S&P Global
Ratings

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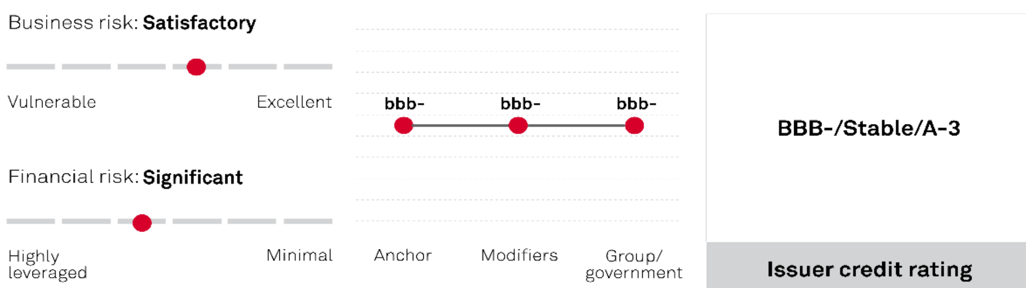
Metro AG

April 23, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

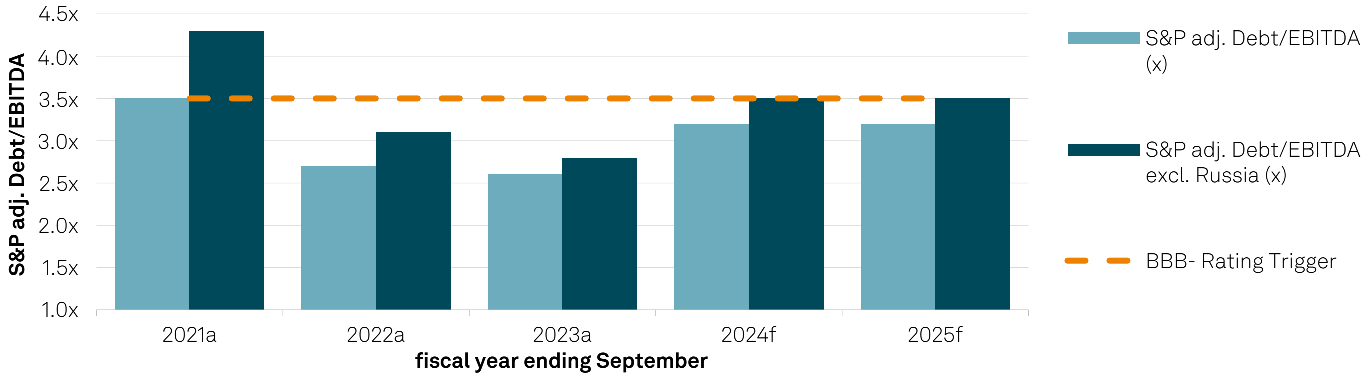
Key strengths	Key risks
Europe's largest wholesale and food service operator, with annual sales of €30.6 billion in fiscal 2023 (year ended Sept. 30, 2023).	Weak reported free operating cash flow (FOCF) after leases, which we expect will be negative for the next two-to-three years due to expansion in food service distribution.
High geographical, product, service, and customer diversification, with an extensive portfolio of wholesale markets near urban areas.	Importance of the Russian market, which contributed around 8.2% of group revenue and 11% of S&P Global Ratings-adjusted EBITDA in fiscal 2023. Excluding Russia, debt to EBITDA would be 2.8x instead of 2.6x in fiscal 2023.
Strong customer base in the hotel, restaurant, and catering (HoReCa) channel, which is more focused on quality and service and more loyal than typical retail customers.	Frequent changes to the portfolio with recent divestments of businesses in Japan in fiscal 2021, Belgium in fiscal 2022, and India in fiscal 2023, which can result in restructuring costs that increase earnings volatility.
Financial policy commitment to maintain an investment-grade rating and keep the company's adjusted net debt to EBITDA (leverage) below 2.5x (translating into about 3.0x S&P Global Ratings-adjusted leverage) through 2025.	Uncertainties from the developing shareholder environment, with partly debt-funded vehicle EP Global Commerce (EPGC) holding a 49.99% stake as of Feb. 7, 2024, up from about 45.62% in fiscal 2022.

