

# Different Synergies: Why FIS Is Spinning Off Worldpay

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US fintech giant FIS is planning to spin off Worldpay, the merchant services business that it acquired in 2019. VIXIO speaks to industry insiders to get their outlook on the future of the payments acquirer.

According to the Jacksonville, Florida headquartered company, FIS management and the board concluded that the spin-off of Worldpay will create better shareholder value by improving both companies' performance, enhancing client services and simplifying operational management.

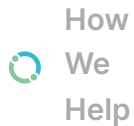
"We are confident that this is the right time for the separation of Worldpay. The pace of disruption in payments is rapidly accelerating," said Jeffrey A. Goldstein, board chair.

"This spin-off will create two industry-leading, publicly traded companies with sharper focus and increased agility, each well positioned to capitalise on the significant value creation opportunities ahead in their respective markets."

Meanwhile, Stephanie Ferris, who became FIS CEO on January 1 having succeeded Gary Norcross, said she was "confident" that the announcement advances FIS' goals.



"We will create two more focused, agile companies that can pursue tailored strategies that are aligned with specific long-term growth opportunities. Both companies will be market leaders in their own right, and we believe that, as separate companies with a commercial relationship, we will deliver superior outcomes," she said.



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The acquisition closed in June 2019 and seemingly brought to end a period of significant upheaval for the acquirer which began in 2010 when its then owners, the beleaguered Royal Bank of Scotland, was forced to spin off the firm, a condition of the bank's bailout following the financial crisis.

Private equity firms Bain Capital and Advent International acquired an 80 percent stake in Worldpay, gaining the remaining 20 percent in 2013. An IPO followed in 2015, before its purchase by US-based acquirer Vantiv in 2018 for \$10.4bn. The newly-merged company was renamed Worldpay, before FIS stepped in.

However, today, and apparently in the wake of pressure from activist investors, FIS has announced that it will spin off its merchant business in the next 12 months.

One source familiar with the situation was less than enthusiastic, telling VIXIO "they have no clue what they are doing".

"Just listen to their earnings call from three months ago, and then this one. You can assess the u-turn by yourself."

In the Q3 earnings call Ferris, while discussing its merchant services business and some notable wins during the quarter, claimed "I couldn't be more excited about the opportunity in front of us at FIS."

## Synergy challenge

"This announcement makes a lot of sense given the current market position and the business challenges that FIS and Worldpay have been facing," said Scott Reynolds, founder of the Fintech Strategy Group.

There are just very few synergies between the two, he said. "They have different customers, technologies, and market strategies. The synergies that they were hoping for didn't pan out."

"On the one hand this was a surprising move considering the money that FIS paid for Worldpay," said Nick Dunse, chief revenue officer at Shuttle.

Dunse agreed that a cultural clash may be the driver. "FIS has clearly struggled to create synergy and integration with Worldpay. As part of a larger trend, banks and payments companies have been coming together and some acquisitions made more sense than others."

"Worldpay, in regards to market dynamics, needs to be more nimble and innovative if it wants to win big," suggested Dunse. "It is an incumbent in the UK, but is potentially lagging behind the likes of Adyen, which has posted big earnings."

To compete and grow in the payments processing space, you need to be able to innovate, and serve the small and medium-sized business community, added Reynolds. "Other companies like Adyen, Square, and Clover are eating Worldpay's lunch here. These guys are innovating really quickly and creating powerful tools."

Worldpay was finding it difficult to grow, so a spin-off makes sense for helping that innovation happen, he suggested. "Look at FIS' traditional service banks. A high pace of innovation is not rewarded as banks look for stability and core functionality. This made it difficult to drive innovation on one side of the business and to have robust solutions on the other side."

## **Positive outlook**

In addition, several experts VIXIO spoke to seemed positive regarding the impact this announcement could have on Worldpay's future.

"This decision says more about the market's expectations and valuations, than the health of the payments industry specifically," said Daniela Sozzi, a consultant in the fintech space. "I am positively surprised as it usually takes much longer for large conglomerates such as FIS to change course."

"If you look at the industry, from a technology and performance perspective, Worldpay has always been a trustworthy and solid player," said Marco Conte, co-founder at Congrify. "It can process massive amounts of transactions and represents stability."

Products offered by Worldpay are in line with high market standards and are comprehensive. It does not look like the business is underperforming either, he added.

According to Conte, it is probably from a geographical presence point of view that it suffers the high competition that exists in payments. "Yet, it can be considered one of the largest acquirers worldwide."

"It is very strong in the UK, for example, but Worldpay might not be a champion in many other countries."

According to FIS 2022 annual results, its merchant services division had a revenue increase of 6 percent on GAAP basis in 2022, outperforming other company divisions. However, its EBITDA (earnings before interest, tax, depreciation and amortisation) margin fell 300 basis points during the year as a result of cost inflation and lower margin revenue mix, albeit still comparatively high at 46.6 percent.

In particular, the company acknowledged increasing recessionary impacts in the UK and a shifting of consumer spend from goods to services in the US, which affected merchant services performance.

Meanwhile, Kjeld Herreman of RedCompass Labs commented that the split is the result of an ongoing market trend.

"Banking software firms across the board are facing stiff competition from new entrants.

"The incumbents in this space are refocusing on their core, high-margin solutions, and divesting from adjacent business areas such as merchant acceptance and professional services."

Payments acceptance is a volume game, he said. "The easiest way to consolidate volumes is through capital intensive acquisitions."

This has been the case with Worldline, which was itself spun off from French IT firm Atos.

Worldline has made several acquisitions recently including **Banco Desio**, **Eurobank Merchant Acquiring** and **Online Payment Platform**, It **reported** 10 percent organic growth in its Q3 2022 revenue to €1.15bn.

"Payments is still a strong performing industry," said Conte. "There is a lot of repositioning from the investment world. Venture capitalists have been more careful since last year, after investing in companies with higher evaluations in 2021. Now it feels like being in a transition phase, where companies and investors are adapting to the new normal."

If large companies want liquidity, they will be able to get it, Conte said, noting examples such as the rumours that Stripe is aiming to raise several billions. "Money in fintech and payments will be there in my opinion, we will need to see if the investments and evaluations will go back to what we had in 2021.

"It felt that last Q4 things got stuck but now are slightly moving."



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