Fnac Darty S.A.

French Republic, 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	+/-0notches	
Issuer rating		**BBB**

Key metrics

			Scope estimates	
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	9.3x	7.9x	6.5x	6.7x
Scope-adjusted debt/EBITDA	1.8x	2.6x	1.8x	1.6x
Scope-adjusted funds from operations/debt	51%	30%	40%	46%
Scope-adjusted free operating cash flow/debt	15%	10%	13%	13%
Liquidity	>200%	>200%	>200%	No ST Debt

Rating sensitivities

The upside scenario for the ratings and Outlook is:

- Further enhancement of the business risk profile, e.g. through broader geographical diversification, while maintaining a Scope-adjusted debt/EBITDA ratio below 2x and an interest cover around or above 6.5x. However, this scenario is currently considered unlikely.

The downside scenarios for the ratings and Outlook are (individually):

- Scope-adjusted debt/EBITDA above 2x on a sustained basis.
- Scope-adjusted EBITDA interest cover of below 6.5x.

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, Apr 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Dominant market position in France and Italy	• Deterioration of EBITDA interest cover due to the bond refinancing in 2024
• Higher profitability than most international peers	• Risk of increasing competition from online giants
• Improved geographical diversification following the acquisition of Unieuro	
• High percentage of online sales	
• Leverage relatively low...	• ...but pressured by Unieuro acquisition

2. Rating Outlook

The Stable Outlook reflects our expectation that consistent EBITDA growth will enable the issuer to quickly deleverage below 2x, following a temporary spike in Scope-adjusted debt/EBITDA driven by the consolidation of Unieuro. The EBITDA expansion, supported by internal efficiency and economies of scale, is also expected to help maintain Scope-adjusted EBITDA interest coverage above 6.5x.

3. Corporate profile

Consumer electronics giant in France and beyond

Fnac Darty S.A. is a French retailer specialising in consumer electronics and editorial products. It was created 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. While focussed on France (about 82% of group sales at YE 2024), the group also operates in Switzerland, Belgium, Spain, and Portugal, entering the Italian market at year-end 2024 through the acquisition of Unieuro. The group is also developing its franchise business oversea and now has 16 stores in Africa and the Middle East as well as 18 stores in French overseas departments and territories. In these geographic regions, Fnac Darty reproduces the strategy implemented in France, adjusted to the local context.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
10 Mar 2025	Affirmation	BBB/Stable
30 Jul 2024	Under Review placement	BBB/Under review for a developing outcome
23 Feb 2024	Outlook change	BBB/Stable

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	10.5x	9.3x	7.9x	6.5x	6.7x	6.8x
Scope-adjusted debt/EBITDA	2.2x	1.8x	2.6x	1.8x	1.6x	1.4x
Scope-adjusted funds from operations/debt	36%	51%	30%	40%	46%	51%
Scope-adjusted free operating cash flow/debt	-6%	15%	10%	13%	13%	15%
Liquidity	>200%	>200%	>200%	>200%	No ST Debt	No ST Debt
Scope-adjusted EBITDA						
EBITDA	552	517	565	737	769	784
less: capitalised expenses	8	79	-	-	-	-
Scope-adjusted EBITDA	**560**	**596**	**565**	**737**	**769**	**784**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	560	596	565	737	769	784
less: Scope-adjusted interest	(53)	(64)	(72)	(113)	(114)	(116)
less: cash tax paid	(70)	8	(47)	(76)	(88)	(93)
Other non-operating charges before FFO	6	1	1	-	-	1
Scope-adjusted funds from operations (FFO)	**443**	**541**	**447**	**548**	**567**	**576**
Scope-adjusted free operating cash flow						
Scope-adjusted funds from operations	443	541	447	548	567	576
Change in working capital	(155)	70	2	33	12	16
Non-operating cash flow	13	(22)	(27)	(3)	(4)	(3)
less: capital expenditures (net)	(139)	(195)	(29)	(120)	(120)	(120)
less: lease amortisation	(231)	(237)	(248)	(285)	(291)	(297)
Scope-adjusted free operating cash flow (FOCF)	**(69)**	**157**	**146**	**173**	**164**	**172**
Scope-adjusted interest						
Net cash interest per cash flow statement	47	56	66	107	108	110
Change in other items[1]	6	8	6	6	6	6
Scope-adjusted net cash interest paid	**53**	**64**	**72**	**113**	**114**	**116**
Scope-adjusted debt						
Reported financial (senior) debt	2,077	2,068	2,452	2,506	2,506	2,506
less: cash and cash equivalents	(932)	(1,121)	(1,062)	(1,274)	(1,405)	(1,538)
add: non-accessible cash[2]	94	111	106	127	140	154
Scope-adjusted debt (SaD)	**1,239**	**1,058**	**1,496**	**1,359**	**1,241**	**1,122**

[1] Interest expenses on pension and other capitalized interests

[2] Difference from amount shown in the liquidity table as Scope-adjusted debt compares debt with cash at year-end excluding 10% cash restricted for daily operations.

