Research Update:

Worldline Downgraded To 'BBB-/A-3' From 'BBB/A-2' Because Of Slower Deleveraging Trajectory; Outlook Stable

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Rating Action Overview

- On Oct. 25, Worldline revised down its revenue, EBITDA, and free cash flow guidance for 2023 and 2024, following macroeconomic headwinds, compliance-driven merchant terminations, and slower-than-expected growth in its Financial Services and MeTS segments.
- Additionally, our adjusted EBITDA margin trajectory for Worldline has been weaker than expected following significant integration and restructuring costs (including capitalized development costs) in 2021-2023, and we now expect restructuring costs to increase further in 2024 with the launch of a new cost-efficiency program.
- Although we continue to expect deleveraging, we do not expect leverage to reach comfortably below 2.5x until 2025, our threshold for a 'BBB' rating, which Worldline exceeded since its acquisition of Ingenico in late 2020.
- We therefore lowered our rating on Worldline to 'BBB-' from 'BBB', and our short-term rating to 'A-3' from 'A-2'.
- The stable outlook reflects our expectation that Worldline will post 5%-6% growth, driven by its merchant services segment, while profitability will remain at about 15%-17%, leading to our adjusted leverage between 2.5x-3.0x over the coming two years.

Rating Action Rationale

We revised down our expectation of EBITDA for Worldline following macroeconomic headwinds, contract terminations, and additional restructuring costs. We now expect the S&P Global Ratings-adjusted EBITDA margin to remain below 20% until at least 2025, compared with our previous expectation of a gradual improvement toward 25% during the same period. Our downward revision reflects our view that the company will struggle to achieve its targeted improvement of operating margin before depreciation and amortization (OMDA; the company's defined operating margin) following the impact from macroeconomic headwinds, termination of

some existing merchant relationships following its revised risk criteria that would have implied higher costs to monitor those merchants (hence the decision to terminate them), and a slowdown in its Financial Services division as a result of a cooling in banks' appetite to outsource, and also in Mobility Solutions. To address the weaker profitability outlook, the company also launched a new cost-cutting program, targeting €200 million of operating expenditure savings by year-end 2025. However, the program is also expected to be accompanied by additional restructuring costs of about €250 million.

Worldline's role as an active consolidator primarily in the European payments industry has strengthened its competitive positioning and gradually increased its scale, but it has also come with relatively high restructuring, integration, and transformative costs. The company's OMDA margin has remained resilient at around 25%-26% of reported revenue between 2019-2022. However, over the same period the S&P Global Ratings-adjusted EBIDTA margin declined to 16.1% in 2022 from 22.5% in 2019, and is now expected to stagnate at around 15%-17% until year-end 2024. The difference comes from high restructuring costs and increased development costs, although capitalized by the company, which we expense in line with our criteria. Restructuring costs, primarily relating to mergers and acquisitions, peaked at about €300 million in 2022, following about €200 million in 2021 and is expected to reach about €200 million in 2023. What's more, given the newly announced cost-cutting program, we expect a new peak in restructuring costs in 2024, likely reaching about €300 million for the full year. In addition, we have seen an increase in capitalized development costs for external purposes from a negligible sum in previous years until 2020, to about €113 million in 2021 and €175 million in 2022. From 2023 and thereafter we expect about €160 million per year (about 3% of sales).

With the new EBITDA trajectory, we expect deleveraging to happen at a slower pace than previously. In our previous base case, we expected leverage to decline below 2.5x in 2023; now we expect the S&P Global Ratings-adjusted leverage to be sustainably below 2.5x by 2025. However, potential acquisitions, which we do not include in our forecast, could delay the deleveraging trajectory.

Despite challenges ahead due to economic conditions, we still expect healthy growth of about 5%-6%. The underlying demand for payment processing will continue to benefit from the shift in cash to non-cash transactions and banks' increasing willingness to outsource, which has been supported by regulation, including the PSD2 European regulation for electronic payment services. Worldline is also well positioned in the payment industry, in our view, 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. Despite the weaker guidance, our forecast still includes an expectation of 5%-6% organic revenue growth, stemming primarily from Worldline's strong position in merchant services and strong cash conversion.

