FitchRatings

Corporates
Technology
Brazil

Cielo S.A.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BB	Stable	Downgrade Nov. 18, 2019
Long-Term IDR	BB	Stable	Downgrade Nov. 18, 2019
National Long-Term Rating	AAA (bra)	Stable	Affirmed Nov. 18, 2019

Click here for full list of ratings

Applicable Criteria

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (January 2019)

National Scale Ratings Criteria (July 2018)

Corporate Rating Criteria (March 2018)

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Fitch Ratings downgraded Cielo S.A.'s Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB+' on Nov. 18, 2019 and affirmed its National Long-Term Rating at 'AAA(bra)'. The Rating Outlook for the corporate ratings is Stable. At the same time, Fitch downgraded the senior unsecured notes for Cielo's wholly owned subsidiary Cielo USA Inc. to 'BB' from 'BB+'.

The downgrade reflects the negative effect of increased competition in the Brazilian payments industry on the company's cash flow. Industry and business risks have significantly changed in the past few years, reducing the resilience of Cielo's business model. Its adjusted EBITDA fell by about 43%, or BRL3.5 billion, since 2016, as main sector participants lowered pricing with an aggressive commercial strategy to increase the volume of credit and debit transactions and protect market share. Cielo's challenge is to continue to adapt its strategy to the highly competitive environment and continue to grow its activities and preserve healthy cash flows.

Payments industry entry barriers have decreased, in Fitch's opinion, which could further increase the strong competitive and profitability pressures. Cielo continues to benefit from its leading position in Brazilian card payments and its competitive advantage relies in part on the relationship and distribution network of two important banks, Banco do Brasil S.A. (BB–/Stable) and Banco Bradesco S.A. (BB/Stable). Cielo's affiliation with the banks provides access to their broad customer bases to acquire merchant accounts.

Cielo's ratings continue to incorporate its solid capital structure, low leverage and strong financial flexibility. The company benefits from a more diversified revenues base compared with main competitors, with numerous affiliate merchants, and the low counterparty risks associated with the Brazilian banking system. More than 95% of transaction volume is concentrated in banks rated 'BB–' and above or those that are partially guaranteed by Visa and MasterCard.

Cielo has virtually no direct credit exposure to cardholders, as the card-issuing bank guarantees their payments, while the company's exposure to merchants is limited.

Key Rating Drivers

Challenges from Increased Competition: The market dynamics for the Brazilian payments industry has significantly changed in the last few years, and Fitch expects competition to increase further in the near term. Cielo is the leading company in Brazil's merchant acquiring and payment processing industry, with an estimated 38% market share as of June 30 2019, based on Associacao Brasileira das Empresas de Cartoes de Credito e Servicos data. Fitch believes Cielo's market share should remain strong, but gradually decline in the medium term.

The entrance of financial technology companies into the financial services and payments business led to a fierce battle to gain market share. Better capitalized market participants contributed to a more aggressive growth strategy, significantly pressuring operating margins. Despite significantly increased competition in recent years, pressuring the market share of leading companies, the industry remains highly concentrated: The two largest participants account for approximately 65% of the market.

Financial Volumes to Continue to Grow: Fitch expects low-double-digit growth in credit and debit transactions in Brazil in 2019 and 2020, supported by currently low penetration of credit and debit cards, some recovery in consumer spending and increased market opportunities in the small client and micromerchant segments. However, the still uncertain pace of economic recovery will continue to pressure business growth compared with high historical levels.

Fitch projects growth in Cielo's volume of credit and debit transactions to be below industry averages. Fitch's base case projections for 2019 incorporated an average growth of credit and debit transactions of 9% and 5% in 2020, backed by the more aggressive pricing and commercial strategy implemented at the end of 2018, and increased focus on smaller clients.

Cielo processed BRL493 billion in credit and debit transactions in the first nine months of 2019 and BRL627 billion in 2018, flat compared with 2017. Weak macroeconomic conditions and tough competition resulted in slower growth toward single digits since 2015.

Cash Flows to Decline: Increased competition and the more aggressive pricing strategy have pressured Cielo's cash flow since 2018. Fitch projects adjusted EBITDA to decrease to BRL4.2 billion in 2019 and BRL4.0 billion in 2020, from BRL6.2 billion in 2018 and BRL7.7 billion in 2017, per to Fitch's methodology. In the LTM ended Sept. 30, 2019, the company reported BRL4.7 billion of adjusted EBITDA, including financial income derived from the acquisition of receivables from merchants of BRL1.2 billion.