We forecast Metro AG's S&P Global Ratings-adjusted leverage will deteriorate toward 3.2x in fiscal 2024 (including Russia) after its operational transformation. Its adjusted debt to EBITDA was 2.6x in fiscal 2023, supported by disposal proceeds from the sale of the India operations in 2023 and real estate disposal gains of €209 million, mainly for the Düsseldorf Campus, which we see as part of Metro's usual business and include in our S&P Global Ratings-adjusted EBITDA. Fiscal 2024 will be another transitional year as the group focuses on its multi-channel proposition across its 625 stores, complemented by food service distribution (FSD) operations, to increase its share of strategic HoReCa customers. While the group strategy is sound, the acquisition and onboarding of new customers requires additional sales staff at a time when we see meaningful pressure on wages. In addition, investments in IT infrastructure (following a cyber attack) and the end of beneficial post-transaction effects from previous divestments mainly from China and hypermarket chain Real are factors that are now pressuring profitability. As a result of cost headwinds and in the absence of meaningful real estate disposal gains this year, we expect S&P Global Ratings-adjusted EBITDA to decrease to €1,195 million in fiscal 2024 from €1,345 million last year. Previous divestments have led to a meaningful reduction in financial debt, which only makes up 33% of gross S&P Global Ratings-adjusted debt as of fiscal 2023, compared to 66% in 2018. While we believe reduced financial obligations currently benefit Metro, given higher interest rates, our metrics are more reflective of IFRS 16 related lease changes. This can be seen in our forecast, where we not only anticipate a build-up of financial debt but also an additional €250 million increase in lease liabilities from the renegotiation of lease contracts in Germany. Weaker earnings and higher anticipated adjusted debt will deteriorate its leverage metrics by about 0.6x to 3.2x in fiscal 2024.

Our expectation of weaker profitability in a subdued macroeconomic environment, as well as high investment needs, leaves limited rating headroom. We previously thought the meaningful increase in scale to more than €30 billion by 2025 (from €25 billion in fiscal 2021) due to inflation and FSD-related volume growth, combined with easing cost inflation and a higher share of revenue for own brands, would keep profitability at about 4.5%-4.7% through to 2025. However, given the operational headwinds we now expect margins will remain muted at about 3.8%-4.0% at least for the next two years as the group invests in its transition. Any increase above our forecast would likely be driven by meaningful volume growth from the acceleration of the "sCore" strategy and an improved macroeconomic environment, especially in Germany. Lower profitability combined with continuous growth in investments and dividends will increase S&P Global Ratings-adjusted leverage to 3.2x (3.5x excluding Russia) for the next two years, leaving limited rating headroom for operational underperformance.

Chart 1

Metro's leverage - excluding Russia - around 3.5x for the next 12-24 months leaves limited rating headroom



a--Actual, f--Forecast; Source: S&P Global Ratings

Metro's Russian operations are a key source of uncertainty, but the group is actively managing the risk. As of Sept. 30, 2023, Metro operated 93 stores in Russia, where it generated revenue of €2.5 billion (8.2% of the group's total) and company-defined EBITDA of €152 million (11%) in fiscal 2023. For now, the group has stated no plan to leave the country. We understand the Russian subsidiary has about €81 million of lease obligations, no financial debt, and €101 million in cash on balance sheet, which we believe is adequate to operate the business. We understand more than 90% of Metro's sales are food items that are locally sourced and therefore expect limited constraints on its supply chain. We treat cash sitting in Russia as restricted and complement our ratio analysis by excluding from our adjusted leverage ratio the Russian contribution and lease obligations, so as to quantify the potential effects of an exit from Russia without financial compensation. This ratio is higher, at 2.8x compared with 2.6x for the overall group in fiscal 2023. The company has shown it can repatriate cash sitting in the Russian subsidiary, as indicated by its stable cash of about €100 million, while we expect the business will remain cash flow positive.

FOCF after leases will remain negative in 2024 and 2025 due to continued sCore investments. Overall, we forecast S&P Global Ratings-reported FOCF after leases to remain negative €100 million-€150 million in fiscals 2024 and 2025, as the company accelerates investments in its sCore strategy. We therefore expect capex of more than €550 million (more than 1.75% of sales) from 2024 onward, very similar to what was invested in fiscal 2023. The company aims to finance its growth investments with internally generated cash flows that also include disposal proceeds (company-defined free cash flow). We expect that the proceeds of €257 million related to the sale of the Wumei option and modest real estate divestments to support cash flows.

