

March 24, 2016

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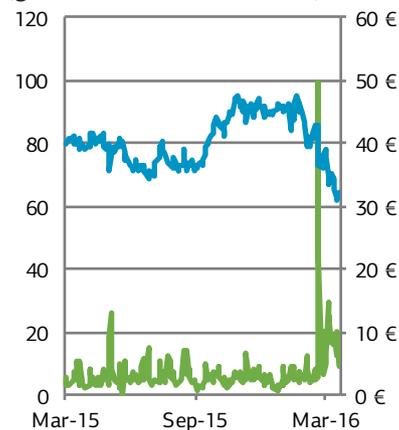
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Wirecard (WDI ETR)

Price	EUR 33.32
Rating	SELL
Price Target	EUR 17.20
Difference	50%
Market Cap	EUR 4.27 bln
P/E	32.33
Volume	759.191

Wirecard (WDI ETR) last share price in EUR (blue, RHS) and volume (green, 100,000 shares, LHS)



Source: Bloomberg

Wirecard (WDI ETR)

Gaming the Market

▶ **Gambling**

There is mounting evidence that Wirecard is engaged in processing gambling revenues whose volume and risks are not properly disclosed. A gambling and lotteries company is part of the group of companies Wirecard bought into in India. In fact, the former name of India's GI Retail is Game Stars.

▶ **Making Gray Look White**

We believe that Wirecard's Asia businesses may offer merchants in gray or even illegal businesses the option of accepting Visa and MasterCard and relabeling risky transactions as travel, cell phone bills, or other garden-variety payments. We estimate that these transactions yield commissions as high as 7%. Wirecard is likely trying to expand this side of the business.

▶ **Small Asian Operations**

Recent checks on Wirecard facilities in India, Singapore, and Indonesia confirm our research indicating micro-operations that do not match company disclosures.

▶ **Low-Quality iCashCard**

We identified 50 locations for recharging the Wirecard Indian brand iCashCard and, of those, 11 had been blacklisted by the Indian railway bureau for unacceptable business practices.

▶ **Overstated Acquisitions**

We continue to believe that Wirecard did not actually pay EUR 330 mln for Great India Retail but instead inflated the stated price. Some companies overpay related parties in order to place cash that will be used in the future to bump up revenues.companys disclosures.

▶ **Reiterate SELL** with a TP of EUR 17.20 based on a DCF valuation with a WACC of 11.3% and terminal growth of 1.3%. Based on our research, we assume gross margins going forward of 15% rather than the 43% reported in 2015.

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Wirecard appears essentially to be in the laundering business.

Asian Findings Suggest Deeper Ties to Gambling

In our most recent set of checks on Wirecard's business in South and Southeast Asia, we strengthened our view that Wirecard is engaged in a very risky business—that isn't even very profitable. Wirecard appears essentially to be in the laundering business: we believe it helps merchants in legally questionable areas to accept reputable credit cards and disguise the nature of their transactions. This is obviously very risky and yet Wirecard has not been able to strengthen its margins even as volume has grown.

Volumes, we think, will never grow big enough to justify the risk from consumer or merchant fraud on one hand and law enforcement on the other. There are many options for players willing to pay commissions as high as 7%, which appears to be the average in the India business. Local players with intimate knowledge of legal avoidance tactics in their own markets have a fundamental advantage.

Part of our increased confidence that gaming and lottery revenues are the key target comes from our findings that Wirecard in India and Southeast Asia is engaged in lower volumes of activity than disclosed. Our visits support our view that the Asian acquisitions do not drive the revenue that would justify their acquisition prices. We found little legitimate business and troubling allegations of illegitimate activities.

Our View

Wirecard's stated revenues equal about 1.8% of processed volumes. But that percentage makes little sense, for two reasons: first, we can't find transaction volumes as big as Wirecard reports. Second, 1.8% commission rates are neither fish nor fowl. In a lot of its European business and nearly all of the ex-Europe business, Wirecard is a processor, and for that, the Worldpay average processing fee of 1% is much more likely. High-risk transactions may command 3% fees or higher. Paysafe, whose revenues are equivalent to about 2.8% of processed volumes, is clear and open about processing gambling revenues. But Paysafe has low volumes, as do seemingly all players that specialize in that segment. Wirecard claims neither volume, like Worldpay, nor specialization in a high-risk area, like Paysafe. In fact, the company does not explain its core competence at all, and that in itself is concerning in a field stuffed with niche players and fueled with speculative investment capital.

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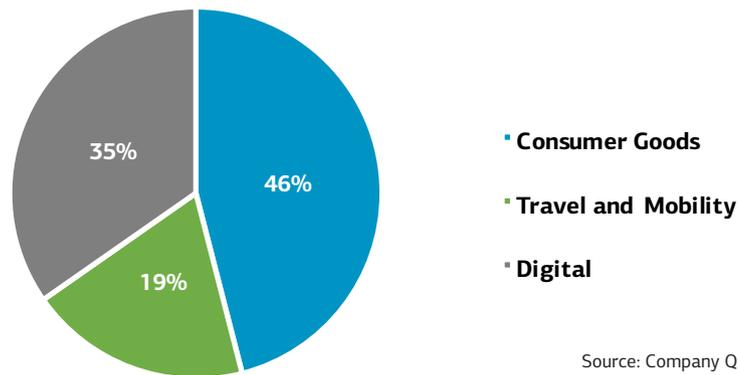
Table 1. Revenue as a % of Transaction Volume 2014

(mln, various currencies)	Transaction Volume	Revenue	%
Worldpay	€ 370,000	€ 3,650	1.0%
Paysafe	€ 12,500	\$337.10	2.7%
Wirecard	€ 34,300	€ 601.03	1.8%

Source: Company disclosures

We think we understand why the lack of clear disclosure. Our review of the business suggests that Wirecard is engaged in evasive activities that hide the source of transactions. There is strong past and current evidence that Wirecard processes gaming revenues but does not disclose them as such.

Chart 1. Wirecard's Business by Segment Q3 2015



Source: Company Q3 2015 presentation

Our examination of Wirecard’s business has led us to conclude that:

- ▶ **The European business margins are likely lower than stated:** We think an average fee of 1% would be more in keeping with industry standards. We are also skeptical of Wirecard’s stated European volumes.
- ▶ **The ex-Europe business is much smaller but higher-margin:** From India to Indonesia, Turkey, and South Africa, we are hard pressed to find transaction volumes that could be in excess of EUR 2 bln in total. But we think those volumes come at high margin and that is why Wirecard is so eager to develop business in these markets. Based on the Indian disclosures, we estimate that transaction fees could average 7%.
- ▶ **Hope for leverage outside of Europe appears misplaced:** We sus-

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Can niche processing of risky payments be lucrative enough?

pect that Wirecard’s core competency is in helping companies, especially in the “ex-Europe” portion of the business, to evade regulation and charging high fees for that service. Ignoring whether or not this is wise, we find that growing volumes outside of Europe are not providing operating leverage. The Indian acquisition is an excellent illustration of how commissions as high as 7% can fail to convey steady streams of profit.

- ▶ **Who wants to be in the business anyway?** Wirecard is in a tough position. Payments processing is a commoditizing business that is ultimately a form of infrastructure, requiring scale, heavy capital investment, and ultimately offering low but reliable margins to a few big players. Wirecard will not be among those. Niche processing of riskier payments, such as gambling proceeds, is more lucrative, but available volumes appear to be small relative to what is needed to compensate for risk.

The India Acquisitions

The constellation of companies Wirecard has acquired in India was painted as part of the new, online-driven commerce and payments space. But our work provides evidence that Wirecard is instead whitewashing gaming revenues by driving them through innocent-looking companies.

Great India Retail

In October 2015, Wirecard disclosed its forthcoming acquisition of “100 percent of the shares from GI Retail and financial investors of companies operating payment services” in India, the Philippines, Indonesia, and Malaysia for EUR 330 mln in cash and earn-outs. The disclosures do not provide clarity on which corporate entities Wirecard now owns.

Via the investigations company [Quintel Financial](#) in London as well as the online service Zaubra Corp., we obtained copies of financial returns for GI Retail and its chief subsidiaries, GI Hospitalities Private Limited and Hermes i Tickets Private Limited. We also purchased financial statements for a company that was a subsidiary in the 2015 fiscal year, GI Tech Gaming. Those statements tell us the following:

- ▶ Nearly all the revenues come from Hermes, the company that is purportedly doing online ticketing and that issues a payments card. But our checks found very little in the way of legitimate ticketing revenue.

