Ceconomy AG
Federal Republic of Germany, Retail

BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021/22**	**2022/23**	**2023/24E**	**2024/25E**
Scope-adjusted EBITDA/interest cover	16.1x	13.2x	8.7x	9.6x
Scope-adjusted debt/EBITDA	2.3x	1.8x	1.8x	1.5x
Scope-adjusted funds from operations/debt	33%	43%	50%	61%
Scope-adjusted free operating cash flow/debt	-12%	28%	9%	15%

Rating rationale

The affirmation reflects the recovering profitability combined with improved net working capital and leverage. The rating continues to benefit from Ceconomy's strong market share and the Europe-wide outreach, as well as a diversified product range helping to retain its competitive position. The rating is constrained by the low, although improving, profit margin.

Outlook and rating-change drivers

The Outlook has been revised to Stable from Negative, based on the successful implementation of cost-saving measures which supported steady profitability in 2022/23, and the expectation that these measures will continue to deliver benefits in the coming years, allowing leverage to remain below 2x, despite the possibility of continued weak demand.

A positive rating action could be warranted if Ceconomy were to reduce its Scope-adjusted debt/EBITDA below 1.5x on a continued basis and would keep its Scope-adjusted FOCF/debt above 5% on a sustained basis, demonstrating effective management of net working capital and leased spaces. A positive rating action could also be the result of an improved business risk profile, while Ceconomy is able to maintain credit metrics in line with our guidelines.

A negative rating action could occur if the Scope-adjusted debt/EBITDA were to rise well above 2.5x on a sustained basis, driven for example by a weaker than expected Scope-adjusted EBITDA, as demand for consumer electronics goods declines.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
4 Apr 2024	Outlook change	BBB-/Stable
19 Apr 2023	Outlook change	BBB-/Negative
24 May 2022	Affirmation	BBB-/Stable

Rating & Outlook

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

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2023

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Europe's leading consumer electronics retailer in terms of size and market share • High geographical and product diversification • Strong balance sheet with limited debt and long maturities • High interest cover	• Expected pressure on the revenue due to stagnating demand in Europe • Group business model in transition, underpinning low profitability base and execution risk

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA sustained below 1.5x and Scope-adjusted FOCF/debt sustained above 5% • Improved business risk profile	• Scope-adjusted debt/EBITDA well above 2.5x for a continued period

Corporate profile

Ceconomy is Europe’s leading consumer electronics retailer with ca. EUR 22bn in annual revenues and around 41,000 full-time employees. The Group holds a leading market position in nine European countries but is present in 11 countries with 998 stores at FYE 2023. The group has four historical shareholders: Haniel, Meridian Stiftung, Freenet AG and Beisheim, and at FYE 2022, the existing MediaMarktSaturn shareholder, Convergenta Invest GmbH, became Ceconomy’s largest shareholder, with voting rights of around 29%.