The reduction in the net interchange fee, in revenues from point of sale equipment rental and in financial income from the acquisition of receivables, combined with lower growth of the volume of credit transactions, pressured EBITDA. Fitch expects positive FCF of about BRL700 million in 2020, given lower investments and minimum dividend distributions.

Low Risk of Credit Loss: Cielo has virtually no direct credit exposure to cardholders, as the card-issuing bank guarantees their payments, while the company's exposure to merchants is limited. The company is, however, partially exposed to card-issuing bank defaults on a payment settlement for Visa and MasterCard transactions. The risk associated with Visa and MasterCard transactions is mitigated because more than 95% of transaction volume is concentrated in banks rated 'BB–' and above. For some non-investment-grade banks, Cielo's risk management policy requires the card-issuing bank to pledge collateral.

Strong Capital Structure: Cielo's credit metrics are strong and leverage remains low. Fitch projects net adjusted leverage, measured by net debt to adjusted EBITDA, including financial income derived from the acquisition of receivables from merchants, at close to 2.0x in the next two years. As of Sept. 30, 2019, Cielo had BRL13.7 billion of total debt, including BRL2.0 billion of Fundo de Investimentos em Direitos Creditorios (FIDC), and net adjusted leverage was 2.3x, higher than the average of 1.1x in 2015–2018.

Financial Summary

(BRL Mil.)	Dec. 2017	Dec. 2018	Dec. 2019F	Dec. 2020F
Net Revenue	11,600	11,686	10,242	9,948
Adjusted EBITDAR	7,672	6,230	4,238	3,955
Cash Flow from Operations	6,095	3,575	1,688	2,018
FFO-Adjusted Leverage (x)	2.0	1.9	3.2	3.2
Total Net Debt with Equity Credit/Operating EBITDAR (x)	0.7	1.2	1.9	1.9

F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Rating Derivation Relative to Peers

Cielo is the leading company in Brazil's merchant acquiring and payment processing industry, with an estimated 38% market share. The second-largest is Redecard (controlled by Itau Unibanco Holding S.A.) with a 26% share, and the third-largest is GetNet (controlled by Banco Santander S.A.) with 11%. Compared with smaller players, such as Stone and PagSeguro, the three leaders have strong competitive advantages due to their controlling shareholders' structure, as the affiliation with leading banks gives them access to a broad customer base to acquire merchant accounts and creates some barriers to entry. Cielo's ratings incorporate the counterparty risks associated with the Brazilian banking system.

Cielo has a more diversified revenue stream than peers. In general, participants with lower scale of operations are more reliant on financial income from the acquisition of receivables from merchants, a business line that could present more volatility. Cielo is also well positioned in terms of R&D in technology, reducing the risk of obsolete systems, while small companies have higher technology risk.

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Ratings upgrades are not likely.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

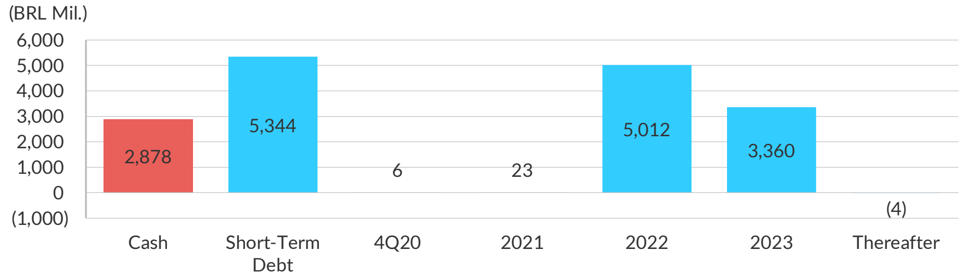
- An increase in the volume of credit and debit transactions with banks rated 'BB–'and below without collateral being pledged by the card-issuing bank or not guaranteed by MasterCard;
- Weakening credit profile of the main banks that work with Cielo;
- A significant loss due to fraud and chargebacks;
- Tougher competition leading to a significant loss of market share and profitability;
- Significant changes in regulatory risk;
- A negative rating action on Brazil's sovereign ratings that leads to negative rating actions on Banco do Brasil, Bradesco, Caixa Economica Federal and Itau.

