S&P Global Ratings

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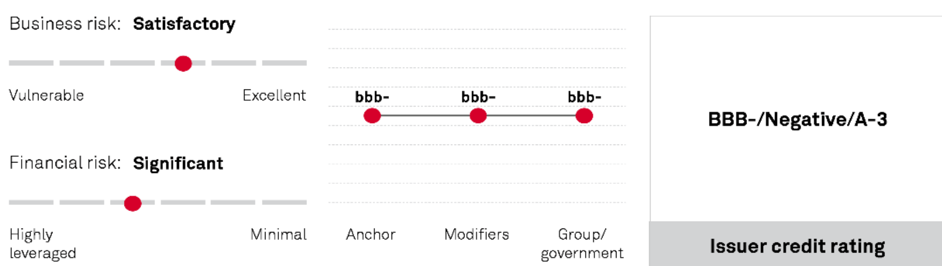
Metro AG

June 23, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Europe's largest wholesale and food service operator (No. 2 worldwide), with annual sales of €24.8 billion in fiscal 2021 (year ended Sept. 30, 2021).	Decreasing size of operations in the past five years because of disposals. Consolidated revenue declined to €24.8 billion in fiscal 2021 from €37.5 billion in fiscal 2015.
High geographic, product, service, and customer diversification, with meaningful operations outside Europe.	Importance of the Russian market, which contributed 9.6% of group revenue and 16.8% of the company's adjusted EBITDA in fiscal 2021. Excluding Russia, debt to EBITDA would be 4.3x instead of 3.5x at fiscal 2021
Strong customer base for the hotel, restaurant, and catering channel, which is more focused on quality and service and more loyal than typical retail customers.	Weak free operating cash flow (FOCF) after leases, which we expect will be negative for the next two-to-three years due to expansion in food service distribution.
Strong financial policy commitment to maintain an investment-grade rating and keep the company's adjusted net debt to EBITDA (leverage) below 2.5x (translating to 3.0x S&P Global Ratings-adjusted leverage) through 2025 and no dividends in fiscal 2022.	Uncertainties from developing shareholder environment, with partly debt-funded vehicle EP Global Commerce with a share of 40.6% as of Oct. 4, 2021.

Given Metro's decision to continue operations in Russia, S&P Global Ratings believes the group is exposed to elevated operational and financial challenges. As of March 31, 2022, Metro operated 93 stores in Russia, where it generated revenue of €2.4 billion (10% of the group's total) and EBITDA (defined by Metro) of €197 million (17% of the total) for fiscal 2021. For now, the group has no plan to leave the country, where its second-quarter performance (January-March 2022) was good, thanks to growth in all consumer groups (as well as consumers stockpiling), strong development in food service delivery, and inflation. We understand the Russian subsidiary has no external debt and €97 million of cash on the balance sheet as of March 31, 2022, which we believe is adequate to operate the usually cash flow-positive business and intrayear working capital needs. We understand that more than 90% of Metro's sales are food items that are locally sourced and therefore expect limited constraints on its supply chain.