Financial overview

				Scope estimates		
Scope credit ratios	**2020/21**	**2021/22**	**2022/23**	**2023/24E**	**2024/25E**	**2025/25E**
Scope-adjusted EBITDA/interest cover	18.2x	16.1x	13.2x	8.7x	9.6x	9.2x
Scope-adjusted debt/EBITDA	1.8x	2.3x	1.8x	1.8x	1.5x	1.2x
Scope-adjusted funds from operations/debt	44%	33%	43%	50%	61%	74%
Scope-adjusted free operating cash flow/debt	-14%	-12%	28%	9%	15%	20%
Scope-adjusted EBITDA in EUR m						
EBITDA	1,103	944	821	950	1,040	1,083
Other items[1]	-158	40	233	69	69	69
Scope-adjusted EBITDA	**945**	**984**	**1,054**	**1,019**	**1,108**	**1,152**
Funds from operations in EUR m						
Scope-adjusted EBITDA	945	984	1,054	1,019	1,108	1,152
less: (net) cash interest paid	-52	-61	-80	-117	-116	-126
less: cash tax paid per cash flow statement[2]	-104	-134	-109	-4	-15	-18
Change in provisions	-48	-36	-17	15	1	-
Funds from operations (FFO)	**741**	**753**	**848**	**913**	**978**	**1,008**
Free operating cash flow in EUR m						
Funds from operations	741	753	848	913	978	1,008
Change in working capital	-354	-361	332	24	21	12
less: capital expenditure (net)	-122	-166	-147	-300	-300	-300
less: lease amortisation	-503	-498	-489	-474	-460	-447
Free operating cash flow (FOCF)	**-238**	**-272**	**544**	**163**	**239**	**273**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	-52	-61	-80	-117	-116	-126
Net cash interest paid	**-52**	**-61**	**-80**	**-117**	**-116**	**-126**
Scope-adjusted debt in EUR m						
Reported gross financial debt	2,867	2,772	2,584	2,474	2,424	2,224
less: cash and cash equivalents (net from restricted cash)	-1,482	-719	-834	-860	-1,012	-1,057
add: pension adjustment	295	210	200	200	200	200
Scope-adjusted debt (SaD)	**1,680**	**2,263**	**1,950**	**1,814**	**1,612**	**1,367**

[1] Includes results of companies accounted for using the equity methods (FNAC Darty) and in 2022/23 the loss from disposal of Swedish assets. In FY 2021/22 and 2022/23 includes dividend received from FNAC Darty (EUR 13m and EUR 9m respectively)
[2] The forecast is based on the effective tax rate for FY 2022/23

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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)	

Legend

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

ESG profile: adequate

In recent years, high management turnover has suggested governance instability. Going forward, we expect the corporate governance risk to decline, driven by the new ownership structure (with Convergenta as major shareholder) and the appointment of the new CFO, who started in February 2023, as well as the extension of the existing CEO contract for further five years in 2023, both bringing continuity and stability and redefine the company's long-term strategy.

In many countries, consumer behavior can be widely influenced by a company's reputation and responsibility towards the environment, the employees and society. In this regard, we believe Ceconomy has no issues or reputational risk. Furthermore, the group is committed to offer products that are usable longer and sustainably packaged. For large brick-and-mortar businesses like Ceconomy, the major challenge remains the environmental footprint and continuing to improve energy efficiency while keeping the right number of shops.

In its 2023 audited reports, the group reported a reduced energy consumption by 13% yoy and a reduced electricity consumption by 11% yoy (measured as kWh per sqm). Carbon footprint also significantly reduce by 43% yoy.

[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.

