MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 April 2019

Update

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RATINGS

Fleury SA

Domicile	Sao Paulo, Brazil
Long Term Rating	Ba2
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Fleury S.A.

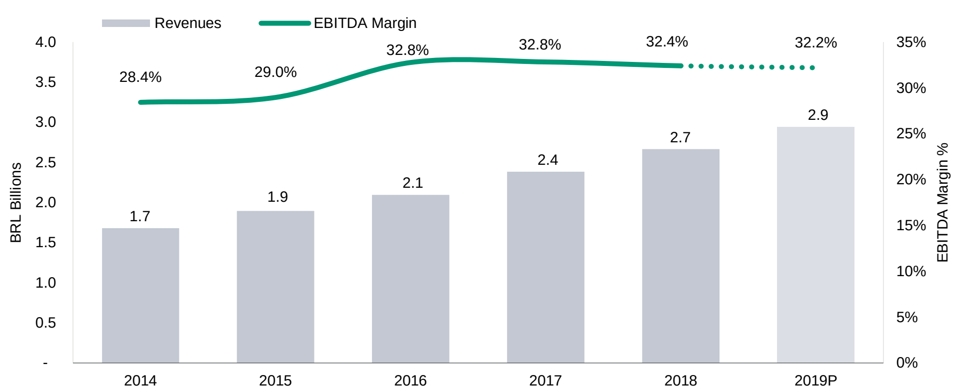
Update to credit analysis

Summary

Fleury SA's (Fleury) Ba2/Aa2.br ratings are supported by the company's strong and well-recognized brands, market position in Brazil and focus on the more resilient higher-income population group, and the positive long-term prospects of the Brazilian healthcare industry. The ratings also incorporate (1) Fleury's improved diversification in terms of branding, consumer profile and geographic footprint, stemming from its acquisitive growth strategy; and (2) our expectation of adequate credit metrics and liquidity profile, even after considering the execution of the expansion plan announced in 2016. The company's resilient business model, as illustrated by its continued adequate operating and financial performance during Brazil's recession in 2015-16, is an additional positive credit consideration (see Exhibit 1).

The ratings are constrained by the Government of Brazil's (Ba2 stable) rating and the company's small size compared with that of its global peers, as well as the fragmented nature of the industry, which provides room for M&A activity. Furthermore, there are risks related to Fleury's expansion plans, which entail both organic growth and acquisitions, and large dividend distributions, although we expect the company to match its capital spending and shareholders' distributions with its cash generation to preserve its creditworthiness.

Exhibit 1
Fleury's revenue and EBITDA margin proved resilient during Brazil's economic recession
In BRL millions



All figures and ratios calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) or projections (proj.) are Moody's opinion and do not represent the view of the issuer.
Sources: Moody's Financial Metrics™ (historical), Moody's Investors Service (forecast)

Credit strengths

» Strong and well-recognized brands in the local market

» Continued favorable long-term fundamentals for the healthcare industry

» Adequate credit metrics and liquidity, despite the announced expansion plan

» Disciplined and successful acquisitions

Credit challenges

» Ratings constrained by Brazil's sovereign rating

» Relatively small size compared with that of its global peers

» Highly fragmented industry, which increases the likelihood of further M&A activity

Rating outlook

The stable outlook on Fleury's ratings reflects our expectations that (1) its credit metrics will remain around the current levels in the next 12-18 months, and (2) the company will prudently manage its growth strategy and dividend distributions to preserve its liquidity profile.

Factors that could lead to an upgrade

An upgrade of Fleury's ratings would depend on an upgrade of Brazil's sovereign rating. Positive pressure on the ratings would also require Fleury to continue its organic growth while pursuing its expansion strategy and maintain stable profitability, leverage and liquidity levels even during tougher macroeconomic conditions.

Factors that could lead to a downgrade

The ratings could be downgraded if Fleury fails to grow organically or to maintain an EBITDA margin around the current level. The ratings could also come under pressure if the company's:

» leverage ratio remains above 3.5x

» free cash flow remains negative on a consistent basis

» liquidity deteriorates

A downgrade of Brazil's sovereign rating could also exert negative pressure on Fleury's ratings.