The restaurant sector has proven resilient despite prevailing inflation, but we expect short-term pressure to restrain Metro's earnings. In our view, the robust fiscal 2023 results indicate continued demand, but we assume this will moderate because of ongoing high inflation hitting consumer purchasing power. Although the HoReCa segment, Metro's main revenue stream, benefits from a relatively well-off customer base, we don't see it as immune to inflationary pressures. We foresee challenges this year in terms of volume growth, just as Metro is investing to fund the development of its sCore strategy. That said, we expect the restaurant industry to achieve slightly positive growth as eating out increases. We also foresee Metro consolidating its market positions on the back of high investments, which should help it maintain positive growth in a somewhat mature market.

Although the shareholder structure carries potential risk, it currently does not affect Metro's creditworthiness. We do not fully know EPGC's (Metro's 49.99% shareholder as of Feb. 7, 2024) potential plans for Metro, but our base case does not factor in a full takeover. EPGC has three of the 20 board seats, which is not sufficient to influence decisions on dividends or determine the group's strategy. Therefore, we do not view the current stake or funding raised at the EPGC level as constraining factors. Furthermore, we understand the main shareholders are supporting the management strategy.

Outlook

The stable outlook reflects our assumption that Metro's credit metrics for fiscal 2024 will deteriorate amid the ongoing weak economic environment and cost headwinds, but remain in line with thresholds for the 'BBB-' rating. As a result, we expect S&P Global Ratings-adjusted leverage will increase to 3.2x in the next two years. In our adjusted debt calculation, we exclude the cash held at the Russian subsidiary. Excluding the Russian subsidiary's EBITDA contribution from the group's results would increase S&P Global Ratings-adjusted leverage to 3.5x in fiscals 2024 and 2025.

Downside scenario

We could consider a negative rating action if:

- S&P Global Ratings-adjusted debt to EBITDA exceeds 3.5x over a prolonged period;
- Adjusted funds from operations (FFO) to debt decreases below 20%;
- There is operating underperformance, notably a material deviation from our base case for adjusted EBITDA, and the group does not take financial policy measures to mitigate the hit to credit metrics; or
- The financial policy becomes more aggressive.

Upside scenario

We could consider a positive rating action if:

- The group can sustainably generate positive reported FOCF after leases;
- S&P Global Ratings-adjusted debt to EBITDA falls sustainably below 3.0x;
- Adjusted FFO to debt approaches 30%;
- Metro accelerates its sCore strategy, characterized by continued organic sales and EBITDA growth; and

- The group maintains a conservative financial policy.

Any positive rating action would also require us to either have a clear view on Metro's operations in Russia or the group to demonstrate that it can maintain the required metrics, excluding its operations in Russia.

Our Base-Case Scenario

Assumptions

- Real GDP growth stagnating in the eurozone at 0.7% in 2024 and expanding to 1.3% in 2025.
- Consumer price index growth in the eurozone of about 2.6% in 2024 and 2.1% in 2025.
- Reported sales to increase by around 3% (5% like for like).
- S&P-adjusted EBITDA margins of 3.8%-4.0%, compared with 4.4% in fiscal 2023. We believe that margins in fiscal 2024 will be hit by an increase in labor costs, higher cyber and IT costs, and less beneficial post-transaction effects, but be supported by earnings of about €50 million annually from real estate development disposals.
- Capex reflecting 1.75% of total sales per year (€550 million in fiscal 2024).
- Asset disposal proceeds of €257 million in fiscal 2024 related to the Wumei option.
- Dividends in fiscal 2024 of about €201 million, in line with management's policy of a payout of 45%-55% of last year's reported earnings per share, which had been high due to disposal gains. For 2025 we do not expect any dividends, then €50 million-€100 million per year thereafter.
- Acquisitions of €100 million per year, mainly in the European food service segment, after €101 million in fiscal 2023.
- Net debt at the group level to be negatively affected by cash being held in Russia (€101 million at Sept. 30, 2023) and the renegotiation of lease contracts in Germany, adding approximately €250 million.

Key metrics

Metro AG--Forecast summary

Period ending	Sep-30-2020	Sep-30-2021	Sep-30-2022	Sep-30-2023	Sep-30-2024	Sep-30-2025
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f
Revenue	25,632	24,765	29,754	30,551	31,479	32,108
EBITDA (reported)	1,113	1,167	1,406	1,535	1,197	1,261
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--
Plus/(less): Other	(3)	(21)	(15)	(190)	(2)	(2)
EBITDA	1,110	1,146	1,391	1,345	1,195	1,259
Less: Cash interest paid	(259)	(244)	(185)	(184)	(189)	(204)
Less: Cash taxes paid	(140)	(12)	(185)	(150)	(66)	(74)

