

Worldline And Ingenico: The What, the Why, And What's Next? Part I

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Worldline S.A.'s \$8.6 billion bid to buy Ingenico Group S.A. would create a Gallic champion to take on America's processing titans—Fidelity National Information Services Inc. (FIS), Fiserv Inc., and Global Payments Inc.—all of which have significant European businesses, though none has made headway in the Continent's second-largest payment market, France.

Worldline and Ingenico are both headquartered in Paris. Worldline's culture is French. Ingenico's is very French. Worldline is bureaucratic, hierarchical, numbers-driven, and it has a traditional data-processing mentality. Ingenico is bifurcated, with both a transaction-processing and a hardware/manufacturing culture.

Ingenico Chairman Bernard Bourigeaud was the original architect of Atos Origin, out of which its payments business, Worldline, IPOed in 2014. Fittingly, he'll become the merged entity's nonexecutive chairman. Worldline's Gilles Grapinet will remain as chief executive of the new company. Ingenico's CEO, Nicolas Huss, variously characterized as a turnaround guy, tenacious, and haughty, will move on.

The new French colossus declares it will be the world's fourth-largest payment processor after Fiserv, FIS, and Global Payments. These four lead the pack in a worldwide payment-processing land grab.

In contrast with Europe's high-flying Adyen N.V., which is growing organically and eschewing acquisitions, Worldline and Ingenico have acquired prolifically to build scale, expand delivery footprints, and enrich product suites.

Worldline brags that it's Europe's leading payment processor. Its roots are in the 1997 combination of former consultant Bernard Bourigeaud's French

IT-services provider, Axime, and Credit Lyonnais's payment processor, Sligos. The latter built much of France's early card-network infrastructure.

Over the years, the French payments giant has relentlessly rolled up processors. In Europe, it acquired Belgium's near-monopoly bank-cooperative, Banksys, in 2006, and in 2015 it bought the largest Dutch payment processor, Dutch-and-German-bank-owned Equens. Beyond these deals, it acquired First Data's Baltic processor and Sweden's Digital River World Payments in 2017, and Switzerland's leading processor, bank-owned Six, in 2018. These acquisitions built massive scale and expanded Worldline's footprint.

The consolidation didn't stop there. Worldline added products with the 2011 acquisition of HTTS, Siemens's mobility and electronic-transaction services unit; the 2010 pickup of e-ticketer Shere; and a 2012 deal for Quality Equipment for catering and parking payments.

Looking to bolster longer-term growth, Worldline established beachheads in India, picking up Venture Infotech for approximately \$100 million in 2010 and merchant processor MRL Posnet in 2017. With 1.37 billion people, most of whom still rely primarily on cash, India is the world's most consequential emerging payments market. As such, it features an epic struggle between traditional card networks, alternative payment systems, and tech giants with ambitions in payments.

In the European patchwork, Worldline is concentrated in France, Germany, Belgium, the Netherlands, and Switzerland. It's relatively weak, however, in the United Kingdom and Eastern and Southern Europe, and weak outside Europe. The processing behemoth's principal markets, while sizeable, are becoming a smaller portion of the growing global payments pie.

Ingenico and its U.S. rival, Verifone, founded in 1980 and 1981, respectively, drove consolidation in the point-of-sale terminal industry, becoming a veritable global duopoly. In 2008, Ingenico acquired Sagem Monétique's POS assets and a majority stake in Landi, at the time China's leading POS terminal supplier. In 2017, it added Taiwanese reseller Airlink, which provides terminals, software development, and other services to banks and retailers.

Notwithstanding its leading position selling POS systems planet-wide, Ingenico's legacy business has been struggling. Chinese challengers—like PAX, BBPOS, Newland, Xinguodu, Itron, Anfu, SZTZ, Centerm, MoreFun, and Dspread—have scaled up in their gargantuan domestic market, and some are taking share abroad.

Ingenico's customers are large, sophisticated acquirers and processors that can and do squeeze it. Also, processors like First Data are shipping proprietary POS systems, diminishing the addressable market, while multi-purpose tablets and smart phones are now widely used for acceptance. And, in mature American and European markets, merchants are slow to replace POS systems.

Perhaps, therefore, it's not surprising Ingenico's terminal business shrank in 2018. Total organic growth was an anemic 2%, propped up by the growing processing business.

Former CEO Philippe Lazare said "innovation is the heart of our strategy." So Ingenico's major strategic thrust was to cross the processing Rubicon in pursuit of recurring transaction revenue. It acquired a string of processors, including EasyCash for €290 million in 2009, Ogone for €360 million in 2013, Global Collect for €820 million in 2014, Swedish acquirer Bambora in 2017 for €1.5 billion, Spanish in-store payment gateway IECISA in 2017, and New Zealand processor Paymark in 2019.

In 2015, it bid unsuccessfully on Europe's largest acquirer, Worldpay. In 2009, it invested in mobile processor Roam Data, ultimately buying it in 2015. And, in 2019, it launched a processing joint venture, Payone, with German savings banks, adding 250,000 merchants, and, going forward approximately €400 million in annual revenue.

Like Worldline, Ingenico placed a bet on the potentially humongous Indian market, acquiring electronic-payments services provider TechProcess in 2017.

Growing by relentless M&A means that, under the hood, both Worldline and Ingenico have multiple processing platforms. That's a headache but also an opportunity. Worldline is practiced in digesting processors. Its management forecast platform rationalization will save 20 basis points in

cost. But there's an opportunity cost in converting systems rather than developing, selling, and delivering enhanced services, which is all an Adyen does.

Next: Part II explains how Worldline/Ingenico could thrive—and the challenges it will have to confront.