Key indicators

Exhibit 2

Fleury S.A.

USD Millions	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Moody's 12-18 Month Forward View
Revenue	770.7	715.3	578.0	604.2	746.4	734.0	750 - 900
EBITA Margin %	17.0%	19.1%	20.5%	24.0%	24.6%	23.6%	22% - 24%
Debt / EBITDA	3.3x	3.2x	2.6x	1.8x	1.9x	2.1x	1.8x - 2.3x
EBITA / Interest Expense	2.4x	2.3x	2.4x	3.4x	5.6x	5.5x	5.5x - 6.0x
RCF / Net Debt	33.6%	21.5%	57.1%	30.9%	70.9%	46.1%	44% - 46%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last 12 Months.
Sources: Moody's Financial Metrics™

Profile

Founded in 1926, Fleury SA (Fleury) is a major provider of high-quality diagnostic medicines in Brazil through its patient service centers (84% of gross revenue) and operations in the hospitals (16% of gross revenue). The group has a diversified portfolio of brands that caters to different social classes in seven Brazilian states and the Distrito Federal. In 2018, Fleury posted revenue of BRL2.7 billion (around $728 million) and an adjusted EBITDA margin of 32.4%.

Detailed credit considerations

Strong and well-recognized brands in the local market

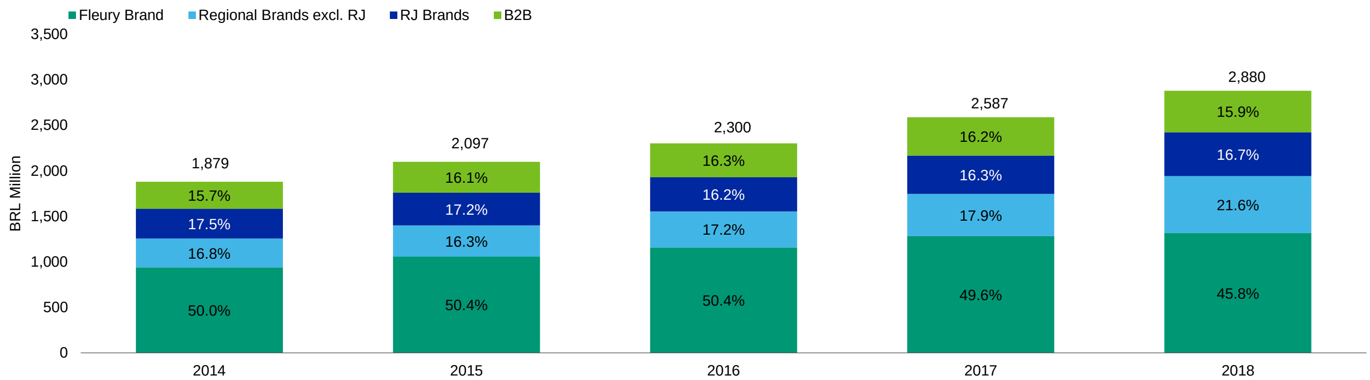
Fleury operates under eight brands (Fleury, Clínica Felippe Mattoso, Weinmann, a+, Diagnoson a+, Labs a+, Serdil and IRN) in seven Brazilian states and in Distrito Federal, providing premium and intermediary-level services, mainly to customers in classes A and B. In December 2018, the company also announced the acquisition of the Lafe brand and Santécorp.

The brands Fleury, Clínica Felippe Mattoso and Weinmann Labs have leading positions in the A social class in the states of São Paulo, Rio de Janeiro and Rio Grande do Sul, some of the most economically robust regions of the country. The national brand a+ was launched in 2011 as a result of the consolidation of brands previously acquired. Currently, a+ operates in the six main economic centers of Brazil, offering diagnostic services to beneficiaries of intermediary-level health plans.