Liquidity and Debt Structure

Sound Liquidity: Cielo's liquidity position is strong. As of Sept. 30, 2019, Cielo had cash and marketable securities of BRL2.9 billion and BRL5.3 billion of short-term debt, which included BRL2.0 billion of FIDC. About 78% of total cash is invested in Brazil and 22% abroad. At Sept. 30, 2019, the company had BRL5.3 billion of debt maturing through YE 2020, BRL23 million in 2021 and BRL5.0 billion in 2022. Cielo has a good financial flexibility to address upcoming maturities, and Fitch expects it to use operating cash flow to reduce total debt in the next couple of years. Cielo has a good access to the bank and capital markets.

As of Sept. 30, 2019, Cielo had BRL13.7 billion of total debt, of which about 15% was denominated in foreign currency. Total debt was composed of private and public debentures (45%), short-term bank lines (20%), bonds (15%), FIDC (15%) and others (5%). Cielo's net adjusted debt increased by BRL5.7 billion, to BRL10.9 billion, from December 2017 to September 2019.

Debt Amortization Schedule
(As of Sept. 30, 2019)



Source: Fitch Ratings, Fitch Solutions, Cielo S.A.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Governance (ESG) credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity with No Refinancing

Liquidity Analysis

(BRL 000)	2019F	2020F	2021F	2022F
Available Liquidity				
Beginning Cash Balance	2,874,424	2,895,806	937,919	1,207,053
Rating Case FCF After Acquisitions and Divestitures	(1,011,636)	703,822	291,386	1,565,118
Bond Prepayment in 2019 (Original Maturity in 2022)	(1,284,000)	—	—	—
Public Debentures	2,922,000	—	—	—
New 4131 Line	504,328	—	—	—
Total Available Liquidity (A)	**4,005,116**	**3,599,628**	**1,229,305**	**2,772,171**
Liquidity Uses				
Debt Maturities	(1,109,310)	(2,157,381)	(22,252)	(2,128,702)
Amortization of New Debt	—	(504,328)	—	(2,922,000)
Total Liquidity Uses (B)	**(1,109,310)**	**(2,661,709)**	**(22,252)**	**(5,050,702)**
Liquidity Calculation				
Ending Cash Balance (A+B)	2,895,806	937,919	1,207,053	(2,278,531)
Revolver Availability	0	0	0	0
Ending Liquidity	**2,895,806**	**937,919**	**1,207,053**	**(2,278,531)**
Liquidity Score (x)	1.7	1.7	55.2	1.3

F – Forecast.
Source: Fitch Ratings, Fitch Solutions, Cielo S.A.

Scheduled Debt Maturities

(BRL 000)	**12/31/18**
2019	1,109,310
2020	2,157,381
2021	22,252
2022	2,128,702
2023	3,359,378
Thereafter	12,775
Total	**8,789,798**

Source: Fitch Ratings, Fitch Solutions, Cielo S.A

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include

- Volume of credit and debit transactions to increase by 9.2% in 2019 and 5.0% in 2020;
- Annual investments of BRL1.2 billion in 2019 and annual average of BRL550 million thereafter;
- Lower revenues from point of sale rental due to increased competition;
- Acquisition of receivables from merchants between 18% and 19.5% of total credit value of transactions;
- Dividends of 30% of net income until 2021.

Financial Data

Cielo S.A.

