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Research Update:

Worldline 'BBB' Ratings Affirmed On Planned Ingenico Acquisition; Outlook Stable

February 3, 2020

Rating Action Overview

- On Feb. 3, 2020, France-based payment company Worldline SA announced its plan to acquire Ingenico for €9.3 billion. The company will fund the transaction mostly with shares, and we expect it will close in third-quarter 2020.
- We view the overall business impact of the Ingenico acquisition as positive, since the enlarged Worldline will benefit from a larger scale, stronger market positions, and greater diversification.
- Although the company's pro forma S&P Global Ratings-adjusted debt to EBITDA will spike to 3.0x-3.5x at closing, thanks to Worldline management's financial policy and its commitment to reduce debt rapidly, we expect adjusted debt to EBITDA will return to 2.5x, or below, by 2021.
- As a result, we are affirming our 'BBB' ratings on Worldline and its debt.
- The stable outlook reflects our anticipation that Worldline will successfully integrate Ingenico and that its adjusted debt to EBITDA will recover to 2.5x, or below, in 2021.

PRIMARY CREDIT ANALYST

Thierry Guermann
Stockholm
(46) 8-440-5905
thierry.guermann
@spglobal.com

SECONDARY CONTACT

Mark Habib
Paris
(33) 1-4420-6736
mark.habib
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

Rating Action Rationale

Worldline will benefit from a larger scale. Worldline, already the largest payment services provider in Europe, will nearly double the size of its payment scale with payment revenues at about €4 billion, and more than double its overall size with consolidated revenues at about €5.2 billion when adding Ingenico's payment terminal business. This enlarged size is still below that of the two largest U.S. peers, Fiserv (annual revenues of €13.5 billion) and Fidelity National Information Services (€9 billion). But Worldline will be relatively close to No. 3 Global Payments Inc. (€7.8 billion) and significantly higher than its European competitors, including Nets and Wirecard.

Worldline will solidify its market positions. Worldline will become the fourth-largest payment service provider globally. In Europe, it will solidify its position as the No. 1 in financial processing and commercial acquiring, with market shares of 20%, and expand its position as the No. 3 in on-line payment solutions (with the contribution from merchant services revenues rising from less than 20% currently to about 30%). Furthermore, Worldline will gain a leading position as the world's largest payment terminal provider, placing it well ahead of No. 2 Verifone and No. 3 PAX.

Greater diversification of products, geographies, and customers will support Worldline's operations. On the back of the Ingenico acquisition, Worldline gains a leading position in Germany, with a 20% market share, and a presence in the Nordic countries for payment processing. We also think Worldline could benefit from Ingenico's footprint in Asia, Latin America, and the U.S. for payment terminals. Worldline's customer base will expand to 1 million merchants and 1,500 banks, from 400,000 and 320, respectively.

Continued good growth prospects despite a larger exposure to payment terminals. Similar to Worldline, in our opinion, Ingenico's payment solutions--notably in e-commerce--enjoy good revenue growth prospects driven by the continued shift to non-cash payment transactions and banks' increasing willingness to outsource, to some extent supported by regulation. We expect relatively stronger expansion in the Merchant Services segment (about one-half of pro forma revenues) in coming years. This is partly offset by a larger exposure to the payment terminal business (about 28% of pro forma revenues compared with about 5%-6% for Worldline stand-alone), for which we expect slower growth prospects and more volatile revenues. This is because revenues are mainly based on a one-time payment when terminals are installed or replaced. However, this is somewhat mitigated with a relatively short replacement cycle (between three and seven years) and that Ingenico has taken steps to gradually increase the portion of recurrent revenues.

Profitability will remain modest in the near term before gradually expanding thereafter. Worldline has a solid track record of integration, having successfully acquired eight companies between 2016 and 2018, in particular Equens and Six Payment Services (SPS). As a result, despite Ingenico's large scale (larger than Worldline and 5x-6x bigger than Worldline's largest acquisition so far, SPS), we expect Worldline will achieve its synergy target of €220 million by 2024. In the near term, we expect Worldline's adjusted EBITDA margin will remain relatively stable at about 21%-22% because of integration costs and the dilutive impact of Ingenico that is somewhat less profitable than Worldline offsetting scale effects. However, we expect some improvement from 2022 on synergy realization from SPS and Ingenico, with an adjusted EBITDA margin expanding toward 25% in coming years.

Leverage will peak at 3.0x-3.5x in 2020 but we expect it will gradually decline to below 2.5x. We understand Worldline is sticking to its financial policy targets, with a leverage ratio between 1.5x and 2.5x, translating into an S&P Global Ratings-adjusted debt to EBITDA of 2x-3x. This is despite our anticipation that Worldline's credit metrics will temporary weaken post-transaction, potentially slightly above the maximum 2.5x target. However, we understand that management has publicly committed to rapid deleveraging. As a result, we expect its adjusted debt to EBITDA to recover to 2.5x or lower in 2021, then strengthen further to below 2.0x in 2022.

