S&P Global Ratings

Second Party Opinion

Ceconomy Sustainability Linked Financing Framework

June 24, 2024

Primary Analyst

Maria Ortiz de Mendivil
Madrid
+34 687 007 348
maria.omendivil
@spglobal.com

Secondary Analyst

Sofia Singh
London
+44 2071766750
sofia.singh.digpaul
@spglobal.com

Research Contributor

Radheya Zope
Pune

Editor's note: This SPO report is based on S&P Global Ratings' "Analytical Approach: Second Party Opinions And Transaction Evaluations" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "Analytical Approach: Second Party Opinions: Use of Proceeds," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Ceconomy is a multinational consumer electronics retailer based in Germany. It integrates its services via an omnichannel platform. This combines stores, e-commerce (mobile and app), contact centers, social media, and direct customer interactions. According to Ceconomy, this brings it 2 billion customer contacts per year. With around 50,000 employees, it operates in eleven countries across Europe and Turkiye under its MediaMarkt, MediaWorld, and Saturn brands. It owns a minority stake in French retail company Fnac Darty, which in January 2024 was valued at €169 million. Central to its operations is its core retail business. Furthermore, MediaMarkSaturn offers own branded products and value-for-money alternatives such as Koenic, ISY, Peag, and Ok. It also provides retail space to third-party vendors, from which it receives commissions. It offers repair and subscription services through its services and solutions business, and sells advertising space on its media channels to manufacturers and advertisers. As of 2023, Ceconomy's key shareholders are the Kellerhals family through Convergenta (29.2%), Haniel (16.7%), Meridian Stiftung (11.1%) and freenet AG (6.7%). The remaining shares are free float, with the Prof. Otto Beisheim Foundation owning 4.8% and Exor Financial Investments 4.2%. In the fiscal year ending Sept. 30, 2023 (fiscal 2023) its S&P Global Ratings-adjusted EBITDA was €876 million. Sales were driven mostly by IT, phone, and wearables (45% of product sales), white goods (26%), and TV and HiFi (17%), with the remainder being software and games (8%) and photo (2%).

In our view, Ceconomy's Sustainability-Linked Financing Framework, published on June 24, 2024, is aligned with:

- ✓ Sustainability-Linked Bond Principles, ICMA, 2023
- ✓ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

Issuer's Sustainability Objectives

Ceconomy's sustainability strategy focuses on climate change mitigation and increasing its offer of circular and more energy efficient products. It targets net zero emissions this year (2024) for scope 1 and 2, and by 2040 for scope 3. To achieve net zero, it plans to offset residual emissions it cannot abate. We note it also plans to continue reducing emissions in real terms.

We view positively that Ceconomy has recently revised its scope 1 and 2 emissions reduction target to align it with the 1.5ºC scenario, and that the target has been validated by the Science-Based Targets initiative (SBTi). It has also committed to reduce scope 3 emissions from purchased goods and services, upstream transportation and distribution, and the use of sold products by 32.5% by fiscal 2033 (from a fiscal 2022 base) in line with the well-below 2ºC scenario, which has also been approved by SBTi. It aims to ensure that 74% of its suppliers (based on emissions in the purchased goods and services category) have science-based targets by the end of fiscal 2028. This year it achieved its goal to use 100% renewable electricity in all its stores, headquarters, central hubs, and warehouses.

Ceconomy has developed its sustainability-linked financing framework to strengthen the link between its financing and its decarbonization commitments. The issuer has confirmed that sustainability-linked instruments under this framework will only be issued by Ceconomy AG, or by a finance vehicle fully owned and controlled by Ceconomy AG established for the sole purpose of issuing instruments. The framework includes a wide portfolio of financing instruments, which the issuer says will include bonds and loans, as well as other green financing instruments such as term loans and revolving credit facilities. Within the framework's broad, open-ended list of instruments, we understand the issuer plans to use those for which the economic characteristics can vary depending on the achievement of the SPTs.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2022/2023 performance
Absolute scope 1 and 2 GHG emissions in kt of CO_2e	Reduction of scope 1 and 2 GHG emissions by 58.8% by fiscal 2033	105.4 (fiscal 2019)	48.1 ktCO_2e
Absolute scope 3 GHG emissions from category 3.11 (use of sold products) in kt of CO_2e	SPT 2.1: Reduction of absolute scope 3 category 3.11 emissions by 14.8% by fiscal 2027 SPT 2.2: Reduction of absolute scope 3 category 3.11 emissions by 32.5% by fiscal 2033	17,113.8 (fiscal 2022)	17,147.8 ktCO_2e

The issuer commits to use KPI 1 (absolute scope 1 and 2 GHG emissions in kt of CO_2e) always in combination with KPI 2 (absolute scope 3 GHG emissions from category 3.11 (use of sold products) in kt of CO_2e) for any instruments issued under the framework.

