BB

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 08/07/2019
Review date: 01/08/2022

Contacts

Assistant Vice President
Javier López Sánchez
javier.lopez@ethifinance.com

Chief Rating Officer
Guillermo Cruz Martínez
guillermo.cruz@ethifinance.com

Rating Action

EthiFinance Ratings raises Atrys Group's rating from "BB-" to "BB", changing its outlook from Positive to Stable.

Executive Summary

Atrys Health S.A. (hereinafter 'Atrys' or 'Atrys Group') focuses its activity in the health sector, presenting several lines of activity ranging from occupational risk prevention and health surveillance, personalised diagnosis and oncological treatment, telediagnosis and big data as a tool to complement and improve its activity. It is currently in a stage of expansion and high business growth, with pro forma revenue and adjusted EBITDA figures of €165.3MM and €37MM at the end of 2021, respectively, displaying an adjusted NFD/EBITDA level of 4.8x. Although at the end of 2021, the Atrys share appreciated by 14% compared to the closing price in 2020, during 1H2022 its value fell by 35.3% with a market capitalisation of €483.1MM.

Fundamentals

Business Profile

- **High degree of specialisation in a market segment that requires a high level of know-how as well as a high and recurrent level of investment for the development of the activity.**

  Despite being in a sector where there is a concentration of market share amongst large laboratory groups, oncology treatment and occupational risk prevention services, Atrys is positioning itself as a reference player in Spanish-speaking countries (Spain and part of Latin America) thanks to inorganic growth in recent years. Its multi-speciality medical aspect (they offer medical services in different specialities becoming a differential factor in telemedicine), as well as access through its shareholders to the latest trends in radiotherapy, and its implementation in countries that do not have access to this know-how, are presented as its main assets. In addition, its latest acquisition in June 2022 (Bienzobas) reinforces its positioning in the provision of comprehensive oncology services.

- **Strong inorganic growth developed in recent years that derives in a greater vertical integration of the activity.**

  Following the latest acquisitions made in 2021 and 2022 (the incorporations of Aspy and Bienzobas stand out due to their larger size), the company has reinforced its position throughout the value chain, controlling the phases of prevention, diagnosis (personalised and online), oncology treatment (medical oncology, pharmacological treatment and advanced radiotherapy) and health monitoring. Under a pro forma analysis estimated at the end of 2022 and after, *a priori*, an adequate integration of the acquired companies, Atrys would concentrate 76% of its revenues in Spain, the rest being distributed in Latin America (14.7%, mainly Chile, Brazil and Colombia) as well as Portugal and Switzerland, which would account for the remaining 9.3% of the business.

- **Diversified shareholding structure and management with extensive experience in the sector that orients the corporate strategy towards the expansion and consolidation of the business.**

  The strategic plan is aimed at strengthening competitive positioning through both organic growth (*capex*, R&D and collaboration agreements with hospitals and major health insurers) and, mainly, inorganic growth (corporate acquisitions), which has allowed the group to increase its presence in Spain, Latin America and also expand in Europe (Portugal and Switzerland for the moment).

All this growth is supported by an adequate management of the company and a balanced and diversified shareholding structure, with important institutional investors with a high level of interest in the group, which is reflected in the support shown in the successive capital increases carried out, which, in addition to the maintenance of the current shareholders, also involves the entry of new investors (such as the one carried out in June 2022).

Financial Profile

- **Growing revenue trend supported by the generation of high operating margins.**

  Based on a pro forma analysis, the Atrys Group has reflected a positive evolution in the last year's business (+3.5% YoY) reaching a turnover of €165.3MM. Thus, although 2021 operating margins have experienced a slight decline (-6.4pp YoY) with the latest acquisition of Aspy (presents lower EBITDA margins, average 19% for the 2019-2021 period), they continue to present high and positive figures (22.4%). In addition, despite an increase in the financial expenses as a result of the greater debt that finances its inorganic growth, interest coverage shows adequate values (considering those recurring financial expenses that imply cash outflows) of 7.4x. The evolution during 2022 is being positive, estimating that the group could reach pro forma revenue and EBITDA figures of €220MM and €50MM respectively, which would imply a further stabilisation of margins as well as a strong and necessary boost to the bottom line.