Metro AG--Forecast summary

Plus/(less): Other	--	--	--	--	--	--
Funds from operations (FFO)	711	890	1,021	1,011	939	981
Interest expense	247	221	184	211	195	214
Cash flow from operations (CFO)	403	1,007	760	571	859	895
Capital expenditure (capex)	371	330	414	549	551	562
Free operating cash flow (FOCF)	32	677	346	22	308	333
Dividends	261	254	7	6	201	--
Share repurchases (reported)	--	--	--	--	--	--
Discretionary cash flow (DCF)	(229)	423	339	16	107	333
Debt (reported)	2,287	1,972	1,277	1,042	1,154	1,207
Plus: Lease liabilities debt	3,027	2,981	2,847	2,621	2,854	2,888
Plus: Pension and other postretirement debt	313	430	235	245	245	245
Less: Accessible cash and liquid Investments	(1,500)	(1,444)	(692)	(460)	(484)	(369)
Plus/(less): Other	50	30	39	--	--	--
Debt*	4,177	3,969	3,706	3,448	3,769	3,971
Cash and short-term investments (reported)	1,525	1,474	825	591	615	500
Adjusted ratios						
Annual revenue growth (%)	(5.4)	(3.4)	20.1	2.7	3.0	2.0
EBITDA margin (%)	4.3	4.6	4.7	4.4	3.8	3.9
Debt/EBITDA (x)	3.8	3.5	2.7	2.6	3.2	3.2
FFO/debt (%)	17.0	22.4	27.5	29.3	24.9	24.7
EBITDA interest coverage (x)	4.5	5.2	7.6	6.4	6.1	5.9
CFO/debt (%)	9.6	25.4	20.5	16.6	22.8	22.5
FOCF/debt (%)	0.8	17.1	9.3	0.6	8.2	8.4
DCF/debt (%)	(5.5)	10.7	9.1	0.5	2.8	8.4
FOCF after leases	(355)	288	(89)	(445)	(159)	(133)
Adjusted ratios (excluding Russia)						
Revenue §	22,988	22,391	26,850	28,041	28,969	29,661
EBITDA §	886	949	1160	1193	1049	1117
FFO †	535	734	825	866	819	864
Debt ‡	4,188	3,980	3,598	3,367	3,688	3,890
Debt/EBITDA (x)	4.7	4.2	3.1	2.8	3.5	3.5
FFO/debt (%)	12.8	18.5	22.9	25.7	22.2	22.2

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. *Debt excludes cash accrued in Russia. §Excludes company-adjusted revenue and EBITDA from the Russian segment. †Russian FFO estimated based on EBITDA, expectation of limited local debt, and tax rate in Russia. ‡Debt in 2020a and 2021a excludes €97 million cash and €108 million leases liabilities in Russia as of September 2022. Impact in the forecast period is solely from deconsolidation of Russian EBITDA, FFO and leases since cash is already excluded in the consolidated forecast.

Company Description

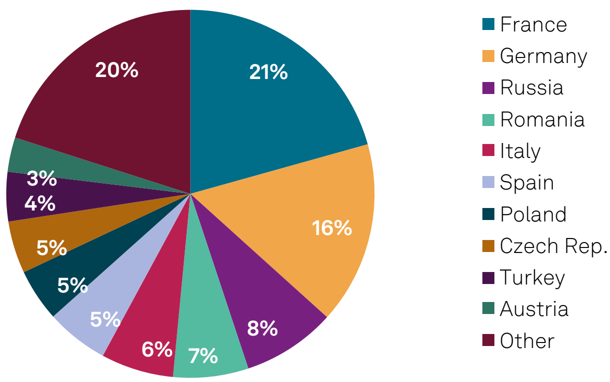
Germany-based Metro is Europe's largest food wholesale and delivery operator. It has strong business-to-business operations in 32 countries. Its clients are mainly from the hotel, restaurant, and caterer segments, but also independent retailers (traders) and other services.

The group has active real estate operations. Metro buys land, develops it, and sells it after a few years, creating and realizing value in the process. In fiscal year 2023, it reported revenue of €30.5 billion and company-adjusted EBITDA of €1.17 billion. The group's store network covered 625 locations at the end of fiscal 2023. The food service distribution business accounted for 23% of group sales and is operated through 529 out-of-store facilities and 76 dedicated depots. Metro runs a delivery business in nine countries.

EP Global Commerce GmbH (EPGC) is Metro's largest shareholder, with an ownership of about 49.99%, while family offices Meridian Foundation and Beisheim pooled their interests and together hold 24.99%. CECONOMY holds 0.99%. The rest is free float.