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- ▶ The Indian group has an umbilical connection to gaming. This sort of arrangement was also visible in Wirecard's arrangement with Gateway and Click2Pay in Europe, 3Pay and Mackolik, a sports betting site in Turkey, as well as other places.
- ▶ GI Retail appears to be a gaming company in all but name. In fact, its name used to be Game Stars Techsol, and its founder is a long-term professional in gaming and lotteries.
- ▶ Wirecard has never disclosed exactly what portions of the GI Retail it acquired.

The acquisition was made through a fund called Emerging Markets Investment Fund 1A Mauritius, which in turn is controlled by a Mauritius trust called Trident Trust. We note that Wirecard's recent acquisition in South Africa, Amara Technologies, was also owned by a company listed in Mauritius.

CEO Markus Braun issued the following statement on announcing the GI Retail acquisition: "Great Indian (GI) Retail Group has been at the forefront of India's dynamic and early-stage e-commerce and money remittance market for many years. Our investment into one of the region's leading payment groups secures us a strong position in one of the world's most rapidly growing electronic payment markets." But in visiting locations in several cities in India, reviewing the financial statements, and interviewing companies in related areas, were hard pressed to find "dynamic and early-stage e-commerce and money-remittance." Instead, our checks indicated very little real retail business and lots of ties to gaming.

In fact, we believe that transactions processed through the iCashCard and The SmartShop are not retail or regular e-commerce revenues at all. The retail presence for these brands is skeletal, would be woefully inadequate to building true retail revenues, and doesn't come near to what is advertised by GI Retail online. Since iCash Card, The SmartShop, and other related brands have close ties to gaming and no clear ties to other businesses, we conclude that their primary purpose is to process gaming revenues.

GI Tech Gaming

Sometime between March 31 and September 1, 2015, a gambling and lotteries company disappeared from the GI Retail org chart, though it remained in the hands of the same directors.

As of last report, March 31, 2015, [GI Tech Gaming](#) was listed as a subsid-

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How GI Tech Gaming can exist as an independent company is unclear.

ary of GI Retail and “co-subsiary” of Hermes i-Tickets. GI Tech Gaming appears to have been separated from the GI Retail holding company some time between March 31 and September 2015 but remained under the control of the same executives who control Wirecard’s new subsidiary. In its Eighth Directors Report, filed September 1, 2014, GI Tech Gaming is 91% owned by GI Retail. But in the Ninth Directors Report, made on September 7, 2015, the company’s 91% owner is listed as Rsk Tech Systems Private Limited. Rsk is simply the new name, as of February 13, 2015, of GI Holding Co. Private Limited. Rsk’s contact email is still ramu@gitech.in, and its directors are the same directors as those for GI Tech Gaming: Nattamkar Basha Usman and Vignesh.¹ They are also the sole directors of Smart E Ticketing Private Limited, I Cash Card Private Limited, GI Trans Services Private Ltd., and several other companies that appear to be related to GI Retail.

GI Tech Gaming says that it “powers more than 50,000 lottery and gaming terminals across ten countries.” Products include an online lottery suite, a sports betting suite, and video lottery, a digital draw-system called GI DrawStar, the GI Player Card to manage real and virtual card games, and “terminals to handle commercial transactions in parallel to lottery transactions.”

How GI Tech Gaming can exist as an independent company is unclear. According to its FY2014 financial statements, the company’s short-term debt is over INR 105 mln while gross annual revenue is INR 77.5 mln. Of that revenue, fully INR 69 mln was received in foreign currency—which currency is not stated. Auditors seem baffled by the company. The “qualifications” listed in notes to the financial statements are practically as long as the management discussion. GI Tech Gaming is faulted for lacking internal controls, for not being able to account for its fixed assets, and because “The Company has not obtained confirmation of balances in respect of Trade Debtors, Trade Payables, Loans and Advances and Deposits as on March 31, 2014.” Again, in the 2015 statements, auditors say that the company has failed to verify fixed assets, that it lacks internal controls, and that auditors cannot say how loans will be repaid.

The other companies that make up GI Retail have long-term connections to gambling. The GI Retail group is directed by two brothers, Ramu Annamalai Ramasamy and R M Palaniyapan, their mother, RM Kothai, and their spouses, R Umaiyal Radhal and Sudha, who collectively owned in excess of 90% of GI Retail Private Limited as at 30 September 2015. The brothers

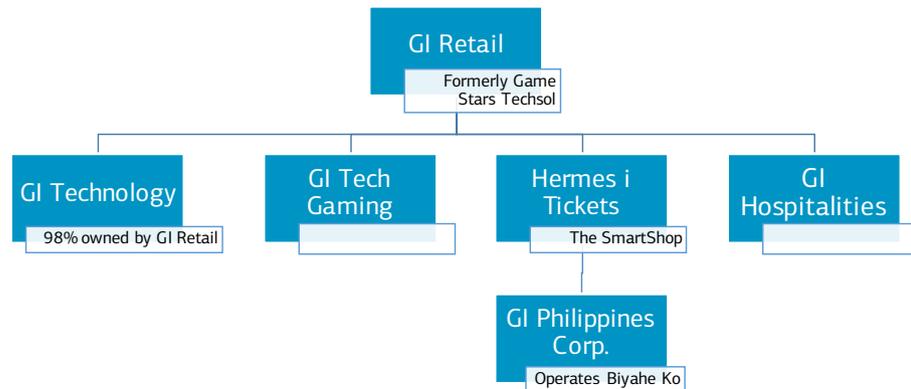
¹ From the [Zauba database](#) of Indian corporate documents

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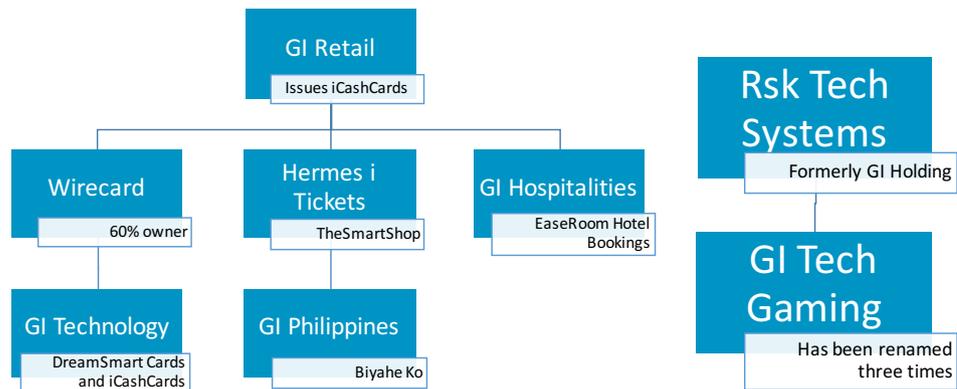
were formerly executives of a company called InLott Technologies, whose CEO was a director of GI Retail from at least 2006. The director, Usman Fayaz, has long been in lottery and gaming, most recently serving as CEO of Martin Lotteries Agencies Ltd. and its subsidiary InLott. Last September, India’s Securities and Exchange Board [sanctioned](#) Usman for “illegal mobilization of funds” (page 9).

Usman Fayaz stepped down in 2010 but his son, Fayaz Usman Faheed, served as a director until March 28, 2014. The current director is Nattamkar Basha Usman, who seems by name anyway to be related to the other Usmans.

Organizational Chart—Until February 2015



Organizational Chart—Since February 2015



Source: Company filings and Quintel Financial

“Travel” or Laundering?

Of the principal disclosed subsidiaries of GI Retail, the only company that has significant revenues is Hermes i-Tickets, the sister company to the lottery and gaming company.

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Hermes i-Tickets purports to provide payment mechanisms for travel and online retail through the The SmartShop brand in India and the Philippines. Biyahe Ko, a travel agency in the Philippines, is owned by Hermes. See The Smart Shop website.

Biyahe Ko's credentials as a travel agency are clearly weak, as evidenced by all the dead links on its website and the fact that the website has displayed "partner" airlines that no longer exist. But its credentials in finance are clearer. Biyahe is an "official partner" to Raquel Pawn Shop in the Philippines, which runs raffles, extends loans, sells insurance, operates auctions, and offers money transfer services.



Screenshot from Raquel Pawnshop. | Photo by J Capital March 20, 2016

Biyahe Ko, as we have previously reported, appears to have ties to a U.S. multi-level marketing scheme called YTB Travel, which filed for Chapter 11 bankruptcy protection in 2013. The company had previously settled lawsuits in California, Illinois, and Rhode Island alleging that it used deceptive marketing practices.

