19 March 2019 17:45

Wirecard: A Mobius Strip & the Tip of the Iceberg
SELL @ €112

Wirecard – View All Notes and Models

Analyst: **Mark Hiley**
[redacted]
[redacted]

Recommendation: **Sell (No Change)**

Price: **€112** 3m Average Daily Volume: **$249.5m**	Market Cap: **€13bn**	Ticker: **WDI GY**

Investment Thesis

- **Fraud allegations and press reporting on Indian acquisition highlight the risk of significant loss to investors. Company's public responses do not allay fears and the lack of news flow on the internal investigation alongside the extension of police investigations in Singapore and India increases risk.**
- **Roundtripping risk is higher than previously considered due to ecosystem of undisclosed associated companies in Singapore and India. Specifically, corporate relationship with Emerging India Fund Management, Bijlipay, Senjo Payments, [redacted].**
- **Gross debt balance of €1.3bn, €505m of risk in working capital, and concerns on €651m of historic acquisition spending. These are large items in the context of Wirecard's current cash flows which can severely impair the equity value.**
- **Longer-term concerns on competitive pressures in payment processing and challenges in reconciling Wirecard's presence in the real world with the management's promotional commentary.**

We have previously commented on Wirecard's expensive acquisition in India as a poor use of shareholder's capital and with significant risk of 'roundtripping of revenues'. However, further study of Wirecard's business networks in Asia suggests that this roundtripping risk may be higher than commonly thought.

- Roundtripping occurs when corporates use their own cash to fund their own revenue through customer financing, M&A, or routing of cash into undisclosed related-parties who may act as off-balance-sheet intermediaries in deal flow.

- This can lead to overstatement of earnings and additional balance sheet risk as the outstanding amounts have a high-risk profile.

In this note, we explore corporate entities that are not consolidated by Wirecard in its accounts but are, in fact, linked to Wirecard through shared directorships, revenue, and financing loans.

- We explain the link between Emerging India Fund Management (from which Wirecard bought the Indian assets) and [redacted] (a customer of Wirecard and recipient of significant cash from Emerging India Fund Management).

- We explain the link to Bijli/Bijlipay, which is an associated party of [redacted] and is at once a partner, loan recipient, and fintech receivable of Wirecard.

The company's likely response to this is that it is irrelevant, false, or simply good business, but we remain unconvinced and Wirecard is losing credibility as the Singapore investigation continues. The internal report is also not yet available despite being described as a 'non-issue' by the company, and the investigation has extended into India.

We therefore reiterate our Sell recommendation on Wirecard.

How Big Is the Iceberg? Financial Risk

We can see the following changes in balance sheet and cash flows from Wirecard into its ecosystem. Wirecard is a capital-intensive business, funding its customers and partners from its own balance sheet, creating a potentially uncomfortable circularity of cash flows and introducing significant risk for shareholders.

1. €505m at Risk: €259m Fintech Receivables and €246m Trade Receivables

- Wirecard carried a balance in FinTech Receivables of **€259m** (Q3'18), up from zero in 2012. Wirecard describes this balance across two balance sheet items: *Financial and Other Assets* (Receivables from Bank Business (mostly from FinTech business)) and *Trade Receivables*.

- Wirecard includes these balances in net cash; it is not cash. We repeat, receivables from customers are not cash. At best, it is risk capital in emerging market start-up businesses and high-risk lending platforms. Worst case, it is a 'piggy bank' for roundtripping. We have concerns that this balance is investors' cash routed to related parties, to return as revenue and profit to the P&L.

- Also, a total of €353m trade receivables sits on the balance sheet, excluding transitory receivables (from payment processing). The €259m described above as Fintech Receivables already includes €107m (Q3'18) of this Trade Receivables balance. However, the remaining **€246m** of Trade Receivables is an unusual line item in a payment processing business and represents 12% of last year's revenue and 26% of gross profit. As much of Wirecard's COGS is pass-through fees to networks, the measure of 26% of gross profit is more relevant.

- We include €246m of uncollected trade receivables in our estimate of the higher-risk capital at Wirecard. We have wrestled with understanding this balance for a number of years, because a pure payment processing business should not carry trade receivables. In payment processing, the net of transitory receivables and transitory payables should equal zero, barring timing differences and the commission taken by the company. Wirecard excludes transitory balances in its adjusted cash flow metrics, which is helpful. However, the growth in traditional trade receivables (non-transitory), which the company includes in net cash, raises a concern.

- We now believe Wirecard provides a broad range of consulting and integration services to its merchant customers. In addition to the core payment processing engine (usually white-labelled for the client), Wirecard sells value-added services such as multi-language currency translation, hardware provision, and app and IT support, which is more akin to traditional IT services business (e.g. Atos, Capgemini) and would carry longer payment cycles and explain the trade receivable balance.

2. €641m of €945m at Risk from M&A Spend over Period 2008-18: The Highest Risk Here Is the €330m Apparently Paid for the Indian Acquisitions

We assume the Citibank acquisitions were likely to be legitimate and exclude this from our iceberg calculation. However, recent and prior press reporting have raised high-risk warnings on the balance of the company's M&A. We split M&A spend into these three risk categories described below.

- **Low-risk: €304m for Citi Prepaid Card Services US & Asian Acceptance.** Wirecard recognised €210m fair value of assets and liabilities on consolidation of the Prepaid Services business and €94m for Asia-Pacific Acceptance. This tallies to Wirecard's M&A spend across 2017 and 2018, which also included an additional payment for MyGate Communications, South Africa. Citi is a low-risk transaction due to the scale, transparency, and eligibility of the counterparty in the deal, although we have been unable to source confirmation on the Citigroup side that it received €304m from Wirecard.

- **Medium-risk: €311m other deals.** Wirecard's total spending includes deals which previously gave us cause for concern due to audit and revenue recognition as well as unusual staggered deal structures across year-ends. This includes: E-Payments Singapore, PT Aprisma, PaymentLink Pte., Korvac Payment Services, Trans Infotech Pte. Ltd., Amara South Africa, Systems@Work Pte. Ltd.

- **High-risk: €330m for Indian assets of GI Retail.** Wirecard agreed €230m payment and €110m earnouts for assets of GI Retail, which included Hermes I Tickets, GI Technology, Star Global, and GI Retail Philippines. Audit changes, the high price paid, revenue recognition concerns, and the unusual deal structure through Mauritius raised multiple red flags for us and we have discussed this transaction at length in previous notes. Additional light has also been cast on these transactions by three recent articles:

- Roddy Boyd at SIRF: The Great Indian Shareholder Robbery
- Handelsblatt Germany: Law enforcement Is Targeting India Business
- Bloomberg: Wirecard Drawn into Investor Lawsuit over Role in India Deal

From the M&A transactions, an acquisition of customer relationships amounts to €455m on the balance sheet allocation. These customer lists have been acquired in multiple transactions — primarily in Asia — over multiple years. If the value of these customer relationships is overstated or does not accrue the required economic value to shareholders over the long term, the intangible asset valuations are at risk, as are the goodwill balances.