Metro AG regional revenue split

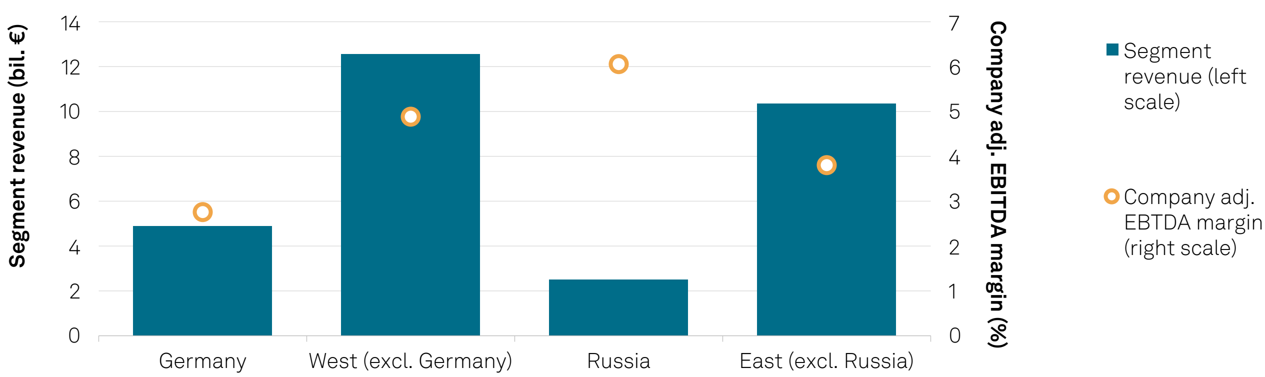
Fiscal 2023



Source: Company information; S&P Global Ratings

Metro AG segment split

Segment revenue and profitability (fiscal 2023)



Source: Company information; S&P Global Ratings

Peer Comparison

Metro is less exposed to secular shifts in customer shopping behavior toward convenience and discount formats compared to ELO and REWE Group (Rewe) and generates similar margin compared to food service peers like Sysco and US Foods. At the same time, its cash generation is marginally weaker than food service peers' and Metro has a smaller scale compared to the likes of Rewe and U.S.-based Sysco Corp. Leverage is below that of peers because in recent years it has used proceeds from divestments to repay financial debt, but due to its weaker absolute EBITDA and build-up of financial debt we expect its leverage will be in line with peers.

Metro AG--Peer Comparisons

	Metro AG	Sysco Corp.	US Foods Inc.	ELO	Rewe Group
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	BB/Stable/--	BB+/Stable/B	BBB/Stable/A-2
Local currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	BB/Stable/--	BB+/Stable/B	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-09-30	2023-07-01	2023-12-31	2023-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	30,551	69,910	32,204	32,902	80,614
EBITDA	1,345	3,709	1,382	1,446	5,309
Funds from operations (FFO)	1,011	2,812	937	1,007	4,388
Interest	211	525	317	338	533
Cash interest paid	184	491	300	327	536
Operating cash flow (OCF)	571	2,699	1,051	1,241	4,159
Capital expenditure	549	727	280	1,081	2,879
Free operating cash flow (FOCF)	22	1,973	772	160	1,280
Discretionary cash flow (DCF)	16	602	495	28	784
Cash and short-term investments	490	683	243	3,160	622
Gross available cash	490	683	243	3,160	622
Debt	3,448	10,453	4,717	4,605	15,580
Equity	2,022	1,870	4,296	5,804	9,357
EBITDA margin (%)	4.4	5.3	4.3	4.4	6.6
Return on capital (%)	8.0	23.6	10.5	2.8	9.8
EBITDA interest coverage (x)	6.4	7.1	4.4	4.3	10.0
FFO cash interest coverage (x)	6.5	6.7	4.1	4.1	9.2
Debt/EBITDA (x)	2.6	2.8	3.4	3.2	2.9
FFO/debt (%)	29.3	26.9	19.9	21.9	28.2
OCF/debt (%)	16.6	25.8	22.3	26.9	26.7
FOCF/debt (%)	0.6	18.9	16.4	3.5	8.2
DCF/debt (%)	0.5	5.8	10.5	0.6	5.0