Outlook

The stable outlook reflects our expectation that Worldline will post growth of about 5%-6%, driven by its merchant services segment, while profitability will remain at about 15%-17% in 2023-2024, leading to S&P Global Ratings-adjusted leverage of about 2.8x in 2023, gradually declining toward 2.6x in 2024.

Upside scenario

We could raise our rating if the company's leverage stays sustainably below 2.5x. In our view this would likely stem from a decline in restructuring costs in combination with a continued solid revenue growth trajectory, likely bringing our adjusted EBITDA margin toward 20%.

Downside scenario

We could lower our rating if the company's leverage stays sustainably above 3.5x. This could occur if it makes large additional debt-funded acquisitions, or experiences operational missteps.

Company Description

Worldline is the leading provider of payment services in Europe. Its 2022 revenue was €4.4 billion (excluding TSS/Ingenico, which it sold in September 2022). Worldline's business lines are as follows:

- Merchant Services (around 70% of 2022 revenue) offers merchants payment-related and value-added services, including in-store, online, and mobile payment acceptance solutions, and data analytics and private label card and loyalty services.
- Financial Services (22%) delivers solutions that allow banks and financial institutions to outsource some or all of their key business processes, such as 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 & e-Transactional Services (8%) provides services to address the needs of private-and public-sector clients, like e-government collection services, e-ticketing, e-consumer, and mobility solutions.

Our Base-Case Scenario

Assumptions

- Revenue growth of 5%-6% in 2023-2024, following a strong business momentum during the first half of the year, in particular for the Merchant Services segment. Growth is, however, less pronounced than in our previous forecast due to changing consumer spending trends and termination of some merchants' relationships.
- S&P Global Ratings-adjusted EBITDA margin at 15%-17% in 2023-2024, as we expect restructuring and implementation costs to remain high and offset realized synergies and volume growth, to exceed 20% thereafter--assuming no new acquisitions.
- Restructuring costs of €185 million in 2023, increasing to €300 million in 2024, and before normalizing at about €50 million in 2025, following €291 million in 2022.
- Capitalized development costs of about 3% of sales per year, of which we expense the vast majority given they relate to product development for external use.

- We expect capital expenditure (including capitalized development costs) to be at the high end of the 5%-7% guided range in the forecast years.
- We have factored in acquisition cash outlay of €154 million related to Banco Desio in 2023, with no acquisitions thereafter.
- Divestment proceeds of €297 million in January 2023 related to the remaining 15.04% of TSS/Ingenico.

Key metrics

Worldline S.A.--Key Metrics*

	--Fiscal year ended Dec. 31--				
Mil. €	2021a	2022a	2023e	2024f	2025f
Revenue	3,689	4,364	4,625	4,857	>5,100
EBITDA	673	709	779	750	1,092
EBITDA margin (%)	18.2	16.2	16.8	15.4	21.3
Capital expenditure	112	149	158	180	225
FOCF	497	623	401	414	655
Debt to EBITDA (x)	5.5	3.8	2.9	2.6	<2.0x
FOCF to debt (%)	13.5	23.3	17.8	21.1	>30.0

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

Issue Ratings--Subordination Risk Analysis

Capital structure

Worldline's capital structure includes €1.4 billion of convertible bonds into Worldline shares maturing in 2025 and 2026, and €1.8 billion senior unsecured debt maturing between 2024 and 2028.

Analytical conclusions

We rate all of Worldline's debt 'BBB-', the same level as the issuer credit rating. This is because no significant elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate

Issuer Credit Rating	BBB-/Stable/A-3
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Exceptional (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	bbb-

Related Criteria

- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
Worldline S.A.		
Issuer Credit Rating	BBB-/Stable/A-3	BBB/Stable/A-2

Downgraded

	To	From
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.

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