BRYAN, GARNIER & CO

FOCUS
TMT CONFERENCE

21st March 2016

TMT

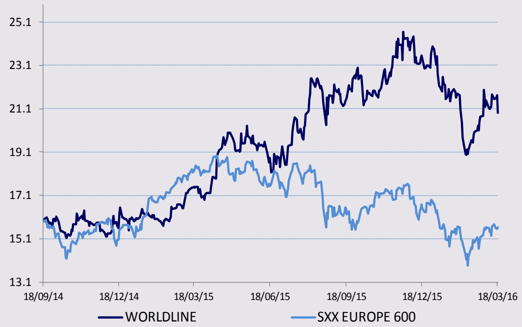
Worldline

The cheapest stock in our Payment coverage

Fair Value EUR29 (price EUR20.92) **BUY-Top Picks**

Bloomberg	WLN FP
Reuters	WLN.PA
12-month High / Low (EUR)	24.7 / 16.9
Market capitalisation (EURm)	2,763
Enterprise Value (BG estimates EURm)	2,440
Avg. 6m daily volume ('000 shares)	92.10
Free Float	29.5%
3y EPS CAGR	9.6%
Gearing (12/14)	-32%
Dividend yield (12/15e)	NM

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	1,149	1,227	1,286	1,350
EBITA EURm)	170.3	174.9	200.6	217.4
Op.Margin (%)	14.8	14.3	15.6	16.1
Diluted EPS (EUR)	0.87	0.91	1.05	1.14
EV/Sales	2.23x	1.99x	1.77x	1.58x
EV/EBITDA	11.9x	10.4x	8.9x	7.7x
EV/EBITA	15.0x	13.9x	11.3x	9.8x
P/E	24.1x	23.0x	19.9x	18.3x
ROCE	29.9	32.9	38.7	44.4



During meetings with Worldline's management (CEO and IR) at our TMT conference, much of the time was spent explaining the company's activities and discussing the sector. They emphasised the complementary benefits of the Equens and KB transactions. And finally, they reiterated the FY16 guidance (+3% in lfl sales, EBITDA margin of 20%, i.e. +80bps, FCF of EUR135/140m), adding that it excludes the last two acquisitions (an update should be provided at the H1 earnings, in July). Buy rating and FV of EUR29 (incl. Equens and the end of the French radar contract are integrated) – Q1 Top Pick.

- **Worldline should now be fully considered as a PSP by investors**. It has over 40 years of expertise in the Payment industry and 78% of its FY16e sales is derived from Payments (incl. the last two acquisitions).
- The group has little exposure to the most buoyant segments (no presence in the US, very little in China, low in online segment). **That said, it has a resilient profile and numerous strengths: 1/** recurring sales (75%e), **2/** presence in the entire payments value chain, **3/** gradual convergence of its businesses (platforms + uses), **4/** leverage on customer relations and transaction volumes (fixed-cost structure: 55-60% of sales), **and 5/** ties with parent company Atos (excellent distribution channel).
- Our meetings with Worldline's management have strengthened our view. **With Equens, we consider that Wordline has now a critical mass in Payments**. We consider that, even with still a low single-digit organic growth (+3-6%: exposure to Europe and physical payments), the group will improve its margins and with an additional boost once its investments in the WIPE platform are completed (only EUR25m remains to be invested over 2016-17). As a result, **the group's fundamentals and multiples should now deserve those of a PSP evolving in the physical space** (processor but also acquirer in Benelux), **i.e. 12x in EV/EBITDA**.
- **We are waiting for the consolidation dates of Equens and KB before officially integrating them into our financial grid** (we should have these details in July). **However, they are already included in our valuation.** We maintain our **Buy rating and FV of EUR29 (Q1 Top Pick)**. At our FV, the share would be at 11.8x EV/EBITDA 2016e (vs. 8.1x currently), which is consistent with its positioning.

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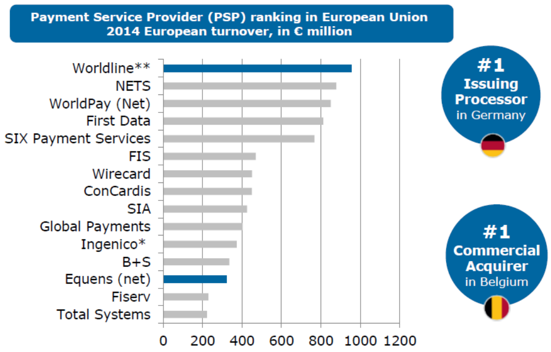
Worldline: Key Focuses from BG's TMT Conference

1. One Chart



Source: Company estimates.

