

Swipe this – Ingenico

ING FP Equity

Efficient scale limits competition

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Agenda

- ❖ Points of Sale Landscape
- ❖ Overview – Ingenico
- ❖ Margin profile
- ❖ Growth runway
- ❖ Shareholder dynamics
- ❖ Ways to Express a view
- ❖ FAQ
- ❖ Appendix

Points of Sale (POS) Landscape

- ❖ Terminals used to accept credit cards have been switching to the Chip system for years. US still has an upgrade pending, with 45% left
- ❖ Liability shift to merchants forces an upgrade; US is lagging ROW
- ❖ Mobile wallets still need to be read. POS systems incorporate scanners and NFC.
- ❖ Each technological and regulatory wave result in upgrades every 3-5 years. Local and/or global changes may be the catalyst.
- ❖ There is an app for it. Software intelligence will provide analytics and solutions via third-party apps. Ingenico ahead of Verifone.
- ❖ Consolidation of platforms – intra operator – cuts costs.

Overview of business

- ❖ Ingenico starts with a stronghold in Europe. (>50% market share)
- ❖ It is also #1 in China, Canada, Brazil
- ❖ It is present in 170+ countries (150 countries for Verifone)
- ❖ 250,000+ merchants
- ❖ 6,000 employees and 30mn terminals working for you. More staff in China (25%) than France (16%).
- ❖ Fabless. Flextronics and Jabil make the devices.
- ❖ Diversified customer base (2015 rev.): Top 1/5/10: 3.2%/11.1%/18.2%

Margin profile

- ❖ Systems are ~70% of sales (FY15) and have gross margins of ~48%
- ❖ Services are 30% of sales and have gross margins of 38%
- ❖ R&D as a % of sales is at ~7-8% (28% of workforce:2015)
- ❖ Sales and Marketing: ~8%
- ❖ General and Admin: ~10%

- ❖ Resulting EBITDA margin is around 20%+
- ❖ Low net debt

Growth runway

- ❖ US: Market installed base including mobile POS is estimated at 13mn.
- ❖ China is still underpenetrated. Potential exists in Tier 3 and Tier 4 cities. Fosun takes 20% stake in China exposure (via HK)
- ❖ China installed base is 22.8mn (2015; source: PBOC)
- ❖ If growth is pulled forward, there can be declines in unit sales in 2018, 2019
- ❖ Growth % will be volatile due to business durable consumption cycle
- ❖ Certification process for any new instrument is tricky, even for incumbents
- ❖ Alipay (450 mn user base) now accepted in Europe (August 2016). France, Italy, Switzerland and Germany are in the top 10 most visited countries by Chinese tourists (Source: China Tourism Research Institute)

Shareholder dynamics

- ❖ Biggest institutional holder is Allianz with over 10% (passive)
- ❖ Stock is widely held, with a 94% free float
- ❖ Other major holders are BPI Financial Group (5.4%), Jupiter (4.5%), Ameriprise (4.1%)
- ❖ Partner Morpho (biometrics) owns 3.5%
- ❖ Similar to many European companies, and unlike the US, management do not hold large stakes.
- ❖ Should turn out to be popular with insurance companies – if they stop buying negative yielding bonds and start buying sensibly.

Ways to express a view

- ❖ The stock offers an earnings yield of ~5%
- ❖ ROIC stands at 9.5%, and price to book is ~3x.
- ❖ Debt levels are modest, with current and quick ratios over 1.
- ❖ Bond yields ~1% (2021 Senior Unsecured)
- ❖ Dividend distribution policy is 35% of net income

FAQ

- ❖ Will there be a takeover by Verifone?
 - ❖ Unlikely. Dominant global market share of 40% when combined with Verifone's large shares in many markets mean significant divestitures.
- ❖ Can Ingenico be an acquirer?
 - ❖ Bolt-on acquisitions of smaller competitors, distributors may continue. Partech Growth will do venture capital. 2008 acquisition of Landi in China was an exemplary buy at 1.1x sales. Ogone (Europe; 2013), GlobalCollect (2014) formed current ePayments division.
- ❖ Can growth fall off a cliff?
 - ❖ Possible and likely to happen. A newly upgraded merchant may well seek to delay the next upgrade for as many years as possible. 2018-2020 may see a slump – the bigger the sales boost in 2016/2017, the more likely that a big slump might manifest in 2018-2020.

Appendix: Ratios and data

- ❖ Ticker: ING FP Equity on Bloomberg
- ❖ Founded: 1980
- ❖ Head office: Paris, France
- ❖ Market cap: EUR 4.7bn (USD 5.3bn at 1.12 USD per EUR)
- ❖ Price per share: EUR 76.67
- ❖ Shares outstanding: 61.5 million
- ❖ Free float: 94.6%
- ❖ Dividend yield: 1.70 % (trailing 12 months)

Data is from Bloomberg (03 October 2016)