Second Party Opinion Summary

Selection of key performance indicators (KPIs)

Alignment ✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

		Not aligned	Aligned	Strong	Advanced
KPI 1	Absolute reduction of scope 1 and 2 GHG emissions in kt of CO2e			**Strong**	
KPI 2	Absolute scope 3 GHG emission from category 3.11 (use of sold products) in kt of CO2e			**Strong**	

Calibration of sustainability performance targets (SPTs)

Alignment ✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

		Not aligned	Aligned	Strong	Advanced
SPT 1	Reduction of scope 1 and 2 GHG emissions by 58.8% by fiscal 2033 compared to fiscal 2019		**Aligned**		
SPT 2	Reduction of absolute scope 3 (category 3.11) emissions by 14.8% by fiscal 2027 and by 32.5% by fiscal 2033 compared to fiscal 2022			**Strong**	

Instrument characteristics

Alignment ✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

Instruments issued under the framework will be subject to potential changes in the financial characteristic triggered by a failure to meet the stated SPTs by the target observation dates. Such changes may include coupon or margin readjustments or a premium payment at maturity of the instrument. Instrument transaction documentation will include information pertaining to the SPT, relevant calculation methodologies, changes to the financial and structural characteristics of the instrument, and conditions required to demonstrate achievement of the KPI. Additionally, the framework includes a fallback mechanism by which the financial characteristics will be affected if the issuer fails to comply with reporting and verification obligations.

Reporting

Alignment ✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

	Not aligned	Aligned	Strong	Advanced
Score			**Strong**	

Ceconomy commits to annually disclose the performance of the SPTs for all KPIs set out in the framework within its Non-Financial Group Report (or within any other reporting document publicly available on its website), until all sustainability-linked financing instruments have matured). The reporting will include any relevant information that enables investors to monitor progress against the SPTs, including factors impacting the evolution of the KPI performance. The company also commits to disclose any recalculation and updates to the SPT(s) and/or baseline(s), as well as a limited assurance statement from an external assurance provider and any information relevant to the analysis of the KPI(s) and SPT(s).

Post-issuance review

Alignment ✓	Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

Ceconomy commits to obtain independent and external post-issuance verification on KPI performance against the relevant SPT and on its KPI reporting on an annual basis to at least the level of limited assurance.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer's sustainability disclosures; and how material it is to the issuer's industry and strategy.

✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

KPI 1	Absolute scope 1 and 2 GHG emissions calculated as ktCO2eq	Not aligned	Aligned	**Strong**	Advanced

We consider the selected KPI to be strong given that the scope, objective, and calculation methodology are clearly articulated in the framework. The KPI, which covers all domestic and international subsidiaries, aims to track the relative reduction in absolute scope 1 and 2 emissions from the company's operations. It is directly linked to Ceconomy's sustainability strategy and contributes to the global effort to address climate change, which we consider material for the retail sector. While we view scope 1 and 2 emissions as less material than scope 3 emissions for both the company and the sector, and the KPI is listed as "Secondary" within ICMA's KPI Registry for the sector, we have assessed the KPI as strong because the issuer commits to always use KPI 1 in combination with KPI 2 (which covers absolute scope 3 emissions from the use of sold products) for all financing instruments issued under the framework.

We view positively that the selected KPI is directly linked to the issuer's sustainability strategy and the group's overarching goal of reducing emissions in line with the 2015 U.N. Paris Agreement. It is one of the most frequently used KPIs in the market, allowing for external benchmarking and it is expressed in absolute terms, which is a strength in our view, considering a reduction in emissions intensity could still be accompanied by an overall increase in total emissions. Furthermore, the KPI has been calculated in line with the GHG Protocol, one of the most widely used international standards.