*** European turnover excl. Payment terminal revenue.*

** Excluding payment terminal revenue.*

- **With the acquisition of Equens** (to be consolidated in the course of Q2 2016), **in the European Union, Worldline will be the leading Payment Service Provider** (in revenue terms; ~90% of group's revenue is generated in Europe, and the remainder with a balanced spread between LatAm Iberia and Asia) and still no. 5 in payment terminals.

- As a result, **Worldline should now be fully considered as a PSP by investors**. The group has **over 40 years of expertise in the Payment industry** and **78% of its FY16e revenue is derived from Payments** after integrating the last two acquisitions (30%e Merchant services & Terminals, 47%e Financial Processing & Software Licensing, and a small part of Mobility & eTransactional Services namely 3%), breaking down into 85%e physical payment, 15%e online (10%e e-commerce and 5%e m-commerce).

- **The company is positioned along the entire payments chain** (even if mainly active in the physical payments segment), ranging from management and communication of financial transactions (from consumers paying with their bank cards on payment terminals in stores to validation by the bank), analytics, processing and formatting of data collected (e.g. mobile applications created for SG and McDonald's) and value-added services surrounding purchases (e.g. generation of discount vouchers during mobile payments in stores). **The final ambitions of Worldline, like other players in the world of payments and transactional services, are: 1/** to provide a full offer in order to increase the topline of its clients (mainly physical merchants and banks), both through higher volume and innovation, **and 2/** to make external growth to leverage its proprietary technology platforms (which processes payment transactions). The structural, regulatory and technological context is clearly beneficial to securing electronic payments, and this favours the outsourcing of payment processing (for both merchants and banks) to specialised services providers.

Worldline's positioning in the payments value chain (incl. the acquisition of Equens)

Issuing transaction processing	Services to cardholders and issuers	Automated clearing house	Credit/debit transfers	Services to merchants	Acquiring transaction processing	Commercial acquiring	Acceptance POS / ecommerce	Services to new digital businesses
●	●	●	●	●	●	●	●	●

Source: Bryan, Garnier & Co.

- **Asked about the interest in keeping its third division internally** (Mobility & E-transactional Services: e-government, e-ticketing…), the CEO said these activities have the transactional business model in common with its first two Payment divisions (Merchant Services & Terminals and Financial Processing & Software Licensing), i.e. collecting commission fees. So, the group's industrial logic consists of reusing software bricks common to payment businesses and benefiting from the convergence of uses.

2. One Sentence

« We sell confidence in the Payment universe »

At our conference, Gilles Grapinet said "we sell confidence in the Payment universe". Speaking figuratively, he added that its company does **a job of growth infrastructure operator for any form of payments** (recurring sales), such as a motorways operator when there are stretches of expressways poorly connected to the network and not yet benefiting from economies of scale. In such a context, Worldline's mission consists in making smoother traffic flow (Worldline and Equens will benefit from their large European platforms, which are consistent with the single European currency). **Indeed, a PSP has: 1/** to develop and industrialise processes (handling of very large transaction volumes); **2/** to provide a high level of security (secure transactions), **3/** to address clients' needs (mainly physical merchants and banks), **4/** to adapt to regulatory changes; **and 5/** to adapt to technological and market developments.

3. One Figure

50%

- **In Europe: 1/ 50%** of payments is made in cash or by cheques (the gradual disappearance of cash and cheques in favour of electronic payments is a fundamental trend in the payment industry); **2/ 50%** of the payment market is still insourced by banks (whereas in the rest of the world, banks are out of the payment market as they have outsourced these services).

- **In the Payment sector, size matters (the bigger, the more profitable).** With a critical size, a PSP is able to generate a significant leverage on its proprietary platform (fixed cost structure business). That's why payment players often make acquisitions (whereas if they do it alone, they could waste eight years before really beginning to have connections and make significant business). It allows them to face higher transaction volumes for lower costs (virtually zero marginal cost for a new transaction but the price is charged to the merchants/banks, low costs to enter a new region). **We expect the payments sector to continue consolidating in Europe and the US** (both in physical payments and e-commerce), in a similar way to the hardware payments segment in recent years. For example, in 2007, around 20 manufacturers of payment terminals were active at a global level, whereas now only Ingenico and VeriFone really exist (84% of market shares cumulated). Ingenico, Wirecard, Worldpay and Worldline are among the natural European consolidators that we identify in payment services (primarily in the online segment for the first three, i.e. ~17x+ in EV/EBITDA, and in physical payments for Worldline, i.e. ~12x in EV/EBITDA).