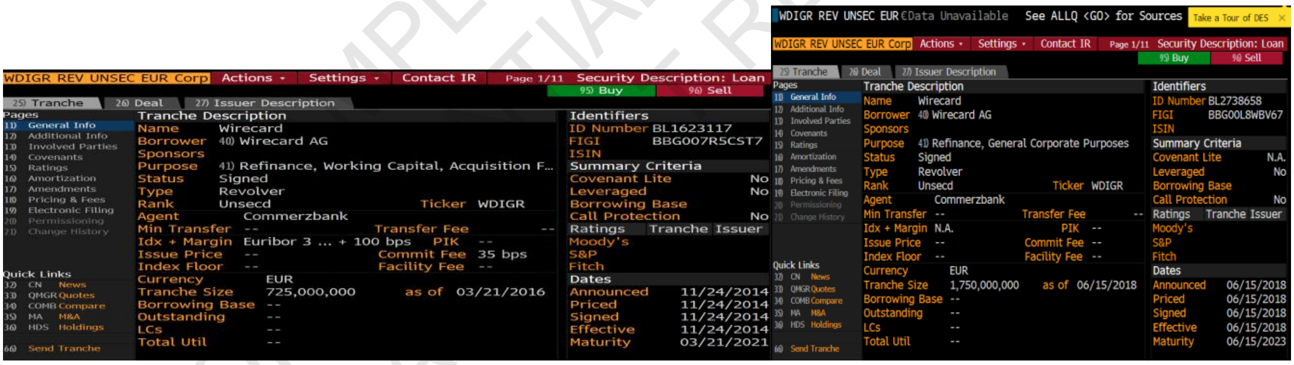
We consider these capital items at risk in the following scenarios: 1) Wirecard considerably overpaid for small businesses that do not have commercial value to justify the high prices; 2) accounting and audit issues become apparent in the subsidiaries due to the legal investigations and press allegations against such companies; 3) cash paid for those acquisitions has been overstated in the balance sheet; or 4) cash paid for those acquisitions has become circular in nature and returns to Wirecard's accounts via the sales or loan repayments line.

3. **Risk in the Gross Debt of €1.3bn:** €1,199m Non-Current Interest-Bearing Liabilities, €112m Current Interest-Bearing Liabilities

- Since December 2011, Wirecard's gross debt has increased from €86m to €1,311m, funding the M&A spend and growth in FinTech Receivables outlined above. If those asset balances are at risk, equity holders face extremely high risk due to the corporate liability for the gross debt, which ranks ahead of equity in the capital structure.

- The company has two debt tranches visible on Bloomberg (Exhibit 1). The inherent conflict of Commerzbank as the lender whilst employing an analyst on the stock is clear. It was this analyst who described the FT reporting as 'fake news'.

Exhibit 1: Gross Debt Owed Is a Risk for Shareholders



Source: Bloomberg, Accessed 15 March 2019

- The current facility is a €1.75bn tranche provided by Commerzbank, as of 15 June 2018; whilst we do not know the degree of syndication, we know that €1.3bn was shown in gross debt at Q3'18.

- Wirecard reports 'net cash' in its investor presentation of €452m ('Long-term net cash' Q3'18), which is broadly similar to the level reported at the end of 2014 of €462m, prior to the large acquisitions.

- Since then, the level of gross debt has significantly increased by ~€1.2bn, whilst Wirecard claims to have generated 'adjusted free-cash flow' of €834m (Q1'15-Q3'18). We fail to understand the increase in debt relative to the published net cash and free cash metrics presented by the company.

- Our conclusion is that Wirecard does not generate as much cash as it claims (and most analysts value the stock from net earnings or company-defined adjusted free cash flow). This is because the amounts claimed as generated cash are in fact increases in fintech and trade receivables. This brings significant risk to shareholders when combined with the gross debt burden, the risk of the M&A transactions, and the risk of the FinTech Receivable balances.

Roundtripping Risk in India

We now show that Wirecard is, at best, a bank that is funding customers and, at worst, a vehicle for roundtripping money through undisclosed and opaque, potentially-related-party transactions. Opaque acquisition vehicles and distribution of cash to customers allows cash to return as revenue in India and Singapore. In either scenario, we argue Wirecard is not a scalable payment processor with net cash, high returns, and almost infinite growth possibilities as currently perceived by the stock market. We reiterate our Sell recommendation on the stock as these red flags represent too high risk for investors to bear.

This analysis paints a necessary and very important picture to aid all investors, positively or negatively inclined, to understand the nature of their shareholdings and the risks associated with those positions. The headline numbers Wirecard pays for acquisitions, especially in India, appear to be large and unusual relative to the scale of the pre-existing assets being acquired. Despite the large market cap, Wirecard is still not a business as big as the share price hype would suggest. In 2017, Wirecard published €264m of adjusted free cash flow. We are uncertain Wirecard can repay its €1.3bn of gross debt liabilities, and the size of the Indian acquisitions was far in excess of the cash generated by the company. Wirecard has never generated net cash flows after the M&A spending (cumulative free cash flow since 2007 minus cumulative M&A spend).

We look forward to the 2018 accounts should they be published on time, subject to the audit pressures which must result from the current negative press. In the meantime, the dividend of €20m p.a. is minute in the context of the company's claims about cash generation and net cash on the balance sheet. Some clients push back on our sell case, noting that Adyen and Square trade on very low free cash yields, whilst Square is moving into providing customer financing. However, to buy Wirecard now based on the premise that it is cheap relative to these two peers is oversimplifying the case and represents complete ignorance of the risks we are outlining here.

Consolidation of these undisclosed/arm's-length related-parties would eliminate the accounting problems associated with the roundtripping, customer funding, and inflated acquisition prices as the net effect of the corporate eliminations would be zero if we assumed the companies detailed in this note were, in fact, owned and/or controlled by Wirecard rather than influenced at arm's length via cash flows and directorships. These businesses include Emerging India Fund Management (EIFML), Emerging India Investment Fund 1A (EMIF1A), [redacted], Senjo Payments, Bijli/Bijlipay, and [redacted]. The potential overstatement in the earnings and cash flow statements from 'roundtripping' would then be eliminated.

Instead, we expect that for M&A to balance the books for the audit, either the acquisition prices are inflated or the balance sheet items build up in line items such as 'FinTech Receivables', 'Customer Relationships', and goodwill balances. If the EBITDA in the P&L is not matched with net cash flows after normal cash items such as capex, interest and tax, then the balancing items must be working capital (e.g. growth in FinTech Receivables and Trade Receivables) or M&A (e.g. €330m spent in India).