Business risk profile: BB+

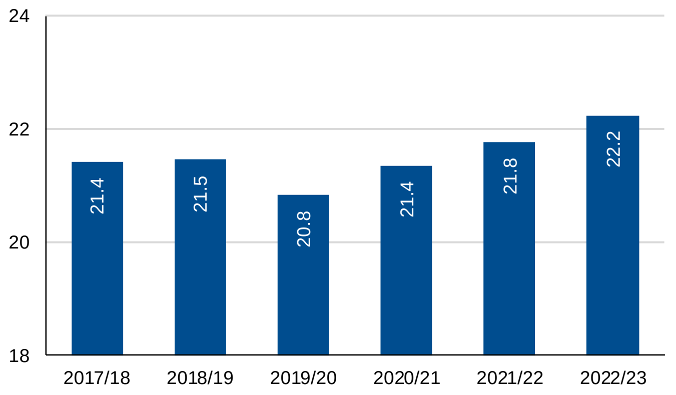
Industry risk profile: BB

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

Strong position in major European countries

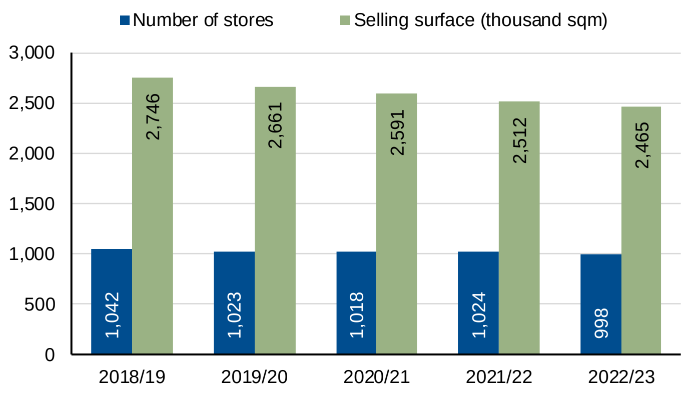
After discontinuing operations in Sweden and Portugal, the Group remains present in 11 European countries and enjoy a leading market position in DACH (Germany, Austria, Switzerland, Hungary) and Southern and Eastern Europe, which provides a solid enhancement to the business risk profile. As anticipated, the sale of the Swedish and Portuguese branches was part of Ceconomy's strategy to focus on its core and more profitable markets and to maintain its market share in these. On the wave of the changing consumer behaviour, with shoppers increasingly seeking for "experiences'', the issuer is crucially focused on improving the omnichannel service, with logistic, IT and supply chain in evidence, as well as providing personalized in-store services to preserve its market share. As of FY 2022/23, Ceconomy succeeded to keep its revenue stable, with a 2% YoY growth rate, despite the macroeconomic headwinds in Europe.

Figure 1: Revenue evolution (EUR bn)



Sources: Ceconomy, Scope

Figure 2: Number of stores and selling surface over years



Sources: Ceconomy, Scope

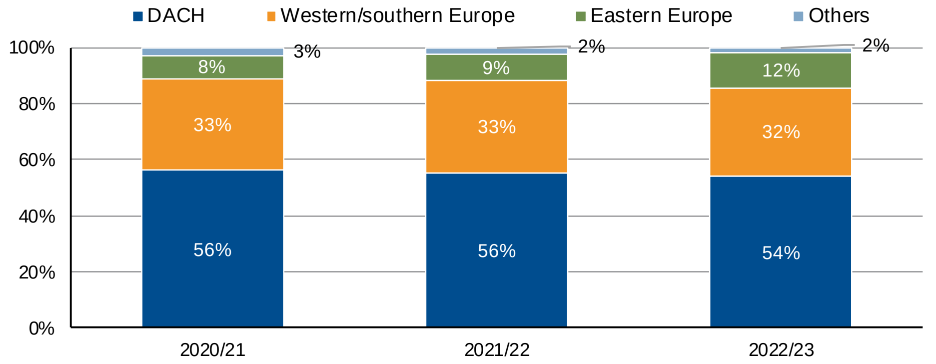
Home market generates the largest sale portion…

With about 44% of revenue generated in Germany in FY 2022/23, the domestic market confirms to hold the lion share of revenue; nonetheless the home sale portion below 50% underpins the effort to maintain a wide stream of revenue all over Europe, which is unique compared to other omnichannel peers. Furthermore, we deem the position in Germany to be well protected, despite fierce competition from online retailers will continue, thanks to the strong brand awareness and customer centric approach developing in the last years.

…but geographical diversification is strong

Geographical diversification is credit positive, as the presence in 11 European countries distributes the risk of further macroeconomic headwinds and changing consumer trends across countries/regions. In FY 2022/23 Ceconomy could offset the lower consumer demand in Germany and Italy with increasing revenues in Turkey.

Figure 3: Geographical diversification by sales (%)



Sources: Ceconomy, Scope

Good product diversification…

With a strong presence in the household segment as well as in the consumer electronics segment, Ceconomy is well diversified in terms of product offer. Although these categories are both cyclical, we deemed the wide range of products to be credit positive as offsetting trends in consumer behaviours.