- **Worldline should benefit from the decline in interchange fees** (at 0.3% for credit cards and 0.2% for debit/prepaid cards for countries in the eurozone; implemented by the EU on 9th Dec. 2015) **since: 1/** it should prompt merchants to accept payments by bank card for smaller amounts, hence an increase in transaction volumes; **2/** Banks that issue payment cards should automatically see their sales decline (interchange fees are part of their revenues) and are likely to increasingly outsource card processing to PSPs, in order to reduce their costs and refocus on their own business. Operating leverage at Worldline is therefore set to be driven by transaction volumes; **3/** whereas retailers could request that the entire cut in these fees be passed onto them, this is unlikely to immediately be case of smaller merchants (who are generally less aware and have lower negotiating clout); **and 4/** no significant impact on its revenue, because its gross revenue excludes interchange fees, and in any case they are already very low in Benelux (where Worldline is an acquirer).

4. How does the Conference impact our Investment Case

- The group has **little exposure to the most buoyant segments** (no presence in the US, very little in China, low in e-commerce/m-commerce). **That said, it has a resilient profile and numerous strengths: 1/** recurring sales (>80%e), **2/** a presence in the entire payments value chain (no. 1 PSP and no. 5 in TPEs, in the UE in 2014 pro forma), **3/** gradual convergence of its businesses (platforms + uses), **4/** leverage on customer relations and transaction volumes (fixed-cost structure: 55-60% of sales) **and 5/** ties with parent company Atos (excellent distribution channel).
- Now that Worldline has reached a critical size post-Equens and Komerční Banka (now able to capture payment processing and merchant acquiring transactions in northern Europe, Italy, Germany, and Czech Republic), we consider that **even with still a low single-digit organic growth** (+3/6%: exposure to Europe and physical payments), **the group will improve its margins** (the higher the volumes that pass through the platform, the stronger operating leverage is). **And with an additional boost once its investments in the WIPE platform are completed** (only EUR25m remains to be invested until 2017e). As the last two acquisitions required very little cash since it took the form of JV, **the group's financial flexibility remains intact**. We consider that every additional M&A should help the group to value its payments exposure better. The share is trading at an EV/EBITDA 2016e of 8.1x (incl. Equens in mid-May and the end of the French radar contract as of July) vs 12x usually for a physical payments player, namely an undeserved discount of 32%. **This is the cheapest stock in our Payment coverage.**

Next Catalysts

- **Q1 2016 revenue:** on 20th April (after trading) **/ H1 2016 earnings:** in July (the group will give all the necessary elements for the consensus to integrate the last two acquisitions into their models and therefore should update its guidance accordingly).

Company description

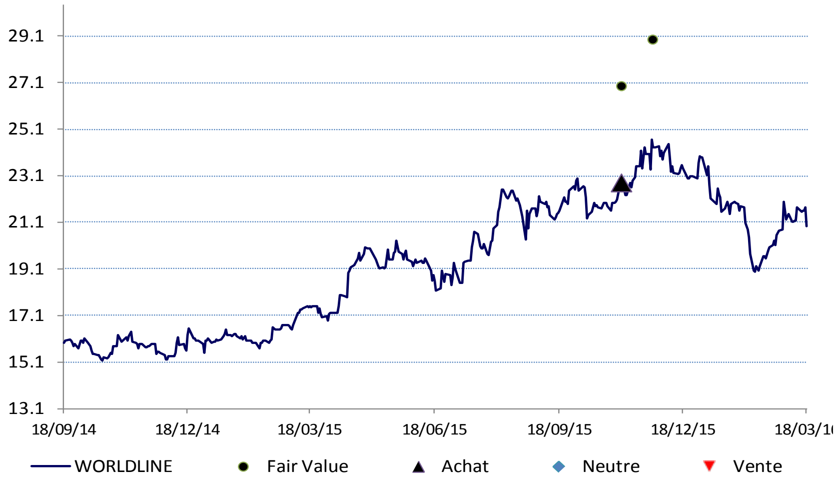
Worldline is a leading provider of electronic payment and transactional services. It offers a full range of payment services and terminals to merchants, processing and software licensing to financial institutions, and mobility solutions and transactional services to enterprises and government agencies.