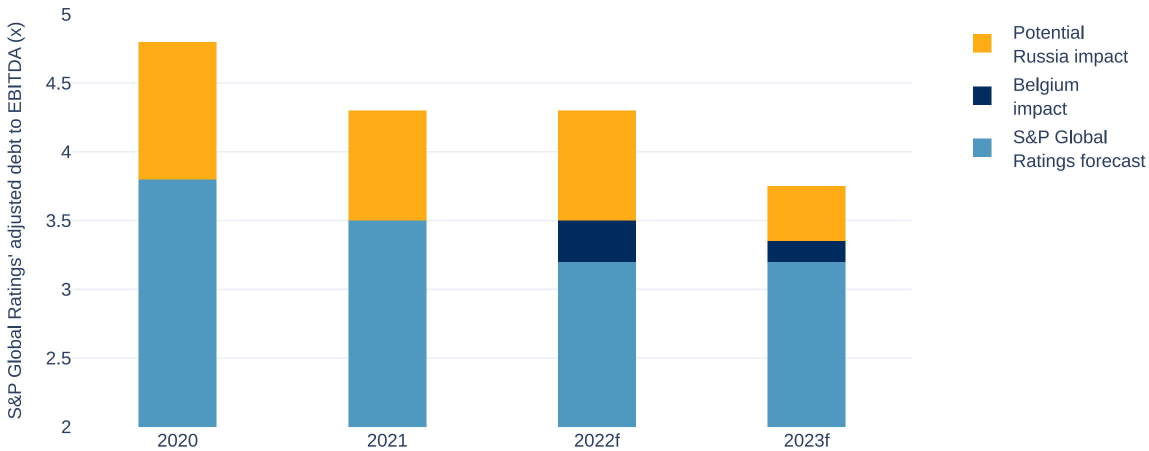
That said, we believe the operational and financial challenges to continue operating in Russia are elevated. These include currency volatility, legal risk of dealing with sanctions, reputation risk, and potential political pressure. As such, we cannot exclude that the group may leave the country at a later stage. Under the current circumstances, we also believe the group might have difficulties using EBITDA and cash flows generated in Russia to service its debt. Therefore, we complement our ratio analysis by excluding from our adjusted leverage ratio the Russian contribution, so as to quantify the potential impact of an exit from Russia. This ratio is about 0.8x higher than the group's consolidated leverage and translated into a decrease of our adjusted EBITDA margin to 4.3% from 4.7 % at the end of fiscal 2021. Although we expect the group to maintain a financial policy consistent with an investment-grade rating, we note that this additional pressure on credit metrics occurs shortly after Metro has announced its strategic plan, sCore, which, through renewed operating expenditure and capital expenditure (capex), aims to boost top-line sales to €40 billion by 2030, thereby accentuating the execution risk associated with this plan. We therefore revised the outlook on Metro AG to negative from stable on June 20, 2022 (see "Ratings On Three European Retailers Exposed To Russia Affirmed; One Outlook Revised To Negative," published on RatingsDirect).

Metro's exit from Belgium will weigh on the credit metrics in the short term, but be positive over the long run. On June 15, 2022, Metro announced and closed the transaction to divest its Belgium business. Metro operated 17 stores in Belgium, which generated revenue of €646 million in fiscal 2021 and negative EBITDA. The transaction will lead to transformation costs of approximately €150 million in fiscal 2022, of which we believe a large portion will be cash effective and increase net debt. The group expects a positive recurring EBITDA impact from the divestment of about €20 million and will keep ownership of 11 stores in Belgium. While we acknowledge the supportive nature of this transaction for credit metrics over the long term supported by the EBITDA margin improvement and potential proceeds from the remaining properties, we view the transaction as negative in the short term, leading to a revision of our leverage metrics for fiscal 2022 to 3.4x-3.6x (4.1x–4.5x excluding Russia) from 3.1x-3.3x in February 2022.

Strong current trading and progress on the sCore strategy in first-half fiscal 2022 buffer some of the negative impact from the Russian business and Belgium divestment. In first-half fiscal 2022, Metro posted good top-line growth of 22.5% (22.9% like for like) and the company's adjusted EBITDA growth of 38.4%, despite uncertainties regarding COVID-19 and headwinds from its Russia and Ukraine business (see "Metro AG Outlook Revised To Stable On Sales Recovery And Better-Than-Expected Debt Metrics; Affirmed At 'BBB-/A-3'," published Feb.16, 2022, on RatingsDirect). At the same time, it followed its sCore strategy and hired more than 350 sales staff (6,000 planned) and has increased the share of its food service distribution business to nearly 20% for the 12 months to March 2022. Following the good operational performance, the group raised its guidance for fiscal 2022. In particular, Metro increased its revenue guidance to 9%-15% (from 5%-7%) and its company-adjusted EBITDA to slight-to-moderate year-on-year growth. Despite the strong result, we note that the potential negative impacts from an exit from Russia, without financial compensation as well as the exit from Belgium outweigh the operational development and reduce Metro's rating headroom (see chart 1).