…and increased focus on new services

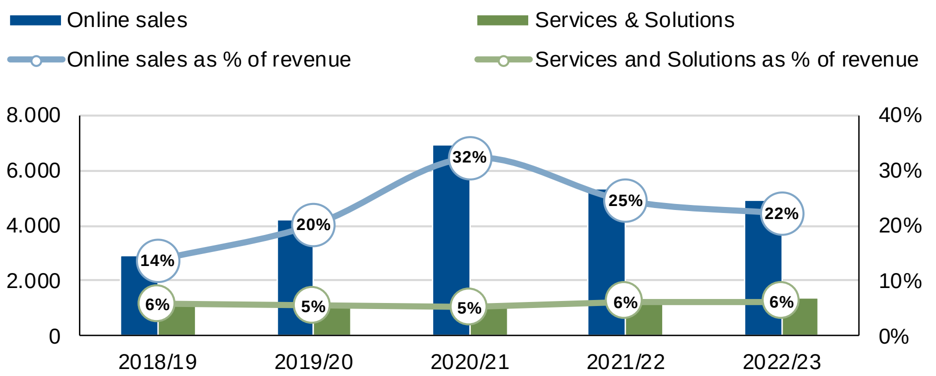
Ceconomy has recently redefined its strategy, with a stronger focus on complementary services (Services and Solutions, Marketplace, Private Labels, Space-as-a-service and Retail Media) alongside the core retail business. We believe that Ceconomy is adapting to changing consumer behavior and will benefit from it in the long term by maintaining its market position, improving diversification and increasing profitability, as these services have a lower cost impact.

High competition drove improved channel diversification

After the pandemic boom effect, the revenue share of online sales continued to decline in FY 2022/23 (22%, vs. 25% in the prior year) towards the pre-pandemic levels (20% in FY 2019/20). Despite the decline, in line with the general post-pandemic drop in online shopping, the online channel remains strong and allows the group to compete with large online platforms in its main markets.

In addition, the issuer is currently engaged in a logistical system reorganization transitioning from direct manufacturer-to-store distribution to a centralized model, wherein manufacturers supply a single national warehouse, facilitating subsequent distribution to stores and online orders. While the reorganisation involves some execution risk and will put pressure on capex, we expect it to support better inventory management going forward, as the issuer will have centralised stock control and will be better able to match local customer demand.

Figure 4: Evolution of online sales and Services and Solutions (% sales)



Sources: Ceconomy, Scope

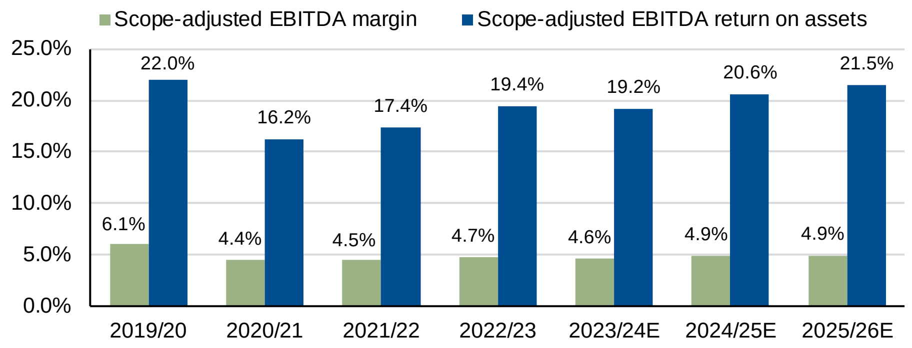
Profitability constrains the business risk profile

Ceconomy has relatively low profitability compared to retail sector peers, with Scope-adjusted EBITDA margin historically below 5%. We believe the low profitability is explained by: i) an operational expenditure structure (only for Germany) hindered by partly separate functions for MediaMarkt and Saturn, decentralised inventories/procurement and separate cost centres; ii) inflationary pressure; and iii) lower than average margins from online sales: as for most retailers, despite the high demand, the online business is likely generating low profits for Ceconomy.

