Consolidation in the Payments Industry: Worldline acquires Ingenico for €7.8bn

Worldline S.A. (WLN.PA) – market cap: 13.45bn EUR
Ingenico Group GCS (ING.PA) – market cap: 8.54bn EUR

Introduction

On February 3rd, 2020, French payment giant Worldline has announced that it had reached an agreement to acquire Ingenico for €7.8bn in cash and shares, in a deal that would create the fourth largest player in payments services worldwide, with €5.3bn in proforma revenues and servicing almost 1 million customers. Furthermore, the combination would create a new global powerhouse in merchant services, with an estimated €2.5bn in combined revenues. The deal brings together Worldline's strength among merchants in the European market with Ingenico's well established primacy in payments hardware and in the online commerce business.

About Worldline

Worldline is a French financial services company providing an array of services, ranging from in-store point-of-sale terminals through to online payments, data analytics, banking and fraud protection. The company covers the entire payment value chain through digital platforms that handle the transactions between a given company, its commercial partners and its customers. It focuses on three main business pillars: Merchant Services, Financial Services, and Mobility and e-Transactional Services.

The history of Worldline began almost 50 years ago, when in the 1970s Sligos was the first company to win a card transaction processing contract, and with other subsidiaries, started to develop bank card payment systems. In the subsequent years online services became increasingly popular and Axime emerged as a leader in the industry, which in 1996 acquired Sligos creating a new business entity called Atos. Year after year, Atos acquired several more companies and became officially known as Worldline in 2013, having become a major worldwide player active in more than 30 countries. Today, Worldline has about 11,000 employees and €2.3bn in annual revenues; through a series of recent acquisitions, it has reinforced its position in the Baltics, in Northern Europe and in India.

From a financial perspective, in FY 2019 Worldline recorder €2.38bn in revenues, marking a 6.9% growth on the previous year. Of the €2.38bn in revenues, €1.12bn came from the Merchant Services business line, mainly benefiting from a notable in-store transaction volume growth, triggered by the increased usage of credit cards for low value purchases and the adoption of contactless methods of payment, and by the continuous strong increase of ecommerce payment transactions. In 2020, the company aims to increase its revenues by at least 7% and targets a free cash flow of €325-350m, up from the €288m achieved in 2019.

About Ingenico

Ingenico was established in 1980 and headquartered in Paris and is one of the main global payment services providers. Not only does it rank in first position as a payments terminal manufacturer, with a market share of 37% of the global payment terminal market and over 30 million terminals operating worldwide, but it has also built one of the strongest European merchant services business with €1.4bn in net revenues and one of the best online offer through the successive acquisitions of Easycash, Ogone, Global Collect and Bambora. Most recently, the notable strategic partnership signed with the German savings banks and the PAYONE joint venture have established Ingenico as a leader of the German commercial acquiring market.

Today, Ingenico provides to more than 550,000 merchants a comprehensive portfolio of payment solutions, ranging from payment terminals to in store and online payment processing and the management of more than 300 payment methods. Ingenico has operations in over 170 countries and employs around 8,000 employees.

In 2019, Ingenico has put into action a new strategic plan based on a more flexible, efficient and customer-centric organization. With its Fit for Growth holistic transformation programme and the launch of the Payment Platform as a Service, Ingenico has revived B&A and restored its competitive edge, investing heavily in Retail to accelerate its profitable growth while maintaining strict financial discipline.

From a financial perspective, the Ingenico Group has generated revenues of around €3.37bn, with an EBITDA of €606m and a strong €310m free cash flow. For the coming year, the group aims for a 4-6% organic growth in revenue and an EBITDA exceeding €650m.

Industry Overview

In 2019 we observed a significant growth in the number of major mergers and acquisitions in the payments sector. With many firms struggling to remain relevant amid increasing competition and digitization, Worldline-Ingenico deal fits into the trend. The total 2018 payments' deal value of approximately $50bn was exceeded during the first half of 2019 alone, amounting to record-breaking $67bn. Among last year's megadeals, Fiserv buying First Data for $22bn, FIS acquiring Worldpay for $43bn with debt included and Global Payments paying $21.5bn for TSYS attracted most of attention.

Older payments players face increased competition from a large number of new financial technology rivals. Companies like America's Stripe, India's Paytm and Britain's Checkout.com keep succeeding with their multi-billion dollar valuations owing it to the flood of venture capital. Credit also goes to the rise of e-commerce and smartphones as means of payment.