Ceconomy uses a market-based method for assessing its indirect scope 2 emissions. In our view, this method does not necessarily translate into an improvement in terms of regional or national emissions. This is because the market-based approach allows companies to report emissions based on contracted agreements with energy suppliers for any procured renewable energy. We generally see the use of a location-based approach for measuring scope 2 emissions more favorably as it enables the close monitoring of emission reductions at both the company and the national level (Source: Purchased Energy Emissions in Second Party Opinion and ESG Evaluations, S&P Global Ratings). That said, Ceconomy calculates and reports both location-based and market-based scope 2 emissions, which we view positively.

Reducing scope 1 and 2 emissions is necessary if the company is to achieve its sustainability objectives; however, this KPI represents less than 1% of Ceconomy's overall carbon footprint, with scope 3 emissions accounting for over 99%, in line with other industry players. As such, while we consider this KPI somewhat relevant for the company, we believe that focusing on reducing scope 3 emissions would be much more effective. We view positively that the framework also includes a KPI for scope 3 emissions from the use of sold products (KPI 2), and that KPI 1 will always be used together with KPI 2 for any financing issued under the framework.

KPI 2	Absolute scope 3 GHG emissions from category 3.11 (use of sold products) in kt of CO2e	Not aligned	Aligned	**Strong**	Advanced

We assess Ceconomy's second KPI as strong given its clarity, rationale, objective, and scope. It is aligned the company's sustainability and climate strategy and will contribute to addressing one of the most material risk factors for the consumer goods sector.

The KPI's objective and scope are clearly articulated in the framework. It is intended to reduce scope 3 emissions generated from the downstream use of sold products. The KPI includes both Ceconomy and third-party branded products in its scope. With this KPI the company will aim to address its most significant emissions exposure by improving the energy efficiency of the products it sells on its platforms.

The emissions in scope for this KPI accounted for 69.6% of Ceconomy's total emissions in 2023, with its own products contributing 6.2% and those by third parties 63.4% of its total scope 3 emissions. As such, it is one of the most relevant topics for the sector and for Ceconomy. That said, the company's ability to ensure positive performance against this KPI could be limited because it will not include other scope 3 categories (such as purchased goods and services) and is subject to consumer and supplier behavior. Ceconomy decided to include the category that it deems most relevant and in which it has the power to reduce emissions through reduction strategies, which we view as in line with the Principles.

We note, however, the scope of emissions included in this KPI (absolute scope 3 GHG emissions from category 3.11 [use of sold products]) differs from other KPIs and targets the company has publicly committed to (absolute scope 3 GHG emissions from purchased goods and services, upstream transportation and distribution, and use of sold products). While having similar targets with different scopes could be somewhat confusing, we believe both are interlinked and making progress in one helps with achieving the other.

We view positively that the KPI is listed as "Core" within ICMA's KPI Registry for the sector, and that it is one of the most frequently used KPIs in the market, allowing for external benchmarking. It is expressed in absolute terms, which we view as a strength, considering a reduction in emissions intensity could still be accompanied by an overall increase in total emissions.

The framework outlines the calculation methodology used for this KPI, which is based on the GHG Protocol. As the KPI is intended to reduce indirect emissions, the company will narrow the calculation assumptions to obtain more accurate results, for example on the use of statistical energy consumption, lifetimes, and frequencies of use at the product-group level. In parallel, the company will seek to improve its data collecting and monitoring. To date this has included the implementation of product management information systems and platforms. Ceconomy also plans to implement product identification mechanisms using a Global Product ID, which we believe may simplify the process of monitoring data to improve product efficiencies.

While the consumer goods sector is not emissions intensive from a scope 1 and 2 perspective, it is indirectly exposed to significant scope 3 emissions across its value chain. The primary source of downstream emissions is energy consumption during the use of sold products. According to the European Union Commission, in 2021 households represented 27% of final energy consumption in in the region, with about 40% from the use of electronic appliances such as heating and cooling.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

SPT 1	Reduce scope 1 and 2 GHG emissions by 58.8% by fiscal 2033 from a fiscal 2019 baseline year.	Not aligned	**Aligned**	Strong	Advanced

We assess the ambition, clarity, and characteristics of Ceconomy's scope 1 and 2 GHG emission reduction target as aligned with the Principles given that the issuer outlines the timeline for target achievement, the trigger events, and the strategy for reaching the SPT, and because the SBTi has validated the target as in line with the 1.5°C scenario. Specifically, the company targets to reduce absolute scope 1 and 2 emissions by 58.8% by Sept. 30, 2033, from a fiscal 2019 base.