The Retail Business: Squint to Find It

GI Retail's principal customer-facing brands are iCASHCARD, issued by GI Retail, and The SmartShop, issued by subsidiary Hermes i-Travel. iCASHCARD is an e- or mobile-wallet for making online or in-store transactions. This would benefit consumers in India who do not have a bank account or debit/credit card. Additionally, the card can be filled in cash, and that offers anonymity. The SmartShop is a set of physical locations at which consumers can make cash payments for online purchases of bus and airline tickets. Wirecard claims that The SmartShop has 100,000 locations in India and Philippines. Again, this supports poorer populations in India who are unbanked and have limited Internet access.

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We could not locate iCashCard's network of recharge stores.

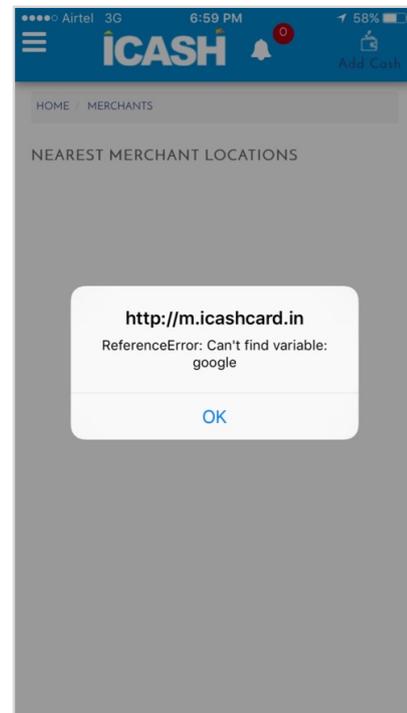
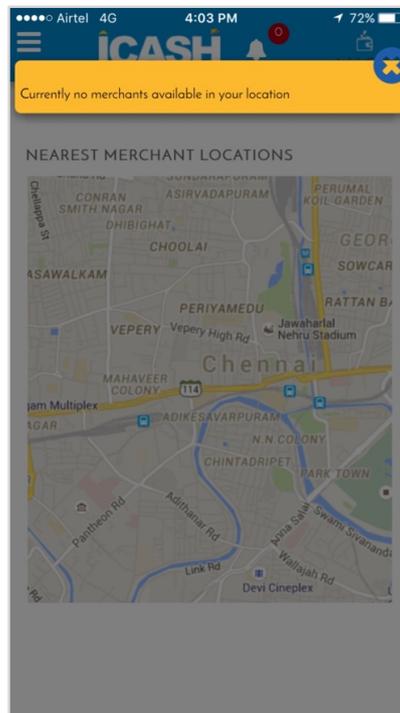
We tried to find locations where either payment mechanism was used but had a very difficult time.

iCashCard

We were unable to locate the network of recharge stores that iCASHCARD claims:

- ▶ We were unable to recharge the mobile app card with cash.
- ▶ We were unable to use the locator function of the iCASHCARD app to find physical locations to recharge to card.
- ▶ We used the text message feature to produce dozens of addresses of businesses that were supposed to allow us to recharge the card. We visited or attempted to physically locate more than 30 of these businesses in three city regions (Mumbai, Pune, Chennai) and called more but were unable to find one that was able to do this for us.
- ▶ In only one case was the proprietor familiar with iCASHCARD.
- ▶ We visited more than a dozen multi-card recharge locations. No one was able to recharge an iCASHCARD, or knew of a location where this was possible.

The app failed to locate merchants or failed to work in every instance, even in proximity to locations provided by the text message locator service.



Screenshots of iCASHCARD iPhone app. | Photos by J Capital

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Below is a photo of a location called Ideaz Unlimited provided by the iCASHCARD app text messaging service for finding recharge locations. The owner and manager of Ideaz Unlimited had not heard of iCASHCARD, but confirmed the phone number to be theirs.

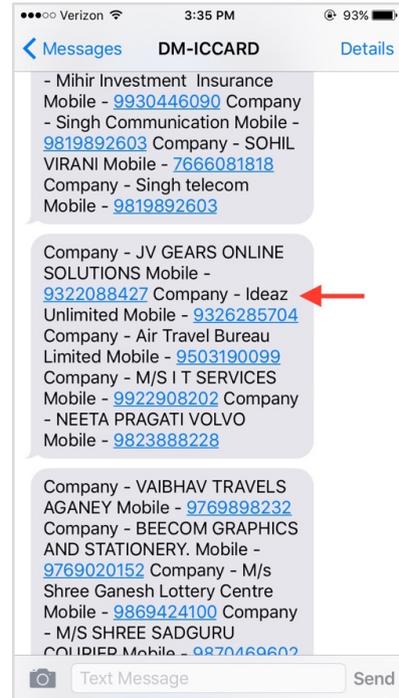


Photo and screenshot by J Capital February 2016.

In the majority of instances, phone numbers were dead, or publicly available addresses for the businesses yielded dead-end locations, like the one pictured at left.

We visited numerous recharge card kiosks in multiple cities. We were unable to locate one with iCASHCARD listed, and no proprietors were familiar with the product or how to recharge.

iCASHCARD is seldom used online compared with other e-wallets. Only one of the five top e-commerce sites in India accepts iCASHCARD as payment, and in our checks we found e-commerce companies largely unfamiliar with



Photo by J Capital February 2016.

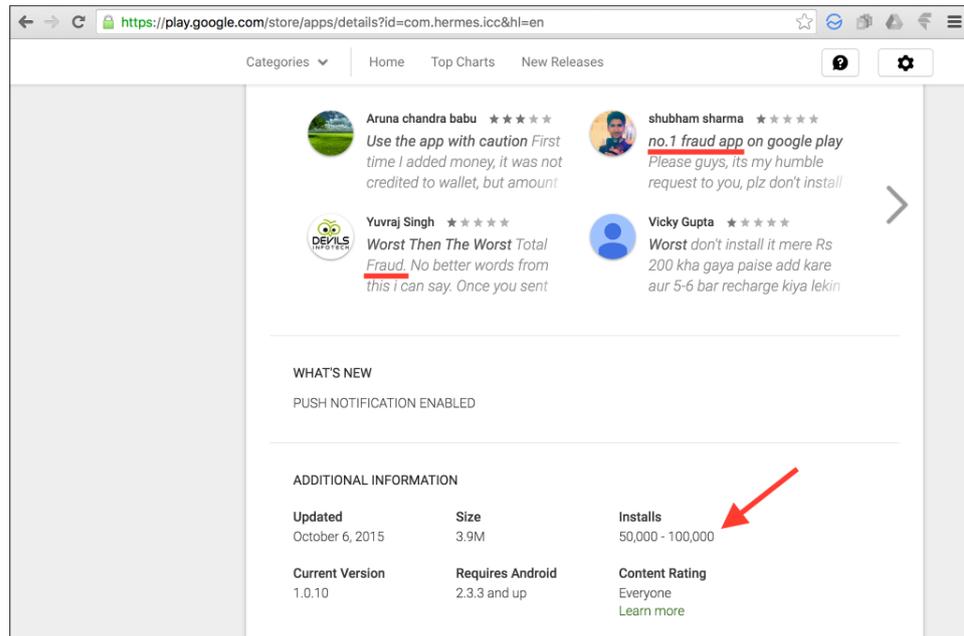
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Recharge card kiosks. | Photos by J Capital February 2016

iCASHCARD, while company employees universally knew MobiKwik, PayTM, and several other e-wallet cards.

iCASHCARD has poor reviews and low download rates for its app. Wirecard and GI Retail claim 200,000 daily users of iCASHCARD, yet there have only been 50-100,000 downloads of the app on Google Play, with 550 reviews, compared to 10-50 million downloads of PayTM with over 1 mln reviews.



iCASHCARD app site on Google Play. Reviews consistently complain of fraud and lack of ability to access funds once transferred to the app. Reviews displayed above were the first page of reviews when accessed on March 10, 2016.

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11 iCashCard recharge locations have been blacklisted.

Fraud Accusations

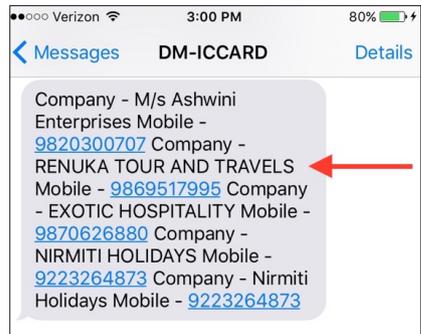
The IRCTC, the Indian railway bureau, hosts the platform on which rail tickets are sold throughout India. The IRCTC used to have iCASHCARD as a prominent payment partner but determined that the level of fraud was unacceptable, according to an IRCTC employee we interviewed.