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

Solid ESG strategy

Given the group's focus on France, we expect higher investor scrutiny of business decisions related to ESG. Fnac Darty's ESG strategy is solid. According to the group, product durability accounts for 50% of its customers' decisions. It has consequently invested heavily in repair services (WeFix and Darty Max) and expects to have 2.5 million products repaired annually by 2025.

In addition, Fnac Darty is committed to reducing its environmental footprint through a number of initiatives. These include consolidating shipments of products ordered at the same time and guiding consumers towards more environmentally friendly products. To reduce the environmental impact of its activities, Fnac Darty has also launched the "livraison éclairée". This allows consumers to check the carbon footprint of the delivery of the goods they have purchased. Finally, the group has rolled out an energy efficiency plan for 2022 aimed at modernising equipment, developing LED lighting and centralised building management systems, purchasing electricity from renewable sources and decarbonising its vehicle fleet.

We consider these commitments to be ESG positive, as we believe this strategic development will not only support profitability and cash flow generation but also build a strong brand that will strengthen the group's market share.

7. Business risk profile: BBB-

BB industry risk profile

Fnac Darty operates in discretionary retail, an industry which we classify as having low barriers to entry, low substitution risk and medium cyclicality. While the group has recently increased its focus on services such as repair, warranty and financing, these activities are still too limited to (partially) mitigate the moderate industry risk of the discretionary retailer.

Solid market position in France and Italy

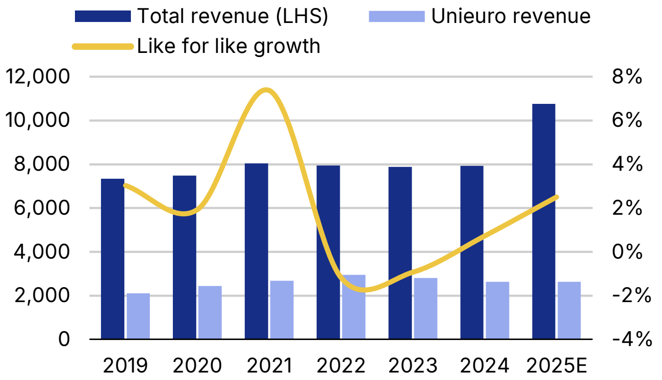
The business risk profile benefits from Fnac Darty's leading position in France and in Italy, following the acquisition of Unieuro. We believe Fnac Darty's competitive advantage in its home market is driven by: i) omnichannel penetration (52% of online sales are through omnichannel in 2024); ii) the 99% brand awareness of its three brands among French consumers (Fnac, Darty and Nature and Decouvertes); and iii) the gradual development of other activities (e.g. Kitchen) and services (e.g. Repair with Darty Max), which have strengthened customer retention and helped keep sales stable in 2024 despite weak consumer confidence. The acquisition of Unieuro at the end of 2024 further consolidated Fnac Darty's market positioning, underpinned by the Italian retailer's solid market share in Italy (17% in 2024). Unieuro has a similar competitive advantage to Fnac Darty, such as a strong online presence and an increasing emphasis on services. We believe the acquisition will facilitate further improvement in both players' markets, as Unieuro could benefit

[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.

from Fnac Darty’s expertise to launch additional services, such as marketplace, repair services and retail media.

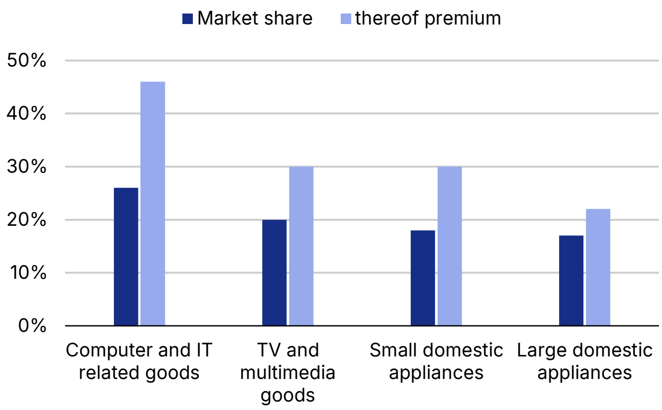
We believe the focus on the omnichannel approach and services will protect the issuer’s market position going forward.