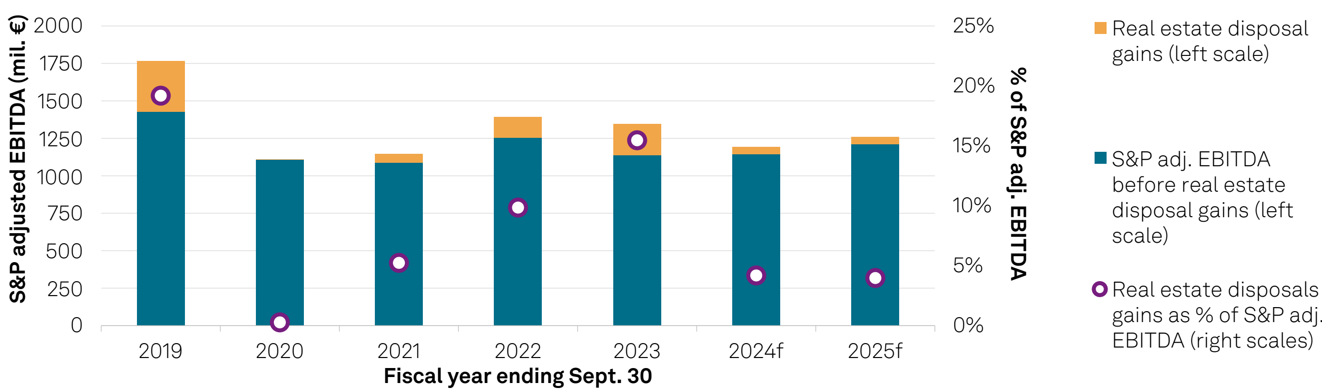
Business Risk

Metro's business risk profile is supported by its resilient position as Europe's largest food wholesale and service operator and its revenue and profit diversity, built on localized business models. It benefits from high geographical, product, and service diversification. It has a large and diverse revenue base in 32 countries across Europe. Metro generates about 85% of sales and nearly 90% of EBITDA outside Germany and is well established in several Western European countries and emerging markets such as Romania, the Czech Republic, Poland, and Türkiye. That said, Metro's Russian operations represented about 8% of its total sales and about 11% of S&P Global Ratings-adjusted in fiscal 2023, and remain a key source of uncertainty for the group. Metro has also made several divestments in the last few years in India, Japan, and Belgium, that somewhat reduces its overall geographical diversification.

We view positively Metro's strategic customer base (74% of sales as of fiscal 2023), reflecting the HoReCa and Trader segments, which tend to be recurring customers and underline the strength of its market position. The group has increased this share from 65% in fiscal 2021 and aims to reach 80% by 2030. The property division supports the group, contributing meaningfully to regular earnings in the past few years, mainly the sale of the Metro Campus in Düsseldorf together with smaller transactions that contributed an income of €209 million in fiscal 2023 (see chart). We expect a lower contribution from fiscal 2024 as valuations in the real estate market are being affected by higher interest rates.

Impact of real estate disposal gains on S&P Global Ratings-adjusted EBITDA

Real estate operations support Metro's credit profile



f--Forecast. Forecast reflects the mid point of the guided range. Source: S&P Global Ratings.

Metro has strong brand recognition based on its good reputation for high quality food and expanding own brand offering (22% of group sales in the first quarter of fiscal 2024). This, combined with high footfall given the large store network, helped the group outperform the European food wholesale sector during the pandemic and maintain its position after restrictions were lifted.

Metro has outlined targets for 2030. It aims to reach €40 billion in sales and €2 billion in company-adjusted EBITDA. It will focus on three key areas to achieve this: expanding its store-based operations by 1.2x, tripling FSD sales, and generating marketplace sales of more than €3 billion. In fiscal 2023, store-based sales reached €23.34 billion (1.2x fiscal 2021), FSD reached €7.1 billion, and marketplace sales hit €172 million. The FSD business is the key lever of Metro's growth strategy, with direct delivery to customers. The company will initially hire staff to enhance relationships with existing and new strategic customers, who can order directly via an app or by phone. The company operates this part of the business through its wholesale markets as well as designated depots. In fiscal 2023, 529 stores out of 625 had capacity to deliver to customers, while there were 76 designated depots, which enabled FSD to contribute 23% of group sales, up from 21% in fiscal 2022. We view this organic expansion strategy as having relatively limited execution risk, because depots are only opened if demand exceeds out-of-store operation capabilities.