- **Refinancing of the debt reached at the end of 2021, which strengthens its financial structure, all supported by solid capitalisation figures reinforced in recent years.**

  The growth achieved in the last years is directly reflected in the increase in total investment and financing ($CAGR_{18-21}$ of 119.2%). In December 2021, the company refinanced its financial liabilities by obtaining a long-term loan (TLB with several tranches) that will significantly improve its financial structure (adequate maturity schedule and lower financial cost). All this, together with successive capital increases such as those of May 2021 through non-cash contributions (takeover bid for Aspy) for €219.7MM and that of June 2022 through cash contributions (acquisition of Bienzobas) for €72.5MM, allows for an adequate funding mix that is displayed in positive values for the Equity/TFD ratio of 128.4% (+45.2pp YoY). However, the group has a high adjusted pro forma NFD/EBITDA (4.8x in 2021), and it is important that further progress and consolidation of all this growth is achieved to be reflected in growth of funds generated and a better balance of its economic-financial structure.

- **Positive levels of cash and operating cash generated, although further progress is required in future years.**

  Overall, Atrys has maintained a solid cash position in recent years (€36MM in 2021) which, together with the improvement reflected in the generation of pro forma funds from operations from its activity (€36.3MM at the end of 2021; $CAGR_{19-21}$ of 139.4%), reinforces its positive liquidity levels. Following the refinancing reached in December 2021, most of its financial debt maturities are concentrated from 2027 onwards (74.8% of the total), a situation that allows it to continue its expansion strategy in better conditions for the coming years. The company projects a scenario of growth in the business, results and operating cash flow, which could strengthen its economic-financial situation.

Main financial figures

Main financial figures. Thousands of €. (1)				
	2019	2020	2021	21vs20
Turnover	14,837	31,396	121,014	285.4%
Turnover (PF)	20,818	45,133	165,313	266.3%
Adj. EBITDA (PF)(2)	7,008	12,993	37,003	184.8%
Adj. EBITDA Mg. (PF)(2)	33.7%	28.8%	22.4%	-6.4pp
Adj. EBT (2)	1,685	-1,626	-2,815	-73.1%
Total assets	88,691	180,971	565,632	212.6%
Equity	39,539	71,380	273,979	283.8%
Total Financial Debt	38,568	85,773	213,317	148.7%
Equity/TFD	102.5%	83.2%	128.4%	45.2pp
Net Financial Debt	28,747	67,228	177,295	163.7%
NFD/Adj. EBITDA (PF)(3)	4.1x	5.2x	4.8x	-0.4x
FFO (PF)	6,328	12,608	36,276	187.7%
FFO (PF)/NFD	22.0%	18.8%	20.5%	1.7pp
Adj. EBITDA (PF)/Adj. Interest (PF)(2)	13.3x	4.2x	7.4x	3.2x

(PF) Pro forma data considering all acquisitions made on a full year basis (starting from the year in which they are made and not at the date of acquisition); (1) Financial debt includes the earn-out booked as provisions in the balance sheet and confirmed with Atrys as effective cash outflow for the fulfilment of the objectives of the M&A transactions carried out, (2) it is adjusted for non-recurring expenses (M&A, synergies, exit to the continuous market, etc.) and interest is considered to be those that represent cash outflows (excluding interest rate subsidised by public financing, mainly) and (3) based on the definition of financial debt with the new refinancing carried out at the end of 2021 (without taking into account convertible bonds, operating leases (IFRS 16) and earn-outs generated by acquisitions, among others), the adj. DFN/adj. EBITDA ratio (PF) for 2021 stood at 3.72x.

Rating and Outlook

EthiFinance Ratings **has upgraded the group's corporate rating from "BB-" to "BB", changing the outlook from Positive to Stable** (previous review on 02/08/2021). Atrys has recently refinanced (December 2021) its financial debt with an improvement in the cost of financing and maturity schedule, which, together with the significant increase in size and dimension that the group is achieving with the M&A transactions carried out, is strengthening its economic and financial structure. In Ethifinance Rating's opinion, it is important to continue progressing in the proper integration and consolidation of the acquired companies, as this could further reinforce their competitive and credit profile as well as provide a greater boost and strength to the group's bottom line.

Rating sensitivities

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).**

  Improve leverage levels in relation to operating results generated (NFD/EBITDA and FFO/NFD) and capitalisation (Equity/TFD). Adequate integration and consolidation of the acquired companies during 2022, allowing for a greater boost in revenues, operating and final profits, operating cash flow, maintenance of margins generated with the activity and improvement in interest coverage. Strengthen liquidity levels.

