

WIRECARD

Quirin Zundl



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WIRECARD

BY QUIRIN ZUNDL

STATEMENT

I see Wirecard as a growth company with a fantastic business model and management. The company delivers outstanding operative performance with revenue, EBITDA, EBIT and net income growth rates in the area of 20% p.a. Strategic partnerships with Softbank, Mastercard and Aldi promise further growth. Wirecard was founded in 1999 and is one of the most successful German start-ups. In fact, it is one of only few recent German corporate success stories. Corporate Germany can and should be proud of Wirecard.

As is of common knowledge, Dan McCrum published three articles in the Financial Times (FT) in late January and early February 2019 (30.01.2019 – 08.02.2019), in which he accused Wirecard of fraudulent accounting practices. The articles lead to a sell-off in the stock from roughly €169,5 per share to a low of €86,1 per share in a matter of ten days (8 trading days). As can be seen when reviewing the *Bundesanzeiger*, on 30 January 2019 there were significant short-selling positions in the market held by a variety of asset management firms.

Position owner	Latest update	Position size
Odey Asset Management	1/30/2019	0.56%
Bloom Tree Partners	5/2/2019	0.08%
Marshall Wace	5/2/2019	0.49%
Darsana Capital Partners	1/23/2018	0.49%
Blue Ridge Capital	1/10/2018	0.37%
Millenium International Management	12/5/2017	0.48%
Lone Pine Capital	12/4/2017	0.21%
Coatue Management	10/11/2017	0.42%
Canada Pension Plan Investment Board	10/4/2017	0.36%
Thunderbrid Partners	9/18/2017	0.49%
Thélème Partners	8/17/2017	0.47%
Steadfast Capital Management	6/6/2017	0.49%
Worldquant	3/21/2017	0.45%
Blue Mountain Capital Management	3/2/2017	0.48%
Criterion Capital Management	2/16/2017	0.45%
QVT Financial	12/19/2016	0.40%
TT International	6/30/2016	0.43%
Falcon Edge Capital	6/24/2016	0.48%
Miura Global Management	6/24/2016	0.46%
Dalton Strategic Partners	3/15/2016	0.48%
AQR Capital Management	3/1/2016	0.49%
Oxford Asset Management	2/1/2016	0.40%
Total		9.43%

DESCRIPTION

Wirecard AG is a global internet technology and financial services provider which is listed on the German stock exchange and is headquartered in Aschheim, district of Munich. The company offers its customers electronic payment transaction services and risk management, as well as the issuing and processing of physical and virtual cards. Wirecard is an international supplier of electronic payment and risk management services. Wirecard offers products and services in the areas of mobile payments, ecommerce, digitization and finance technology. This traditionally comprises the integration of payment methods, payment transactions via e-commerce as well as payment transactions at the stationary checkout. In these areas, Wirecard currently works in cooperation with 280,000 companies (as of December 2018), including Allianz and KLM, among others.

(*)<https://en.wikipedia.org/wiki/Wirecard>

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It is noteworthy that various positions in this list are already relatively old, however I have no reason to believe that they were covered by 30. January 2019. In total, at least a stunning 9,43% of shares in Wirecard were sold short. Wirecard has 124 million shares outstanding, and in a matter of days roughly €83 per share were temporarily erased. This is equivalent to a €10,3 billion decrease in market capitalization, of which 9,43% is equivalent to €970,5 million. The point that I am trying to make is that Mr. McCrum's critical articles were very beneficial to those parties with net short positions in Wirecard. The question now is: What about the content? Was the massive sell-off justified? Was it justified to unsettle the market regarding Wirecard's accounting practices? Was it legal?

In my point of view, the answer to the content question is clear since 26 March 2019, when the independent law firm Rajah & Tann concluded in their report that no relevant irregularities had occurred in Wirecard's Singapore office. This means that Mr. McCrum's articles were most likely unfounded and groundless, so that it seems like an unjustified sell-off. Regarding the question of market manipulation and legal consequences neither I nor FS Associates have an official opinion, this remains for Bafin, prosecutors and courts to answer. A notable indicator for market manipulation in my opinion is the very short space of time between the publishing of the articles and the begin of the selloffs. In all three cases, the market nearly immediately demonstrated large downward pressure, i.e. a large amount of sell orders. In the meantime, Bafin was able to report criminal offences due to market manipulation against various individuals, including FT journalists, however no names were disclosed as far as I know. What is more, nobody was convicted up to today, so all these individuals are currently to be seen as innocent by law. This situation might feel untenable to many investors in Wirecard, however it is not the role of FS Associates to discuss or comment this in any way. We are solely interested in achieving returns.

I personally bought my first shares in Wirecard after the report of Rajah & Tann was published, so I have to an extent benefitted from the unjustified sell-off in the beginning of 2019.

However, I was long Wirecard with my personal funds on 15 October 2019, when Mr. McCrum published another article, again claiming that Wirecard is engaged in fraudulent accounting practices. I have until today not understood why the market still reacts to Mr. McCrum's articles. This time the sell-off was roughly €32 in the peak, equivalent to 22% of Wirecard's stock value. Again, nearly €4 billion in market capitalization were temporarily erased. And again, I am very confident, for no reason: Wirecard was over the past years repeatedly victim of accusations, of which none were justified up to today. There were minor irregularities, but never in significant dimensions. This time, KPMG is entrusted with the investigation whether fraudulent accounting practices have taken place. The FS Associates position speculates on a positive report by KPMG, like the one of Rajah & Tann in March 2019. Additionally, we are speculating on excellent quarterly figures by Wirecard on 06.11.2019. I truly believe that Wirecard is a fantastic company engaged in legal activities.

If Wirecard had not been victim of Mr. McCrum's articles, one might assume that Wirecard would have performed identically to the DAX over the past nine months. This leads to a valuation of $€170 + 15\% * €170$ equals to €195,5 per share (see chart 1). However, it is of general knowledge that Wirecard is a stock which tends to outperform in bull markets, so a 30% increase seems justifiable to me, as this is the performance of peer VISA (see chart 2). This leads to a "realistic" valuation of €221, which is in line with most equity analyst opinions. This is a price which is roughly 100% higher than the price at which Wirecard is currently trading. Additionally, note the very low RSI level and a possible bullish intersection of the MACD indicator, both indicating a possible phase of rising prices. As stated before, Wirecard's operations are very successful, so I am convinced that their quarterly report on 06.11.2019 will probably not disappoint the market. We as FS Associates and I personally are strong buyers of Wirecard.

Yours faithfully,

Quirin Zundl

Managing Director of FS Associates

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Chart 1 - Wirecard and DAX performance since 30 January 2019



Chart 2 - Wirecard and Visa performance since 30 January 2019