EthiFinance Ratings

PUMA SE

HRB 13085 | CORPORATE

BBB+ ISSUER RATING
Long term

OUTLOOK
Stable

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RATING ACTION AND RATIONALE

- EthiFinance Ratings downgrades PUMA SE's long-term rating from A- to BBB+, maintaining our Stable outlook.
- The rating downgrade is due to a deterioration of all Puma's credit metrics to a level below our expectations, leading to a de-notching of our financial risk profile from 'A' to 'A-'. This was the result of a number of factors: (i) an FX headwind that hampered overall topline growth by 4.7%, partially linked to the devaluation of the Argentinian Peso; (ii) a decrease of 17% in North American sales YoY, partially offset by Chinese and Indian sales performance; and (iii) slower brand momentum in the increasingly competitive wholesale and lifestyle segments. Along with these factors, our rating downgrade is also attributed to a lower industry rating, from BBB to BBB-, due to weaker sales performance across the entire sporting goods industry, amid lower consumer spending. Our adjusted net leverage ratio degraded from 1.2x in FY22 to 1.4x in FY23 (vs 1.1x expected in August 2023), due to a higher adjusted net debt (factoring in a restricted cash of €46m), and a lower adjusted EBITDA. We expect this ratio to progressively improve from 1.4x to 1.0x by 2026, factoring in a share buyback program of €100m. Concurrently, although only 36% of the group's debt is at variable interest rate, the interest coverage ratio has declined from 18.6x in FY22 to 9.5x in FY23, due to a significant increase in debt interest expenses from €53m in FY22, to €100m in FY23. These mainly comprise of lease (68% of total adjusted debt) interest expense, along with the promissory notes making up the rest of total debt. We forecast this ratio to remain stable in 2024, and then gradually improve from 2025 to reach 13.1x by 2026. Nevertheless, our rating is constrained by weak performance of sporting goods, as exhibited by the lower profitability margins of the top industry players.
- However, our rating remains supported by a potential uplift of Puma's brand momentum, which could accelerate again on the back of product expansion. The company is planning to enhance its existing franchises, and to build momentum around brand-new offerings, driven by major sports events this summer. These include the recently concluded Euro Cup, and the Olympic Games. Furthermore, with the inventory level stabilized, profitability margins could improve further than expected in our forecast period. This could happen if there is a greater sales volume growth in 2024, and if freight costs normalize before contracts are renegotiated.
- Under our methodology, the consumer goods sector has medium ESG risks (sector heatmap score between 3 and 3.4). This results in a neutral impact on the industry risk rating. Regarding environmental factors, the sector has a low impact on the climate, with a moderate use of resources. However, it has a high impact in pollution, due to the significant amount of waste generated, and a medium impact on biodiversity; linked to the goods produced and their transportation. It involves a medium impact over suppliers and consumers, and a low impact on communities. Our ESG assessment at the company level is neutral, with a score between 1.5 and 3.5. Consequently, our updated ESG score does not impact our anchor rating. Puma's scope 1 & 2 location-based emissions have increased at a constant perimeter by 15.1% between 2022 and 2023 (by 0.7% from a 2017 baseline). However, Puma have been using renewable energy, via green electricity tariffs, since 2020, and targets to move 100% of its own entities to renewable electricity by 2025. It also aims to expand the use of renewable energy to 25% at its core suppliers.

ISSUER DESCRIPTION

Puma is a German multinational that designs and distributes sporting goods (athletic and casual footwear, clothing, and accessories) through a network of (i) around 66 wholesale distributors (Amazon, Foot Locker, Zalando, etc.) accounting for 75% of FY23 sales, (ii) more than 800 Puma-branded flagship and outlet stores worldwide, and (iii) its e-commerce platform (incl. shopping app). The production process is mostly outsourced to third-parties located in low-cost countries. Puma is the 3rd largest sportswear manufacturer, after Nike and adidas, employing more than 21,000 worldwide.