The framework provides three years of historical performance, in line with the Principles' requirements. However, we note the issuer has recently included fluorinated greenhouse gases (f-gases) in its calculation of scope 1 emissions and therefore the data included in the framework differs from that published in its sustainability report and on its website. Scope 1 historical emissions data included in the framework (and updated to include f-gases) has not yet been subject to external verification, though the issuer commits to audit and publish the updated data in the fiscal 2024. The issuer does not expect the verification to materially alter the data provided.

As of 2022 Ceconomy had already reduced 54% of scope 1 and 2 emissions compared to the baseline (fiscal 2019), leaving little room for improvement in the following 10 years (the company only has to reduce its emissions by 4.5% by 2033 to meet its target). This limits our assessment of the SPT, however we understand that the target remains relevant considering the annual consumption of electricity, gas, and oil has to be controlled and maintained at low levels, irrespective of Ceconomy's growth. Continuous improvements in the efficiency of its buildings—using 100% renewable electricity in its stores, headquarters, central hubs, and warehouses, as well as electrifying its fleet—will be key to making sure its absolute emissions keep decreasing over time. We view positively that the company does not intend to use offsets to achieve this target (although it does plan to offset residual emissions to achieve the overarching target of reaching net-zero scope 1 and 2 emissions in 2024).

We view positively that Ceconomy has recently revised its scope 1 and 2 emissions reduction target to align it with the 1.5ºC scenario and that the target has been validated by the SBTi. The fact that the target is in line with a scientifically validated pathway supports our assessment of the SPT as aligned with the Principles. As noted above, the issuer has recently included f-gases as part of its scope 1 emissions and commits to verifying the new data during fiscal 2024.

The issuer has also conducted a benchmarking exercise against direct, international, and non-direct peers to ensure the ambitiousness of the target. The target it has set is in range for its peer group.

The framework provides information on the strategy to reach the SPT, which includes among other measures the implementation of energy efficiency projects, increasing the use of renewable energy in stores and administrative buildings, and aiming for 100% purchased electricity from renewable energy sources. It also identifies key risks beyond Ceconomy's control that may impact its ability to meet the target, including rising energy prices and unavailability of renewable energy to purchase at a reasonable cost, among others.

Baseline	**Reduce scope 1 and 2 GHG emissions by 58.8% by fiscal 2033 from a fiscal 2019 baseline year.**
2019	**2033**
105.4 ktCO2e	43.4 ktCO2e
	Equivalent to 58.8% reduction

SPT 2	Reduction of absolute scope 3 (category 3.11) emissions by 14.8% by fiscal 2027 and by 32.5% by fiscal 2033 compared to fiscal 2022	Not aligned	Aligned	**Strong**	Advanced

We assess the ambition, clarity, and characteristics of SPT 2 as strong. The issuer clearly outlines the target's timeline, the observation date, the trigger events, and the strategy to reach the target. Specifically, the company aims to reduce absolute scope 3 emissions from the use of sold products by 14.8% by Sept. 30, 2027, and by 32.5% by Sept. 30, 2033, compared to fiscal 2022.

The framework only includes two years of audited historical performance, as the company only started to measure category 3.11 emissions in 2022, falling short of the Principles' three-year requirement. That said, we have been able to review an additional year of unaudited emissions data to assess the expected trajectory and compare it to the issuer's historical performance. The historical trajectory indicates a 9% increase in in-scope emissions from fiscal 2021 to fiscal 2023. As such, we consider the emissions reduction that Ceconomy is aiming to achieve to be a marked improvement on its business-as-usual trajectory. It has an interim target for fiscal 2027 to reduce in-scope emissions by 14.8% and a long-term target for fiscal 2033 of 32.5%.

To demonstrate the SPT's ambition, Ceconomy has provided a benchmark comparison against its direct, international, and non-direct peers. It shows that while the overall reduction of sold emissions is becoming an increasing concern for consumer electronics companies, Ceconomy's ambition is above average. This helps show that its SPT will result in an improvement over its past performance, which supports our assessment of strong.