Unlike the US and other markets, the choice of a healthcare provider in Brazil is usually determined by the patient, and procedures are performed outside of hospitals and medical consultations. In our view, Fleury's successful branding strategy, which is illustrated by the wide recognition of the Fleury brand by patients and physicians, provides a competitive advantage to the company during a patient's decision-making process. The company's wide coverage and integrated solutions for physicians also contribute to its strong market position in Brazil.

The Fleury brand, which accounted for 45.8% of the company's revenue in 2018, also benefits from the resilience of the consumption patterns of the higher-income population group, which confers defensive characteristics to Fleury's business model and allows for an adequate operating performance even during economic cycles. This factor was particularly important during the economic recession in Brazil, when weak macroeconomic conditions led to a marked increase in unemployment rates and, consequently, to a reduction in the total number of health plan beneficiaries. Despite the challenging economic scenario in Brazil, company's gross revenue increased consistently over the years. In 2018, gross revenue rose by 11%, mainly driven by the good performance of regional brands. We see regional brands gaining a higher share in Fleury's portfolio, in line with its growth strategy that anticipated the future limitations stemming from Brazilian macroeconomic scenario.

Exhibit 3
Regional brands are expanding into Fleury's portfolio
Fleury's gross revenue



Sources: Fleury S.A., Moody's Investors Service

Long-term fundamentals for Brazil's healthcare industry remain favorable

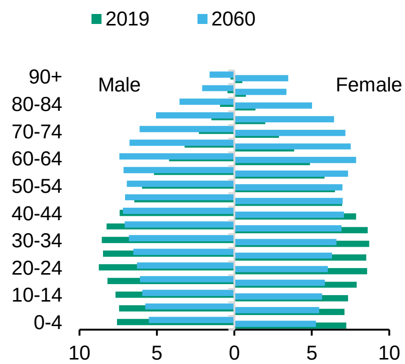
The long-term prospects for the Brazilian healthcare industry remain favorable, although in contrast to the challenges related to an economy that is still undergoing a gradual recovery, in conjunction with high unemployment rates and a reduced number of health plan beneficiaries.

Over the last several years, the increase in the population's average income level and the importance of health spending for Brazilians led to a gradual growth in private health spending in the country. There were about 16.6 million net additions to health plans between 2005 and 2014 as a consequence of the 13.9 million jobs created over the same period.

On the other hand, although health spending tends to be relatively resilient to economic cycles, the weakness in Brazil's macroeconomic environment in the last few years hurt the sector's operations, with rising unemployment leading to a decline in the total number of health plan beneficiaries. Since the beginning of 2015 until the first quarter of 2018, the accumulated number of health plan beneficiaries decreased by 3.1 million as a result of an acute macroeconomic contraction in Brazil. Over the same period, almost 2.7 million formal job positions closed in the country. However, in the last few quarters, we have seen signs of improvement in the number of health plan beneficiaries and in the creation of formal job positions in the country. During this period, Fleury's brands have proved to be relatively resilient, given the high-quality services, brand recognition and the company's focus on higher-income customers, which will continue to temper the impact of high unemployment rates in Brazil on the company's operating performance.

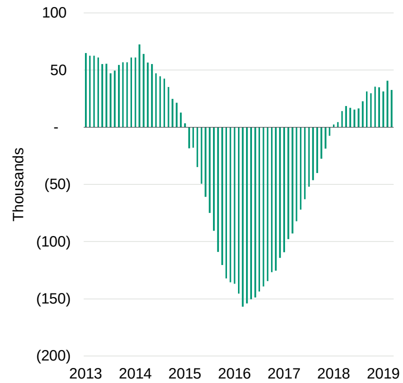
In the long term, the aging population will support an increased demand for healthcare services in Brazil. According to the Brazilian Institute of Geography and Statistics (IBGE), the proportion of Brazilians aged 60 years or older should reach 32% by 2060 (or 73.4 million inhabitants) from 13% in 2013. Also, the private health plan segment is still underpenetrated in the country, especially compared with developed countries. We estimated that as of February 2019, only about 24% of the Brazilian population had a health plan contracted, while in developed economies, the penetration rate is considerably higher. It is noteworthy that the individual penetration rate is higher than Brazil's average in more developed states such as São Paulo (38%) and Rio de Janeiro (33%), where Fleury has a particularly strong presence.

