Research Update:

Worldline S.A. 'BBB-' Ratings Affirmed; Outlook Revised To Negative On Weaker-Than-Expected Performance

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Rating Action Overview

- On Sept. 13, 2024, Worldline S.A. further revised down its revenue and EBITDA guidance for 2024.
- We expect Worldline's revenues to increase by just 1% in 2024 because of operational issues in Australia, the termination of certain contracts with merchants, softening macroeconomic trends in the first half of 2024, and an in-sourcing decision taken by a large client in the financial services division following a merger and acquisition transaction.
- Therefore, we now forecast Worldline's S&P Global Ratings-adjusted debt to EBITDA to spike to around 3.5x in 2024, but to recover in 2025 as revenues and EBITDA increase, leading to a leverage of below 3.0x by 2025.
- We affirmed our 'BBB-' long-term issuer credit rating on Worldline and our 'BBB-' issue ratings on its debt but revised our outlook to negative.
- The negative outlook reflects that we could lower our ratings on Worldline if we think that the company's leverage will sustainably exceed 3.5x, free operating cash flow (FOCF) will continue weakening, or if we observe that Worldline's competitive position has weakened.

Rating Action Rationale

We further revised down our expectation on EBITDA for Worldline following the company's updated guidance. We expect Worldline's revenues to increase by just 1% in 2024 because of operational issues in Australia, the termination of certain contracts with merchants, and an in-sourcing decision taken by a large client. We also anticipate the S&P Global Ratings-adjusted EBITDA margin to drop to 13.3% in 2024 and 17.0% in 2025--compared with our previous expectations of 15% in 2024 and 21% in 2025--given the weaker topline, and exceptionally high restructuring and integration costs. To address the weaker outlook, the company has announced new cost saving actions, which we do not expect to result in additional restructuring costs in 2024 and 2025. We anticipate a peak in restructuring costs in 2024, likely at around €300 million for the full year; followed by a lower, but still material, about €150 million in restructuring costs in 2025.

With the new EBITDA trajectory, we forecast higher leverage than previously anticipated. In our previous base case, we forecast leverage of 2.9x in 2024, declining to below 2.0x in 2025. We now expect the S&P Global Ratings-adjusted leverage to spike to 3.5x in 2024, potentially declining to below 3.0x in 2025. However, failure to increase revenues or EBITDA (for instance because of higher-than-anticipated restructuring costs) could delay the deleveraging trajectory.

Table 1

Worldline S.A.--Key metrics

	--Fiscal year ended Dec. 31--					
	Previous Forecast			Current Forecast		
Mil. €	**2023e**	**2024f**	**2025f**	**2023a**	**2024e**	**2025f**
Revenue	4,625.0	4,857.0	>5,100	4,610.0	4,656.0	4,826.0
EBITDA	779.0	750.0	1,092.0	714.0	620.0	823.0
EBITDA margin (%)	16.8	15.4	21.3	15.5	13.3	17.0
Capital expenditure	158.0	180.0	225.0	157.0	126.0	155.0
FOCF	401.0	414.0	655.0	452.0	276.0	399.0
Debt to EBITDA (x)	2.9	2.6	<2.0x	3.2	3.5	<3.0
FOCF to debt (%)	17.8	21.1	>30.0	19.8	13.0	19.0

*All figures adjusted by S&P Global Ratings. FOCF--Free operating cash flow. a--Actual. e--Estimate. f--Forecast.

We still think that Worldline has a strong competitive positioning in the market resulting in solid FOCF generation. In our view, Worldline is well positioned in the payment industry, thanks to its broad geographic diversification, comprehensive product portfolio covering the full value chain, its own intellectual property and investments in new technologies, and long-term relationships with customers. We expect the underlying demand for payment processing to benefit from the shift in cash to noncash transactions and banks' increasing willingness to outsource, which has been supported by regulation, including the Payment Services Directive (PSD2) European regulation for electronic payment services. Despite the weaker guidance for 2024, our forecast includes an expectation of 3%-5% annual organic revenue growth in 2025-2026, and FOCF of €276 million in 2024 before rebounding to €397 million in 2025 (our FOCF is about €0.1 billion higher than the company's guidance due to operating leases being excluded).

The company has also announced a change of management, with the departure of the CEO. However, we do not expect that the future CEO will affect the company's strategy or the target to keep S&P Global Ratings-adjusted leverage at below 3.5x.

Outlook

The negative outlook reflects the uncertainty around the magnitude and pace of the recovery of Worldline's revenues, EBITDA, and cash flow, due to recently announced operational issues and significant restructuring actions.

Downside scenario

We could lower our rating if the company's leverage stays sustainably above 3.5x, the FOCF generation continued weakening, or if we think that the company's competitive position has weakened. This could occur if Worldline's revenues do not increase in line with other global market players, by about 5% annually, or if the company incurs additional significant restructuring actions leading to a longer period of suppressed EBITDA margin.

Upside scenario

We could revise the outlook back to stable if company's performance rebounded, at least in line with the market, leading to adjusted leverage sustainably below 3.5x and solid FOCF generation.

Company Description

France-based Worldline is the leading provider of payment services in Europe. Its 2023 revenue was €4.6 billion, and its S&P Global Ratings-adjusted EBITDA margin was 15.5%. Worldline's business lines are as follows:

- Merchant Services (about 72% of 2023 revenue) offers merchants payment-related and value-added services, including in-store, online, and mobile payment acceptance solutions, data analytics, and private label card and loyalty services.
- Financial Services (21%) delivers solutions that allow banks and financial institutions to outsource some or all of their key business processes, such as the issuance of credit and debit cards and authorization of associated payments, processing of noncard electronic payment transactions, and offering multi-platform online banking services (including online bank electronic payments).
- Mobility and e-Transactional Services (7%) provides services to address the needs of private- and public-sector clients, like e-government collection services, e-ticketing, e-consumer, and mobility solutions.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Negative/A-3
Business risk:	Satisfactory
Country risk	Low Risk
Industry risk	Intermediate Risk
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral
Capital structure	Neutral

Issuer Credit Rating	BBB-/Negative/A-3
Financial policy	Neutral
Liquidity	Exceptional
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile:	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

	To	From
Worldline S.A.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Senior Unsecured	BBB-	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.