… but improving thanks to better product mix and cost control measures

Nevertheless, profitability improved in FY 2022/23 to 4.7% (up 0.2 pp YoY) driven by the successful implementation of cost-saving measures and resilient operating performance despite challenging market conditions. We expect margins to remain between 4.5% and 5.0% supported by: i) the positive track record on the cost saving measures already implemented in FY 2022/23 (digitalisation and simplification of the central structure and closer campaign management of the two brands in Germany), which are expected to continue in the coming years; ii) the centralized stock management and; iii) the increased focus on additional services including the launch of the marketplace, which is active in Germany, Spain, Austria and the Netherlands (with plans to launch in other countries), as well as 'Services and Solutions', 'Retail Media' and 'Own Labels', which are expected to benefit the operating profit as they typically generate higher margins than traditional retail.

Figure 5: Profitability margins over years



Sources: Ceconomy, Scope estimates

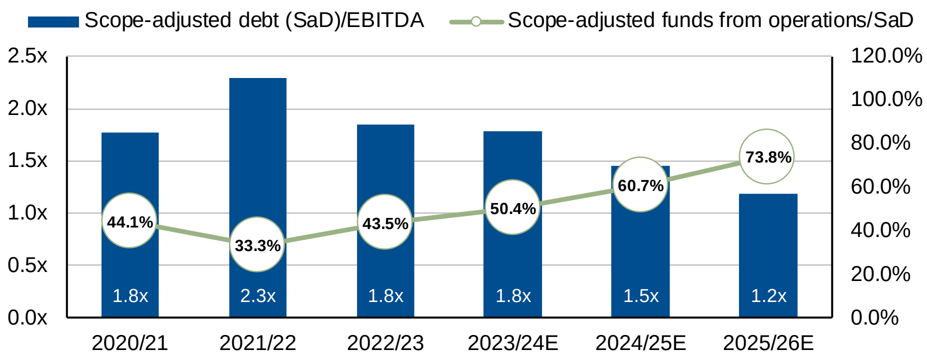
Financial risk profile: BBB-

The financial risk profile, affirmed at BBB-, benefits from an effective deleveraging strategy and strong interest cover.

Successful deleverage supported by improved profitability.

Ceconomy exceeded our expectation in terms of forecasted leverage, maintaining Scope-adjusted debt/EBITDA below 2.5x in FY 2022/23 at 1.8x (down 0.5x YoY). The Scope-adjusted debt/EBITDA is expected to remain below 2.0x, supported by the growing EBITDA. Gross debt has decreased over the last years to EUR 2.5bn in FY 2022/23 (down EUR 0.2bn YoY) from EUR 2.9bn at its peak in FY 2020/21, driven by a reduction in lease debt (in line with the company's strategy to negotiate better contracts and reduce the average store size). Most debt consists of lease obligations (69% as of FY 2022/23) and a EUR 500m bond (19% of gross debt as of FY 2022/23) repayable in June 2026.

Figure 6: Leverage



Sources: Ceconomy, Scope estimates

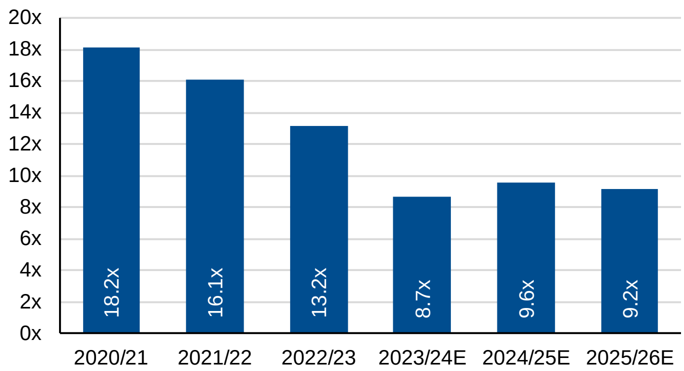
Strong interest cover

The strong debt protection, measured by the Scope-adjusted EBITDA interest cover, is the major support to the financial risk profile. Although we expect the ratio to deteriorate in the forecast period, due to increasing lease interest expenses, it should remain at a very comfortable level between 8x and 10x thanks to the absence of any significant debt issuance and refinancing.