Exhibit 4
Population aging supports long-term fundamentals...
In millions habitants



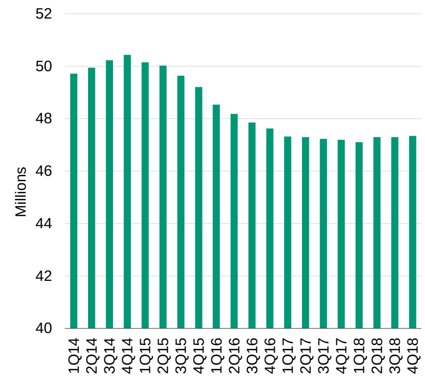
IBGE estimates.
Source: IBGE

Exhibit 5
...but despite a gradual recovery in formal jobs and the end of the fall in health plan additions...
Brazil's net addition of formal jobs



In thousands, 12-month trailing average.
Source: CAGED

Exhibit 6
...the sector's growth in the short term will remain constrained
Number of health plan beneficiaries in Brazil



In millions.
Source: National Health Agency

Highly fragmented industry increases the likelihood of further M&A activity

The private healthcare sector in Brazil is highly fragmented and has no dominant company, with the four largest companies (Fleury, Dasa, Hermes Pardini and Alliar) holding only 25% of the sector's market share in terms of revenue. There are currently more than 16,000 medicine diagnostic providers in the country. In such a fragmented industry, we believe larger companies such as Fleury are in a more advantageous position and have broader bargaining power when dealing with health insurance providers and hospitals. Negotiations with health insurance providers are usually made once a year and include the price adjustment to be implemented by the healthcare service providers.

Also, under this scenario, further industry consolidation is expected, especially involving larger and capitalized companies such as Fleury. However, the assigned ratings incorporate our expectation that Fleury would conduct any future acquisition in a prudent manner to preserve its creditworthiness.

Disciplined and successful acquisitions partially mitigate execution and integration risks

The main driver for Fleury metrics between 2019 and 2021 will be the continued growth. This implies acquisitions and opening of new units, all of which require higher investments and some cost pressure, since some units are still in ramp-up stage. Fifty-three units were opened since 2016 and the company plans to open an additional 20 to 37 new units until 2021. We also believe Fleury will continue to look at strategic acquisitions, this has been key in Fleury's growth strategy over the past years, and although M&A activity can entail integration challenges, we recognize that Fleury has so far managed its acquisitions well. Originally, the Fleury group targeted the A social class in the State of São Paulo. Through acquisitions, the company managed to diversify its revenue, in terms of both customer base and geographic footprint. Currently, Fleury is present in seven Brazilian states and Distrito Federal, and its portfolio of brands covers social classes A and B. Despite the acquisitions, the company's growth has been mainly driven organically, with most of the group's revenue growth coming from its existing operations — with the exception of the Labs D'Or deal, a BRL1.2 billion acquisition announced in 2011.

From 2013 through September 2017, Fleury did not announce any acquisition and focused on business integration and cost efficiencies to recover profitability. In September 2017, Fleury acquired Serdil, an image diagnostic company in Porto Alegre, for BRL30 million. Additionally, in March 2018, the company announced the acquisition of IRN, an image diagnostic company with operations in the City of Natal, Rio Grande do Norte, for BRL91 million. We expect the company to continue pursuing M&A opportunities in 2019-20, although we do not expect any transformational acquisition in the medium term.

The acquisition of IRN will bring BRL15 million-BRL20 million in annual EBITDA while expanding Fleury's national coverage by introducing an additional image diagnostic business for the company in the northeast region of Brazil. With the acquisition, Fleury will be able to leverage the relationships with health insurance providers and hospitals in the Rio Grande do Norte state to increase its market share in the region. The Serdil acquisition will bring BRL5 million in additional annual EBITDA. Both IRN and Serdil focus on the high-income population group and the higher-margin image business, which will contribute to the maintenance of Fleury's overall business strategy and consolidated margin level.