Several of the merchants who were listed as iCASHCARD recharge points appeared on the IRCTC's blacklist.

The IRCTC has its own prepaid card, which can be charged ubiquitously throughout the country and is an open-access platform, meaning that no single payments provider has a special relationship with IRCTC, Wirecard's claim notwithstanding.

Of the 50 iCASHCARD recharge locations we checked against the list, we could find 11 that had been blacklisted at least once. The main reasons for blacklisting were (1) relation to a particular known fraudulent entity, (2) overcharging, and (3) multiple user-IDs (which is often a mechanism by which overcharging occurs, according to the IRCTC).

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W
2119	glt1806	ashwinent	3329842489	SOLMEN SAHA	SOLMEN SAHA		49	Blacklisted	Multiple User-IDs		3,325,842,489	#11/EK.B.I.V.B BOSE BARASAT									Jul17/2013 07:49:43 PM	
2118	ergp0037	dajje0502	9431082688	VUAYKUM SINGH	SANKAR MAHADEY COMMUNICA		51	Blacklisted	Multiple User-IDs		6,431,082,688	VLL-KORI PO-USMA Pana									Jul17/2013 07:49:43 PM	
2119	afp00177	muheshbu	990121101	MAHESH BURGJE	MAHESHVAR TELCOM		51	Suspended	Other Miscellaneous Reasons		8,961,197,197	GA PUSHPAK 684, S.I.Mambal									Feb01/2010 12:00:00 AM	
2120	glt0204	niyawebsat	22512100	KAPIL MEHRA	NITYA WEB STUDIO		49	Blacklisted	Multiple User-IDs		22,512,100	426,GRUJ.3 ST NO.1, New Delhi									Jul17/2013 07:49:43 PM	
2121	ktz0158	ktz02810nc	9842923458	SENTHIL K	FRANGANA AIRLINES TRAVELS		21	Blacklisted	Multiple User-IDs		9,942,923,458	NO 57 HIT MAIN ROAD Enode									Jul17/2013 07:49:43 PM	
2122	glt1995	afkic06nc	4672288833	JEESON J	JOSEF TOURS & TRAVELS PVT L		49	Blacklisted	Multiple User-IDs		4,872,398,393	PANDARA FOOTBALL Treasur									Apr03/2010 12:00:00 AM	
2123	ktz09123	ktz04500nc	9314927902	RAKUMAJI JAIN	SOFT-TRADE SOLUTIONS		21	Blacklisted	Software Tampering		9,314,927,902	C-58, A, R/ DR, KISHU Jaipur									Mar16/2014 01:01:14 PM	
2124	ktz01103	ktz02530nc	94202801	ABDUL J	HOOR HOLLYWOOD		21	Blacklisted	Multiple User-IDs		30,403,800	DAD NO 10 LANE BEA Chennai									Jul17/2013 07:49:43 PM	
2125	ktz0195	ktz02603nc	980574125	GANESH MHSADJE	POONAM MEDICALS & GEN. STO		21	Blacklisted	Fraudulently Claiming of TDR		8,650,274,125	48/1, CHRI GANESH Pune									Jan02/2011 12:00:00 AM	
2126	ktz0207	ktz02694nc	9322786181	RAMESH PAI	BALAJI TOURS & TRAVELS		21	Blacklisted	RPF Case u/s 143 Railway Act-Sale of count		8,302,766,181	SHOP NO. NAGAR, VI Thane									Mar20/2014 04:48:20 PM	
2127	ktz02075	ktz02686nc	9223420274	NADIM BANIA	AI TRAVELS		21	Blacklisted	Overcharging		9,222,242,274	MINI APARTMENT, Etimbed									Jan02/2012 12:00:00 AM	
2128	ktz02694	ktz04507nc	9825225871	KRUNAL BHAMBHIA	SHRINATHJI TOURS & TRAVELS		21	Blacklisted	RPF Case u/s 143 Railway Act-Sale of count		9,925,225,871	22, HANINI NIGIRI 12 Vasodara									Jul06/2012 05:34:43 PM	
2129	glt0245	awach0nc	323950332	AWADHESH SINGH	SUSHMA TELECOM		49	Blacklisted	Multiple User-IDs		3,325,600,332	#10/RA.B.I DUM DUM Kolkata									Jul17/2013 07:49:43 PM	
2130	ktz0308	ktz0297nc	837231862	GRISHM TEJOWANI	TEJOWANI GRISHM RAJUBHAI		49	Suspended	Fraudulently Claiming of TDR		9,377,331,862	TEJOWAM RUBER NA Ahmedabad									Jul17/2011 12:00:00 AM	
2131	glt0247	manan49c	9386350055	MANISH JAYASWAI	TRAVELS FOR YOU		49	Suspended	Other Miscellaneous Reasons		9,386,350,055	NEERA KAL, HATTA Dhanbad									Feb03/2009 09:29:46 AM	
2132	glt0197	namanyaj	9800304012	ONEESH JOSHI	UNITECH COMPUTERS		49	Blacklisted	Multiple User-IDs		9,800,034,012	NO-18, PASKAR CO.Ludhore									Jul17/2013 07:49:43 PM	
2133	glt0177	anirav46c	9869517995	AJIT NETIKI	M/S RENUKA TOUR & TRAVELS		49	Blacklisted	Multiple User-IDs		8,869,517,995	5/21, SHRILALBAUG Mumbai									Aug14/2010 12:00:00 AM	
2134	glt0173	inbom10c	9769841251	MCHAMM SIDDIQUI	CITIZEN TOURS & TRAVELS 1		49	Blacklisted	RPF case u/s 143 railway act-multiple user e		9,769,841,251	14 GRD, N ANDHERI (Mumbai)									Jun04/2013 06:16:03 PM	
2135	glt0073	premal_ppt	2487241	PERAKAH KUMARI	I WORLD SOLUTIONS		49	Blacklisted	Multiple User-IDs		2,487,241	T-1, KODURUKASTLE VJAYAWADA									Jul17/2013 07:49:43 PM	
2136	glt0249	ktz02649nc	9324809747	JAGANUJ NADAR	RAGAM ELECTRONICS		21	Blacklisted	Multiple User-IDs		9,324,609,747	SHOP NO/1 ROFEEET RK Mumbai									Jul03/2014 04:02:12 PM	
2137	glt0207	manan49c	9819151038	KANTILAL SHAH	SHREE MAHAHUR GENERAL STO		21	Suspended	Other Miscellaneous Reasons		9,819,151,038	SHOP NO. 15, V. ROAD Mumbai									Jan05/2009 04:39:28 PM	
2138	glt0103	infg@future	2530814	AVINASH AGARWAL	FUTURE TRAVEL MART		49	Suspended	Other Miscellaneous Reasons		2,530,814	#F-22/2/24,1ST FLOC Ranchi									Jul02/2011 12:00:00 AM	
2139	msa00475	chirag_cph	9817245681	SANJAY CHHADHAR	CYBER FANTASY TOUR & TRAVE		49	Blacklisted	Multiple User-IDs		8,871,245,681	CYBER FA NO. 18, Faridabad									Jul17/2013 07:49:43 PM	
2140	ktz0000	manan49c	9314402018	AVYA ANKORA	M/S TRAVEL VISION		131	Blacklisted	Fraudulently Claiming of TDR		9,314,402,018	1208, KAVI MANGARAJ Mumbai										Aug02/2011 12:00:00 AM
2141	ktz0391	ktz04600nc	9428203212	AMAR WADHWAN	G. K. ELECTRONIC		21	Blacklisted	Multiple User-IDs		4,428,203,212	OPP. DADA BADI M. G. Rabur									Jul17/2013 07:49:43 PM	
2142	ktz0323	ktz04600nc	9370150050	MAHAJI DHANAP	YASH ENTERPRISES		21	Blacklisted	If related to any particular Fraud Group		9,370,150,500	502, SADA BHANU VI Pune									May25/2012 12:00:00 AM	
2143	ktz0372	ktz02600nc	9840137205	AKSHAN M	MOTHLAL COMMUNICATIONS		21	Blacklisted	Chargedback cases with a reason as FRAUD		9,840,137,205	504/17 AT T VAKHANA Chennai									Jul17/2011 12:00:00 AM	
2144	ktz0400	ktz02874nc	9793918444	VJAY KUN VERMA	VJAY KUMAR VERMA		21	Blacklisted	Multiple User-IDs		9,793,918,444	G-4, VHIRARA PLAZA B Lucknow									Jul17/2013 07:49:43 PM	
2145	ktz0400	ktz02810nc	9873802318	PRAVIN KJ	AGARWAL PANDHAVATI		21	Blacklisted	Fraudulently Claiming of TDR		9,975,942,318	PANCHAV MATHEON Dhanbad									Jul17/2011 12:00:00 AM	
2146	ktz0500	ktz02840nc	9862016581	VINOODCH MOOH	PARVATI TRAVELS		21	Suspended	Other Miscellaneous Reasons		9,862,016,581	NO.-1, USH KRISHNAB AHMEDABAD									Dec08/2010 12:00:00 AM	
2147	tt062616	smhd@vijay	460220999	SINDHU JAYAN	NLSA COMMON SERVICES CENT		29	Blacklisted	Multiple User-IDs		4,602,209,999	AKSHAYA E CENTRE, Kamru									Jul17/2013 07:49:43 PM	
2148	ktz0913	ktz02980nc	9740677152	A NAKASHAB	GOLDEN WARE HOUSE		21	Blacklisted	Fraudulently Claiming of TDR		9,986,337,522	NEW BUS GOLDEN PAVAGADA									Jul17/2011 12:00:00 AM	
2149	opp0730	agpy@andul	9301191233	AJAY UPADHYAY	AJAY CHANDRA UPADHYAY		332	Inactive	Multiple User-IDs		9,301,919,123	EWB-381 V SUPPLA B Durg									Jul17/2013 07:49:43 PM	
2150	glt0207	ktz02820nc	9323184114	CHANDOU GUPTA	CHANDOU ESTATE CONSULTANT		21	Suspended	Other Miscellaneous Reasons		9,323,184,114	6/8-5, GURVEERA DE Mumbai									Aug02/2011 12:00:00 AM	
2151	glt0292	jos.travels@	4829215253	JOSE JOSE	JOS TOURS & TRAVELS		49	Blacklisted	Multiple User-IDs		4,829,215,253	WEST GATE,OPP.FEE VAKOM									Jul17/2013 07:49:43 PM	
2152	ktz0515	ktz02580nc	9450478175	AMAR NATI VERMA	SHYAM MOBILE		21	Blacklisted	Multiple User-IDs		4,450,478,175	THANA ROAD, WARD, Gorehapur									Jul17/2013 07:49:43 PM	
2153	ktz0558	ktz02980nc	9828762609	MEENA JANI	MEENA PHOTOCOPIY CENTER		21	Blacklisted	ERE manipulation		8,828,762,609	S1, BHADHANAND H Indore									Sep08/2011 12:00:00 AM	
2154	ktz0566	ktz02930nc	9853328847	RAM KUMI THAKUR	SUPER SERVICES		21	Blacklisted	Fraudulently Claiming of TDR		9,953,328,847	260, PRAKASH MOHA New Delhi									Jul15/2011 12:00:00 AM	