	Historical			Forecast		
(BRL Mil.)	2016	2017	2018	2019	2020	2021
Summary Income Statement						
Gross Revenue	12,301	11,600	11,686	10,242	9,948	9,866
Revenue Growth (%)	10.6	(5.7)	0.7	(12.4)	(2.9)	(0.8)
Operating EBITDA (Before Income from Associates)	8,215	7,672	6,230	4,238	3,955	3,901
Operating EBITDA Margin (%)	66.8	66.1	53.3	41.4	39.8	39.5
Operating EBITDAR	8,215	7,672	6,230	4,238	3,955	3,901
Operating EBITDAR Margin (%)	66.8	66.1	53.3	41.4	39.8	39.5
Operating EBIT	7,250	6,725	5,298	3,220	2,887	2,770
Operating EBIT Margin (%)	58.9	58	45.3	31.4	29	28.1
Gross Interest Expense	(1,332)	(904)	(512)	(523)	(563)	(557)
Pretax Income (Including Associate Income/Loss)	6,021	6,086	4,950	2,849	2,474	2,373
Summary Balance Sheet						
Readily Available Cash and Equivalents	2,734	6,024	2,874	2,847	3,024	3,293
Total Debt with Equity Credit	11,403	11,206	10,074	11,058	10,531	10,509
Total Adjusted Debt with Equity Credit	11,403	11,206	10,074	11,058	10,531	10,509
Net Debt	8,669	5,182	7,199	8,211	7,507	7,216
Summary Cash Flow Statement						
Operating EBITDA	8,215	7,672	6,230	4,238	3,955	3,901
Cash Interest Paid	(1,208)	(857)	(499)	(523)	(563)	(557)
Cash Tax	(2,054)	(2,031)	(1,397)	(800)	(695)	(666)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	334	493	788	0	0	0
Funds Flow from Operations	5,288	5,277	5,123	3,059	2,839	2,829
FFO Margin (%)	43	45.5	43.8	29.9	28.5	28.7
Change in Working Capital	(853)	818	(1,547)	(1,370)	(820)	(1,504)
Cash Flow from Operations (Fitch-Defined)	4,435	6,095	3,575	1,688	2,018	1,325
Total Non-Operating/Nonrecurring Cash Flow	0	0	0			
Capex	(527)	(472)	(644)			
Capital Intensity (Capex/Revenue) (%)	4.3	4.1	5.5			
Common Dividends	(1,391)	(2,219)	(4,213)			
FCF	2,517	3,403	(1,282)			
Net Acquisitions and Divestitures	(100)	0	(67)			
Other Investing and Financing Cash Flow Items	(52)	33	116	0	0	0
Net Debt Proceeds	(963)	(97)	(1,905)	984	(527)	(22)
Net Equity Proceeds	8	26	(12)	0	0	0
Total Change in Cash	1,409	3,365	(3,150)	(28)	177	269
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,018)	(2,691)	(4,924)	(2,700)	(1,315)	(1,034)
FCF After Acquisitions and Divestitures	2,417	3,403	(1,349)	(1,012)	704	291
FCF Margin (After Net Acquisitions) (%)	19.6	29.3	(11.5)	(9.9)	7.1	3.0
Coverage Ratios						
FFO Interest Coverage (x)	5.2	6.7	10.6	6.6	5.8	5.8
FFO Fixed Charge Coverage (x)	5.2	6.7	10.6	6.6	5.8	5.8
Operating EBITDAR/Interest Paid + Rents (x)	6.8	9	12.5	8.1	7	7

Operating EBITDA/Interest Paid (x)	6.8	9	12.5	8.1	7	7
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	1.4	1.5	1.6	2.6	2.7	2.7
Total Adjusted Net Debt/Operating EBITDAR (x)	1.1	0.7	1.2	1.9	1.9	1.9
Total Debt with Equity Credit/Operating EBITDA (x)	1.4	1.5	1.6	2.6	2.7	2.7
FFO Adjusted Leverage (x)	1.8	2	1.9	3.2	3.2	3.2
FFO Adjusted Net Leverage (x)	1.4	0.9	1.4	2.4	2.3	2.2

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

FitchRatings

Cielo S.A.

Corporates Ratings Navigator
Business Services DAP

Operating Environment

bb	Economic Environment	b	Weak combination of countries where economic value is created and where assets are located.
bb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	a	Coherent strategy and good track record in implementation.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	aa	Transparent group structure.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Competitive Position

bbb+	Barriers to Entry	bbb	Moderate barriers to entry. Incumbents are generally strongly established but successful new entrants have emerged over time.
bbb	Market Position	bbb	Strong and defensible market position within key business/segment verticals. Others may be more exposed to a competitive environment.
bbb-	Scale	a	Large size/scale, EBITDAR >USD1bn
bb+	Product Strategy	bbb	Product and service innovation at times is driven by response to product introduction by competitors/peers.
bb			

Diversification

bbb	Asset Class/Verticals/Products	bbb	Well balanced exposure to at least three verticals/sectors/business segment lines with sensitivity to the economic cycle.
bbb-	Customer Base	bbb	Broad customer diversification. Largest customers represent between 5%–10% of total revenue.
bb+	Exposure to Challenged Business Lines	bb	Material portion of business profile exposed to secular risks that can lead to weakening of competitive position and erosion of market share.
bb			
bb-			