Figure 1: Revenue growth (EUR m)



Sources: Fnac Darty, Scope estimates

Figure 2: Fnac Darty market share per product category in 2023

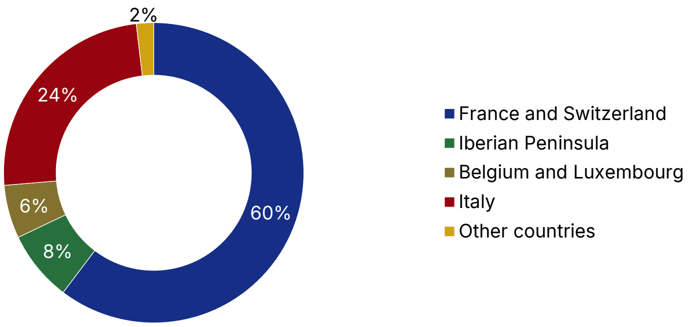


Sources: Fnac Darty, Scope

Improving geographical presence

While historically constrained by the dependence on the French market (ca. 82% of sales in 2024 standalone), geographical diversification improved thanks to the acquisition of Unieuro, which is projected to contribute around 25% of future revenue. This expansion is credit-positive, as it not only reduces reliance on a single market but also provides access to a broader customer base and strengthens the group's competitive positioning across Europe. This strategic move is expected to bolster growth, enhance market resilience, and mitigate risks within a highly competitive industry.

Figure 3: Revenue contribution by geographical area in 2024 (including Unieuro[4])



Sources: Fnac Darty, Scope

Products belong to three consumer categories

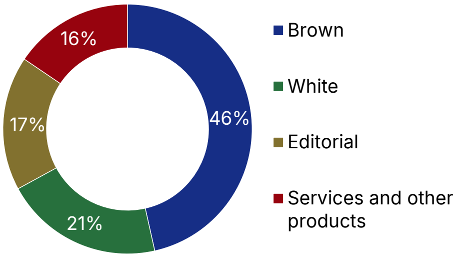
Focus on services has supported business resilience

Compared to its peers, the group is better diversified in terms of product offering, as it provides editorial products (audio, video and books) in addition to a mix of consumer electronics and household products. We believe the presence on three segments is a competitive advantage as it reduces exposure to a downturn in demand. In addition, Fnac Darty has in recent years increased its focus on services through Darty Max, allowing it to build a relationship with customers and generate a recurring revenue stream.

[4] Pro forma consolidation for 12 months

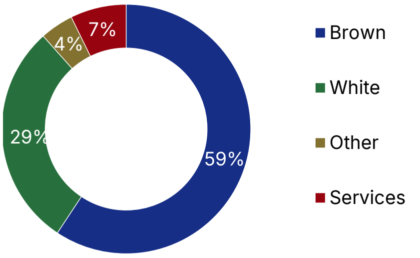
While the acquisition of Unieuro does not add product diversification, due to the similar product range, it could further enhance the group's service capabilities by combining resources, expertise and systems to implement best practices.

Figure 4: Revenue by category (Fnac Darty standalone FY 2024)



Sources: Fnac Darty, Scope

Figure 5: Revenue by category (Unieuro standalone Q1 FY 2024/25)



Sources: Fnac Darty, Scope

Well-developed online channel

The evolution of Fnac Darty's distribution channels is a key factor influencing the rating and remains the cornerstone of the retailer's future development (one of the group's main objectives is to maintain online sales above 30% by 2025). The rapid growth of online sales, while impressive, is considered normal for the sub-sector (international competitors have all experienced growth of a similar magnitude).

Fnac Darty has reported that omnichannel represented 52% of online sales (click & collect) in 2024, slightly higher than in recent years (48-49% due to a normalisation of footfall and activity during the Covid-19 pandemic). This large omnichannel share, combining e-commerce with brick-and-mortar, supports the group's development and maintains a high level of footfall in stores while keeping online retailers at bay. We see it as one of the main positive rating drivers.

In Q1 2024/25, Unieuro has achieved 14% of sales through the online channel and average annual online penetration is 16%.

Profit margins higher than those of retail peers...

Fnac Darty's profit margins, as measured by the Scope-adjusted EBITDA margin, are higher than those of its electronics retail peers. We believe this is due to: i) solid pricing power, which has allowed the group to pass inflation on to customers over the years; ii) strict cost control in recent years; iii) a favourable product mix with a higher portion of premium products; and iv) strong momentum in after-sales services, which are margin accretive.