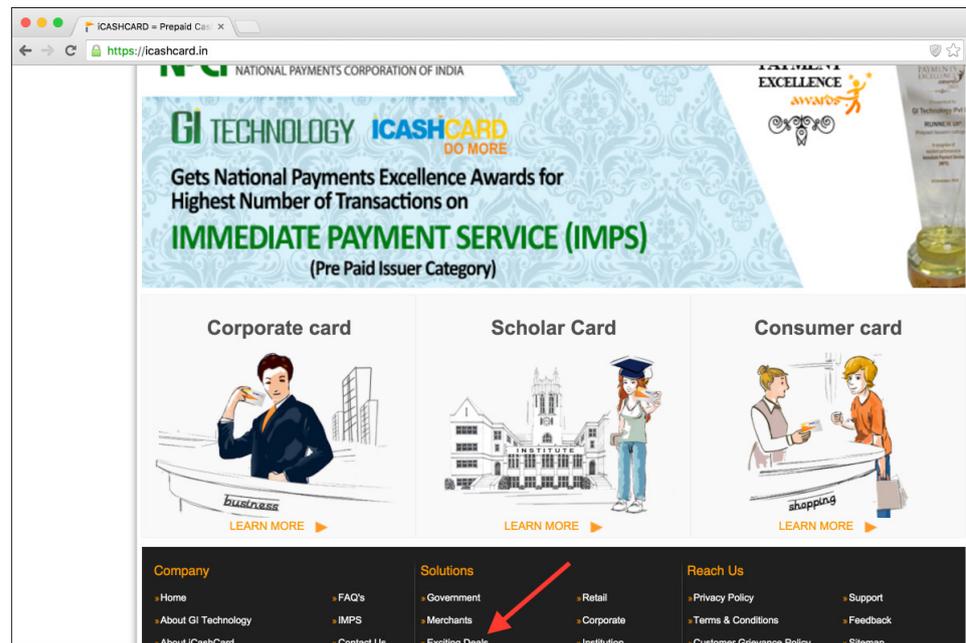
Screenshots of an iCASHCARD recharge location and a matching blacklist entry from 2010 for the same travel agency.

Non-Working Promotions

In our interviews with e-commerce sites and vendors in India, we found that the primary driver of e-wallet usage in India are cashback deals. iCASHCARD

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does not offer the 1-5% cashback that is standard for the major e-wallets in India such as PayTM, MobiKwik, Oxigen, and PayUMoney. It also doesn't have the benefit of being built into any phones like the e-wallets supported by the two largest providers of 3G and 4G coverage in India, Vodafone and Airtel. While we could verify the prominently displayed offers by PayTM and MobiKwik, iCASHCARD buries its offers on its website, and we were unable to access the promotions offered through iCASHCARD when we attempted a transaction.



iCASHCARD deals are buried in its “Solutions” segment, and we were unable to use any of the promotions at payment. | Screenshot by J Capital, March 9, 2016

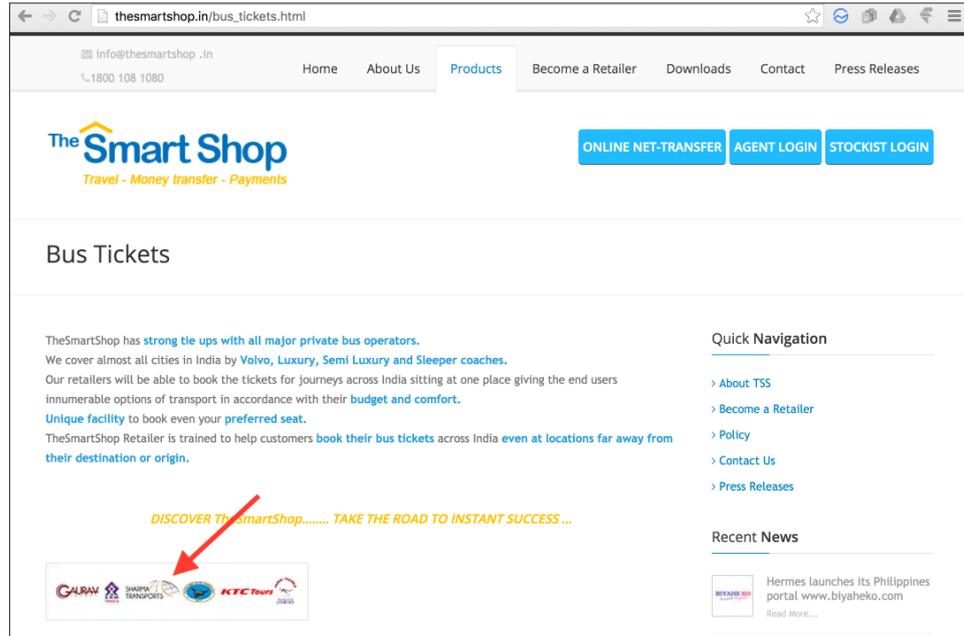
SmartShop

We visited multiple travel agencies to discuss their platforms.

- ▶ At Sharma Transports, a customer listed on The SmartShop’s web-site, we found no one who actively used the platform.
- ▶ Generally, agents said that was prohibitively expensive and provides no backend support.
- ▶ Where travel agencies were aware of The SmartShop, it was not considered a legitimate competitor.
- ▶ A number of travel agents who had used The SmartShop said that its clearing system was too slow, making it easier to go through online travel agents like cleartrip.com, getmytrip.com, or expedia.co.in.
- ▶ An agent said that customers were sometimes charged before the ticket was actually secured by the system and yet in no situation did

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The SmartShop refund the money, leaving the travel agent with the obligation to refund.



