest	(62)	(81)	(170)	(185)	(185)	(183)
less: cash tax paid	(134)	(109)	(28)	(19)	(20)	(23)
Other non-operating charges before FFO	(36)	(17)	(21)	-1	-	-1
Funds from operations	**755**	**856**	**761**	**766**	**774**	**792**
Free operating cash flow (FOCF)						
Funds from operations	755	856	761	766	774	792
Change in working capital	(361)	332	190	108	45	46
Non-operating cash flow	(197)	35	(83)	11	11	11
less: capital expenditures (net)	(179)	(156)	(173)	(173)	(173)	(173)
less: lease amortisation	(498)	(489)	(467)	(467)	(453)	(453)
Free operating cash flow	**(480)**	**578**	**228**	**245**	**204**	**223**
Interest						
Net cash interest per cash flow statement	57	81	157	172	172	170
add: other items[2]	5	-	13	13	13	13
Interest	**62**	**81**	**170**	**185**	**185**	**183**
Debt						
Reported financial (senior) debt	2,772	2,584	2,631	2,663	2,619	2,619
less: cash and cash equivalents	(715)	(834)	(939)	(1,089)	(1,123)	(1,214)
add: non-accessible cash	54	63	71	82	85	91
add: pension adjustment	210	200	199	199	199	199
Debt	**2,321**	**2,013**	**1,961**	**1,855**	**1,779**	**1,695**

[1] This item mostly includes the results for companies accounted using the equity methods (Fnac Darty) and loss on disposal of operations.

[2] Interest on pension

6. Environmental, social and governance (ESG) profile[3]

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)

ESG factors: credit-positive credit-negative credit-neutral

ESG factors: credit-neutral

Previous governance instability, indicated by high management turnover, has been resolved. The acquisition by Convergenta from the minority shareholders, the August 2021 appointment of a new CEO, and the February 2023 appointment of a new chief financial officer have brought leadership continuity and a redefined strategic direction.

Consumer behaviour in many countries is significantly influenced by a company's environmental, social, and governance (ESG) reputation. We believe Ceconomy maintains a strong reputation, with minimal associated risk. The company's commitment to durable products and sustainable packaging reinforces this. For omnichannel businesses like Ceconomy, the primary challenges are to minimise environmental footprint and optimise energy efficiency while maintaining an appropriate store network.

[3] 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.

7. Business risk profile: BBB-

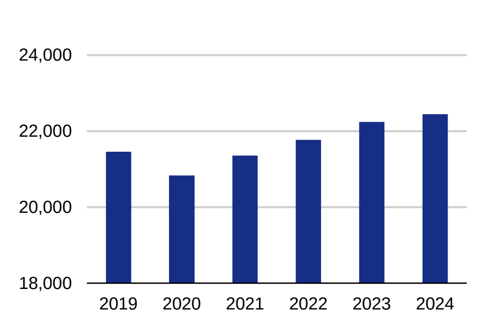
BB industry risk profile

Ceconomy is a discretionary retailer, an industry we consider as having low entry barriers, medium cyclicality, and low substitution risk, which translates to a BB industry risk profile.

Leading market position across Europe

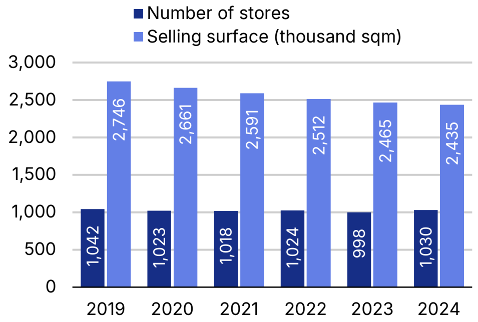
The group benefits from a pan-European footprint and holds leading positions in a significant majority (nine of 11) of its countries of operation. Ceconomy's strong omni-channel approach, combining online and physical retail, along with its focus on value-added services, has been instrumental in preserving its market share. The transition to a 'retail platform' from a 'pure retailer', which includes expanded service offerings like retail media, consumer financing and insurance, among others, has allowed Ceconomy to mitigate the effects of demand stagnation in 2023-2024, a period marked by inflation and weak consumer confidence.