Customer Dynamics

bbb	Proportion of Revenues Under Contract	bbb	>60%
bbb-	Renewal Rate and Switching Costs	bb	Renewal rates of less than 80%. Limited or no switching costs.
bb+	Level of Recurring Transaction/Project Revenues	a	90% or more of total revenues may be considered recurring.
bb			
bb-			

Sector Environment

bbb+	Regulatory Environment	bbb	Moderate regulatory oversight.
bbb	Litigation Environment	bbb	Modest.
bbb-	M&A Strategy	bbb	Generally small bolt-on acquisitions. History of large acquisitions routinely pressures credit metrics. Good integration track record.
bb+			
bb			

Profitability

a-	FFO Margin	a	23.0%
bbb+	FCF Margin	bb	5.0%
bbb	Volatility of Profitability and Cash Flows	bbb	Volatility of profits in line with industry average.
bbb-	Operating EBITDAR Margin	bbb	25%
bb+			

Financial Structure

a	Lease Adjusted FFO Gross Leverage	a	2.8x
a-	Lease Adjusted FFO Net Leverage	a	2.3x
bbb+	Net Debt/(CFO - Capex)	a	2.8x
bbb	FCF/Gross Debt	bbb	11%
bbb-	Total Adjusted Debt/Operating EBITDAR	a	2.3x

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb+	FFO Fixed Charge Cover	a	4.5x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.
bbb-	EBITDAR/(Gross Interest Expense + Rent)	a	5.5x

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Cielo S.A. has 7 ESG potential rating drivers

- Energy use (particularly in data centers or cloud service providers)
- Data security
- Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	0	issues	2
	7	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Navigator Version: RN 2.3.6.0

FitchRatings **Cielo S.A.**

Corporates Ratings Navigator
Business Services DAP

Credit-Relevant ESG Derivation

Cielo S.A. has 7 ESG potential rating drivers

- Cielo S.A. has exposure to energy productivity risk but this has very low impact on the rating.
- Cielo S.A. has exposure to customer accountability risk and product quality & safety risk but this has very low impact on the rating.
- Cielo S.A. has exposure to labor relations & practices risk and employee recruitment & retention risk but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	0	issues	2
	7	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	3	Energy use (particularly in data centers or cloud service providers)	Profitability	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	1	n.a.	n.a.	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security	Competitive Position; Sector Environment	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention	Competitive Position; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	1	n.a.	n.a.	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

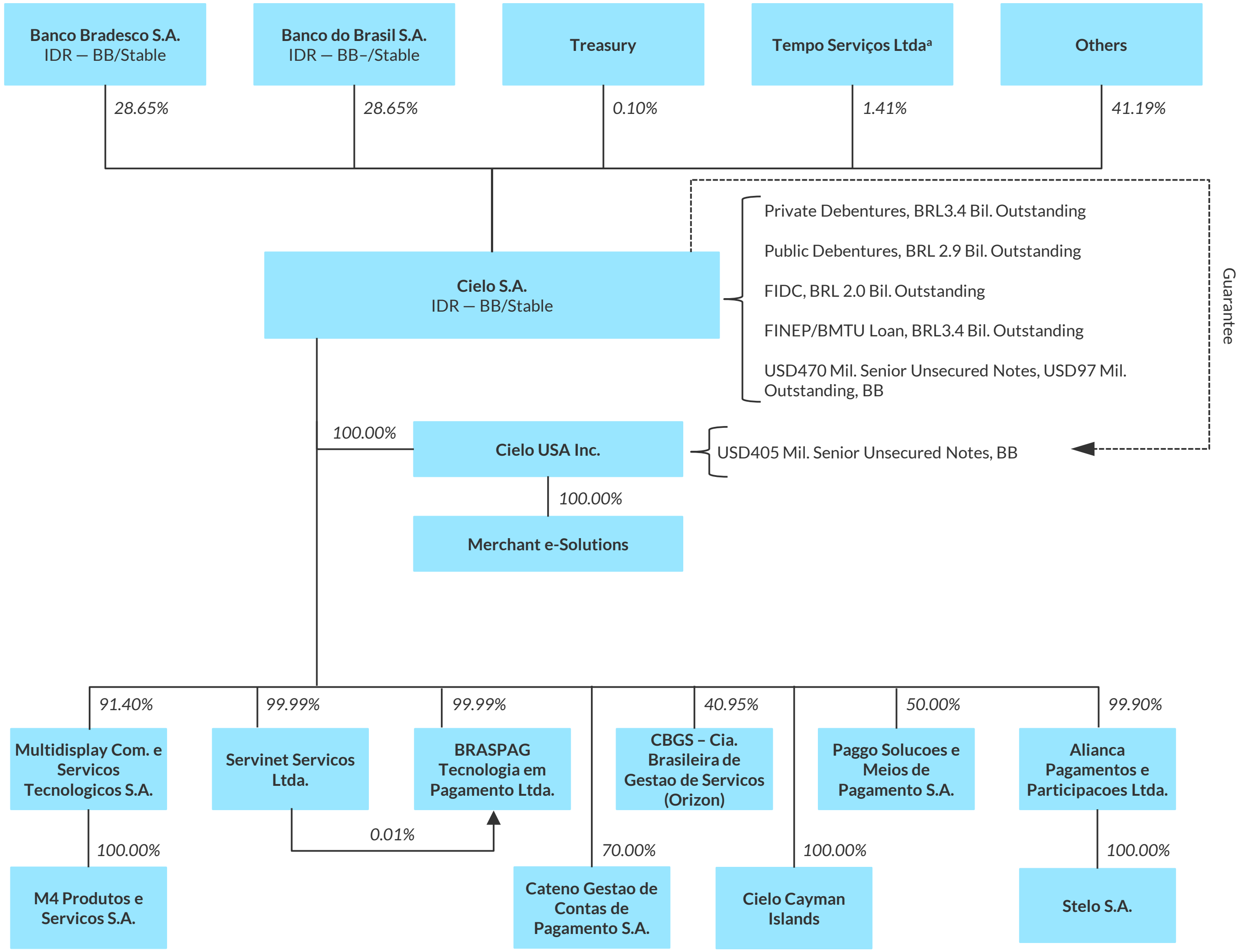
CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure — Cielo S.A.
(As of Sept. 30, 2019)