Despite its large scale of operations and diversity, Metro's adjusted EBITDA margin of 4.4% is below the 5%-10% range that we regard as average in the food retail sector, but in line with pure food service distributors, which have average EBITDA margins of 2%-6%. We forecast overall results for fiscal 2024 will be affected by higher operational costs, especially wage increases and expansion of the FSD business, leading to like-for-like revenue growth of about 5%. Notably, as the group continues to build a strong market position in the FSD and marketplace businesses, this could enable it to build scale and expand absolute EBITDA.

Financial Risk

Our assessment of financial risk mainly reflects the company's relatively weak operating cash flow profile, with reported FOCF after leases expected to remain negative to breakeven in the next two-to-three years, and its exposure to the Russian market, where it could be subject to event risk as the Russia-Ukraine conflict continues.

A significant portion of liabilities relates to lease obligations, reflecting 67% of S&P Global Ratings-adjusted gross debt as of fiscal 2023. Metro has a track record of repaying financial debt with cash on balance sheet, as it did in fiscal 2023 when bonds became due and were not refinanced. This leads to relatively low financial debt (€1,042 million in fiscal 2023) and reduces Metro's refinancing and interest-rate risk.

Metro's S&P Global Ratings-adjusted debt to EBITDA was 2.6x in fiscal 2023, versus our projection of 2.0x-2.2x, reflecting a reversal in post-pandemic earnings. Company-adjusted EBITDA decreased by 15% in fiscal 2023 to €1,174 million from €1,389 million in fiscal 2022. S&P Global Ratings-adjusted EBITDA for fiscal 2024 is expected to decline to €1,190 million-€1,200 million due to continued cost impacts related to the cyberattack, declining but high inflation effects on costs that the company didn't fully pass through, and costs of the ramp-up of the FSD segment, seen in the first quarter of fiscal 2024. The group's anticipated disposal-driven deleveraging will allow it to keep leverage in check over the next two years, with debt to EBITDA of 3.0x-3.4x despite anticipated negative FOCF after leases due to increased growth capex.

Metro has financial leverage targets that are in line with our expectations for an investment-grade rating. The group achieved company-defined net leverage of 2.0x (S&P Global Ratings-adjusted: 2.6x) in fiscal 2023, which aligns with its 2025 guidance to keep leverage below 2.5x. Given the sizeable disposal gains in 2023, the group paid dividends of about €201 million, in line with its policy of 45%-55% of reported net income. We expect no dividend in 2025 and about €50 million-€100 million thereafter. In light of our assessment of negative FOCF after leases in the next two years and the reinstatement of dividend payments, S&P Global Ratings-adjusted debt will increase if not offset by exceptional cash inflows from real estate disposals or portfolio adjustments.

Debt maturities

As of September 2023:

- Fiscal 2024: €389 million
- Fiscal 2025: €600 million
- Fiscal 2026: €0 million
- Thereafter: €551 million

Note: Pro forma €500 million bond issuance in March 2024. This excludes capitalized leases.

Metro AG--Financial Summary

Period ending	Sep-30-2018	Sep-30-2019	Sep-30-2020	Sep-30-2021	Sep-30-2022	Sep-30-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	29,476	27,082	25,632	24,765	29,754	30,551
EBITDA	1,782	1,767	1,110	1,146	1,391	1,345
Funds from operations (FFO)	1,186	1,207	711	890	1,021	1,011
Interest expense	347	326	247	221	184	211
Cash interest paid	330	345	259	244	185	184
Operating cash flow (OCF)	990	891	403	1,007	760	571
Capital expenditure	454	456	371	330	414	549
Free operating cash flow (FOCF)	536	435	32	677	346	22
Discretionary cash flow (DCF)	273	174	(229)	423	339	16
Cash and short-term investments	1,298	500	1,525	1,474	706	490
Gross available cash	1,300	976	1,525	1,474	706	490
Debt	5,906	5,471	4,177	3,969	3,706	3,448
Common equity	3,131	2,735	2,061	1,846	2,365	2,022
Adjusted ratios						
EBITDA margin (%)	6.0	6.5	4.3	4.6	4.7	4.4
Return on capital (%)	11.2	12.3	4.3	6.5	10.4	8.0
EBITDA interest coverage (x)	5.1	5.4	4.5	5.2	7.6	6.4
FFO cash interest coverage (x)	4.6	4.5	3.7	4.6	6.5	6.5
Debt/EBITDA (x)	3.3	3.1	3.8	3.5	2.7	2.6
FFO/debt (%)	20.1	22.1	17.0	22.4	27.5	29.3
OCF/debt (%)	16.8	16.3	9.6	25.4	20.5	16.6
FOCF/debt (%)	9.1	7.9	0.8	17.1	9.3	0.6
DCF/debt (%)	4.6	3.2	(5.5)	10.7	9.1	0.5