In December 2018, the company announced the acquisition of the Lafe brand in Rio de Janeiro for BRL170 million and Santécorp for BRL15.5 million. In the case of Lafe, the new brand will act as a support service with clinical analysis in the region through 32 patient service centers, but the transaction is still subject to CADE's (Administrative Council for Economic Defense) approval. On the other hand, Santécorp, whose operations are centralized in health management services, will enable the company to provide solutions for corporate health.

Adequate credit metrics and cash generation, despite the announced expansion plan

Fleury's credit metrics have improved significantly since 2013 and, as of year-end 2018, compared favorably with those of similarly rated companies. During 2013 and 2014, the company faced a few problems and its margins were limited by (1) operational adjustments and integration costs in Rio de Janeiro, (2) the early stage of new a+ brand labs, (3) its strategy to adjust its service offering by focusing on more profitable clients and cost synergies, and (4) inflationary cost pressures. Following these pressures, Fleury's operational and footprint adjustments improved its profitability in 2015-18, even as the company faced challenges related to a contracting market, rising inflation (because around 50% of Fleury's costs are related to labor) and currency depreciation (which increases US dollar-denominated costs, about 10% of the total).

Lower inflation in Brazil should contribute to lower margin volatility and lower dependence on the adequate pass-through of cost increases, and a more stable economic environment will prevent further contraction in the local labor market. These factors will allow Fleury's organic growth rates to remain strong and the company to focus on resuming its inorganic growth strategy.

In this context, Fleury announced an expansion plan in December 2016 that included the opening of up to 90 new service centers until 2021, focused mainly on its regional brands (including the a+ brand) and on fast sites — smaller units that offer simpler procedures. Fast-sites require lower investment and usually present higher margins than larger units, which should increase Fleury's operating leverage in the medium term. In the short term, however, the early stage of the new centers will limit margin expansion and result in higher capital spending. Since the announcement of the expansion plan until December 2018, Fleury had opened 53 new centers, representing 73% of the minimum expansion plan target.

Fleury's adjusted EBITDA margin returned around 32%-33%, up from a low of 26% as of year-end 2013, reflecting the operational adjustments made by the company in the last few years.

We expect leverage (measured by total adjusted debt/EBITDA) to remain within 1.8x-2.3x because of an adequate profitability level and the maintenance of the current gross debt level. Fleury's business model proved to be resilient during the downturn in Brazil, and the company was able to amortize its gross debt while improving operations, which resulted in its adjusted leverage declining to around 2.0x in the last three years from a peak of 3.3x in 2013. While we do not expect additional debt amortizations in the medium term, we believe Fleury has built a buffer under its credit metrics to weather the potential volatility in its operations without compromising its credit quality.

Relatively small size compared with that of global peers

Although acquisitions have increased Fleury's size, the company remains relatively small compared with its global peers, with annual net revenue of BRL2.7 billion in 2018. In our view, larger companies generally have greater resilience to changes in demand and a wider geographic diversity; they are also often better able to realize economies of scale and benefit from a broader access to potential customers and capital markets if needed. Nevertheless, Fleury's ratings incorporate its position as one of the largest providers of diagnostic medicines in Brazil.

Ratings are constrained by Brazil's sovereign rating

Fleury generates 100% of its revenue in the local market and although it operates in a resilient segment, one of its main growth drivers is the creation of formal jobs and additions to health plans, which we expect to gradual improve in medium term. In our view, Fleury's operating performance is highly exposed to Brazil's domestic fundamentals.

Liquidity analysis

Fleury's liquidity profile remains strong, and its debt maturities are manageable. As of year-end 2018, the company's cash position of BRL809 million was sufficient to cover its reported short-term debt by 3.7x and corresponded to 64% of its total reported debt.