[redacted] is the simplest example. This was a company created by EIFML through the joining of assets of [redacted] (India/Singapore) and [redacted] (India/Singapore) through a funding round from EMIF1A, the go-between for Wirecard's acquisition in India, of up to US$180m via Mauritius following the Wirecard acquisitions in India, which subsequently became a customer of Wirecard.

The details and our examples below provide supporting evidence to aid the current debate as to whether Wirecard could potentially be committing fraud and roundtripping (as detailed in the FT articles).

We can only see the tip of the iceberg, but it is enough for us to steer clear of the iceberg.

Below is a description of the primary participants in **the India saga**:

1. Emerging India Fund Management (**EIFML**) has a trading address listed on its basic (unsecure) website: C/O Trident Trust Company (Mauritius) Limited, 5th Floor, Barkly Wharf, Le Caudan Waterfront, Port Louis, Mauritius. The website has barely any information beyond the address, although the company says it manages $1.5bn in assets. It was incorporated in 2008 and is licensed by the Financial Services Commission of Mauritius.

2. **Emerging Markets Investment Fund 1A (EMIF1A)** appears to be the brief shareholder in, and the vendor of, the Indian assets that Wirecard acquired in late 2015 (Hermes i-Tickets, GI Philippines, Star Global Currency Exchange, GI Technology). Wirecard states that EMIF1A was not a conduit but rather the vendor, with which Wirecard has no other relationship. EMIF1A was also registered at Mauritius (on 12 February 2015) through the Trident Trust Company. This fund invested in GI Technology in a private placement on 25 September 2015. We can reasonably conclude that EMIF1A is an investment vehicle of EIFML. We also know that EMIF1A held Hermes from 17 September 2015 until 01 March 2016 before transferring to Wirecard. We also know Wirecard announced the acquisition on 27 October 2015 (just six weeks after EIFML acquired it). There is significant risk here that EMIF1A and EIFML are 'arm's-length' related-parties of Wirecard.

3. **Star Global Currency Exchange Private Limited (SGCE)** described above in the EMIF1A transaction was acquired by Wirecard, alongside the assets from GI Retail, (but not as part of those assets), in late 2015. This was a small business discussed at length in our previous notes. According to Star Global's website, it has 17 locations in India offering services such as currency conversion, travellers' cheques, money transfer, and insurance. This entity has subsequently been renamed **Wirecard Forex India Private Limited (WFIP) and files accounts.** We discussed the potential overstatement of organic growth of €88m in our previous piece of research.

4. The Star Global (SGCE) now owned by Wirecard, was previously owned by **Star Destination Management Company Private Limited (SDMC), via Star Management Investment Co Pvt Ltd,** which sold and transferred all its shares, alongside a capital raise, to Wirecard Sales International GmbH in February 2016. Mr Ramesh Kumar Balasundaram is the main director of the Star businesses.

5. [redacted] appears as the combined company of [redacted], described as being in receipt of a $180m investment in India from Mauritius-based PE fund EIFML, which acquired a majority stake, and will build a hybrid model in the travel industry. This is a related-party to Star Global (SGCE/WFIP) as disclosed in the March 2018 filing, with Star generating >€1m revenue from [redacted]. This is not disclosed in the 2016 and 2017 filings, presumably because [redacted] became a related-party after the EIFML investments. Numerous references to EIFML as the owner of [redacted] are detailed elsewhere (e.g. at http://www.acra.gov.sg for the parent [redacted]). [redacted] was formed from two entities:

    a. [redacted] The offline (B2B) brand of a reportedly 27-year-old company with 14 stores.

    b. [redacted] An online travel agency in the process of being set up in early 2017 and now appears to have a fully-fledged web presence. It lists 11 retail offices on its website, including one in London. In fact, the UK limited company was established 13 July 2018 and shows the legal entity with significant control is [redacted] of Singapore. In mid-2017, [redacted] appears to have received $50m from EIFML.

6. [redacted]): This appears to be the parent company of [redacted] (India), yet according to the 2016 annual filing had only one shareholder and director — [redacted] — who increased her shareholding from 1,000 to 1,500,000 shares during 2016. In 2016, the company invested S$5,531,516 into [redacted]. We can see a term loan of ~S$16m from 'a bank', whilst the revenue of ~S$1m appears to be insufficient to justify the $180m investment discussed in the PE trade press described above. By the time of a credit report in 2017, we can see EMIF1A as the main shareholder. Looking into subsequent Indian filings, we see that EMIF1A becomes a 65% shareholder in the Indian business of [redacted] by the March 2018 fiscal year, whilst the Singaporean parent holds 18%.

7. [redacted]: An individual shareholder in [redacted] and a beneficiary of Wirecard's takeover of Star Global as a co-founder, owner, and director. He remains named in the March 2018 accounts as a related-party. He appears to have a total of 16 directorships, primarily travel agencies.

8. Mr Prashant Manek and Mr Sanjay Chandi: Two Indian individuals who have brought a lawsuit against the vendors of Hermes I Tickets, who allege they were convinced to sell their stake in the business to EMIF1A by the former majority owners [redacted] for $40m before it was sold on to Wirecard for $244m. They also allege that EMIF1A had a tacit understanding to flip the assets to Wirecard in a matter of weeks at the higher price.

    - There is a third defendant on this case, Amit Shah, who claims he was only a 'go-between' and that his firm was not involved in the transaction. Shah is represented by the same law firm currently conducting an external investigation on the FT allegations on Wirecard's behalf.

Wirecard AG published an investment of up to €330m, including €110m earn-outs, for the acquisition of some small Indian companies Hermes, Star, and GI Technology. The vendor EIFML transacted the deal through a 'hidden' Mauritius investment vehicle (EMIF1A). The seller was not GI Retail as originally described; GI Retail passed the assets to EMIF1A for up to six weeks prior to Wirecard's announcement of the deal.

Exhibit 2: EMIF1A Owned Hermes for Six Weeks prior to Wirecard's Announcements of the Takeover to the Stock Market

25.15 The details of related party disclosures are as under:

Holding Company	GI Retail P Ltd	Till 17.09.2015
	Emerging Market Investments 1A	From 17.09.2015 to 01.03.2016
	Wire Card Sales International GMBH	From 01.03.2016

