

MCA-Mathematik – 4th October 2019

Is Wirecard round-tripping cash to hide missing cash flow?

- Based on our research, Wirecard looks to have implemented multiple strategies to mask what appears to be accounting fraud by finding ways to explain why supposed profits do not generate cashflow.
- Fraud can be hidden by: over-paying for acquisitions and funnelling the cash back into the business through related entities, fake earnings from offshore (unaudited) entities, executive loans against stock holdings funnelled back into the business, and long-aged receivables.
- There are numerous questions investors should be asking about Wirecard's business because, at best, information is patchy and misleading. Before the analyst day we intend to publish some questions that we think investors and analysts need to be asking, starting with India:

Part 1: The Indian Round-trip

Was Wirecard's Indian acquisition deliberately structured to generate round-trip profits through EMIF?

Key questions about Wirecard's Indian business and alleged revenue growth following its acquisition of Hermes i-Tickets (Hermes) in India in 2015 are:

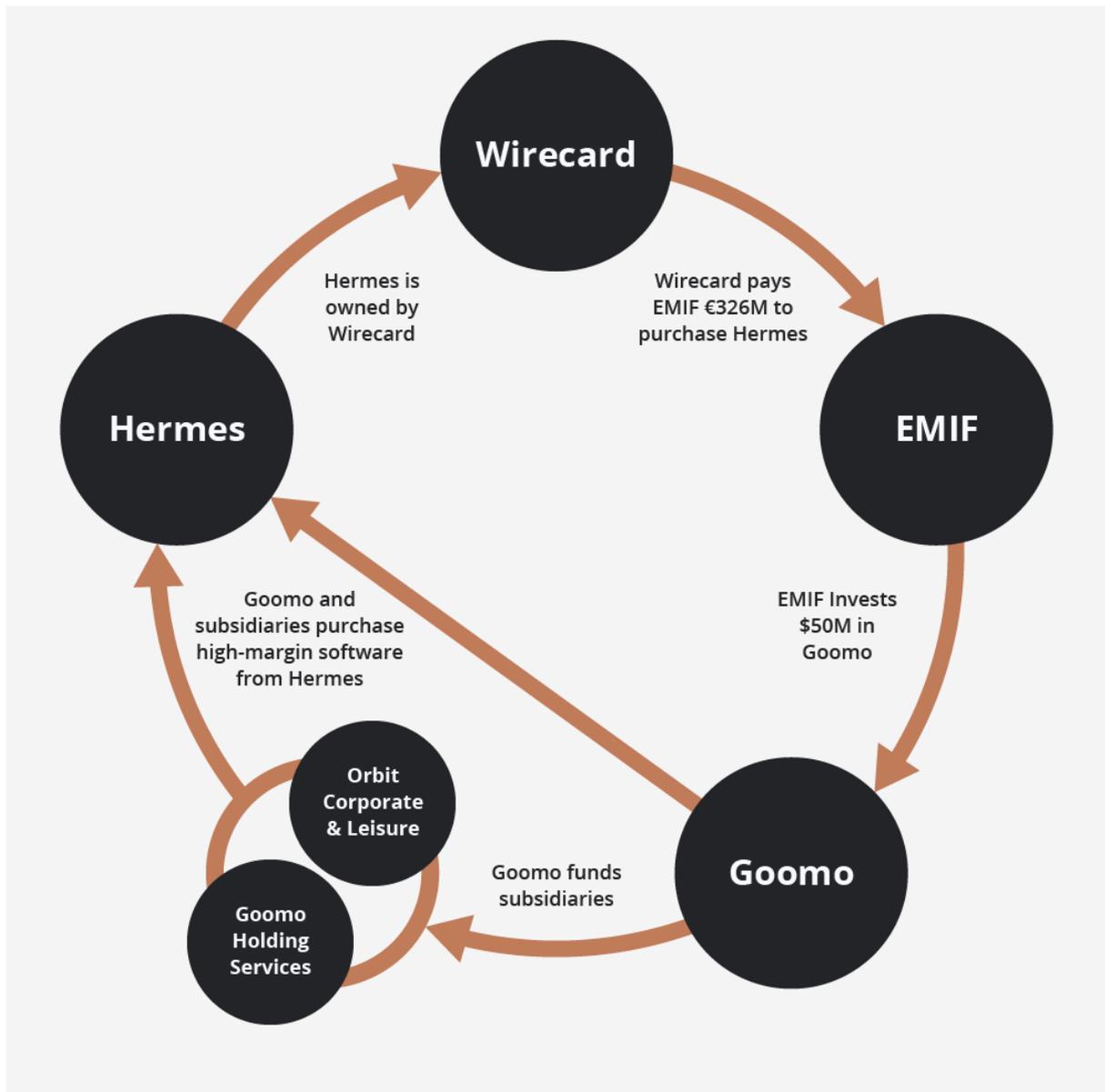
- Why did Wirecard purchase Hermes and the other assets from an anonymous Mauritius-based fund called Emerging India Fund (EMIF) instead of purchasing the assets directly from the founders who had been [negotiating with Jan Marsalek](#) for almost a year?
- Who is the beneficial owner of EMIF, the fund that "flipped" Hermes to Wirecard for €290M in profit, an 8x return in just one month?
- Will Wirecard confirm they generated revenue and EBITDA from EMIF-owned subsidiaries? How much in total? Has the growth in revenues and EBITDA at Hermes been an avenue for those illegitimate gains to EMIF to flow back to Wirecard?
- Why would Wirecard pay €326M for an asset that, if they'd purchased it from the founders a month earlier, they could have bought for just €39M?