Simplified Profit & Loss Account (EURm)	**2012**	**2013**	**2014**	**2015e**	**2016e**	**2017e**
Revenues	1,107	1,135	1,149	1,227	1,286	1,350
Change (%)	*-%*	*2.5%*	*1.3%*	*6.8%*	*4.8%*	*5.0%*
Ifl change (%)	*-%*	*4.1%*	*2.8%*	*4.4%*	*6.5%*	*5.0%*
EBITDA	183	203	215	235	257	277
EBIT	150	170	151	148	187	214
Adjusted EBIT	152	164	170	175	201	217
Change (%)	*-%*	*7.8%*	*3.8%*	*2.7%*	*14.7%*	*8.4%*
Financial results	(10.3)	(13.4)	(7.4)	(5.9)	(1.0)	0.0
Pre-Tax profits	139	157	143	142	186	214
Tax	(43.8)	(36.2)	(41.0)	(38.8)	(54.0)	(62.2)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	(1.7)	(1.8)	(1.8)	0.0	0.0	0.0
Net profit	93.9	119	100	103	132	152
Restated net profit	95.5	114	114	123	142	154
Change (%)	*-%*	*19.3%*	*0.4%*	*7.4%*	*15.3%*	*8.9%*
Cash Flow Statement (EURm)						
Cash flow	148	149	164	184	213	237
Change in working capital	4.3	16.1	22.8	11.9	2.1	2.3
Capex, net	(46.3)	(41.0)	(68.9)	(67.0)	(70.7)	(67.5)
Financial investments, net	1.4	(0.30)	(1.2)	0.0	0.0	0.0
Dividends	(23.2)	0.0	(45.1)	0.0	0.0	(33.1)
Other	(11.6)	(212)	230	(8.3)	18.7	8.4
Net debt	14.6	99.6	(203)	(323)	(487)	(634)
Free Cash flow	106	125	118	129	145	172
Balance Sheet (EURm)						
Net fixed assets	518	523	552	538	509	483
Investments	7.5	6.9	9.0	9.0	9.0	9.0
Deffered tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	469	542	216	371	534	681
current assets	249	260	288	307	322	338
Other assets	78.6	84.9	96.4	103	108	113
Total assets	1,321	1,417	1,161	1,328	1,482	1,625
L & ST Debt	483	642	12.5	47.3	47.3	47.3
Provisions	85.4	76.0	94.6	94.6	94.6	94.6
Deffered tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Others liabilities	332	364	425	454	476	500
Shareholders' equity	421	336	629	733	865	984
Total Liabilities	1,321	1,417	1,161	1,328	1,482	1,625
Capital employed	436	435	426	409	378	350
Ratios						
Operating margin	13.74	14.45	14.82	14.26	15.60	16.10
Tax rate	31.42	23.13	28.63	27.28	29.00	29.00
Net margin	8.63	10.60	8.89	8.43	10.28	11.27
ROE (after tax)	22.30	35.31	15.96	14.12	15.29	15.47
ROCE (after tax)	24.13	28.63	29.91	32.94	38.71	44.37
Gearing	3.47	29.68	(32.28)	(44.14)	(56.28)	(64.44)
Pay out ratio	0.0	0.0	0.0	0.0	25.00	25.00
Number of shares, diluted	116,218	116,218	131,927	135,012	135,012	135,012
Data per Share (EUR)						
EPS	0.81	1.02	0.76	0.78	1.00	1.15
Restated EPS	0.82	0.98	0.87	0.91	1.05	1.14
% change	*-%*	*19.3%*	*-11.5%*	*4.9%*	*15.3%*	*8.9%*
BVPS	3.62	2.89	4.77	5.43	6.41	7.29
Operating cash flows	1.27	1.29	1.24	1.36	1.58	1.76
FCF	0.91	1.07	0.89	0.95	1.07	1.27
Net dividend	0.0	0.0	0.0	0.0	0.25	0.29

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Worldline



Ratings		
Date	**Ratings**	**Price**
02/11/15	BUY	EUR22.08

Target Price	
Date	**Target price**
25/11/15	EUR29
02/11/15	EUR27

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Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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Distribution of stock ratings

BUY ratings 64.4% NEUTRAL ratings 28.1% SELL ratings 7.4%

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