Source: Hermes I Tickets Accounts 2016

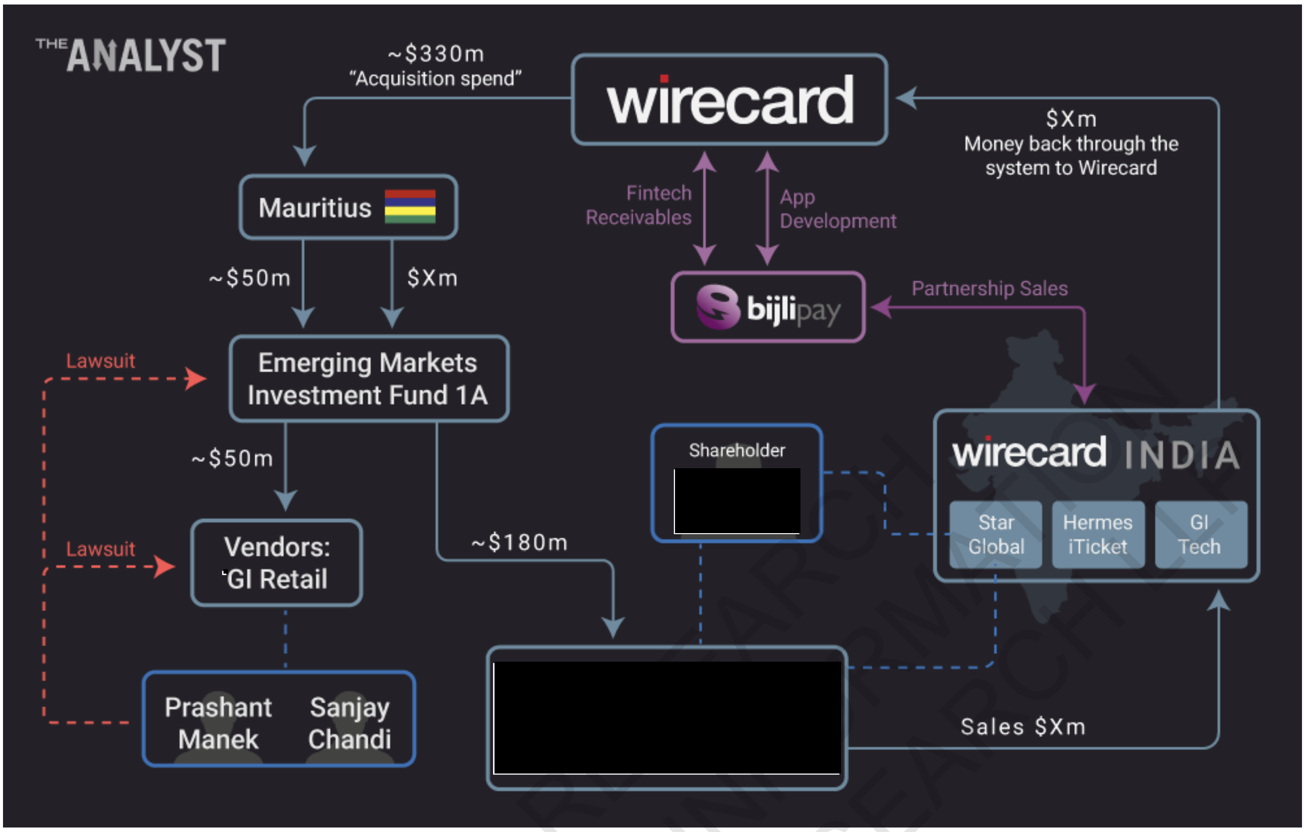
A much smaller amount then became visible in the filings of the target companies (~€50m) and the Indian FDI register (~$44m), because the vendors may have only received a fraction of the headline $330m in India. The lawsuit from the founders (filed in the UK high court and now public in India) disclosed in the FT adds to the concerns here that the original vendors claimed not to have received the full amount.

One credible explanation is that the balance of the difference (~€180m excluding the earn-outs) may have been routed through the Mauritius-registered Indian private equity vehicle (EIFML) into large investments in companies such as [redacted] which, in turn, become customers of Wirecard subsidiaries such as Star Global. In fact, a $180m investment is even detailed above for investments by EIFML into [redacted].

EIFML can overpay for start-ups or smaller companies such as [redacted] as they can become vehicles for roundtripping revenue and hiding money flows — or passing money back to Wirecard when those companies become customers or partners. EIMFL could be a vehicle for routing money into undisclosed related parties.

Exhibit 3 shows how such a scheme would work.

Exhibit 3: Potential Money Flows in Indian M&A



Source: The Analyst Research

The process is rendered opaque through staggered deal-closing, differing year-ends, changing auditors, delayed disclosure filings, and cross-jurisdiction transactions. Complex deal structures were evident in the acquisitions in 2012-14 in Singapore and Indonesia.

In summary, we are concerned that a large component of Wirecard's acquisitions in India was routed through the Mauritius EIFML vehicle into Goomo Orbit, which then became customers of Wirecard. The uncomfortable circularity of these transactions raises obvious concerns for shareholders and we look forward to further evidence from the law enforcement authorities, and the company, as these questions are now being asked openly in the press. We hope Ernst & Young will consider these links in its audit reports.

Money Lending and Roundtripping Risk via Singapore and India

Now, we provide a factual introduction to the main participants in the Singapore saga (somewhat a recap of our lengthy February 2018 note):

1. Senjo Group Pte Ltd (SG)/Senjo Payment Asia Pte Ltd. (SPAP): Wirecard described this in its comments to Roddy Boyd at SIRF as a fintech business headquartered in Singapore that is a business partner of Wirecard. We know that Wirecard lent €25m to the company as it has a charge registered at the Accounting and Corporate Regulatory Authority (ACRA, a statutory board under the Ministry of Finance of the Singapore Government). According to Senjo's website, it has a portfolio of 20 companies operating in the area of payments. In Senjo Payment Asia's accounts (smaller subsidiary), there was revenue filed for 2017 of US$1.5m, and in the parent Senjo Group we can see revenue of US$82m. The company is loss-making and heavily free cash flow negative on working capital movements. Holdings in the three entities include a crude oil trading business Senjo Trading Pte. Ltd., Qtail Pte. Ltd, and Senjo Payment. There is >US$7m due from a related party that is not yet recovered and has been satisfied with an increase in the share capital to the related party.

2. [redacted]): This appears to be a consultancy business owned by Senjo and [redacted], sharing an address with Senjo Group and Senjo Payment at No. 56 One Raffles Place, Singapore. This is also linked to [redacted], [redacted] has shared directors with [redacted] (the parent of Bijlipay discussed below), plus [redacted] and [redacted] (the two Indian companies already described)[redacted] shares an address with Bijlipay. These links were described in our February 2018 note.

3. [redacted]: A director (Japanese national), Head of Commerce and Advisory Board of Senjo Group and YO54 Holdings Pte Limited which shares office space at 1 Raffles Place with Senjo. Also formerly a director of Manboo UK Limited. LinkedIn also shows [redacted] as a former director of Credence Collection Sdn Bhd (Malaysia).

4. [redacted]: A Singapore resident and sole signatory of [redacted] filings. She is (was) also a sole director of [redacted] and [redacted] (another Singapore company with a UK private company subsidiary that was struck off).

5. The 'Elastic platform': This is a middleware application that is sold by Wirecard and appears to be supplied by Elastic Co and is discussed below. Ashazi Services (Bahrain) and Senjo both held €4m licenses for the Elastic platform on their balance sheets, presumably supplied by Wirecard.