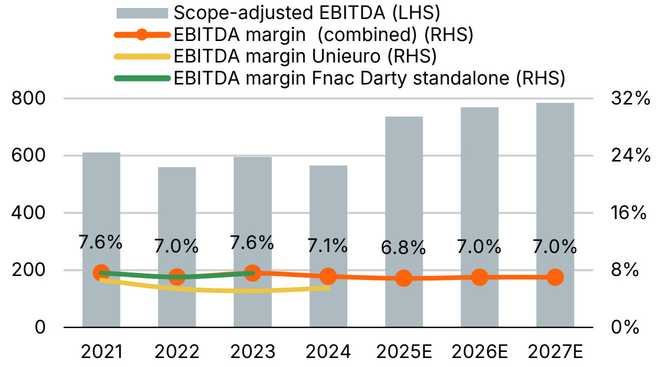
We expect the margin to remain at around 7% over the forecast period. This is because a lower average margin at Unieuro (5% in 2022/23 and 5.5% 2023/24) should be offset by anticipated EUR 20m synergies, which will lead to better gross margins and economies of scale in the medium term.

...but still threatened by weak market demand

Nonetheless, consumer electronics market is likely to remain weak in 2025 and a declining market trend could easily lead to weaker-than-expected EBITDA.

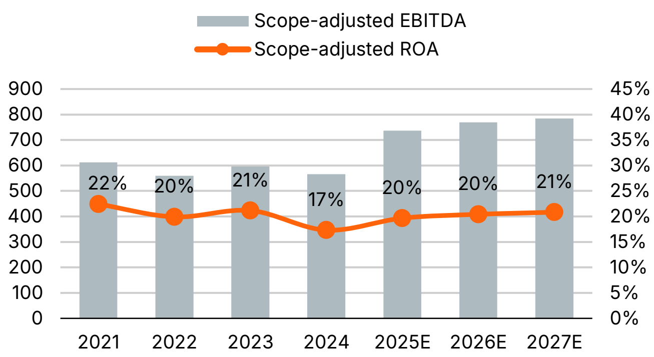
The Scope-adjusted EBITDA return on assets is expected to remain stable, at around 20%, in line with the group's cautious approach to brick-and-mortar expansion.

Figure 6: Scope-adjusted EBITDA margin



Sources: Fnac Darty, Scope estimates

Figure 7: Scope-adjusted EBITDA return on assets[5]



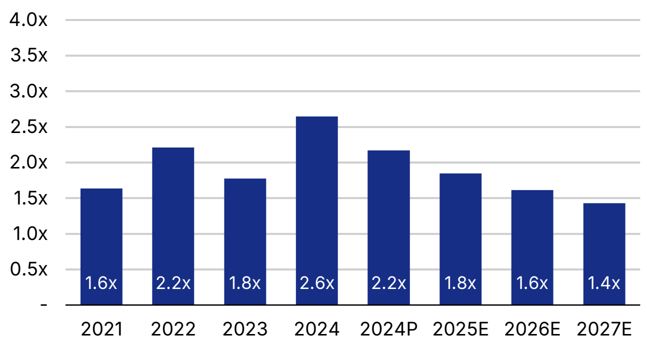
Sources: Fnac Darty, Scope estimates

8. Financial risk profile: BBB

Leverage temporarily pressured by the merger

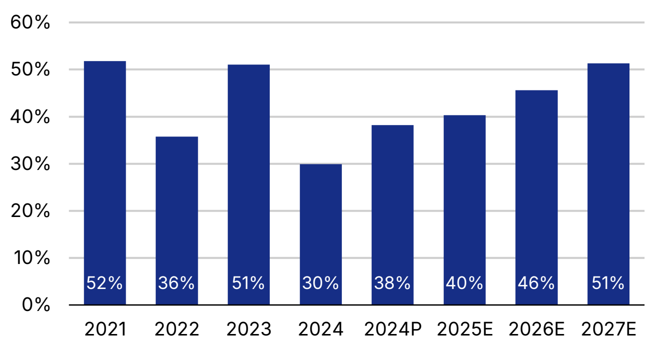
The acquisition of Unieuro was not financed through debt; however, leverage increased due to Unieuro's higher leverage, driven by the higher proportion of lease liabilities. The Scope-adjusted debt/EBITDA ratio rose to 2.6x in 2024, up from 1.8x in 2023, surpassing our rating threshold. This increase is primarily due to the consolidation of Unieuro, which contributed only one month of EBITDA in 2024. When considering pro forma group EBITDA, leverage stands at 2.2x in 2024. This rise in leverage is expected to be temporary, as we anticipate continued EBITDA growth and a disciplined approach to debt management. With projected EBITDA growth and an ongoing focus on operational efficiencies, we expect leverage to gradually decrease and stabilise below 2x in the near term.

