

Wirecard Supervisory Board

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By Post and e-mail

23/08/19

Dear Wirecard Supervisory Board

As Wirecard's Supervisory Board you will be aware of a number of issues raised by third parties regarding the firm's accounting and other practices. Through the MCA-Mathematik.com website, we have also highlighted material inconsistencies, in particular in the context of the Merchant Cash Advance (MCA) product, all of which suggest that the public is being misinformed about the firm's finances. Analysts and other market professionals have tried to clarify the MCA facts with management with no success. Furthermore, and as you may already be aware, regulators have been informed of these and other inconsistencies and are examining Wirecard's activities in multiple jurisdictions.

We are writing directly to the Supervisory Board at this time because of members' personal and collective responsibility to monitor and oversee the activities of the Management Board in order to safeguard the interests of all stakeholders, particularly shareholders. As you state in the 2018 Annual Report (bold added): "In order to exercise our control function, we were in close contact with the Management Board. **The Management Board informed us regularly, promptly and comprehensively both verbally and in writing, both within and outside the Supervisory Board meetings, about all material topics relating to the conduct of business of the Company.**"

As the Management Board's disclosure has changed substantially regarding the MCA product, there are real concerns regarding the location of hundreds of millions of Euros. It is hoped that the Supervisory Board has better and more consistent information on this programme than stakeholders generally. We are calling on the Supervisory Board to examine the information it has on the MCA programme, to review our findings and preliminary conclusions set out or referred to below and to seek a full and public explanation from the Management Board by September 2, 2019 for the benefit of all stakeholders. Given that all of the money lent by Wirecard and subsidiaries to merchants for MCA should/must be contained within corporate CRM systems with full KYC checks, this timetable allows plenty of time for management to query internal systems and respond precisely regarding every MCA Euro being lent.

As the Supervisory Board is undoubtedly aware, pursuant to section 116, section 93 of the German Stock Corporation Act addresses the obligations of the board. Has the Management Board provided the Supervisory Board with adequate information around MCA? Is there sufficient detail to make diligent and conscientious judgements? This is important for the newly formed audit committee, and should be of particular concern given the substantial inconsistencies we highlight below.

## **MCA summary**

MCA is evidently an area of investor concern; two of the six analysts that were allowed questions on the interim earnings call in August asked about it.

The issues regarding Wirecard's Merchant Cash Advance product are in two distinct areas:

1. The Management Board has been inconsistent in explaining the size of this lending, as well as where and how it is taking place. Conflicting information has been offered during company announcements and in meetings/calls with investment analysts.
2. MCA-Mathematik.com has compelling evidence demonstrating that the two countries in which Management has claimed MCA lending is most significant – Brazil and Turkey – cannot possibly be offering any meaningful programme of this type.

In combination, these inconsistencies strongly suggest that the Management Board is attempting to hide the truth of its MCA-lending programme and disguise a significant hole in the balance sheet.

## **Inconsistent disclosures**

The MCA programme was first disclosed to investors in November 2018 at which time the balance was announced as €200M of lending. Management described this programme as a reason for cash flow being weaker than otherwise expected. Over the following quarters, the size of the programme grew, peaking at the end of Q1 with lending of €400M generating EBITDA of €12M in the quarter. During the recent results announcement at the end of Q2, the Management Board claimed the total amount had shrunk to €370M. On multiple occasions, analysts have been told that most or at least 33% (or €133M) was being lent in Brazil and Turkey, but this was backtracked in August 2019 when the firm claimed that "Brazil and Turkey was a little bit under 1/3."

There have also been contradictions in disclosures around the product in Europe. In May 2019, Markus Braun claimed there was already some lending in Europe but then in June 2019, Susanne Steidl stated that the product will only be launched in Europe at the end of 2019.

These inconsistencies are both significant and alarming and raise important questions regarding the truth of the matter.

We provide an appendix with a full history of Wirecard's public statements on MCA for reference.

## **Brazil and Turkey**

To assess the potential size of the Brazil and Turkey programmes, as stated originally by Wirecard Management, we have undertaken a detailed analysis of the potential MCA programmes in both countries:

- In Brazil, the Brazilian Central Bank publishes monthly financials for Wirecard Brazil, derived from the local firm's own submissions. This data strongly suggests that there has been no substantial amount of lending to merchants from the Wirecard Brazil balance sheet, with a maximum possible total lending amount of €5M.
- The findings in Turkey are equally startling. Deloitte audited accounts for Wirecard Turkey show just €2.3M in revenue for 2018, and no net lending to merchants is shown. In addition, an opinion from a respected and experienced Turkish lawyer states that MCA as described by Wirecard is illegal in Turkey. This has been reported to the Turkish regulator.

It was subsequent to these reports being made public that the Wirecard Management Board attempted to downplay the size of its Turkey and Brazil MCA businesses, which is disturbing in and of itself.

