

26/11/2019

Dear Wirecard Supervisory Board,

German press reports from last week show the public credibility of the Management Board is suffering. And yet, since the launch of the KPMG special audit, the Management Board continues to make public statements which are easily refutable:

#### **Uber**

On 21/11/19, *Manager Magazin* published a comment from Dr. Braun implying that Wirecard is winning Uber business from Adyen. The share price moved up 2% instantly on publication, only to fall back again when both Adyen and Uber released statements stating that Dr Braun was incorrect and that Uber is not in conversations with Wirecard about card acquiring. Is he trying to impact the share price positively with false information? It is certainly an embarrassment to the reputation of the company, or what remains of it.

#### **MCA claims**

At the Morgan Stanley conference in Barcelona on 14/11/19, Mr Von Knoop reiterated substantial untruths about merchant cash advance. He claimed that Wirecard has a license to lend in Brazil, which is known to be untrue (UBS has recently published that Wirecard cannot lend in Brazil as they do not have an acquiring license). He also claimed that Wirecard Bank is lending money in Turkey from its European banking license, which, if true, is illegal under Turkish law.

The matters KPMG are tasked with investigating should be relatively easy, and quick, to assess, particularly where any MCA lending may or may not exist and in Wirecard's dealings with Al Alam. Given the KPMG investigation is entering its fourth week, preliminary reports should be available to you by now. If early indications show signs of concern, you may have a legal obligation to suspend or remove senior management and members of the Management Board and update the markets in a timely manner. Your prompt action is essential given the urgent need to protect shareholder assets, and to protect new bond-holders who face a loss on their recently invested capital. As such the board needs to consider restricting management from making substantial investment decisions until the KPMG audit has been completed.

If management cannot produce verifiable proof of a full history of MCA lending for KPMG, we believe suspending the Management Board immediately is the best way to preserve asset value for equity investors and the recent bond investors, while minimizing the potential legal liabilities of the Supervisory Board, and its members.

#### **Merchant cash advance**

All of our work shows there is little or no impact to the Wirecard balance sheet from merchant cash advance in Brazil and Turkey, despite management claims that they are lending €360M of cash. This is a key question for the fraud investigation as management point to merchant cash advance as a reason for increasing long-term debt. If the lending is not where they say, where has the money gone? It is imperative to protect shareholder assets at this point as management are under suspicion.

KPMG should be able to download a list of all merchant cash loans (whether in Brazil, Turkey, Asia or Europe) from CODA, the Wirecard accounting system, by merchant and by month. Back in May, Dr Braun stated that the €400M was being lent mainly in Brazil: <https://www.mca-mathematik.com/help-us-understand>. If there is not clear evidence of >€100M of lending in Brazil and Turkey to specific clients, along with KYC information for each and every client, it is incumbent on you to suspend management until you discover the whereabouts of the €360M they claim is currently being lent.

The 2018 annual report referred to a €115.6M loan to a "powerful financing partner" for the purpose of merchant cash advance. KPMG can easily verify to whom the €115.6M loan went to. We believe this loan was made to OCAP Management Ltd, a company with significant ties to Wirecard and which recently started claiming to offer MCA, with unprecedented success. However, Wirecard management has consistently told investors and analysts that they have no relationship with OCAP for MCA or digital lending. If management has been misleading investors and actually lent €115.6M to a related party in Singapore, this needs to be disclosed immediately.

## **Al Alam**

The Al Alam transaction data is one of the most striking indications of fraud in our view. To understand this, we suggest board members personally replicate the calculations we performed when looking at the Al Alam data released by the FT, which was confirmed as genuine by Wirecard. It is available at [www.mca-mathematik.com/fabricated-data](http://www.mca-mathematik.com/fabricated-data).

KPMG should be able to go through this in a matter of hours. If these documents have been used to justify revenue recognition at CardSystems Middle East (CME) and/or Wirecard UK & Ireland, this is a strong indication of fraud. The board needs to take immediate action to protect shareholder assets. We are of the view that both directors of CME should be suspended immediately; Jan Marsalek and Oliver Bellenhaus. As Jan Marsalek is a Management Board member, and as CME is a material subsidiary and guarantor to the recent debt offering, investors should be informed immediately via Ad-Hoc announcement. The FCA in the UK should also be notified, as Oliver Bellenhaus is a director of an FCA-regulated entity in the UK. If this is a criminal concern, Bafin and the police should also be notified.

## **China**

Given the substantial and wide-spread fraud allegations, we think it is unwise to allow the Management Board to transfer substantial investor resources to China, without further independent significant due-diligence on the asset in question. The Baker Tilly “independent advice” is, in our view, worthless, given the un-declared conflict of interest by the partner at Baker Tilly, Frank Stahl.

It is worth revisiting the Great Indian transaction as an example of how Wirecard shareholders have been potentially defrauded by this management team. As you may recall, in October 2015 Wirecard announced to the market the acquisition of several assets in India, implying they were purchased directly from the founders, at a valuation of €326M. However, the assets had been sold by the founders to an anonymous private equity firm for €39M, just one month earlier in September. The private equity firm then recycled some of the profits into small companies in India that went on to buy high-margin software from Wirecard. There are on-going lawsuits in both London and Madras fighting this transaction 4 years later. We have published our concerns on this transaction in the past. [www.mca-mathematik.com/indian-round-trip](http://www.mca-mathematik.com/indian-round-trip)

Given these facts, an impartial observer would see these assets had been purchased just one month earlier at a very different price and raise concern that this was not a straightforward transaction. Not Baker Tilly however, who did “comprehensive financial and tax due diligence” on the transaction without a concern.

Furthermore, Frank Stahl was the partner at RP Richter who signed the Wirecard 2009 & 2010 audits. He has since worked with Wirecard on many acquisitions including Citi Prepaid & MoIP.

These points raise a serious question – are Baker Tilly competent and is Frank Stahl impartial? Given the substantial concerns in the India transaction and the clear conflict of interest given his past relationship with Wirecard, combined with a concern for the board to protect shareholder assets, we would urge a further independent review of the China asset, and restriction of senior management transferring any further cash out of the business until the review is complete.

## **Conclusion**

We commend your decision to hire KPMG to perform an investigation into the FT allegations and MCA. KPMG should be providing frequent updates on their findings in order to allow you to protect the assets of Wirecard Group by limiting or terminating the activities of management who are misrepresenting the truth to you and to public markets, or worse, committing or enabling fraud. Given the amount of capital recently raised by Wirecard’s Management Board, we urge you to continue acting independently, decisively and swiftly to protect the assets entrusted to Wirecard by investors.

Yours,  
MCA