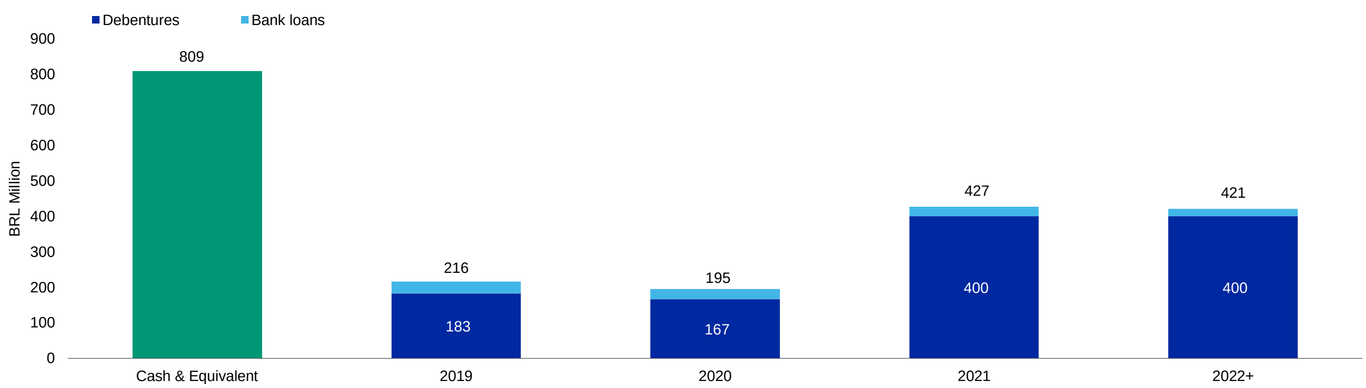
At the current margin level, Fleury's cash flow from operations should be sufficient to cover its capital spending (including its expansion plan), but given the company's strategy of maintaining a high dividend payout and pursuing opportunistic M&A, additional gross debt reduction will be limited. Although we tend to view large shareholders' distributions as credit negative, we believe Fleury's current metrics accommodate such dividend payments, especially when considering the debt amortizations made in the last years. We expect Fleury to manage its capital spending, M&A and shareholders' distributions in a prudent manner, and be able to post modestly positive free cash flow. Furthermore, we expect Fleury to adjust its cash outflows, if needed, to preserve its liquidity profile.

Fleury has a good buffer under financial covenants applicable to its debentures (91% of total debt), setting a target of maximum reported net leverage of 3.0x (0.7x as of year-end 2018, reported) and minimum reported net interest coverage of 1.5x (13.3x as of year-end 2018, reported), thereby reducing the risk of a covenant breach.

Exhibit 7

Fleury's debt amortization schedule

In BRL millions, as of December 31, 2018



Sources: Fleury S.A., Moody's Investors Service

Corporate governance

Fleury is a publicly owned company listed on the São Paulo Stock Exchange, B3 (former Bovespa). Currently, 61.5% of its shares are in free float and the company is part of B3's Novo Mercado, the listing segment with the highest standards of corporate governance in Brazil. Fleury's largest shareholders are the partner doctors through their direct stake of 19.0%, and indirect stake, through Integritas, of 3.3%. Bradesco Seguros S.A. (Bradseg) is Fleury's second-largest shareholder, with 16.2% of total shares.

The company's board of directors is composed of 10 members, of which four are nominated by the partner doctors, three by Bradseg and three are independent members. The company is ruled by a shareholders' agreement signed between Integritas and Bradseg, valid through 2030. In our opinion, the implementation of a permanent fiscal committee and formal financial policies regarding a leverage target and minimum liquidity would be positive for Fleury's corporate governance practices. Currently, the company has a nonformal target of maintaining reported net debt/EBITDA below 1.5x.