Sharma appears as an example client on The SmartShop’s website. | Screenshot by J Capital, February 26, 2016

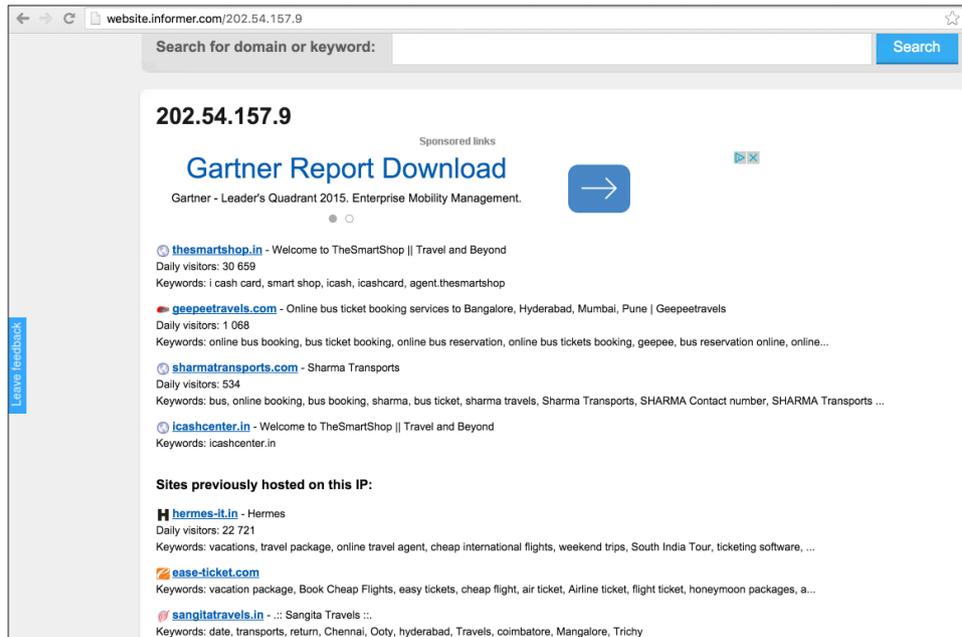
The interaction between iCASHCARD and The SmartShop also points to mechanisms in the company for circulating payments to make them appear to be for travel services. We found that several travel agents that were said to be clients of The SmartShop actually share a domain with iCASHCARD and TheSmartShop. That means they are probably related parties.

The two brands were reportedly acquired by GI Retail before the Wirecard acquisition, but we believe they were probably related prior to acquisition. iCASHCARD’s Google Play URL references Hermes but not iCASHCARD or GI Technology, the listed operator of the app.

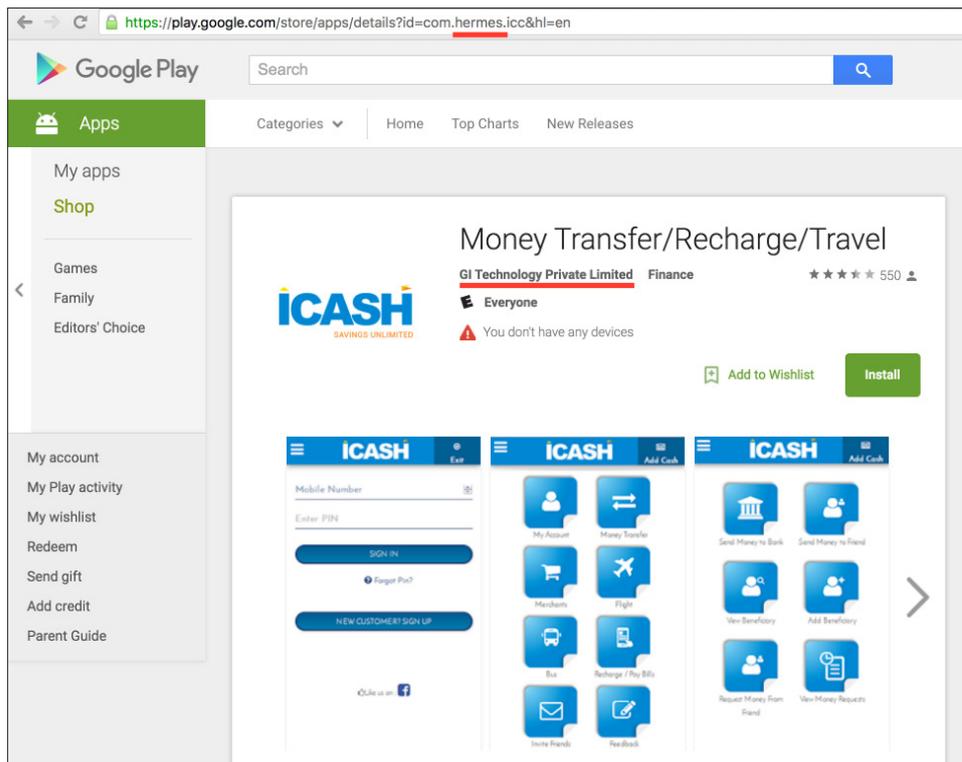
The two current directors of GI Tech Gaming, Nattamkar Basha Usman and Vignesh, are also current directors of iCASHCARD and Smart E Ticketing Private Ltd. From the Indian government’s corporate registration documents:

Smart E Ticketing Private Limited's Corporate Identification Number is (CIN) U72900TN2007PTC063097 and its registration number is 63097. Its Email address is ragunathan.k@hermes-it.in and its registered address is Second Floor, No.30/5 (10/5),Palat

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Screenshot by J Capital, February 26, 2016. Geepee Travels and Sharma Transports are disclosed clients.



Screenshot by J Capital, March 10, 2016

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Sankaran Street Mahalingapuram, Nungambakkam, Chennai - 600034, Tamil Nadu INDIA.

Overpaying

Based on the financial statements, Wirecard seems to have overpaid for whatever it acquired from GI Retail. Consolidated group profit for the 2013-14 fiscal year, the last year for which full statements were available, appears to have been Hermes is the only company reporting income. GI Technology has a small income and the other two companies in the group have only expenses. The statements show that the group as a whole made just EUR 660,000 in profits in the last fiscal year.

Wirecard therefore made a cash payment, excluding milestone payments, of 333 times earnings for the group.

Table 2. Wirecard Financial Statements

	2014-15		2013-14		2012-13		2011-12	
(in millions)	INR	EUR	INR	EUR	INR	EUR	INR	EUR
GI Retail Private Ltd.			-40.80	-0.50	-8.20	-0.12	-0.49	-0.01
GI Technology Private Ltd.	0.77	0.01	1.10	0.01	1.45	0.02	1.04	0.02
GI Hospitality Private Ltd.	-43.40	-0.57	-32.54	-0.40	-10.99	-0.16	-7.20	-0.11
Hermes I Tickets Private Ltd.	93.60	1.22	53.40	0.66	6.30	0.09	15.30	0.24
	50.97	0.66	-18.84	-0.23	-11.44	-0.16	8.66	0.13

Source: Company filings via Quintel Financial

On its [acquisitions website](#), Wirecard provides the following targets for GI Retail:

- ▶ Revenues 2015E: EUR 45 million
- ▶ EBITDA 2015E: EUR 7 million
- ▶ Revenues 2016E: EUR >75 million (Growth +67% yoy)
- ▶ EBTIDA 2016E: EUR 15 to 18 million (Growth +114% to +157% yoy)

The revenue target is reasonable given revenues for the group of about EUR 39 mln for the fiscal year to March 31. But the profit could not have been achieved unless there are contributing companies that are not disclosed as part of the GI Retail group.

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The only company in the group with significant revenue is Hermes I Tickets. The accounts are below.

Table 3. Hermes i-Tickets Simplified Accounts

Accounts (INR)	Year Ended March 31 2015	Year Ended March 31 2014	Year Ended March 31 2015 (EUR)	Year Ended March 31 2014 (EUR)
Income	2,573,292,671	1,092,088,584	33,517,137	13,461,084
Less: Expenditure	-2,393,454,473	-942,775,597	(31,174,745)	(11,620,652)
Gross Profit/ (Loss) Before Taxation	125,740,159	79,130,672	1,637,766	975,365
Less: Provision for Taxation	-43,720,023	-23,737,630	(569,453)	(292,590)
Deferred Tax	-11,628,400	1,963,450	(151,460)	24,201
Profit/(Loss) After Tax	93,648,536	53,429,592	1,219,772	658,573

Source: Statutory company accounts obtained by Quintel Financial

We visited the company headquarters, where all the subsidiaries are housed. The building was modest. (See right.)

The Real Margins?

An odd glitch in the Hermes account for the fiscal years 2013 and 2014 provide rare insight into how much the company may be earning as a commission on transactions.