6. [redacted].: This is a Singapore private company that owns and operates Bijlipay which designs and markets mobile point of sales systems in India. Although some sources suggest Bijlipay Asia Pte Ltd owns [redacted] the cross links are clear, as are the links to Senjo and [redacted] These include, for example, shared director Timothy William Johnstone, described in our previous notes in 2017.

7. [redacted]: A director of [redacted] and [redacted], sharing directorship with [redacted] of Bijlipay. We see this individual in the [redacted] accounts in India. He signs the March 2018 accounts of [redacted].

8. [redacted]: Founder of Bijlipay, responsible for raising $12m capital.

9. [redacted]: CEO of Bijlipay (previously served as Head of Digital Channels at Citibank).

10. Bijlipay: This is an important connection and one that Wirecard itself outlined in a conference call in 2014. Bijlipay is a supplier of mPOS, micro ATM, and cash out services to Wirecard (Hermes) in India. This is a partner of Wirecard, to which Wirecard has extended financing, with shared directors and links to Wirecard subsidiaries. Bijlipay appears to be owned and controlled by Senjo, yet is described as a Wirecard solution. In 2015, Wirecard described Bijlipay as a complete white-label end-to-end solution. Bijlipay sounds like a wonderful product for the Indian market, yet it appears to possibly be *a Wirecard product*, at arm's length, whilst also being *an undisclosed related-party entity* and *a beneficiary of fintech financing*.

Wirecard provided a loan of €25m to Senjo Group in Singapore. Senjo Group has a nascent payments business, Senjo Payments, and interest in another business linked into India and Bijlipay — [redacted] Senjo and [redacted] buy services off Wirecard, including the resale of the 'Elastic platform' (detailed below), payment processing, and other consulting services. These revenues may lead to an increase in a fintech receivable in Wirecard's accounts (originally called medium-term financing to sales partners, for example) and balances of amounts due to and from related parties in the subsidiary accounts. These balances could be satisfied in cash by using the Wirecard loan or issuing share capital to Wirecard to settle the outstanding amounts. In fact, in the [redacted]enjo example, we can see a $12m unsecured loan in the private company filings in Singapore; we suspect this may be the balance of the original €25m loan we identified last year.

Cash can therefore move from Wirecard into Singapore through a loan, into India through the redistribution of that loan (from Senjo to [redacted]/Bijli), and back to Wirecard as revenue in the partnership in India (Bijlipay) as the partner generates revenue for Wirecard and settles any balances outstanding with cash which may be provided from the original loan in Singapore. A web of undisclosed related-parties and directors populates the scheme, enabling the structure to essentially create revenue and 'roundtrip' cash for Wirecard, which may inflate revenue and profits. If Bijlipay and Senjo were consolidated into Wirecard's topco accounts, the net impact would be zero. We will now focus on Bijli.

Bijlipay Is a 'Funded by Wirecard' Revenue Generator

Bijlipay, Senjo, Orbit, Goomo, Qtail, and their various Singaporean, Indian and UK subsidiaries could simply be considered as Wirecard companies. If any of these companies received cash via Mauritius (investments from EMIF1A) or from Wirecard (investments and loans), we think there is a significant risk of revenue roundtripping in evidence.

Wirecard discussed loans to sales partners in 2014, specifically noting Bijlipay and Rocket Internet as recipients of mid-term loans. The company subsequently renamed 'mid-term loans' to be called 'FinTech loans', and in 2017, Wirecard refers to Bijlipay as a major partner in place in its Indian business.

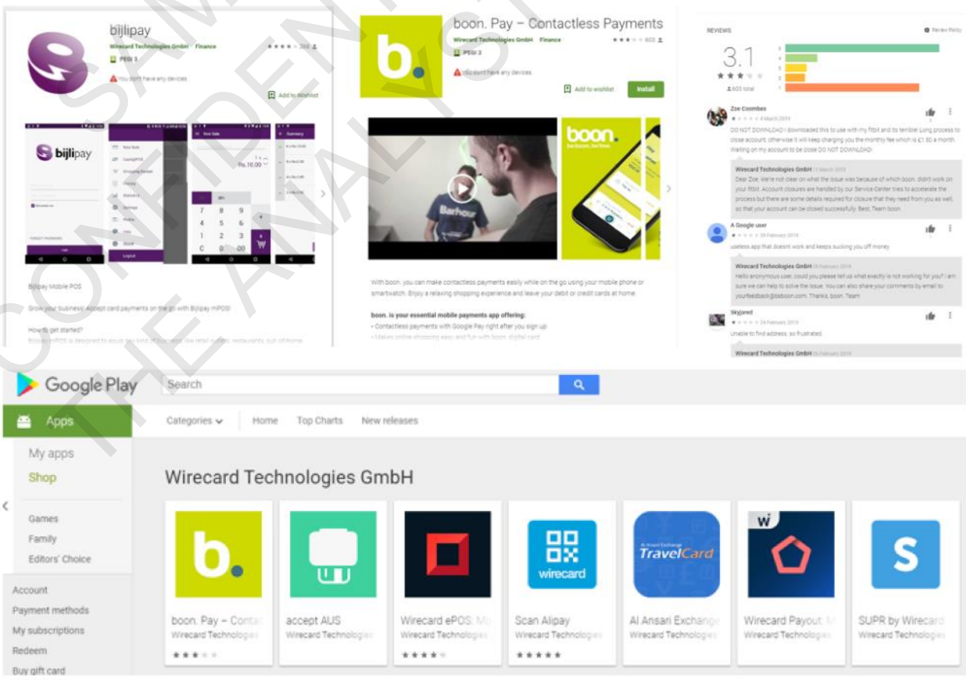
Exhibit 4: Wirecard Q3'14 Earnings Call (19 November 2014)

'Back to the balance sheet and the development. In the other positions, I would mention trade receivables plus trade payables, both of them plus €20 million, roughly spoken, following the organic growth of the business, which I also commented in the cash flow comments. And so, back to the assets, I've also comment[ed] [on] the financial assets, this €110 million is, of course, an integration of different aspects. It includes, on the one hand, the €35 million collared floater, which are close to cash, but have a maturity which is mid-term. It's also, and that's the second important sub-aspect here, integrate so-called mid-term loans, what's that? That's loans to sales partners, we disclosed two of them. The one to the mobile point of sale partner in India, which Markus mentioned before, which is Bijli. And the second one is to a [Rocket] Internet subsidiary. So that's, of course, standalone decisions of standalone loans, and insofar, they lead to financial investments and financial paybacks, but of course, do not have any effect on our depreciation and amortization, which could not be discussed with our auditors.'

Source: Wirecard Q3'14 Earnings Call

The Bijlipay app is developed by Wirecard, according to the Google PlayStore (reviews are weak) whilst Wirecard also references Bijlipay in its investor presentation. We are also concerned that Wirecard's much-vaunted Boon app solution has so few reviews and also low-quality reviews.

