STANDARD & POOR'S RATINGS SERVICES

Research Update

Research Update:

Euronet Worldwide Inc. Assigned 'BBB-' Rating; Outlook Is Stable

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Overview

- Our rating on Leawood, Kan.-based Euronet Worldwide Inc. reflects the firm's strong, high-quality earnings, good product and geographic diversification, and well-managed leverage and funding.
- The company's exposure to exchange rate fluctuations, key man risk, and risks arising from the company's growth are negative factors.
- We are assigning a 'BBB-' issuer credit rating on the company.
- The rating outlook is stable, reflecting the firm's strong core financial performance and cash flow coverage.

Rating Action

On Feb. 6, 2013, Standard & Poor's Ratings Services assigned its 'BBB-' issuer credit rating on Leawood, Kan.-based Euronet Worldwide Inc. The outlook is stable.

Rationale

Our rating on Euronet reflects the firm's strong, high-quality earnings, good product and geographic diversification, and well-managed leverage and funding. Offsetting factors include exposure to exchange rate fluctuations, "key man" risk, and risks arising from the company's growth plans. Specifically, management's investment in expanding three business lines simultaneously entails operational risks and constrains earnings.

The quality and diversity of Euronet's earnings support the rating. The company has a first-mover advantage in multiple markets and has leveraged its operational expertise across its products. Euronet achieved relatively consistent core profitability through all of its segments over the past four years, despite ongoing business expansion and difficult economic conditions. Although reported earnings have suffered from the effects of foreign-currency adjustments and goodwill charges, core earnings have been strong. After adjusting for currency effects and other one-time items, EBITDA was $117 million for the nine months ended Sept. 30, 2012, and $150 million in fiscal 2011. The firm has been able to work through earnings pressure resulting from growth-related expenses, a difficult environment in the money transfer business, and competition in all three segments. At the same time, Euronet's growing economies of scale have helped.

In our opinion, Euronet manages its leverage and funding well. In October

2012, the company repurchased approximately $168 million of convertible debt using its revolving credit facility and cash. As part of this repurchase, the company increased its revolving credit facility by $125 million to $400 million. After these transactions, total debt was approximately $260 million and about $180 million remained available under the revolving credit facility. During the first nine months of 2012, debt to adjusted EBITDA was approximately 1.7x, which is strong for the rating. However, consistent with the company's growth strategy, we expect leverage to rise to about 2.0x-2.5x.

We view Euronet's exposure to changes in foreign-exchange rates as a ratings risk. The firm earns more than three-quarters of its revenues outside the U.S., with the euro serving as its most significant functional currency. Consequently, the appreciation of the dollar will hurt earnings, while depreciation of the dollar will benefit earnings. For the first nine months of 2012, Euronet recorded on its income statement a net $1.2 million currency loss and recorded a $1.9 million translation adjustment (money earned because of varying exchange rates) in other comprehensive income. During 2011, the figures were a $1.7 million loss and a negative $26.7 million translation adjustment. These are not, however, immediate cash losses, and the dollar would have to increase rapidly to imperil the firm's robust interest coverage.

Euronet has a history of growing through acquisitions, and we believe that management will continue to search for growth opportunities. In our view, the possibility of a failed or poorly executed merger is a negative ratings factor. The diversity of smaller risks mitigates their threat to the firm, but a failed acquisition or unforeseen business trend could have a greater effect. We also believe that a serious but probably slow-moving threat could arise from acquisitions that fail to generate adequate cash flow, or any changes in business or regulatory conditions that weaken the demand for its key services.

We expect that management's expansion strategy will continue to require investments that will limit earnings growth. Acquisitions, net of cash acquired, were $2.7 million in the first nine months of 2012, $78.7 million in 2011, and $24.4 million in 2010. The firm's expansion also entails significant capital expenditures, which we expect were approximately $40 million to $50 million in 2012. Management could, however, curtail growth if operational problems or severe dislocation among European banks weakens Euronet's financial profile. This option, along with Euronet's strong funding, provides management with some financial flexibility.

Finally, we believe Euronet has key man risk because one of the founders, Michael Brown, remains CEO and retains a great deal of the expertise and inspiration that drive the company's strategy and operational effectiveness. However, some key executives of companies Euronet acquired have elected to stay on, and this allays our concerns somewhat.

Outlook

The stable outlook reflects the firm's strong core financial performance and cash flow coverage. We could downgrade the company if large acquisitions or depressed economic conditions weaken its financial profile, hurting its leverage and debt service metrics. Specifically, we expect debt to EBITDA to be 2.0x-2.5x. If that leverage metric rises to close to 3.0x, without a credible plan to reduce it, we could lower the rating. An upgrade is unlikely over the next several years because we believe that the company's strategy will not lead to significant improvement in its diversification or market position.

Related Criteria And Research

Rating Finance Companies, March 18, 2004

Ratings List

New Rating

Euronet Worldwide Inc.	
Issuer Credit Rating	BBB-/Stable/--

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