We note the scope of emissions included in the target differs from other targets the company has publicly committed to, namely to reduce absolute scope 3 GHG emissions from purchased goods and services, upstream transportation and distribution, and use of sold products by 32.5% by fiscal 2033 (fiscal 2022 base). While having similar targets with different scopes could be confusing, we believe both are interlinked and the execution of one helps with achieving the other. Scope 3 emissions from the use of sold products are the most material source of emissions for Ceconomy (approximately 70% of its overall footprint) so we understand why it intends to focus on reducing these.

The framework outlines the company's strategy to achieve the SPT, which is primarily to increase in its energy-efficient product offerings. Efficiency gains are demonstrated via third-party certifications or its own proprietary BetterWay logo. To obtain a BetterWay logo, products must have obtained a widely recognized international environmental standard, such as TÜV Rheinland. As there are no widely used certifications for large household appliances, MediaMarktSaturn has worked with TÜV Rheinland to develop specific BetterWay criteria for energy use during a product's lifetime. Strategic objectives not in scope of this framework are to increase its BetterWay product portfolio to about 7,000 and its refurnished products to 220,000 by fiscal 2026. We note, though, that the framework includes external risk factors that could inhibit its ability to achieve these objectives by the target observation dates. These include supply chain risks, changes in consumer preferences, and the inability of suppliers to increase the energy efficiency of their own products. We view positively that the company does not intend to use offsets to achieve this target (although it does plan to offset residual emissions to achieve the overarching target of reaching scope 3 net-zero emissions in 2040).

Baseline	**Reduction of absolute scope 3 (category 3.11) emissions by 14.8% by fiscal 2027 and by 32.5% by fiscal 2033 compared to fiscal 2022**	
2022	**2027**	**2033**
17,113.8	14,585.6	11,551.8
	Equivalent to 14.8% reduction	Equivalent to 32.5% reduction

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

Instruments issued under the framework will be subject to potential changes in the financial characteristics triggered by a failure to achieve the stated SPTs for the KPIs by the target observation dates. Such variations can include coupon or margin adjustments or a premium payment at maturity. The ultimate characteristics will be specified in the relevant transaction documentations for each specific instrument, which will include information on the applicable KPIs and SPTs, the calculation methodologies, and will indicate the relevant performance observation date(s). The framework also includes a fallback mechanism by which the financial characteristics of the instrument will change should the issuer fail to comply with the annual reporting and verification obligations stated in the framework.

We view positively that while KP1 2, which we see as more material for the company, can be used independently for any given instrument issued under the framework, Ceconomy commits to always use KPI 1 in combination with KPI 2.

The framework includes target observation dates linked to all KPIs. In addition, the issuer commits to annual targets (if applicable) based on the expected SPT trajectories linked to any loans issued under the framework, in line with the requirements of the Sustainability-Linked Loan Principles.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

We consider Ceconomy's overall reporting practices to be strong.

Ceconomy commits to annually disclose the performance of the SPTs for all KPIs set out in the framework in its Non-Financial Group Report, or in any equivalent publication made available through its website. The company also commits to disclose any recalculation and updates to the SPT(s) and/or baseline(s), as well as a limited assurance statement from an external assurance provider and any information relevant to the analysis of the KPI(s) and SPT(s). Additionally, it commits to disclose annual updates on the performance of the targets for all KPIs included in the framework, as well as an annual verification assurance report (providing at least a level of limited assurance) on the performance achieved.

With respect to loan transactions, the issuer commits to provide lenders a sustainability confirmation statement, at least annually, outlining the performance against the SPTs for the relevant year and the related impact, and timing of such impact, on the loan's economic characteristics.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

✓ Ceconomy's Sustainability Linked Financing Framework is aligned with this component of the SLB and SLL Principles.

Ceconomy commits to obtain independent and external post-issuance verification on KPI performance against the relevant SPT and on its annual KPI reporting on an annual basis, to at least the level of limited assurance.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

Ceconomy's Sustainability Linked Financing Framework intends to contribute to the following SDGs:

KPI	
Absolute Scope 1 & 2 GHG emissions in kt of CO2e	**13. Climate action***
Absolute Scope 3 GHG emissions from category 3.11 (use of sold products) in kt of CO2e	**13. Climate action***

* The KPI is likely to contribute to the SDGs.