**Supervisory Board obligations**

The market has well known concerns regarding the Management Board and the inconsistent or perhaps more seriously flawed disclosures it has made. As such, it is incumbent on the Supervisory Board to obtain the truth about the MCA issue. If MCA has been materially misrepresented by management to you, the auditors and investors, and €400M was never lent directly to merchants as claimed, it is likely that the revenues, profits and operating cash flow of Wirecard entities have been falsified. This would be accounting fraud under IFRS regulations as well as German and other laws.

It is imperative you discover the truth about Wirecard’s MCA lending and make the findings public so investors and regulators understand where the money allocated to MCA is being lent. And we, alongside other stakeholders, are relying on you and the action and oversight you must exercise to make the position clear, consistent with your collective and individual duties and responsibilities to do so.

We wish you success in this endeavour.

Yours

MCA

**Appendix: Wirecard management board public communications regarding MCA product**

Date	Type of communication	Detail
14 November 2018	Earnings call	<p>Transcript of comments from Markus Braun: <i>“Additionally, we launched since some time a product called Merchant Cash Advance. This, we also see as part of our digital credit strategy. It is mainly related to the fact that between the realtime transaction happening and the payout to the merchant, sometimes there's quite a long time frame. So we give here average time frames. It can be between 2 and 5 days that we get the money and then we would normally pay out between 3 and 10 days. To give you also the background in some countries, for example, Brazil, it can even be up to 30 days until we get the money. So there is a big latency between the time we exactly know what the merchant processed and the time the merchant gets the payout.</i></p> <p><i>Starting basically in Brazil, the Brazil portfolio already was going into this direction. And also, by the takeover of the Citi portfolio in Asia Pacific where also this value-added service was already at a small-scale part of the service landscape, we started to expand this product. And we are now also launching in Germany and Europe with this product.</i></p>

		<p>To give you here also the detailed numbers, we had now about EUR 200 million of cash advance out there on a rolling basis. We expect for this EUR 200 million a net EBITDA contribution of about EUR 10 million. So we think that we can make with this product now about 5% on net basis additionally to the take rate.”</p> <p><b>Source:</b> Edited Transcript of Wirecard AG earnings conference call or presentation Wednesday, 14 November 2018 at 12:00:00pm GMT available under the following link:  <a href="https://finance.yahoo.com/news/edited-transcript-wdi-earnings-conference-184700997.html">https://finance.yahoo.com/news/edited-transcript-wdi-earnings-conference-184700997.html</a>)</p>
March 2019	Group Analyst presentation	<p>Markus Braun states: <i>“is in Brazil, also let’s say Asia Pacific [...] little bit in Asia and we’re also starting in Europe.”</i></p> <p>Source: confidential but can be provided on request</p>
8 May 2019	Q1 2019 Earnings call	<p>Markus Braun provided the following information: <i>“Let me also give you some insight. We launched, in the last 2 years, a new service called Merchant Cash Advance, or in the last 1.5 years, additionally to our digital credit service. Let me give you here the numbers for the first quarter. We had now end of the quarter for Merchant Cash Advance out there EUR 400 million. You know that end of 2018 this were EUR 285 million.”</i></p> <p>Source: 1Q19 transcript – Bloomberg</p>
May 2019	Group Analyst Presentation	<p>Markus Braun states: <i>“mainly started in Brazil and Turkey”</i> and that Wirecard has a <i>“small part in Europe and small part in Asia”</i>.</p> <p>Source: confidential but can be provided on request</p>
May 2019	Analyst meetings	<p>The following statements made re the geographical scope of the €400M:</p> <p><i>“Brazil and Turkey are 50 per cent”</i></p> <p><i>“Brazil is the largest market followed by Europe and APAC”</i></p> <p><i>“Brazil and Turkey above 33 per cent”</i></p> <p>Sources are confidential but can be provided.</p>
June 2019	Analyst meeting	<p>Stated that 33% of the €400M is in Brazil and Turkey</p> <p>Source: can be provided on request</p>
June 2019	Group Analyst Meeting	<p>CPO stated: <i>“Where is our focus area? On the one hand it is in Asia, then another one Brazil, and another one, ready by the end of the year, the European region.”</i></p> <p>Source: a recording can be found at: <a href="https://www.mca-mathematik.com/where-is-the-267m">https://www.mca-mathematik.com/where-is-the-267m</a></p>
14 August 2019	1H2019 Interim results	<p>Wirecard stated that MCA shrank to €370M, refusing to disclose where it is currently being lent: CEO stated <i>“What is also true, initially the product started in countries like Brazil and Turkey, but today it's really provided on group level. So the group is doing the strategic development of this product. It's always hard to give you regions because sometimes these are international companies. We say that -- I think we said in the last call that Brazil and Turkey was a little bit under 1/3 and the rest is really spread over Europe and Asia, just to give you an indication, but it's hard as these are very often international projects. And again, this is now a strategic group product to give here a specific geography.”</i></p>