Reconciliation Of Metro AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Sep-30-2023									
Company reported amounts	1,042	2,011	30,551	1,535	598	200	1,345	721	6	549
Cash taxes paid	-	-	-	-	-	-	(150)	-	-	-
Cash interest paid	-	-	-	-	-	-	(184)	-	-	-
Lease liabilities	2,621	-	-	-	-	-	-	-	-	-

Reconciliation Of Metro AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Postretirement benefit obligations/ deferred compensation	245	-	-	(2)	(2)	11	-	-	-	-
Accessible cash and liquid investments	(460)	-	-	-	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(13)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	40	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(150)	-	-
Noncontrolling/ minority interest	-	11	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(175)	(175)	-	-	-	-	-
Total adjustments	2,406	11	-	(190)	(137)	11	(334)	(150)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	3,448	2,022	30,551	1,345	461	211	1,011	571	6	549

Liquidity

The short-term rating on Metro is 'A-3', reflecting the long-term issuer credit rating of 'BBB-' and our assessment of liquidity as strong. We expect the company's liquidity sources will be above 1.5x its liquidity uses over the next 12 months and above 1.0x over the next 24 months. We do not expect sources of liquidity will drop below uses, even if EBITDA declines 30% more than we forecast for this period. However, we think that the group would not be able to withstand high-impact, low-probability events, such as a sovereign debt crisis, without some refinancing. Although it has significant cash balances, these would not be sufficient to manage historically significant intra-year working capital requirements and related drawings on facilities in such a scenario. We also base our liquidity assessment on our expectation that the group will maintain good access to different financing sources and at least adequate headroom under its covenants.

The group has access to a revolving credit facility of €1 billion that matures in December 2028.

Principal liquidity sources

- Unrestricted cash on the balance sheet of about €520 million;
- €500 million senior unsecured notes issued in March 2024;
- Committed revolving credit facility of €1 billion; and
- Reported FFO of €800 million-€900 million.

Principal liquidity uses

- Debt maturities of €560 million mainly relating to short-term financing instruments and lease liabilities;
- Seasonal working capital swings of €500 million;
- Neutral or slightly negative working capital outflows of up to €50 million;
- Capex of about €550 million; and
- Dividends of €201 million in fiscal 2024

Environmental, Social, And Governance

Environmental factors are a neutral consideration in our credit rating analysis of Metro. The group publishes an annual sustainability report and has outlined targets to reduce scopes 1 and 2 emissions by 60% by 2030, compared with 2011, and to reduce scope 3 emissions by 15% by 2030, compared with 2018. In fiscal 2023, Metro reduced scope 1 and 2 emissions by 40%. As a food retailer, Metro's energy consumption is higher than that of nonfood retailers. The group invested €61.1 million in fluorinated gas exit programs (13.4% of overall capex; 0.2% of group sales).

Social factors are a neutral consideration. Metro is one of Europe's largest employers, with an average full-time equivalent workforce of 84,336 in fiscal year 2023. We anticipate that high inflation over the last two years in the eurozone and a tight labor market, particularly in Germany and the West segment, will increase personnel costs in 2024, and weigh on profitability.

Governance factors are a neutral consideration. Metro is listed on the Frankfurt Stock Exchange, with 25.02% free float. Its largest shareholder is EPGC, which is majority-owned by Daniel Křetínský. EPGC increased its stake in Metro to 49.99% on Feb. 7, 2024, after initially making a takeover offer in September 2020. EPGC currently has three of 20 seats on the supervisory board, which is not sufficient to influence the group. Therefore, we do not regard the current stake or funding raised at the EPGC level as constraining factors. The residual 24.99% of shares are owned by the pooled interest of Meridian Stiftung and Beisheim.

Issue Ratings--Subordination Risk Analysis

Capital structure

At Sept. 30, 2023, Metro's capital structure comprised €1.04 billion of unsecured debt.

Analytical conclusions

There is no structural or contractual subordination, and we therefore rate the senior unsecured debt at 'BBB-', the same level as our issuer credit rating on Metro.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/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	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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 | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2024: Retail And Restaurants, Jan. 9, 2024
- Metro AG: Weaker-Than-Expected Guidance On Fiscal 2024 Likely Increases Leverage, Jan. 5, 2024

Ratings Detail (as of April 23, 2024)*

Metro AG	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
17-Mar-2023	BBB-/Stable/A-3
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

*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.