For FY23, Puma reported sales of €8.6bn and adjusted EBITDA of €949m with an EthiFinance Ratings-adjusted net leverage ratio of 1.4x at end-2023. As of July 22nd, 2024, Puma's market capitalization was c. €6.7bn.

LIQUIDITY PROFILE

- **Good liquidity profile with strong refinancing profile**

We assess Puma's liquidity profile as 'Good', since the company can repay all its upcoming debt maturities, without refinancing, for more than two years. The company also obtains financing relatively easily, given its strong profile.

MAIN FINANCIAL FIGURES & FORECASTS

Main financial figures. €m	2022	2023	2024E	2025E	2026E	23vs22
Turnover	8 465	8 602	8 992	9 461	10 006	*1.6%*
EBITDA (Adjusted) (1)	999	949	1 043	1 126	1 231	*-5.0%*
EBITDA Margin (1)	11.8%	11.0%	11.6%	11.9%	12.3%	-0.8pp
EBIT	641	592	647	710	790	*-7.6%*
EBIT Margin	7.6%	6.9%	7.2%	7.5%	7.9%	-0.7pp
Interest expenses	(54)	(100)	(109)	(104)	(94)	*85.7%*
EBT	694	692	756	813	884	*-0.4%*
Total Assets	6 773	6 640	6 887	7 180	7 468	*-2.0%*
Equity (Adjusted)	2 539	2 582	2 711	2 879	3 144	*1.7%*
Total Financial Debt (Adjusted) (2)	1 582	1 828	1 882	1 932	1 870	*15.6%*
Net Financial Debt (Adjusted) (2)	1 212	1 321	1 337	1 325	1 228	*9.0%*
Equity/TFD (2)	160.5%	141.2%	144.0%	149.0%	168.1%	-19.3pp
NFD/EBITDA (1) (2)	1.2x	1.4x	1.3x	1.2x	1.0x	*0.1x*
Funds From Operations	667	634	747	819	911	*-4.9%*
FFO/NFD (2)	55.0%	48.0%	55.8%	61.8%	74.2%	-7.0pp
EBITDA/Interest (1)	18.6x	9.5x	9.6x	10.9x	13.1x	*-9.1x*

(1) The adjusted EBITDA excludes income from rental activities (€1.4m) and income from the sale of fixed assets and finance leases (€17m)
(2) The adjusted net debt excludes €46m of restricted cash for FY23 onwards.

CREDIT RATING

CREDIT RATING	
Business Risk Profile	***BBB***
Industry Risk Assessment	*BBB-*
Industry 's ESG	***Neutral***
Competitive Positioning	*BBB*
Governance	*BBB+*
Financial Risk Profile	***A-***
Cash flow and leverage	*A-*
Solvency	*A-*
Company's ESG	***Neutral***
Anchor Rating	***BBB+***
Modifiers	-
Final Rating	***BBB+***

RATING SENSITIVITY

Detailed below are the factors that individually or collectively could impact the company's rating:

- Long-term rating positive factors (↑).

We could upgrade our rating should Puma's credit metrics improve further on a sustainable basis. Specifically, a potential catalyst for such upgrade could be an EthiFinance interest coverage ratio equal to, or above, 11.0x (in addition to a sustainable net adjusted leverage of 1.2x, or an improvement of the company ESG score). Also, an upgrade is subject to stable trends in the whole fashion and apparel industry, which is closely tied to market sentiment, and brand image.

- Long-term rating negative factors (↓).

We may consider downgrading our long-term rating in the event of a significant deterioration in Puma's credit metrics, such as the EthiFinance adjusted net leverage exceeding 1.8x on a sustained basis, and/or the interest coverage ratio falling below 7.0x. Additionally, industry headwinds such as high operating costs, or potential controversies, could result in a rating downgrade in the event of a significant material impact on the company's financials.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.