An auditor's comment from the Hermes 2013 and 2014 financial statements criticizes the company two years running for reporting the gross value of services sold rather than commission as its revenue. The auditor's note reads:

"b) The Company's major revenue is the commission it earns from online booking of air/rail /movie/ bus tickets and other support services which is in the nature of agency commission. As per Accounting Standard 9, gross commission earned should be taken as gross revenue and credited to the profit and loss account and not the sales value. However, the Company has followed the policy of



GI Retail and subsidiaries' co-located offices in Chennai. | Photo by J Capital, February 2016

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Why did Wirecard acquire a small subsidiary of Visa?

recognizing gross inflow of cash from sale of tickets as sales value instead of taking gross commission earned as gross revenue. This has resulted in the gross revenue overstated by Rs 1118.99 crores and gross purchase cost overstated by Rs.1,101.86 crores (Note: 1 crore is 10million rupees so this overstatement is Rs 11,189million)."

In other words, Hermes overstated its revenue by a factor of more than 10 by reporting turnover as revenue.

That misstep allows us to see revenue as a percentage of turnover.

In the year ended March 31, 2014, Hermes reported turnover of INR 15.3334 bln and revenue of 1.092 bln, indicating an average commission rate of 7.1%.

Visa Processing Services

It is telling that in addition to purchasing GI Retail, Wirecard went to the trouble in India of acquiring a very small subsidiary of Visa. People familiar with the business told us that Visa Processing Services was a “failed experiment” by Visa and that it lost money. But Wirecard would have acquired with the company the license to be a Visa processor. In South Africa, as well, we found that even with a tiny volume of business, the local subsidiary was deeply concerned about being MasterCard-approved. Those certifications entail cumbersome compliance procedures that would be unnecessary for the low volumes of acquiring business Wirecard does in both markets. Instead, we suspect that Wirecard wants the stamp of legitimacy that processing for Visa and MasterCard conveys.

Singapore

After India, we revisited Wirecard acquisitions in Singapore and Indonesia to validate our initial checks showing very small operations.

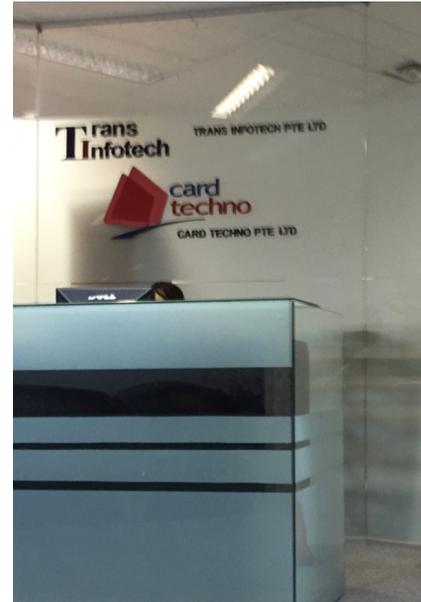
In Singapore, we were able to verify three Wirecard office locations and staffing levels commensurate with disclosures. Wirecard did not respond to multiple attempts to set up a meeting. We did see offices for CardTechno and Trans Infotech, companies that Wirecard says began using Wirecard as their operating brand names post-acquisition in 2013-2014. The offices had no Wirecard branding.

Former employees told us that the Trans Infotech business had “low” revenue impact on Wirecard Asia Pacific. They said it operates as a hardware

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distributor and is not able to obtain higher-margin service contracts. These findings were consistent with our initial checks in peninsular South East Asian in 2015. Wirecard, however, made the following disclosures about Trans Infotech after acquisition in their 2014 annual statement:

"Trans Infotech Pte. Ltd., Singapore, ranks among the leading providers in the payment services sector for banks in Vietnam, Cambodia and Laos. Furthermore Trans Infotech acts as a technology partner in the area of payment, network operation and technology services for banks, transportation businesses and retail companies in Singapore and the Philippines."



Wirecard (Trans Infotech and CardTechno) offices in Singapore.
| Photo by J Capital, February 2016

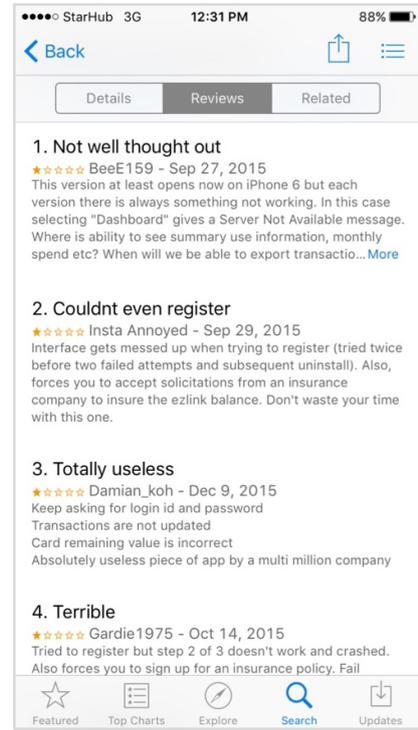
The only significant local operations that Wirecard discloses in Singapore is a cooperation with EZ-Link:

"As part of the cooperation with EZ-Link Pte. Limited Singapore, the largest national issuer of contactless cards for local public transport, the world's first application for transforming a mobile phone into a top-up device was presented at the end of January 2014. In collaboration with MasterCard and McAfee, the My EZ-Link Mobile application transforms NFC-enabled mobile phones into personal, portable topping-up stations. Since then, users of EZ-Link cards no longer need to top up their credits at travel ticket machines, but instead benefit from a rapid and secure way of topping up their cards – with the technology provided by Wirecard. At the 'Smart Awards Asia 2014', the joint project between EZ Link and Wirecard was awarded the prize 'Most Innovative NFC Project Award'." (2014 Annual Report)

Our checks revealed that this partnership was immaterial. Wirecard was ostensibly responsible for helping to develop an NFC recharge function for Singapore's rechargeable mass transit cards, so that a phone could be used to recharge a card in proximity rather than using a top up machine.

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A former employee at EZ-Link described the project as a total failure—across all platforms they totaled fewer than 300,000 installs, and the NFC recharging technology that Wirecard had promised to bring to the table was “no more advanced than what we had developed ourselves.” After a lackluster Android rollout of the full product, they never even developed a full version of the iPhone app. iOS has a nearly two-thirds market share in Singapore. In fact, soon after the project was announced, EZ-Link “realized the project was irrelevant: you can easily link a bank card to recharge your card.” The NFC recharging process as Wirecard had it in fact added a step, and **EZ-Link believes that it did not even process SGD 1 mln (approx. USD 700,000) in total transaction flow.** The partnership has been inactive since late 2013, but Wirecard still promotes it in its filings and presentations to investors.



Screenshot of review page from EZ-Link iPhone app. | Photo by J Capital

Indonesia — Aprisma and Prima Vista

Some sellside reports have described favorable site visits to Wirecard’s Indonesia subsidiaries, including higher staffing levels than we reported. Reports have also reiterated that Wirecard’s core businesses in Indonesia are transaction platforms serving 15 of 17 major banks, POS terminal sales, maintenance and “solutions;” and mobile and electronic payment mechanisms. We found instead that:

- ▶ No bank acknowledged working with Wirecard. We were able to interview two large banks, four engineers who worked for financial technical platforms serving banks, two merchant acquirers who work with banks, and three retail/e-commerce finance managers familiar with payment mechanisms.
- ▶ Staffing levels were low.
- ▶ Wirecard does not appear to have the repair or call center capabilities to support a large POS business.