Exiting Russia Would Bring Metro's Leverage Above 3.5x For The Next 12-24 Months

Calculations exclude any form of financial compensation



Midpoint of forecasted range. Source: S&P Global Ratings.

Outlook

The negative outlook reflects the uncertainty regarding Metro's Russian operations, and our assumption that Metro's credit metrics will remain elevated in fiscal 2022 following the divestment in Belgium. As a result, we expect that S&P Global Ratings-adjusted leverage will remain at 3.4x-3.6x in fiscal 2022 and 3.2x-3.5x in fiscal 2023. In our adjusted debt calculation, we exclude the cash held at the Russian subsidiary. Excluding the Russian subsidiary's contribution from the group's results would increase leverage to 4.1x-4.5x in fiscal 2022 before it reduces to 3.5x-3.9x in fiscal 2023.

Downside scenario

We could lower the rating if:

- S&P Global Ratings-adjusted debt to EBITDA exceeds 3.5x for a prolonged period;
- Adjusted funds from operations (FFO) to debt decreases below 20%;
- There's operating underperformance, notably a material deviation from an adjusted EBITDA margin of 4.7%-4.9%, as per our base case, and the group does not take financial policy measures to mitigate the impact on credit metrics; or
- The financial policy becomes more aggressive, for instance if Metro's largest shareholder, EPGC were to gain control over Metro's strategy and prevent deleveraging.

Upside scenario

We could revise the outlook to stable if:

- The adjusted debt-to-EBITDA ratio fell and stayed below 3.5x;
- Adjusted FFO to debt approached 20%;
- Adjusted EBITDA margins stayed close to 5% while the group met its sales and growth objectives; and
- The company maintained a conservative financial policy, reflecting a stable operating portfolio and a clear view on the shareholder structure.

Our Base-Case Scenario

Assumptions

- Real GDP growth of about 2.7% in the eurozone in 2022 and 2.2% in 2023.
- Consumer price index increasing about 6.4% in the eurozone in 2022 and 3.0% in 2023
- Reported sales increased 7%-9% in fiscal 2022, after a 3.4% drop in fiscal 2021, mainly thanks to the ongoing reopening in the hospitality sector and inflation. We expect a further sales increase of 2%-3% in the following years, thanks to the sCore strategy as well as focus on the food service distribution and digital business. This is lower than the 3%-4% we previously forecast, and reflects the divestment of Metro's Belgium business.
- Group adjusted EBITDA margins of 4.1%-4.4% in fiscal 2022 and 4.7%-4.9% in fiscal 2023, compared with 4.6% in fiscal 2021. We believe that margins in fiscal 2022 will be impacted by significant transformation costs from Metro's exit in Belgium of about €150 million and supported by earnings of about €100 million from recurring real estate development disposal gains.
- Capex of €500 million in fiscal 2022 due to the starting phase of the sCore strategy (2% of group sales), and above €600 million in fiscal 2023, reflecting the group's planned investment in growth of up to 2.5% of sales.
- Annual asset disposal proceeds of €100 million-€150 million in fiscals 2022 and 2023, compared with €179 million in fiscal 2021.
- No dividends in fiscal 2022; below €50 million in fiscal 2023 driven by nonoperating expenses in relation to Russia/Ukraine and transformation costs for the divestment of its Belgium business; and about €100 million in fiscal 2023, in line with management's policy of a payout of 45%-55% of last's year reported earnings per share.
- Acquisitions totaling €150 million in fiscal 2022, mainly from the closing of the AGM wholesale stores in Austria and Eijsink in fiscal 2022 and potential smaller opportunistic acquisitions of up to €100 million per year from 2023, mainly in the European food service segment.
- Net debt on the group level is negatively impacted by cash allocated in Russia (€97 million as of March 2022) and we expect this will increase over time.