Figure 1: Revenue, 2019-2024 (EUR m)



Sources: Ceconomy, Scope

Figure 2: Stores and selling surface



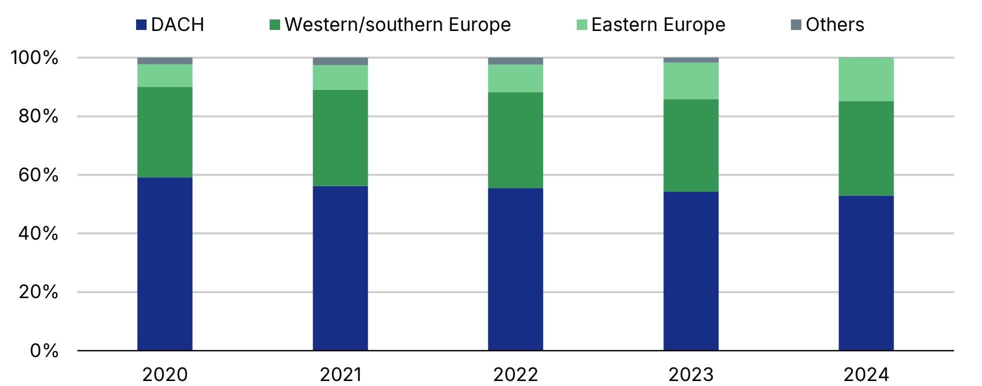
Sources: Ceconomy, Scope

Pan-European presence has supported stable performance

Geographical diversification is credit-positive. The issuer's presence in 11 European countries distributes the risk of further macroeconomic headwinds and changing demand across the various regions. Germany continues to account for the lion's share of revenues (42% in FY 2023/24, 44% in prior year), while Italy and Spain represent the second and third largest markets (21% combined sales in FY 2023/24, unchanged YoY).

The domestic sale portion of below 50% underpins the effort to maintain a wide stream of revenue across Europe, which is unique among omnichannel peers. Furthermore, we deem the position in Germany to be well protected despite continued fierce competition from online retailers, thanks to the issuer's strong brand awareness and increasingly customer-centric approach in the last years.

Figure 3: Geographical diversification as percentage of sales



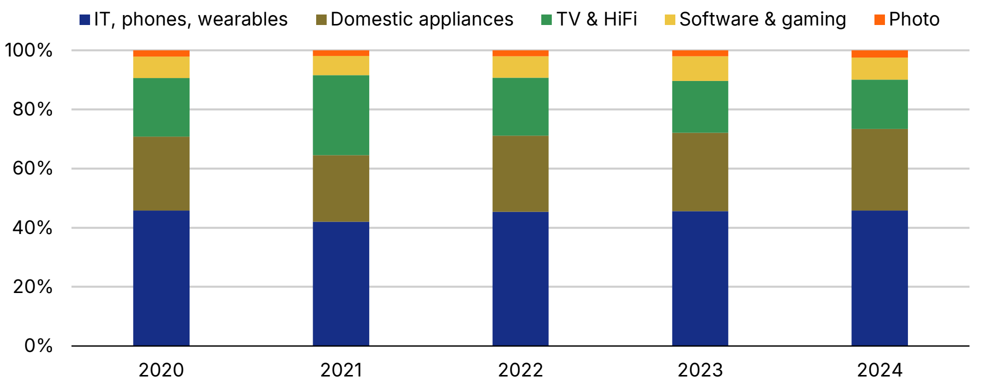
Sources: Ceconomy, Scope; DACH: Germany, Austria, Switzerland

Solid product and service offering

Ceconomy benefits from a diversified product offering spanning household appliances and consumer electronics.

Recognising the evolving retail landscape, the group has strategically expanded beyond traditional retail to encompass a comprehensive suite of complementary services. These include 'Services and Solutions,' 'Marketplace', 'Private Labels,' 'Space-as-a-service', and 'Retail Media' (which the group defined as 'growth businesses'). This diversification strategy capitalises on higher-margin services and is anticipated to enhance long-term profitability.