Figure 8: Scope-adjusted debt/EBITDA[6]



Sources: Fnac Darty, Scope estimates

Figure 9: Scope-adjusted funds from operations/debt[7]



Sources: Fnac Darty, Scope estimates

Interest cover weakened by debt refinancing

While debt protection remains solid, Scope-adjusted EBITDA interest cover has been pressured in recent years by higher interest on leasing and bond refinancing. In April 2024, EUR 300m in senior notes at 1.875% due in May 2024 and EUR 350m in senior notes at 2.625% due in May 2026 were refinanced with EUR 550m in notes at 6%, bringing interest cover down to 7.9x from 9.3x in 2023. We project that the ratio will remain between 6x and 7x in the near term. This will be influenced by potential refinancing during the forecast period, which is likely to carry higher interest rates, though the impact will be partially mitigated by the anticipated EBITDA growth.

Cash flow generation improved thanks to efficient inventory management

In 2022, FOCF was significantly impacted by negative working capital and a EUR 130m outflow related to the Comet case. In 2023, FOCF returned to positive territory, driven by the normalisation of working capital (resulting in an inflow of EUR 70m) and tax income of EUR 8m. In 2024, FOCF

[5] In 2024 the lower return on assets is due to the fact that consolidation included only one month of Unieuro's EBITDA.

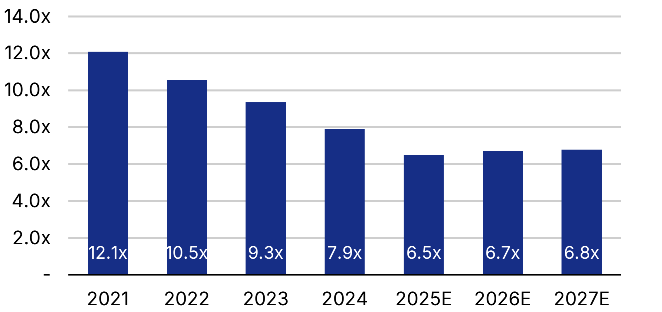
[6] 2024P include Unieuro 12-month pro-forma EBITDA.

[7] 2024P include Unieuro 12-month pro-forma EBITDA.

remained positive, supported by efficient inventory management and low capital expenditures. Management has reaffirmed its commitment to actively manage working capital to minimise cash requirements and to maintain capital expenditures at current levels in the coming years, which we expect will keep FOCF positive.

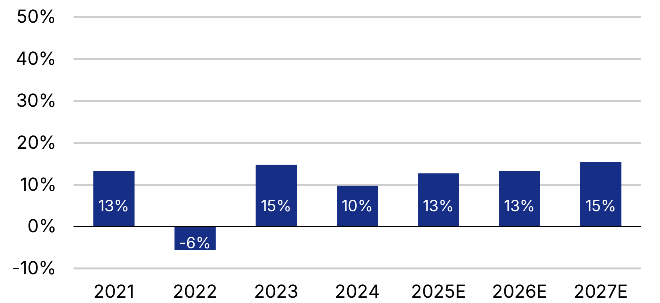
Working capital fluctuates throughout the year due to typical business seasonality, as Fnac Darty generally builds up inventories during the first half of the year. Nonetheless, we consider the issuer's cash flow generation and additional liquidity sources, including a EUR 500m revolving credit facility and EUR 100m delayed draw term loan (both with maturity date March 2028 and two extension options), more than sufficient to offset these working capital fluctuations.

Figure 10: Scope-adjusted EBITDA interest cover



Sources: Fnac Darty, Scope estimates

Figure 11: Scope-adjusted free operating cash flow/debt



Sources: Fnac Darty, Scope estimates

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

	2024	2025E	2026E
Unrestricted cash (t-1)[8]	830	786	871
Open committed credit lines (t-1)	600	600	600
Free operating cash flow (t)	146	173	164
Short-term debt (t-1)	319	46	0
Liquidity	**>200%**	**>200%**	**>200%**

Sources: Scope estimates

9. Supplementary rating drivers: +/- 0 notches

No impact

Supplementary rating drivers have no impact on the issuer rating.

10. 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 also affirmed the short-term debt rating at S-2. This affirmation reflects the group'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 600m and good access to external funding (bank and capital market debt).

[8] We account for the business seasonality in the liquidity calculation by applying an annual haircut on available cash of approximately EUR 250-300m, which is the average difference between the half-year cash and the year-end cash.

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