Key metrics

Metro AG--Key Metrics

(Mil.€)	2020a	2021a	2022f	2023f	2024f
Revenue	25,632	24,765	26,600-27,100	27,400-27,900	28,300-28,800
EBITDA	1,110	1146	1,100-1,200	1,300-1,400	1,300-1,500
Funds from operations (FFO)	711	890	700-800	1,000-1,100	1,000-1,100
Reported free operating cash flow (FOCF) after leases	(355)	288	(300)-(200)	(100)-(0)	(100)-(0)
Debt*	4,177	3,969	4,200-4,300	4,300-4,400	4,500-4,600
Debt to EBITDA (x)	3.8	3.5	3.4-3.6	3.2-3.5	3.1-3.4
FFO to debt (%)	17	22.4	16-19	22-24	22-24
DCF to debt (%)	(5.5)	10.7	3-4	5-7	3-4
Excluding Russia					
Revenue	22,988	22,391	24,100-24,700	25,000-25,600	25,900-26,500
EBITDA§	886	949	900-1,020	1,100-1,220	1,110-1,330
FFO†	619	798	510-630	820-940	830-950
Debt/EBITDA ‡	4.8	4.3	4.1-4.5	3.5-3.9	3.4-4.0
FFO/Debt	14	20	12-15	18-22	18-21

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. *Debt excludes cash accrued in Russia in the forecast 2022f-2023f. §Excludes company adjusted EBITDA from the Russian segment. †Russia FFO estimated based on EBITDA, expectation of limited local debt and tax rate in Russia. ‡Debt in 2020a and 2021a excludes €97 million cash in Russia as of March 2022. Impact in the forecast period is solely from deconsolidation of Russia's EBITDA and FFO since cash is already excluded in the consolidated forecast

Company Description

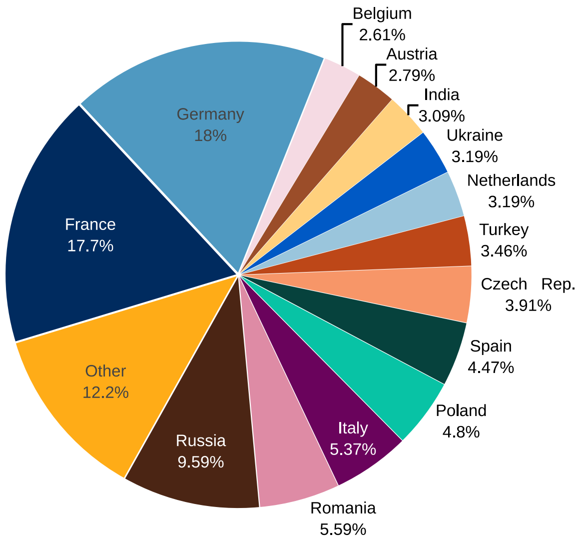
Germany-based Metro AG is Europe's largest food wholesale and food delivery operator. It has strong business-to-business operations in 24 countries, with clients in three main groups: Hotels, restaurants, and caterers; independent retailers (traders); and other services. The food service distribution business made up 17% of group sales and is operated through 563 out-of-store facilities and 67 dedicated depots.

The group also has active real estate operations through which it buys land and then develops and sells it after a few years, creating and realizing value in the process. For fiscal 2021, Metro reported revenue of €24.8 billion and S&P Global Ratings-adjusted EBITDA of €1.2 billion. The company's store network comprised 681 locations at the end of fiscal 2021.

EPGC is Metro's largest shareholder, at 40.6% ownership, while family offices Meridian Foundation and Beisheim Holding pooled their interest and hold together about 23.94%; the rest is in free float.