Figure 4: Product diversification as percentage of sales (core retail only)



Sources: Ceconomy, Scope

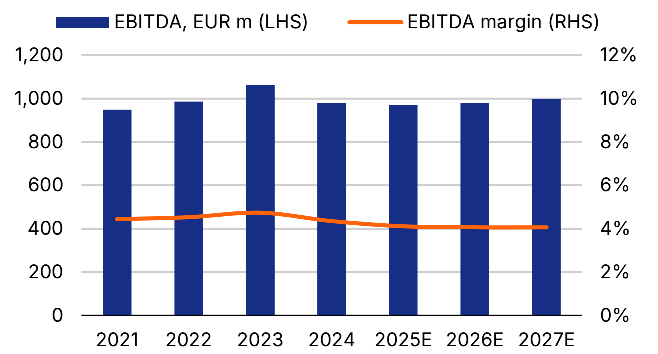
Profitability is weaker than peers…

Profitability, measured by the EBITDA margin, is low compared to peers and is the major negative driver of the business risk profile. We believe the low profitability is explained by: i) competitive markets limiting an increase in gross margins; and ii) lower-than-average margins for online sales, a common issue for retailers despite high demand.

…but projected to remain stable

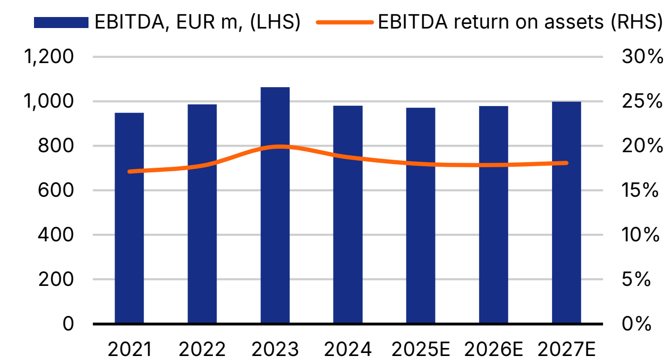
We project Ceconomy's EBITDA margin to remain stable at around 4% through the forecast period. Challenges for gross margin improvements will remain but will be offset by: i) the growth of higher-margin products including household products, services and solutions, marketplace and retail media; ii) efforts to reduce store footprints, by shifting to smaller spaces, in order to reduce leasing costs and potentially energy and administrative costs.

Figure 5: EBITDA margins



Sources: Ceconomy, Scope estimates

Figure 6: EBITDA return on assets



Sources: Ceconomy, Scope estimates

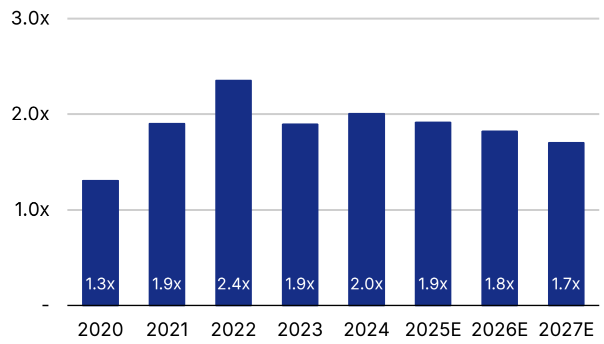
8. Financial risk profile: BBB-

Stable leverage

Debt/EBITDA was relatively stable between FY 2023/24 and the previous fiscal year, remaining at 2.0x. Gross debt primarily consists of lease obligations (65% in FY 2023/24), a EUR 500m senior unsecured bond maturing in 2029 (issued in 2024 and partially refinance the EUR 500m senior unsecured bond maturing in 2026), and a EUR 144m senior unsecured bond maturing in 2026.

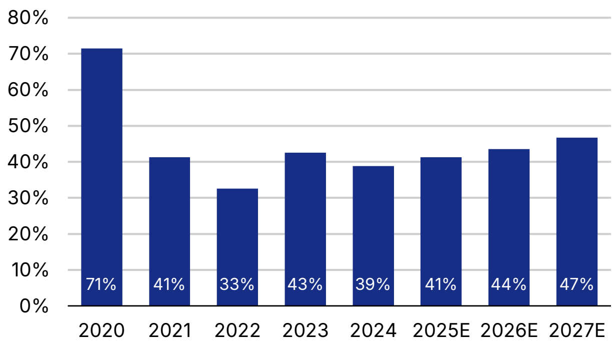
We anticipate moderate, consistent EBITDA growth, which, combined with the relatively stable and well-managed debt profile, reinforces our expectation of leverage staying at or below 2x. The group is systematically, but slowly, reducing leasing obligations to improve cash flow and profits (leasing obligation reduced to EUR 1,725m in FY 2023/24 from EUR 1,961m in FY 2021/22).