- **Negative factors (↓).**

  Increased leverage levels with deviations (based on projections) of relevant ratios such as NFD/EBITDA, FFO/NFD or Equity/TFD. Failure to meet the levels of operating cash generated and results achieved (EBITDA and EBT) reflected in the business plan after the integration of all acquired companies. Falling margins, interest coverage and tightening of the liquidity position.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

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.

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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on www.EthiFinance Ratings-rating.com/en-US/about-EthiFinance Ratings/methodology and according to the Long-term Corporate Rating scale available at www.EthiFinance Ratings-rating.com/en-US/about-EthiFinance Ratings/rating-scale.
- 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.

Conditions of Use for this document and its content:

For all types of Ratings that the AGENCY issues, the User may not, either by themselves or via third parties, transfer, sublease, sublicense, sell, extract, reuse, or dispose of in any other way the content of this Document to a third party, either for free or for consideration. Nor may they alter, transform or distort the information provided in any way. In addition, the User will also not be permitted to copy and/or duplicate the information, nor create files which contain the information of the Document, either in its entirety or partially. The Document and its source code, regardless of the type, will be considered as the elaboration, creation, or work of the AGENCY and subject to the protection of intellectual property right regulation.

For those uses of this Document which are permitted, the User is obliged to not allow the removal of the copyright of the AGENCY, the date of the Document's issuance, the business name as established by the AGENCY, as well as the logo, brands and any other distinctive symbol which is representative of the AGENCY and its rights over the Document.

The Document and its content may not be used for any illicit purpose or any purpose other than those authorised by the AGENCY. The User will inform the AGENCY about any unauthorised use of the Document and/or its content that may become apparent.

The User will be answerable to the AGENCY for itself and its employees and/or any other third party which has been given or has had access to the Document and/or its content in the case of damages which arise from the breach of obligations which the User declared to have read, accepted and understood upon receiving the Document, without prejudice to any other legal actions that the AGENCY may exercise in defence of its lawful rights and interests.

The Document is provided on the acceptance that the AGENCY is not responsible for the interpretation that the User may make of the information contained. Credit analyses included in the Document, as well as the ratings and statements, are to be deemed as opinions valid on the date of issuance of the reports and not as statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The credit ratings and credit rating prospects issued by the AGENCY are consider to be its own opinion, so it is recommended that the User take it as a limited basis for any purpose that it intends to use the information for. The analyses do not address the suitability of any value. The AGENCY does not act as a fiduciary or an investment advisor, so the content of the Document should not be used as a substitute for knowledge, criteria, judgement or experience of the User, its Management, employees, advisors and/or clients in order to make investment decisions.

The AGENCY will devote every effort to ensure that the information delivered is both accurate and reliable. Nonetheless, as the information is elaborated based on data supplied by sources which may be beyond the control of the AGENCY, and whose verification and comparison is not always possible, the AGENCY, its subsidiaries, and its directors, shareholders, employees, analysts and agents will not bare any responsibility whatsoever (including, without any limitations, loss of revenue or income and opportunity costs, loss of business or reputational damage or any other costs) for any inaccuracies, mistakes, noncorresponding information, incompleteness or omission of data and information used in the elaboration of the Document or in relation to any use of its content even should it have been warned of potential damages. The AGENCY does not make audits nor assume the obligation of verifying independent sources of information upon which the ratings are elaborated.

Information on natural persons that may appear in this document is solely and exclusively relevant to their business or business activities without reference to the sphere of their private life and should thus be considered.

We would like to inform that the personal data that may appear in this document is treated in accordance with Regulation (EU) 679/2016, on the protection of natural persons with regard to the processing of personal data and the free movement of such data and other applicable legislation. Those interested parties who wish to exercise the rights that assist them can find more information in the link: https://www.axesor.com/es-ES/gdpr/ or contact our Data Protection Officer in the mail dpo@axesor.com.

Therefore the User agrees that information provided by the AGENCY may be another element to consider when making business decisions, but decisions will not be made based solely on it; that being the case the AGENCY will not be held responsible for the lack of suitability. In addition, the use of the information before courts and/or tribunals, public administrations, or any other public body or private third party for any reason shall be solely the User's responsibility and the AGENCY shall not be held responsible for any liabilities on the grounds of inappropriateness of the information's contents.

Copyright © 2022 ETHIFINANCE RATINGS, S.L. All Rights Reserved.

C/ Benjamín Franklin S/N, Edificio Camt, 1º Izquierda, 18100, Granada, España

C/ Velázquez nº18, 3º derecha, 28001 - Madrid.