Outlook

The stable outlook on Worldline reflects our anticipation of a successful integration of Ingenico, and that the combined company will post organic revenue growth of at least 5% and gradual profitability improvement over time. This, teamed with our expectation that management will remain committed to its leverage target between 1.5x and 2.5x, should result in an S&P Global Ratings-adjusted debt to EBITDA returning to 2.5x, or below, in 2021, after a temporary spike above 3.0x in 2020.

Downside scenario

We could lower our rating if the company's deleveraging derails in the 24 months after transaction close, such that leverage stays above 2.5x. This scenario could occur if the company deviates from its commitment to deleverage, for instance to make additional debt-funded acquisitions, or if the company experiences operational missteps related to the integration of Ingenico.

Upside scenario

Rating upside is limited, given the company's financial policy. However, we could upgrade Worldline if Ingenico is successfully integrated while the adjusted debt-to-EBITDA ratio remains sustainably below 1.5x.

Company Description

Worldline is the leading provider of payment services in Europe. It generates annual revenues of about €2.3 billion. Including Ingenico, we estimate Worldline's 2019 pro forma revenues will reach €5.2 billion, split into the following business lines:

- Merchant Services (48% of pro forma 2019 revenues) offers merchants a range of payment-related and value-added services, including in-store, online, and mobile payment acceptance solutions, and a range of data analytics and private label card and loyalty services.
- Financial Services (17%) 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 non-card electronic payment transactions, and offering of multi-platform online banking services (including online bank electronic payments).
- Mobility & 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.
- POS (28%) relate to terminal activities and include sales of payment terminals and applications, management of installed terminals, including security, connectivity, after-sales service during the life cycle of terminals, upgrades and maintenance.

Our Base-Case Scenario

In our base case, we assume:

- Global GDP growth of 3.2% in 2020 and 3.4% in 2021, after our forecast of 3.1% in 2019.
- Pro forma organic revenue growth of 6%-8% annually in 2020 and 2021, supported by increasing card penetration, more outsourcing from banks due to regulatory changes, and to some extent a more favorable business mix with a greater share of the rapidly expanding merchant segment after the SPS acquisition. Flat or modest revenue growth derived from payment terminals.
- A stable adjusted EBITDA margin at about 21%-22% in 2020-2021 (versus 21.8% in 2019),

because of some dilution from the less-profitable Ingenico and integration costs, offset by remaining costs synergies from previous acquisitions. Growing margin to 23%-25% from 2022 on scale benefits from pending cost synergies from SPS, and additional synergies from Ingenico.

- Capital expenditure (capex) of about 5% of sales.
- No dividends in line with previous years and as we expect management will remain focused on reducing leverage.

Worldline Key Metrics

	2020F	2021F	2022F
Reported revenues (bil. €)	5.4-5.6	5.8-6.2	6.0-6.5
EBITDA margin (%)*	21.0-21.5	21.5-22.0	23.0-24.0
Reported FOCF (mil. €)	670-710	700-760	780-850
FFO/debt (%)*	22-27	28-35	38-48
Debt/EBITDA (x)*	3.0-3.5	2.3-2.5	1.5-2.0

*As adjusted by S&P Global Ratings. FOCF--Free operating cash flow. FFO--Funds from operations. F--Forecast.

Liquidity

We assess Worldline's liquidity as exceptional, based on our estimate that its sources of liquidity will exceed uses by well above 2x over the next two years. Furthermore, the company is likely to maintain its prudent financial risk management, and we believe Worldline could absorb low probability, high-impact events without refinancing. Furthermore, the group's net sources are likely to remain positive even if EBITDA declines by 50%, according to our calculations.

Our estimate of Wordline's principal liquidity sources, pro forma the Ingenico acquisition, as of end-December 2019 comprise:

- Cash and cash equivalents of €1,302 million;
- Revolving credit facility worth €600 million, maturing in December 2025; and
- Funds from operations of €0.9 billion-€1.1 billion.

We assume Worldline's principal liquidity uses at the same date are:

- Debt maturities of €455 million in FY2021;
- Annual capex between €250 million and €300 million; and
- Minimal working capital outflows.

Issue Ratings - Subordination Risk Analysis

Capital structure

Worldline's pro forma capital structure includes €600 million of senior unsecured bonds due 2026, convertible into Worldline shares, €500 million senior unsecured notes due 2024, and €2 billion senior unsecured debt at the parent company level. It also includes €2.1 billion of debt at Ingenico's level.

Analytical conclusions

At closing, we expect to assign all of Worldline's debt our 'BBB' rating, 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/--

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 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

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
Worldline SA	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.