[a]Tempo Servicos Ltda is part of Bradesco Group, but is not part of the shareholders agreement. IDR – Issuer Default Rating. FIDC – Fundo de Investimento em Direitos Creditorios. FINEP – Financiadora de Estudos e Projetos. BTMU – Bank of Tokyo-Mitsubishi UFJ, Ltd.
Source: Fitch Ratings, Fitch Solutions, Cielo S.A.

Reconciliation of Key Financial Metrics

(BRL 000, as reported)	**12/31/18**
Income Statement Summary	
Operating EBITDA	6,230,338
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**6,230,338**
+ Operating Lease Expense Treated as Capitalised (h)	0
= Operating EBITDAR after Associates and Minorities (j)	6,230,338
Debt & Cash Summary	
Total Debt with Equity Credit (l)	10,073,798
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	10,073,798
Readily Available Cash [Fitch-Defined]	2,874,424
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**2,874,424**
Total Adjusted Net Debt (b)	**7,199,374**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	352,428
+ Interest (Paid) (d)	**(498,975)**
= Net Finance Charge (e)	**(146,547)**
Funds From Operations [FFO] (c)	5,122,550
+ Change in Working Capital [Fitch-Defined]	(1,547,365)
= Cash Flow from Operations [CFO] (n)	3,575,185
Capital Expenditures (m)	(643,939)
Multiple applied to Capitalised Leases	0.0
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	1.6
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	1.9
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	1.6
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR[a] [x] (b/j)	1.2
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	1.4
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	2.5
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)[a] [x] (j/-d+h)	12.5
Op. EBITDA / Interest Paid[a] [x] (k/(-d))	12.5
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	10.6
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	10.6
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

[a]EBITDA/R after Dividends to Associates and Minorities
Source: Fitch Ratings, Fitch Solutions, Cielo S.A.