According to McKinsey 2019 Payments Report, consolidation trend in the industry is fueled by the growth in nontraditional areas, demand for integrated solutions, increasing significance of scale and efficiency, and finally the change of consumers' trust allocation. The expansion of payment options has highlighted some of merchant's issues. As a result, many of them, particularly small to mid-size enterprises (SMEs), are choosing competitively priced integrated solutions that expedite the processes, but at the same time meet the expectations of more demanding customers. The omnichannel approach to payments is better adjusted to clients' shopping behaviors these days. What matters is an easy and flawless checkout experience. Merchants at the same time expect the possibility to better influence their payment choices. To serve needs of both groups, rivals are offering highly verticalized solutions with the idea of acting as a "one-stop shop" provider, ideally across borders.

Current M&A activity is intended to help achieve simultaneous goals of improving the customer proposition, facilitating access to multiple technologies and rails, and building scale. The SMEs, which used to be satisfied with relatively basic solutions, experience rapidly growing inflows of electronic payments, and therefore will be of critical value. On the other hand, successes of very large merchants in achieving the scale needed for profitable payment processing, gave them grounds to become more demanding in terms of technology/rail access. Meanwhile, capabilities of leading e-commerce ecosystems like Alibaba and Amazon are growing. They create large pools of payments volumes, thus exerting greater leverage in price negotiations. Going further this road, they may potentially make it viable for some merchants to bypass traditional processors entirely.

The sector has already seen numerous innovations introduced by disruptors, but the incumbents have historically enjoyed consumer trust. Unfortunately, McKinsey's recent Digital Payments Survey indicates that this advantage is disappearing: consumers have become more comfortable entrusting their financial transactions to nonbank-branded models.

Incumbents also feel the pressure to join forces and consolidate as they face competition from a wave of new fintech rivals. The innovations such as checkout-free stores assign greater importance on the data derived from shopping. Mobile apps play a key role here as Amazon Go-style stores and new Uber-style models link the payment back to an enrollment, thus providing crucial data for the party that enrolls the consumer. FinTechs are on their way to gain significant dominance in the battle for merchants in this environment. Therefore, announcements like the one earlier in January 2020 about Visa Inc. agreement to pay $5.3bn for Plaid, a fintech that connects popular apps like Venmo to customers' data in the established banking system, is not surprising at all.

However, not only FinTechs are receiving lately the growing attention in the payments sector. The constantly increasing focus of "big tech" players, such as Alibaba, Amazon or Apple, on creating payments ecosystems across billions of global users drives further pressure on the competitive landscape. Some of them have made big moves concerning payments: Apple Pay was created with the view to access new revenue streams and protect core products, while Amazon credit cards are supposed to improve margins of existing revenue streams and Alipay's Zhima should deepen the loyalty of existing customers. What is even more noticeable is that these companies are beginning to hire top talents from financial services. According to McKinsey's 2019 Payments Report, over 4,500 of Amazon's employees have been sourced from the top US banks. All of these factors combined might create a true threat to incumbents of the sector. As a result, the experts' predictions for the near future include the consolidation trend to continue.

Deal Structure

Worldline, the French payment services business has reached an agreement with local rival Ingenico, valuing the acquisition at €7.8bn. The deal is sought to be paid in cash and shares. Shareholders of Ingenico will receive €123.10 per share or, alternatively, a mixture of cash and shares, which is a generous 17% premium on the last closing price. The takeover premium pushes the valuation to 14x enterprise value-to-EBITDA, marking the highest since 2015. Additionally, Worldline provides the opportunity to buy bonds that are convertible into Ingenico shares. The shareholders of Worldline will own approximately 65% of the combined company. This deal will value the combined market capitalization of Ingenico and Worldline at about €19bn as of trading Monday.

Ingenico recorded gains of as much as 14% in Paris on Monday, marking the biggest intraday position in more than a year with a peak of 119.9 euros. On the contrary, Worldline fell as low as 8.6%. From the perspective of Worldline, this deal does have a charming and very beneficial aspect when considering the value added to its European leadership team. Complementing the aim to promote their market value, the French firms together will opt for a more diversified profile than their U.S. peers.

With the combined company, earnings per share is expected to increase by double digits. The firm can surely benefit from cost savings through vertical integration worth €250m annually by 2024. This saving will be derived from rationalizing back-office functions, procurement, and other activities. Though there would be an unspecified number of job cuts from the 20,000 combined staff, many employees will probably be reassigned internally, in the light of strong growth prospects of the business.