Were Wirecard shareholders defrauded of €287M in the 4Q15 purchase of the Hermes asset in India? €326M was paid to an anonymous Mauritius-based fund, Emerging India Investment Fund 1A (EMIF), just one month after EMIF purchased the assets for a paltry €39M. At the time, Wirecard strongly implied they had paid the full amount to the original owners of Hermes (false) and never properly clarified why they paid 8x more for an asset they'd recently been negotiating to buy directly.

This transaction, covered in the media, is just the first piece of the story. Investors should also be **aware that some of the proceeds paid to EMIF appear to have flowed back to Hermes through multiple software deals – transactions that look like revenue round-tripping on the part of Wirecard and EMIF.**

Here's what it looked like:

EMIF received €326M from Wirecard and then spent \$50M buying a company called Goomo Holdings PTE in Singapore. Wirecard (Hermes) then recognised software revenue from Goomo, and also recognised revenue from two of Goomo's Indian subsidiaries.



These look like clear round-tripping transactions, facilitated by both Wirecard and the owner of EMIF.

Based on our research and information, the principal events unfolded as follows:

December 2014:

- Palani Ramasamy, co-founder of Hermes, and Jan Marsalek, the Wirecard COO, meet in Vienna to discuss Wirecard purchasing Hermes and assets of the GI Retail group. [The meeting is set up by Henry O'Sullivan](#), who later proposed that "HenryCo-Offshore" acquire some assets in the transaction. Wirecard have stated "they do not have information that Mr O'Sullivan is or was a shareholder of EMIF1A" – note the verbiage here: not having information is very different to denying Mr O'Sullivan owns or controls EMIF.

2015:

- Negotiations between Wirecard and Hermes continue with a January 2015 MoU drafted between the two parties.
- September 2015, Hermes is sold to EMIF, a newly registered Mauritius fund, at a price of €39M.
- October 2015, Wirecard purchases Hermes from EMIF for €216M with a €110M earn-out, returning 8x EMIF's investment in a month.

2016/17:

- EMIF first invested SGD\$25M into Goomo Holdings Pte in Singapore in December 2016. [This press article suggests they purchased the whole business for \\$50M.](#)
- Flush with cash (directly and indirectly from Wirecard) - two of Goomo Holdings subsidiaries (Goomo Holding Services and Orbit Corporate & Leisure) in India sign >\$12M of software deals with Hermes.
- Two other Henry O'Sullivan related-entities, Mindlogicx and Skilworth Technologies, also bought >\$3M of software from Hermes in 2017, which all added up to substantial profitable growth for Wirecard's operations in Asia.
- Conversations with people close to the matter suggest that these transactions started just after Hermes was purchased back in November 2015, under the name, remarkably, "Project Ring".
- EY expressed concerns about accounting between Orbit and Goomo.

2018:

- Hermes' auditor, Suresh Surana, provides a qualified audit opinion for the 2017 accounts based on a lack of transparency into some of the above transactions.
- Rajah & Tann's preliminary report questions the validity of the Orbit / Goomo revenue transaction, noting that the 2017 Service Agreement between the two companies was not created until 2018.

2019

- Co-founders of Hermes [resign as directors](#), after a "couple of years... recommending for Statutory and Compliance Audits but none paid heed to it".
- The CAD in Singapore raids Wirecard offices, and opens investigations into all of Hermes, Orbit & Mindlogicx in Singapore for money laundering and round-tripping. Wirecard tells investors that any restatement is limited to a few million dollars. EY signs the 2018 audit provisional on any findings from the CAD.
- Our research suggests this round-tripping is of greater scale and substance than Wirecard have disclosed to investors.

Once again – investors need to ask Wirecard: Who is the beneficial owner of EMIF, and how much revenue and EBITDA have Wirecard generated from EMIF-related parties?

Further reading:

- [Filing from Madras court](#)
- [India lawsuit in London](#)
- [Hermes director's resignation letter](#)

All links available at www.mca-mathematik.com