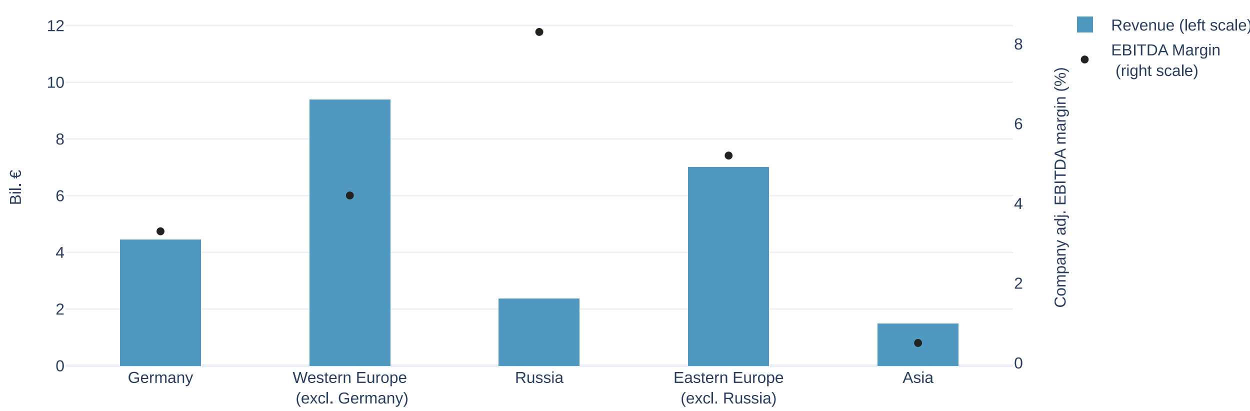
Metro AG's Revenue Breakdown By Region For Fiscal 2021

Russia contributes 10% to total revenue



Source: Metro AG's financial report. Fiscal year ended Sept. 31, 2021.

Metro AG's Revenue Breakdown By Segment For Fiscal 2021



Metro's fiscal year ends Sept. 30. From fiscal 2022, the Asia segment is part of Eastern Europe (excluding Russia). Source: S&P Global Ratings.

Peer Comparison

Metro AG--Peer Comparisons

	Metro AG	Sysco Corp.	US Foods Inc.	ELO	REWE Group
Foreign currency issuer credit rating	BBB-/Negative/A-3	BBB/Stable/A-2	BB-/Stable/--	BBB-/Stable/A-3	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Negative/A-3	BBB/Stable/A-2	BB-/Stable/--	BBB-/Stable/A-3	BBB-/Stable/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-09-30	2021-07-03	2022-01-01	2021-12-31	2020-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	24,765	43,314	25,927	31,088	71,377
EBITDA	1,146	2,029	805	1,809	5,188
Funds from operations (FFO)	890	1,184	575	1,356	4,546
Interest	221	511	241	262	603
Cash interest paid	244	757	229	280	651
Operating cash flow (OCF)	1,007	1,842	353	1,277	4,263
Capital expenditure	330	397	241	814	1,925
Free operating cash flow (FOCF)	677	1,444	112	463	2,338
Discretionary cash flow (DCF)	423	669	99	(295)	2,060
Cash and short-term investments	1,474	2,539	130	2,927	710
Gross available cash	1,474	2,539	130	2,927	710
Debt	3,969	7,892	5,152	3,803	13,187
Equity	1,846	1,340	3,284	6,454	7,555
EBITDA margin (%)	4.6	4.7	3.1	5.8	7.3
Return on capital (%)	6.5	13.2	4.7	6.6	10.5
EBITDA interest coverage (x)	5.2	4.0	3.3	6.9	8.6
FFO cash interest coverage (x)	4.6	2.6	3.5	5.8	8.0
Debt/EBITDA (x)	3.5	3.9	6.4	2.1	2.5
FFO/debt (%)	22.4	15.0	11.2	35.7	34.5
OCF/debt (%)	25.4	23.3	6.8	33.6	32.3
FOCF/debt (%)	17.1	18.3	2.2	12.2	17.7
DCF/debt (%)	10.7	8.5	1.9	(7.8)	15.6

Financial Risk

Metro AG--Financial Summary

Period ending	Sep-30-2016	Sep-30-2017	Sep-30-2018	Sep-30-2019	Sep-30-2020	Sep-30-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	36,549	29,903	29,476	27,082	25,632	24,765