Deal Rationale

Through this deal Ingenico targets to become a European front in a rapidly consolidating industry that is led by the US-based giants. The deal is expected to create the world's fourth-largest payment services provider, servicing nearly 1M merchants.

For many years, Ingenico has been trying to refocus from its legacy business that is to execute transactions on behalf of banks or credit card companies using hardware terminals in store. However, new realms of transactions have proven to be in fashion such as online shopping. Ingenico is certainly a leader in payments hardware, while its online commerce business is still growing. This acquisition is a great opportunity to join forces and work on each company's strengths: Worldline's advantage amongst merchants in its European stronghold and Ingenico's well-known payments systems. Worldline will operate as the platform of choice for further consolidation in Europe. A one-stop-shop position for SMEs as well as global merchants will be formed through the perfect match between online and in-store merchant services.

The cultural fitness and goodwill behind this deal is evident, considering both firms are French. The biggest shareholder of Ingenico has approved the alignment, since it creates a "French national champion." The shared vision and combination of distinctive payment talent pools is an envisioned to produce the desired synergies. Ingenico aims to achieve €250m run-rate synergies and operational gearing by 2024, which will contribute to immediate double-digit EPS accretion. The run-rate synergies consist of €30m run-rate cash savings and €220m incremental run-rate OMDA, which is mostly due to IT infrastructure, support functions combination, and procurement.

One of the many upsides to this deal is the unique coverage of the payment value chain from issuing to merchant acquiring. The combined revenue in the Merchant Services reaches €2.5bn due to the improvements in omnichannel capabilities created through the deal.

From the perspective of Worldline, the transaction would without a doubt enhance the business profile and strategic position. Worldline will reach the serving capacity of 1 million merchants, 1200 banks and financial institutions. The deal makes it possible to take advantage of economies of scale and more enhanced operating leverage. In addition to Worldline's historical footprint in Benelux, Switzerland, and Austria, it will also extend its reach in other European countries: Germany, Nordics, and further access to French banks and merchants. Additionally, Worldline will expand to the US Market, Asia-Pacific and low card penetrated countries. This particular commercial edge is derived from the market vertical expertise, considering Ingenico's strong solutions in Travel and e-Commerce complementing Worldline's expertise in Petrol and Luxury Retail.

In all the countries that Worldline plans to assemble, Germany is by far one of the most important geographical locations to the deal. As part of the transaction, the combined group would reinforce its position of control in Payone, which is the joint venture between Ingenico and DSV, a German savings bank. A leadership position will be established through the contribution of Worldline's Merchant Services activities in Germany and Austria to the joint venture.

Therefore, Worldline would have a new strategic partnership with a European banking group from the largest European economy.

Market Reaction

Ingenico shares gained around 20.00% on the Paris Stock Exchange on the day of the announcement, rising to €123.75, accounting for the company's biggest intraday move in more than a year. The deal was welcomed by French state investor and Ingenico shareholder Bpifrance Financement SA, which owns about 5.30% of Ingenico shares, as it expressed full support. The company went through several transformational acquisitions and partnerships over the past decade and remained to be seen as a target. After drawing interest from firms like Edenred and French bank Natixis last year, the shareholders showed warm approval for the final deal with Worldline.

On the other hand, after an initial fall of 8.60%, Worldline's price per share rose by more than €8.00 over the following week, representing an over 12.00% growth. "The deal looks very positive for Worldline at first glance, giving the company an opportunity to add to its European leadership team and increase its market share" said analysts at Bryan Garnier & Co. on Monday, February 3rd. SIX Group and Atos, Worldline's largest shareholders, spoke in favor of the deal as well.

Krista Tedder, head of payments for Javelin Strategy & Research, points out that "What will open up is the integration potential of Worldline's value-added services to Ingenico's clients. The added services will require development which means time spent on integration versus innovation". Although strong value creation is expected, estimated at around €250mln run-rate synergies in 2024, she mentions that "it is too early to know where they will be able to innovate as one company". From what can be seen, the growth of Ingenico stock seems to be slowly cooling off.

Financial Advisors

Morgan Stanley and Cardinal Partners are serving as financial advisors, while Cleary Gottlieb Steen & Hamilton LLP and Latham & Watkins are acting as legal advisors to Worldline. Goldman Sachs and Rothschild & Co are acting as financial advisors to Ingenico and Bredin Prat is acting as legal advisor.

TAGS: Online Payments, Digital, FinTech, France, Ingenico, Worldline