Cash flows returns positive

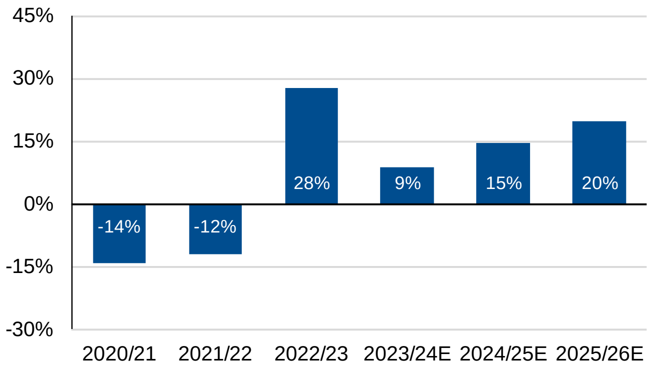
Cash flow cover was negative in FY 2020/21 and FY 2021/22, pressured by high net working capital and increasing capex. The need to secure purchases at existing prices and ensure availability of products at times of supply bottlenecks, was the driver of negative FOCF. In FY 2022/23 Ceconomy succeeded to implement a leaner inventory management, with a strong positive impact on FOCF. We expect the ratio to remain positive in the coming years, albeit to a lesser extent, due to increasing capital expenditure needed to execute the supply chain management transformation and store renovations.

Figure 7: Scope-adjusted EBITDA interest cover



Sources: Ceconomy, Scope estimates

Figure 8: Scope-adjusted Free operating cash flow/debt



Sources: Ceconomy, Scope estimates

Adequate liquidity

Liquidity is adequate given the absence of significant debt repayment until 2026 and our expectation of FOCF remaining positive. The EUR 1,060m ESG-Linked RCF would further support the company when in need for season financing.

Balance in EUR m	2022/23	2023/24E	2024/25E
Unrestricted cash (t-1)	719	834	860
Open committed credit lines (t-1)	1,060	1,060	1,060
Free operating cash flow	544	163	239
Short-term debt (t-1)	81	110	50
Coverage	**>200%**	**>200%**	**>200%**

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

Ceconomy currently has a EUR 500m senior unsecured bond maturing in 2026 with a 1.75% annual coupon. We have affirmed the BBB- rating of the debt.

Short-term debt rating: S-2

We have affirmed the S-2 rating assigned to short-term debt. The short-term debt rating is based on an BBB-/Stable issuer rating and benefits from better than adequate internally and externally provided liquidity cover. The group's banking relationships and its standing in capital markets are good.

Appendix: Peer comparison (as at last reporting date)

	Ceconomy AG	Fnac Darty SA	Vöroskö Kft	Otto GmbH & Co. KG*
	BBB-/Stable	BBB/Stable	BB/Stable	---
Last reporting date	30 September 2023	31 December 2023	30 June 2023	28 February 2023
Business risk profile				
Country retail strength	High	High	High-medium	High
Market position	Strong with international market share	Strong	Strong	Strong with international market share
Revenue size (in EUR m)	22,242	7,875	235	16,190
Consumer good category	Discretionary	Discretionary	Discretionary	Discretionary
Geographical exposure	No countries >50% sales	Immediate neighbours	One country	No countries >70% sales
Product diversification	2 categories	2 categories	2 categories	2 categories
Profitability assessment	Moderate	Strong	Strong	Moderate
Financial risk profile				
Scope-adjusted EBITDA/interest cover	13.2x	8.1x	25.8x	1.5x
Scope-adjusted debt/EBITDA	1.8x	2.0x	2.2x	38.8x
Scope-adjusted FFO/debt	43%	51%	43%	-3%
Scope-adjusted FOCF/debt	28%	24%	29%	-48%

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

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