Fitch Adjustment Reconciliation

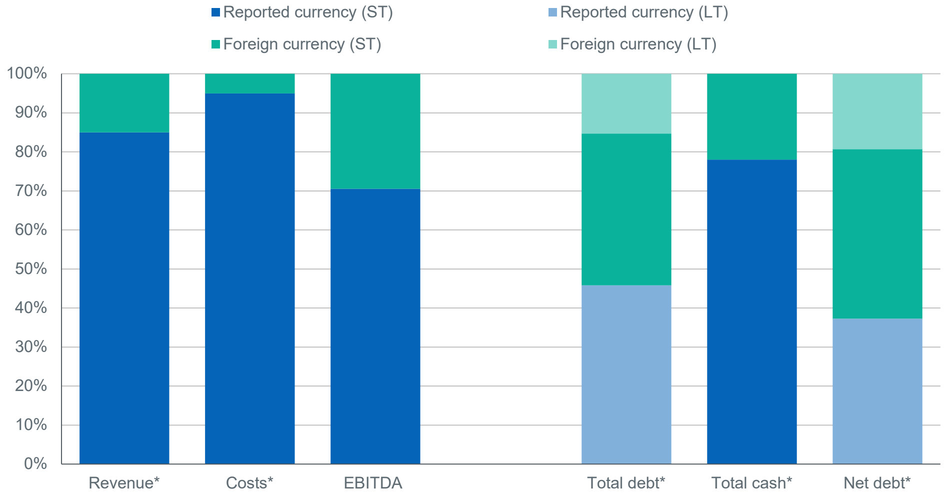
(BRL 000)	Reported Values As of Dec. 31, 2018	Sum of Fitch Adjustments	Adjusted Values
Income Statement Summary			
Revenue	11,685,839	0	11,685,839
Operating EBITDAR	4,625,597	1,604,741	6,230,338
Operating EBITDAR after Associates and Minorities	4,625,597	1,604,741	6,230,338
Operating Lease Expense	0	0	0
Operating EBITDA	4,625,597	1,604,741	6,230,338
Operating EBITDA after Associates and Minorities	4,625,597	1,604,741	6,230,338
Operating EBIT	3,693,552	1,604,741	5,298,293
Debt & Cash Summary			
Total Debt With Equity Credit	9,998,106	75,692	10,073,798
Total Adjusted Debt With Equity Credit	9,998,106	75,692	10,073,798
Lease-Equivalent Debt	0	0	0
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	2,874,424	0	2,874,424
Not Readily Available Cash & Equivalents	0	0	0
Cash-Flow Summary			
Preferred Dividends (Paid)	0	0	0
Interest Received	352,428	0	352,428
Interest (Paid)	(498,975)	0	(498,975)
Funds From Operations [FFO]	5,122,550	0	5,122,550
Change in Working Capital [Fitch-Defined]	(1,547,365)	0	(1,547,365)
Cash Flow from Operations [CFO]	3,575,185	0	3,575,185
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	(643,939)	0	(643,939)
Common Dividends (Paid)	(4,213,101)	0	(4,213,101)
Free Cash Flow [FCF]	(1,281,855)	0	(1,281,855)
Gross Leverage			
Total Adjusted Debt / Op. EBITDAR[a] (x)	2.2		1.6
FFO Adjusted Leverage (x)	1.9		1.9
Total Debt With Equity Credit / Op. EBITDA[a] (x)	2.2		1.6
Net Leverage			
Total Adjusted Net Debt / Op. EBITDAR[a] (x)	1.5		1.2
FFO Adjusted Net Leverage (x)	1.4		1.4
Total Net Debt / (CFO - Capex) (x)	2.4		2.5
Coverage			
Op. EBITDAR / (Interest Paid + Lease Expense)[a] (x)	9.3		12.5
Op. EBITDA / Interest Paid* (x)	9.3		12.5
FFO Fixed Charge Coverage (x)	10.6		10.6
FFO Interest Coverage (x)	10.6		10.6

[a]EBITDA/R after Dividends to Associates and Minorities.
Source: Fitch Ratings, Fitch Solutions, Cielo S.A.

FX Screener

Cielo's foreign currency exposure is considered low. About 15% of revenues are generated in foreign currency. However, the contribution to adjusted EBITDA is low. At Sept. 30, 2019, about 15% of Cielo's total adjusted debt of BRL13.7 billion, including FIDC, was U.S. dollar-denominated and 22% of consolidated cash was invested abroad. Although only a small part of its adjusted EBITDA is hard currency-denominated, the risk is mitigated through the volume of credit transactions from overseas customers that Cielo receives abroad.

Fitch FX Screener
(Cielo S.A. — BB/Stable, LTM Sep-19, BRLth)



*Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch

Covenant Summary

Cielo has the following financial covenant, applicable to the public debentures and the 4131 loan with Bank of Tokyo Mitsubishi: net debt/adjusted EBITDA must be equal or below to 3.0x, measured annually.

The company was in compliance with the covenant as of Sept. 30, 2019. The covenant calculation does not include outstanding FIDC liabilities with third parties as debt.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.