Figure 7: Debt/EBITDA



Sources: Ceconomy, Scope estimates

Figure 8: Funds from operations/debt



Sources: Ceconomy, Scope estimates

Interest cover under pressure from refinancing and lease obligations

EBITDA interest cover significantly decreased in FY 2023/24. This was primarily due to three factors: i) the issuance of a new bond at a 6.25% rate, which increased interest expense; ii) rising interest costs associated with leasing obligations; and iii) higher interest expenses in Türkiye, due to high repurchase rate and most customers paying by credit card.

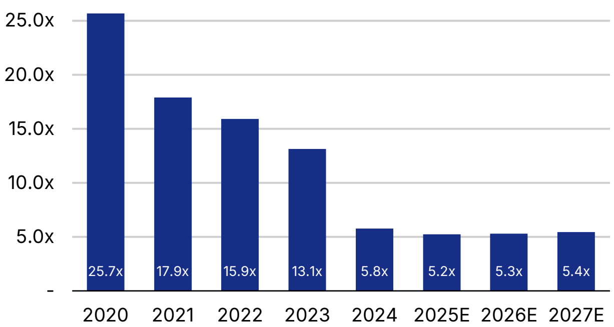
Looking ahead, we anticipate interest cover to stabilise above 5x, based on our projections of no major debt issuances and a slower increase in interest expense following the reduction in lease obligations.

Positive FOCF

Since FY 2022/23, FOCF has improved through better inventory management, lower leasing payments and limited capex. We expect FOCF/debt to remain positive, supported by good net working capital management and a further decrease in leasing expenses.

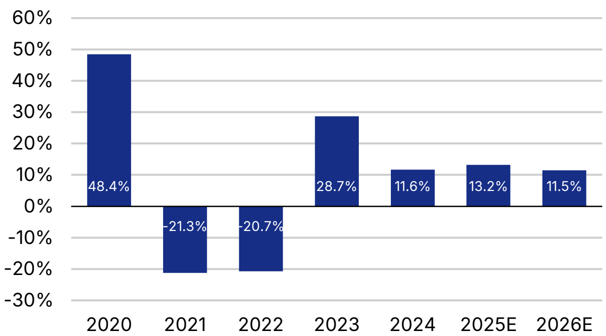
The high amount of leasing payments is a risk, but one that is under control. Our view is based on i) the successful reduction of average store sizes over the years, which is reducing lease expenses and obligations while keeping sales stable; ii) the limited increase in store footprint expected going forward; and iii) the average remaining lease duration of 2.5 years (as at March 2025), which means one-third of contracts can be renegotiated each year for better conditions and to align with market trend.

Figure 9: EBITDA interest cover



Sources: Ceconomy, Scope estimates

Figure 10: FOCF/debt



Sources: Ceconomy, Scope estimates

Table 1. Liquidity sources and uses (in EUR m)

	2023/24	2024/25E	2025/26E
Unrestricted cash (t-1)	834	939	1,089
FOCF (t)	228	245	204
Short-term debt (t-1)	110	68	144
Liquidity	**>200%**	**>200%**	**>200%**

Sources: Ceconomy, Scope estimates

We have assessed liquidity as adequate. This is based on the absence of significant debt repayments apart from the EUR 144m senior unsecured bond maturing in 2026, and our expectation of FOCF remaining positive, meaning available cash should remain stable in the forecast period. The EUR 900m ESG-linked revolving credit facility can provide further seasonal financing if needed (not used as of September 2024 and March 2025).

9. Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers have no impact on the issuer rating.

10. Debt ratings

We have affirmed the senior unsecured debt rating at BBB-, at the same level as the issuer rating. The short-term debt rating has been also affirmed at S-2, supported by the underlying BBB-/Stable issuer rating and the adequate liquidity, with short-term debt fully covered by cash sources and the EUR 900m credit line.

Senior unsecured debt rating: BBB-

Short-term debt rating: S-2

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