Rating methodology and scorecard factors

Fleury's grid-indicated outcome under our Business and Consumer Service Industry rating methodology maps to a Baa3, one notch above the assigned ratings. The grid reflects the company's good profitability and debt-protection metrics, while the assigned ratings are primarily constrained by Brazil's sovereign rating. Prospectively, our 12-18-month forward view maps to a Ba1 grid-indicated outcome, reflecting lower, although still adequate, profitability, as a result of the early stage of the company's new service centers and a stabilization of debt metrics, and the use of cash to pursue growth instead of additional debt reduction.

Exhibit 8

Rating factors

Fleury SA

Business and Consumer Service Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of 4/22/2019 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$0.7	B	$0.8 - $0.9	B
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Baa	Baa	Baa	Baa
b) Competitive Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	23.6%	Baa	22% - 24%	Baa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.1x	Baa	1.8x - 2.3x	Baa
b) EBITA / Interest	5.5x	Ba	5.5x - 6x	Ba
c) RCF / Net Debt	46.1%	A	44% - 46%	A
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned		Ba2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2018.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 9

Peer comparison

Fleury SA

	Fleury SA Ba2 Stable			Laboratory Corporation of Am Baa2 Stable			Abbott Laboratories Baa1 Positive			Charles River Laboratories I Ba2 Stable			MEDNAX, Inc. Ba2 Stable		
(in US millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenue	$604	$746	$734	$9,642	$10,308	$11,333	$20,853	$27,390	$30,578	$1,681	$1,858	$2,266	$3,183	$3,458	$3,647
EBITDA	$198	$245	$238	$2,211	$2,331	$2,438	$4,973	$7,186	$7,846	$432	$478	$546	$701	$630	$605
Total Debt	$373	$452	$458	$7,216	$8,214	$7,677	$24,118	$33,121	$23,208	$1,452	$1,433	$1,927	$1,831	$1,990	$2,119
Cash & Cash Equiv.	$125	$203	$209	$434	$317	$427	$18,620	$9,407	$3,844	$118	$164	$195	$56	$60	$37
EBITA Margin	24.0%	24.6%	23.6%	17.1%	16.9%	16.1%	19.6%	22.1%	21.8%	19.6%	19.8%	18.8%	20.1%	16.2%	14.6%
EBITA / Int. Exp.	3.4x	5.6x	5.5x	6.2x	6.1x	5.8x	8.2x	6.1x	7.3x	9.4x	8.9x	5.7x	9.3x	6.9x	5.5x
Debt / EBITDA	1.8x	1.9x	2.1x	3.3x	3.5x	3.1x	4.8x	4.6x	3.0x	3.4x	3.0x	3.5x	2.6x	3.2x	3.5x
RCF / Net Debt	30.9%	70.9%	46.1%	24.1%	20.8%	22.9%	59.1%	20.1%	24.1%	26.1%	32.0%	25.4%	28.3%	22.3%	20.3%
FCF / Debt	-6.3%	2.0%	-0.9%	12.5%	14.5%	12.3%	3.6%	8.9%	12.6%	18.6%	16.6%	17.1%	22.1%	23.2%	11.4%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 10
Moody's-adjusted debt breakdown
Fleury SA

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**417.3**	**390.8**	**250.2**	**255.6**	**320.2**	**326.6**
Operating Leases	158.8	149.0	95.6	99.5	114.4	112.0
Non-Standard Adjustments	34.5	27.0	15.8	17.6	16.8	19.3
Moody's-Adjusted Debt	**610.6**	**566.8**	**361.6**	**372.7**	**451.5**	**458.0**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 11
Moody's-adjusted EBITDA breakdown
Fleury SA

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported EBITDA	**147.0**	**159.1**	**131.6**	**164.8**	**205.8**	**200.5**
Operating Leases	45.0	45.0	33.3	31.1	36.9	35.1
Unusual	8.2	-0.8	2.5	2.1	2.4	2.3
Moody's-Adjusted EBITDA	**200.3**	**203.4**	**167.4**	**198.0**	**245.1**	**237.9**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
FLEURY SA	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Corporate Family Rating	Aa2.br
NSR Senior Unsecured	Aa2.br

Source: Moody's Investors Service

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