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Indonesia

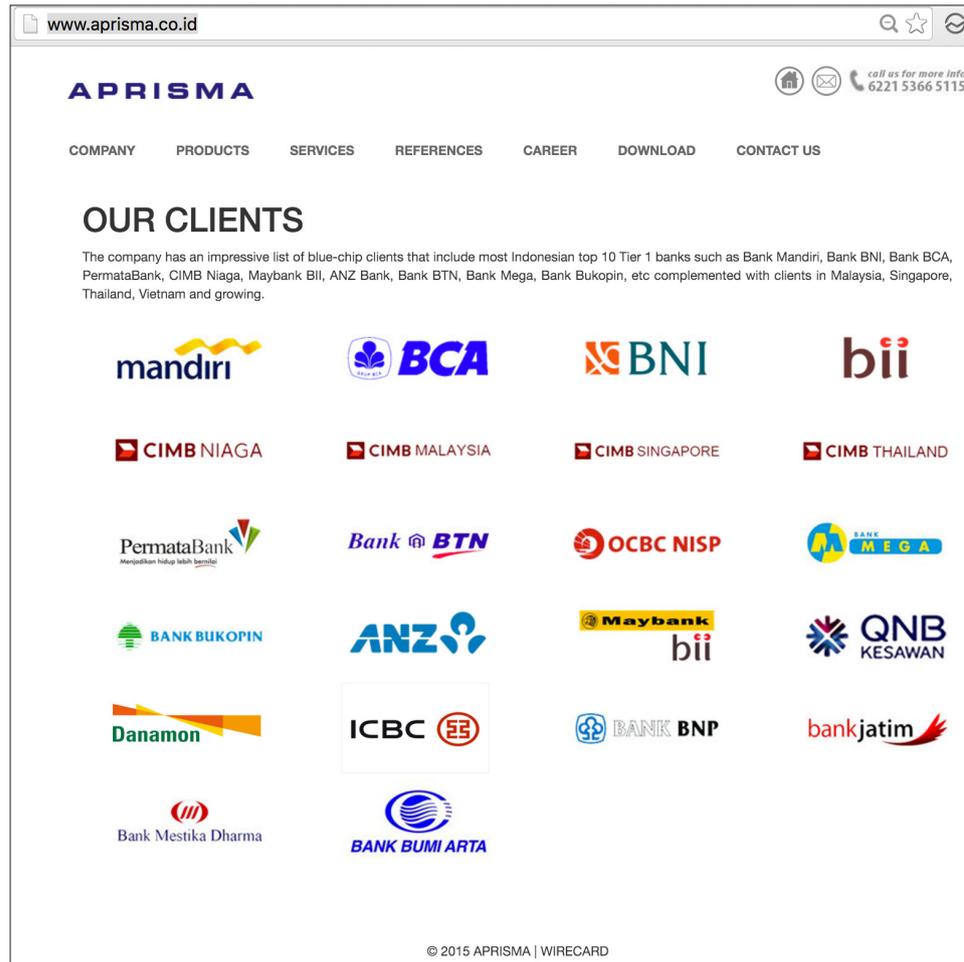
Wirecard claims that its Indonesian acquisition, Aprisma, offers core banking software (PRIMECASH) to 15 of the 17 largest banks in Indonesia, and a [2013 Aprisma presentation](#) lists some of those clients.



Slide from Aprisma presentation post-acquisition by Wirecard. Wirecard’s branding or supposed integrations into the Indonesian market do not appear in this presentation, despite being given more than a year post-acquisition. | Source [here](#)

We met with two of the largest banks in Indonesia, and both denied either using the platform or being aware of it. One engineer involved with managing the system internally walked us through their internal and customer-facing PC interfaces as well as their mobile platforms, showing us how the software had been developed internally with other IT providers. Across the IT and banking industry in Jakarta, we were unable to find corroboration for the notion that Aprisma’s PRIMECASH is providing the backbone for most banking services in Indonesia—instead we were met with skepticism and derision. Oracle continues to be the dominant bespoke software developer of choice across sectors, with lots of small companies playing roles as well, but few that were considered dominant. While we could not verify how that software had been developed, the lack of recognition of Aprisma’s core product with two companies that should be core customers leads us to believe that Wirecard’s role in this market is overstated.

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Current clients of Aprisma | Photo by J Capital, March 11, 2016

Wirecard’s disclosures around Aprisma have been remarkably consistent over the four years during and since acquisition. In each case where it is stated at all, the company’s customers are described as 15 of the largest 17 banks in Indonesia. The company has consistently listed 22 clients: 17 domestic banks and five overseas banks in 2013 and 16 and six respectively in 2016. Twenty banks stay consistent between the two lists: Lippo and BankCapital disappear between 2013 and 2016, while ICBC and Danamon appear for the first time in 2016. If these lists are accurate, they may also suggest that Aprisma has not grown its client base at all since acquisition, and has in fact shrunk slightly in Indonesia over that period.

Additionally, for a company that claims 15 of 17 of the largest banks as clients, it is notably missing two of the largest: Bank Negara Indonesia and Bank Rakyat Indonesia. Aprisma also seems to lose BankCapital, another large bank, by 2016, and in 2013 is unaware that one of its clients,

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Lippo Bank, [merged](#) with Bank CIMB Niaga in 2008, five years before that presentation. Sell-side reports listed Lippo Bank as a client of Aprisma as recently as 2015.



Two merged banks listed separately, Lippo no longer operated independently after acquisition in 2008. | Source [here](#)

The inconsistencies in client reporting, and lack of at least three major banks as listed clients by 2016, lead us to believe that Aprisma is overstating its participation in the banking software sphere in Indonesia.

POS Retail and Servicing

Sell side reports and Wirecard’s disclosures have pointed to the “potential” for expansion in this area rather than giving details about the scale of this business.

Wirecard discloses that the Prima Vista Solusi “is a leading provider of payment transaction, network operation and technology services for banks and retail companies in Indonesia,” and sell side reports have stuck with



Wirecard’s (Aprisma) primary office location in Jakarta, same location as visited by sell side firms. | Photo by J Capital Research, February 2016

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Wirecard does not appear to have enough repair or call centers in Indonesia

vague comments such as “Wirecard is partnering with a wide range of acquiring banks.” We were not able to ascertain who these banking partners are in our meetings, and banks described the market as diffuse. Retailers and large chains told us they deal exclusively with their merchant acquirer, which to our knowledge Prima Vista is not, and the contractors associated with them for POS implementation and servicing. Additionally, the service contractors, unlike the merchant acquirers, have a very low-margin business, and while growth is reasonable, it is not likely a driver of Wirecard’s skyrocketing revenues and margins in Asia Pacific. The POS contractors are often small third-parties, and can change frequently—this is consistent with the nature of the market in neighboring countries in peninsular South East Asia. We also confirmed our assessment that Wirecard does not appear to have repair or call centers in Indonesia to support a large scale POS business.

Vietnam, Laos, Cambodia

Contrary to sell-side reporting, we found further corroboration that the Vietnam business is smaller than stated and the other Trans Infotech locations are non-existent.

Former employees at Wirecard/Trans Infotech verified our findings in Vietnam, Laos and Cambodia—Trans Infotech, now Wirecard, has no operations in Laos or Cambodia, and staffing in Vietnam is approximately a dozen people for a small POS retail business, with no financial services business.

Summary

Wirecard shows a persistent pattern of acquiring payments tools for gaming businesses. Where we have been able to examine the business closely, gaming is always lurking offstage, and we are confident that, should we go deeply into the businesses in Turkey, Philippines, Vietnam, Indonesia, Laos, and elsewhere, we will find ties to gaming. We do not believe that processing gambling revenues will grow to a large and profitable business; at the moment, anyway, we are quite certain that Wirecard is not making a lot of money. In fact, we think that Wirecard is running short of cash and will likely go to the market soon to raise debt or equity.

Zatarra

On February 24, a previously unknown company called Zatarra Research & Investigations publicly released a 101-page report accusing Wirecard of

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More than a verbal denial is required.

“wide scale corruption and corporate fraud” and setting a target price of zero. On February 24, the stock closed down 21.42%. Zatarra subsequently issued at least four updates refuting the company’s responses and making new accusations. Wirecard published a statement saying that the report contained “untrue and slanderous allegations” and that Wirecard had initiated legal action.

The Zatarra reports establish that Wirecard actively seeks to process revenues from gaming and does not disclose the nature of those activities. The reports present strong evidence that Wirecard acquires companies ostensibly in travel or other legitimate businesses strictly in order to create a plausible audit trail for money it then circulates through the accounts.

Since Zatarra issued its first report, it seems that the sell-side community has lined up to defend Wirecard. DZ Bank AG and Goldman reiterated their buy ratings. Two boutique German banks, Oddo Seydler Bank AG and Baader Wertpapierhandelsbank, upgraded Wirecard to a “Buy.” Of 14 analysts reported as covering Wirecard, 10 rate it a Buy and three “hold.” Credit Suisse assigned Wirecard an “underperform” rating last year.

On March 2, for example, Bank of America Merrill Lynch published a report recommending Wirecard as a buy and used a telephone call with CEO Marcus Braun to refute Zatarra. The report said, “In our call with the CEO, Marcus Braun, all allegations in the third party report were denied.”

The Zatarra report ran to 101 pages that included multiple images of registration documents demonstrating undisclosed subsidiaries that had been implicated in money laundering and illegal acceptance of gambling proceeds. A verbal denial of “all allegations” seems inadequate to address the seriousness of the charges.

Valuation

Reiterate SELL with a target price of EUR 17.20 based on our DCF valuation, projecting near-term annual revenue growth of 22%, gradual margin erosion, and terminal growth of 1.3%.

Risks

Down 24% in the last month, Wirecard is now trading significantly below its one-year average. The company has positive coverage and “buy” ratings from at least seven respect institutions. Interest in the payments space may ultimately trump concerns about the company.

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