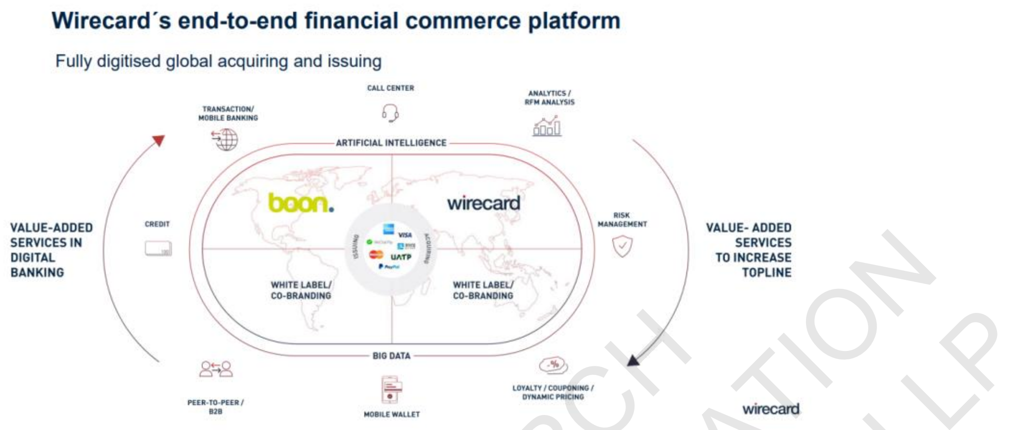
Exhibit 5: Wirecard Built and Run the Bijlipay App, alongside Its Own Boon App



Source: Google Playstore

Before we continue with the Bijlipay discussion, we highlight that Wirecard is highly reliant on the success of the Boon app for its 2025 targets, and the company references Boon 26 times in its 2017 annual report.

Exhibit 6: Wirecard Is Highly Reliant on Boon for Growth



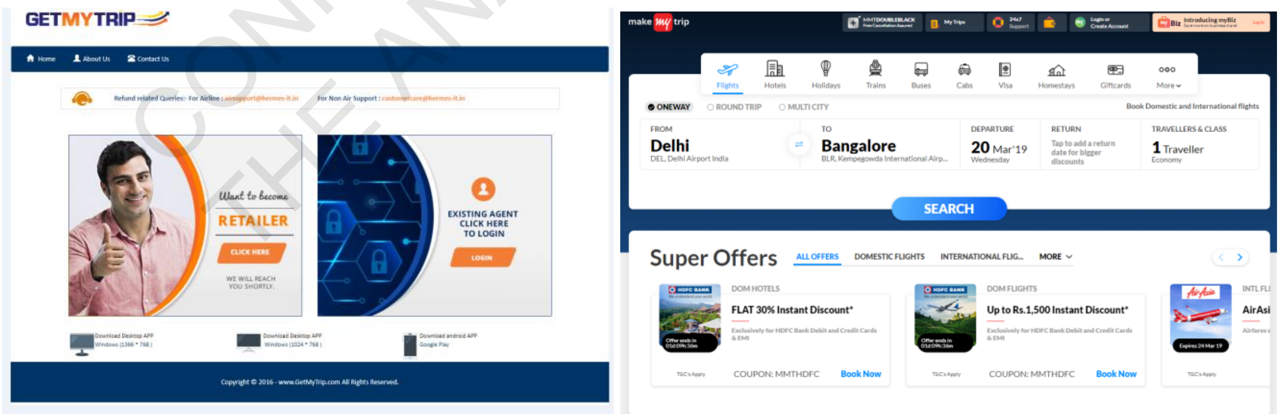
Source: *Wirecard Strategic Outlook October 2018*

The issue we see here is that Bijlipay is a customer (for app development), a supplier (of mPOS terminals to Wirecard customers), a fintech receivable, the beneficiary of a loan (via Senjo), a related party (via shared directorships), and possibly the recipient of funds from Wirecard's M&A in India (via EIFML) — as well as the primary channel and partner in place for Wirecard revenue in India. For all intents and purposes, Bijli is a Wirecard company.

This is an uncomfortable position for Wirecard shareholders, who are sitting on potential roundtripping risk, corporate governance risk, legal risk, technology risk, bad debt risk, corporate debt risk, and perception risk. If Bijlipay was consolidated at the topco (in Wirecard AG via India/Singapore), the net revenue and profit impact would likely be cancelled. However, shareholders in the AG benefit from the perception of organic growth in India, which is possibly coming from potentially undisclosed related parties, funded by Wirecard loans. You cannot have the EBITDA without the capital spending, and the P&L and balance sheet are inherently linked. We recommend investors simply not look at the earnings multiple without the debt and balance sheet metrics.

The links between Wirecard, Hermes, Star Global, Bijli, [redacted], Senjo [redacted], and [redacted] are extensive.

Exhibit 7: Hermes Appears to Operate GetMyTrip, Which May Be Attempting to Emulate MakeMyTrip



Source: *GetMyTrip.com and MakeMyTrip.com, Accessed March 2019*

Exhibit 8: GetMyTrip Is Operated by Hermes and Was Acquired from Hermes by Orbit

IN THE HIGH COURT OF DELHI AT NEW DELHI

Reserved on: 25th October, 2017
Decided on: 13th December, 2017

CS(COMM) 643/2017

MAKEMYTRIP (INDIA) PRIVATE LIMITED .... Plaintiff

Represented by: Mr. J. Sai Deepak, Mr. Bharadwaj Jaishankar, Mr. Ashutosh Nagar, Mr. Abhishek Kotnala, Mr. Deepankar Mishra, Mr. Ayush, Ms. Sangeeta Goel, Mr. Mohit Goel, Mr. Sidhant, Advs.

versus

ORBIT CORPORATE LEISURE TRAVELS (I) PRIVATE LIMITED ..... Defendant

Represented by: Mr. A.S. Chandiok, Sr. Adv. with Mr. Sudeep Chatterjee, Ms. Jaya Mandelia, Ms. Sonal Chhablani, Advs.