Metro AG--Financial Summary

EBITDA	2,227	2,001	1,782	1,767	1,110	1,146
Funds from operations (FFO)	1,568	1,400	1,186	1,207	711	890
Interest expense	531	389	347	326	247	221
Cash interest paid	535	385	330	345	259	244
Operating cash flow (OCF)	1,342	1,025	990	891	403	1,007
Capital expenditure	592	452	454	456	371	330
Free operating cash flow (FOCF)	750	573	536	435	32	677
Discretionary cash flow (DCF)	408	541	273	174	(229)	423
Cash and short-term investments	1,599	1,559	1,298	500	1,525	1,474
Gross available cash	1,689	1,527	1,300	976	1,525	1,474
Debt	7,486	6,499	5,906	5,471	4,177	3,969
Common equity	2,924	3,206	3,131	2,735	2,061	1,846
Adjusted ratios						
EBITDA margin (%)	6.1	6.7	6.0	6.5	4.3	4.6
Return on capital (%)	11.1	11.7	11.2	12.3	4.3	6.5
EBITDA interest coverage (x)	4.2	5.1	5.1	5.4	4.5	5.2
FFO cash interest coverage (x)	3.9	4.6	4.6	4.5	3.7	4.6
Debt/EBITDA (x)	3.4	3.2	3.3	3.1	3.8	3.5
FFO/debt (%)	20.9	21.5	20.1	22.1	17.0	22.4
OCF/debt (%)	17.9	15.8	16.8	16.3	9.6	25.4
FOCF/debt (%)	10.0	8.8	9.1	7.9	0.8	17.1
DCF/debt (%)	5.4	8.3	4.6	3.2	(5.5)	10.7

Liquidity

We assess Metro's liquidity as strong based on our expectation that its liquidity sources will be above 1.5x its liquidity uses over the next 12 months and above 1.0x over the next 24 months started April 1, 2022.

Principal liquidity sources

- Unrestricted cash on the balance sheet of about €0.7 million;
- Committed and undrawn long-term credit facilities with at least 12 months remaining to maturity of €1.5 billion (consisting of an €850 million undrawn revolving credit facility due 2024 and €645 million undrawn bilateral facilities); and
- Reported FFO of €510 million-€630 million (excludes estimated FFO of Russia segment).

Principal liquidity uses

- Current financial liabilities of €1.2 billion, mainly outstanding to short-term financing instruments and lease liabilities;
- Structural neutral or slightly negative working capital outflows of up to €50 million;
- Capex of €500 million-€600 million; and
- Dividends below €50 million in fiscal 2023.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1 -5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications, " published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis. More generally, we believe the hotel, restaurant, and catering sector will remain sensitive to health and safety issues, and will monitor developments in the sector and their respective impact on Metro closely.

Rating Component Scores

Foreign currency issuer credit rating	**BBB-/Negative/A-3**
Local currency issuer credit rating	**BBB-/Negative/A-3**
Business risk	**Satisfactory**
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Ratings On Three European Retailers Exposed To Russia Affirmed; One Outlook Revised To Negative, June 20 2022
- European Retailers: Forced To Raise Prices While Wary Of Consumers Cutting Back Spending, June 9 2022
- Metro Faces Operating Disruptions And Currency Impacts On Russia-Ukraine Military Conflict; Ratings Unaffected So Far, March 10, 2022
- Metro AG Outlook Revised To Stable On Sales Recovery And Better-Than-Expected Debt Metrics; Affirmed At 'BBB-/A-3', Feb. 16, 2022

Ratings Detail (as of June 23, 2022)*

Metro AG	
Issuer Credit Rating	BBB-/Negative/A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
20-Jun-2022	BBB-/Negative/A-3
16-Feb-2022	BBB-/Stable/A-3
15-May-2020	BBB-/Negative/A-3
25-Oct-2019	BBB-/Stable/A-3
04-Jul-2019	BBB-/Watch Neg/A-3
26-Jun-2017	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.