CORAM:

12. Claim of the defendant is that defendant has acquired the mark/ name/ brand GETMYTRIP and its formatives and domain name www.getmytrip.com along with the goodwill associated therewith from its predecessor-in-interest i.e. Hermes I Tickets Private Limited in December 2015. Further Hermes I Tickets Private Limited has been in business for a long period of time and still continues to operate and manage the internet platform website www.getmytrip.com and agent relationship on behalf of the defendant company, Thus the defendant being the successor-in-interest

Source: Delhi High Court Website, Accessed March 2019

Exhibit 9: [redacted] Bijlipay, [redacted], and [redacted] Share Directors

Contact Details

Email ID: neha.salia@goomo.com
Website: Click here to add.
Address:
Unit No.602, 6th Floor, Hallmark Business Plaza, S.D.Marg, Opp. Guru Nanak Hospital, Bandra (East) Mumbai Mumbai City MH 400051 IN

Director Details

DIN	Director Name	Designation	Appointment Date	
05309338	PITCHAI ARUNKUMAR	Director	04 February 2016	View other directorships
07017543	NARESH JASWANTLAL MANCHANDA	Director	19 June 2017	View other directorships
02745060	VASUDEVAN RAGHAVAN	Director	22 February 2016	View other directorships
02105550	RAMESH KUMAR BALASUNDARAM	Director	16 February 2010	View other directorships

Contact Details

Email ID: vijay@bijlipay.co.in
Website: Click here to add.
Address:
NEW NO.51, CHAITANYA EXOTICA, 9TH FLOOR, (UNIT1NORTHEN PART),VENKATANARAYANA ROAD CHENNAI Chennai TN 600017 IN

Director Details

DIN	Director Name	Designation	Appointment Date	
05309338	PITCHAI ARUNKUMAR	Additional Director	29 June 2015	View other directorships
07280944	TIMOTHY WILLIAM	Additional Director	06 September 2015	View other directorships

Past Director Details

About TIMOTHY WILLIAM

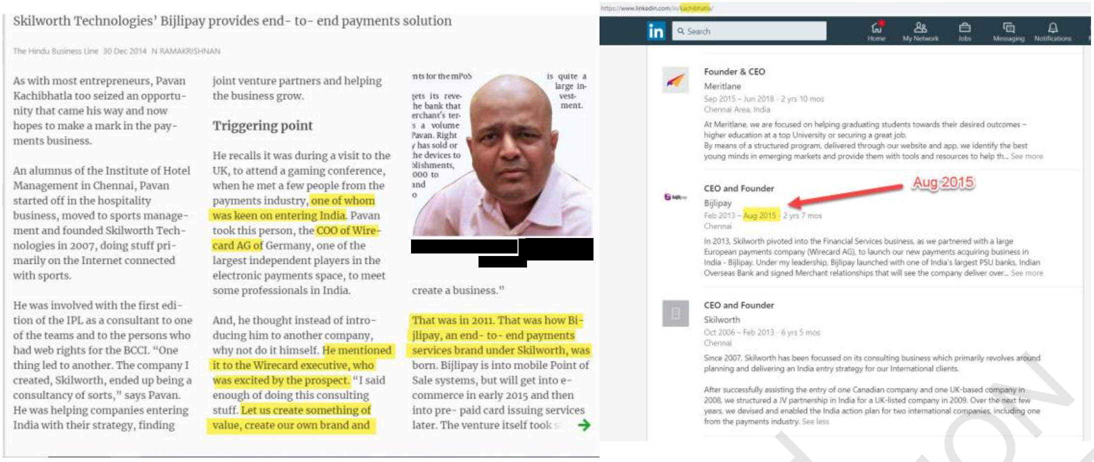
Timothy William is registered with Ministry of Corporate Affairs (MCA). Their DIN is 07280944. Following is their current and past directorship holdings.

Companies Associated With

Company	Designation	Original Date of Appointment
QTAIL INDIA PRIVATE LIMITED	Additional Director	06 September 2015
QTAIL INDIA PRIVATE LIMITED	Additional Director	06 September 2015
SKILWORTH TECHNOLOGIES PRIVATE LIMITED	Director	30 September 2015

Source: www.zaubacorp.com, Accessed March 2019

Exhibit 10: Bijlipay Was Created by [redacted] ([redacted]) and Wirecard



Skilworth Technologies' Bijlipay provides end- to- end payments solution

The Hindu Business Line 30 Dec 2014 N RAMAKRISHNAN

As with most entrepreneurs, Pavan Kachibhatla too seized an opportunity that came his way and now hopes to make a mark in the payments business.

An alumnus of the Institute of Hotel Management in Chennai, Pavan started off in the hospitality business, moved to sports management and founded Skilworth Technologies in 2007, doing stuff primarily on the Internet connected with sports.

He was involved with the first edition of the IPL as a consultant to one of the teams and to the persons who had web rights for the BCCI. "One thing led to another. The company I created, Skilworth, ended up being a consultancy of sorts," says Pavan. He was helping companies entering India with their strategy, finding joint venture partners and helping the business grow.

Triggering point

He recalls it was during a visit to the UK, to attend a gaming conference, when he met a few people from the payments industry, one of whom was keen on entering India. Pavan took this person, the COO of Wirecard AG of Germany, one of the largest independent players in the electronic payments space, to meet some professionals in India.

And, he thought instead of introducing him to another company, why not do it himself. He mentioned it to the Wirecard executive, who was excited by the prospect. "I said enough of doing this consulting stuff. Let us create something of value, create our own brand and create a business."

[redacted]

That was in 2011. That was how Bijlipay, an end- to- end payments services brand under Skilworth, was born. Bijlipay is into mobile Point of Sale systems, but will get into e-commerce in early 2015 and then into pre- paid card issuing services later. The venture itself took

https://www.linkedin.com/in/kachibhatla/

Founder & CEO
Meritlane
Sep 2015 – Jun 2018 · 2 yrs 10 mos
Chennai Area, India
At Meritlane, we are focused on helping graduating students towards their desired outcomes – higher education at a top University or securing a great job.
By means of a structured program, delivered through our website and app, we identify the best young minds in emerging markets and provide them with tools and resources to help th... See more

CEO and Founder
Bijlipay
Feb 2013 – Aug 2015 · 2 yrs 7 mos
Chennai
In 2013, Skilworth pivoted into the Financial Services business, as we partnered with a large European payments company (Wirecard AG), to launch our new payments acquiring business in India - Bijlipay. Under my leadership, Bijlipay launched with one of India's largest PSU banks, Indian Overseas Bank and signed Merchant relationships that will see the company deliver over... See more

CEO and Founder
Skilworth
Oct 2006 – Feb 2013 · 6 yrs 5 mos
Chennai
Since 2007, Skilworth has been focussed on its consulting business which primarily revolves around planning and delivering an India entry strategy for our International clients.

After successfully assisting the entry of one Canadian company and one UK-based company in 2008, we structured a JV partnership in India for a UK-listed company in 2009. Over the next few years, we devised and enabled the India action plan for two international companies, including one from the payments industry. See less

Source: Business Line, LinkedIn Accessed March 2019

If Bijlipay fails as a business without Wirecard funding, the Wirecard AG EBITDA would be lower and the risk for creditors would be high. If Bijli is a related party to Wirecard, investors should be concerned about the risk in that relationship and the security and origination of the revenue and EBITDA in India. Similar questions must be asked of all the entities we are detailing here – who controls them, how are they funded, and what are the links to Wirecard and EIFML?

The 'Elastic' Platform

We found the Elastic platform in the company Ashazi Services when we started researching emerging markets payments in 2014.

Exhibit 11: We believe Wirecard resells the 'Elastic platform' to customers as a payment integration tool. Senjo group has bought the Elastic platform for US$6.2m, possibly from Wirecard. The outstanding amounts due to related parties begs questions of whether Senjo has yet paid for it.

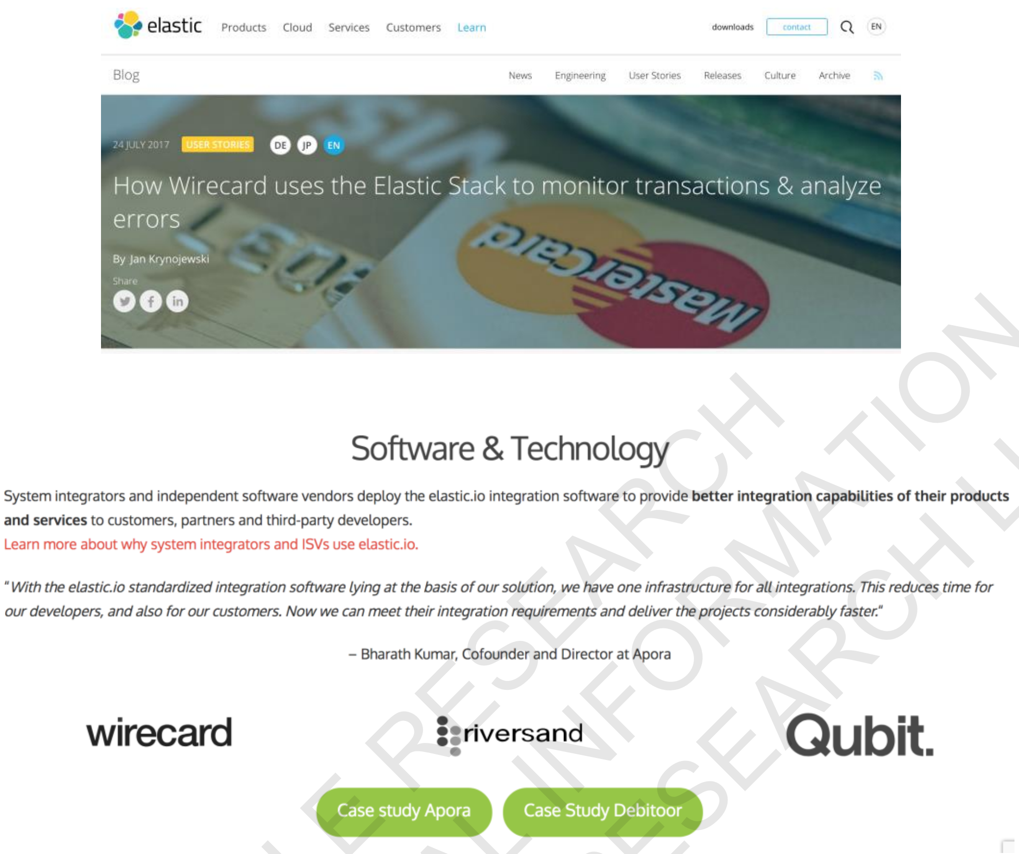
[redacted]

Balance at the end of the period	2,480,246

Amount paid towards the purchase of software license (Elastic platform) is written off over a period of 5 years. This software is a platform which provides processing of E-payment transactions.

Source: Senjo Group Filings

Exhibit 12: Elastic is a widely-used term in the industry, but we believe the Elastic platform is provided by US-listed Elasticsearch BV and Wirecard integrates the Kibana dashboard for routing transactions from merchants to credit card companies.



Source: www.elastic.io

Exhibit 13: Back in 2015, the FT identified Ashazi Services as a licensee of Wirecard in Bahrain. We had spotted this in the 2012 accounts of Wirecard Asia Pte Ltd (Singapore filings, previously known as E-Payment Singapore).

6. License fees income/expense

The Company licenses the Elastic Platform software and the related intellectual and industry property rights to Ashazi Services Co. W.L.L ("Ashazi"), a company incorporated in the Kingdom of Bahrain. The fee per quarter is EUR 1,000,000 (annually EUR 4,000,000). The software and services are provided by Wirecard Technologies AG, the related company.

During the financial year, the Company has shifted the gateway processing services to its wholly-owned subsidiary, E-payment Singapore Pte Ltd.

Source: E-Payment Singapore/Wirecard Asia Pte. Ltd Filings (2011 & 2012)

Senjo group bought the Elastic platform from Wirecard and has received a Wirecard loan. Ashazi services also bought the Elastic platform from Wirecard and the FT alleged that the revenue went unpaid in cash. In May 2015, the FT published an extensive article arguing that the fees for Ashazi's license of the Elastic platform went unpaid and local audit provided a qualified opinion regarding uncollected cash. The newspaper also questioned whether Ashazi was a legitimate enterprise, noting a dormant shell company Ashazi Services (UK) Limited at UK Companies House. The negative insinuation from the newspaper back then was that some of Wirecard's revenue was unreliable and generated by shell companies without real business operations, which would not even pay Wirecard for the services in cash.

[redacted] Is an Uncomfortable Risk that Needs Further Exploration

We have already described [redacted] above and see the company in the India filings as [redacted]. This company has a Singapore parent and appears to be relatively small, as measured by its reported financials, but also appears to have received a large investment from EIFML (up to $180m) through the Mauritius fund to form a travel platform with [redacted]. The company shares a director [redacted]) with [redacted] (Bijlipay) and [redacted]. Another director ([redacted]) is director of both [redacted] and Star Global (a fully-consolidated Wirecard subsidiary).

We noted that [redacted] has a UK 'retail office' listed on the travel portal website in India. In fact, the company has 11 retail offices, all of which except one are located in India. We visited the Pavillion on High Street Kensington in London to see what we could learn about this travel business. After a brief sales tour of the luxury, serviced offices space, we called the front desk, asking to be put through to [redacted]. The receptionist struggled to find the company, and we repeated the spelling. Subsequently, we were informed that [redacted] is no longer the given name of the company — it has been renamed to '[redacted]' (spelling unconfirmed), with two individuals noted on record. Further information was not received. We can reasonably conclude that [redacted] is a shell company without any retail presence in the UK. If EIFML is anything more than a shell company for routing cash from Wirecard shareholders to related parties in India, we can reasonably assume [redacted] has not yet established a UK presence, despite registering a company at Companies House.

NB: We are now conducting more on-the-ground research in India to understand the nature of the physical presence of Wirecard and linked entities: Hermes iCash Card, Star Global Money Shops, [redacted] Bijlipay mPOS solutions, and GI Technology. We have an open mind and will be interested to assess the scale of Wirecard's presence in the market. A large presence and evidence of a high volume of transactions would severely offset the concerns outlined here. Wirecard paid €330m for India, and with a market cap of €12bn, there should be a business justifying at least €3-4bn visible on the ground.

Conclusion

These are significant concerns and we maintain the Sell recommendation on the stock.

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