

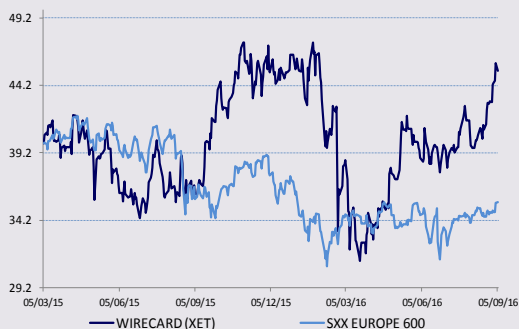
INDEPENDENT RESEARCH

6th September 2016

TMT

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 31.2
Market capitalisation (EURm)	5,667
Enterprise Value (BG estimates EURm)	5,145
Avg. 6m daily volume ('000 shares)	735.8
Free Float	94.0%
3y EPS CAGR	29.9%
Gearing (12/15)	-54%
Dividend yields (12/16e)	0.31%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	771.34	1,016	1,344	1,599
EBITA EURm)	197.4	270.7	356.1	432.1
Op.Margin (%)	25.6	26.6	26.5	27.0
Diluted EPS (EUR)	1.33	1.83	2.38	2.90
EV/Sales	6.45x	5.06x	3.75x	3.04x
EV/EBITDA	21.9x	16.8x	12.5x	10.0x
EV/EBITA	25.2x	19.0x	14.2x	11.2x
P/E	34.6x	25.1x	19.3x	15.8x
ROCE	29.5	25.7	28.2	30.9



Wirecard

Ready to reconnect with the fundamentals

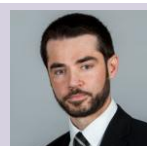
Fair Value EUR58 vs. EUR54 (price EUR45.86) **BUY-Top Picks**

Having been an easy target for opportunistic short-seller funds, in our view the Wirecard share price should now reconnect with the fundamentals. There is potential for a significant rebound, which should accelerate with the covering of still-sizeable short positions. The PEG is particularly attractive (P/E of 22x vs EPS at +34%!) and the speculative angle is undeniable (Wirecard has a rare profile in the payments space). We recommend that investors play this momentum with a Buy rating and a FV increased from EUR54 to EUR58.

■ After an impressive collapse (-27% in one month, at end-March) triggered by a research note from a certain Zatarra, the share price rebounded. It has at last exceeded its level the day prior to the 'attack'. There is potential for a significant rebound, especially since the rally in recent months took place without the massive covering of short positions, auguring positive share price momentum. Furthermore, US investors (a category representing a significant proportion of the short positions) are revisiting the investment case. The announcement of the acquisition of one of the Citi subsidiaries appears to be the proof that they had been missing to be convinced of the group's quality.

■ In our view, it is time for the market to reconnect the company's share price with its fundamentals which are the best in the sector. The publication of the H1 results reassured us that not only has there been no operational impact from the Zatarra affair but, what's more, the EBITDA should come in towards the top end of the company's 2016 guidance, bang in line with its 2020 plan. For payment companies not engaged in an overinvestment programme, we advocate evaluating the shares based on the PEG. This multiple is particularly compelling for Wirecard over twelve rolling months, with a P/E of 22.2x whereas the restated EPS growth is expected to be 33.9%.

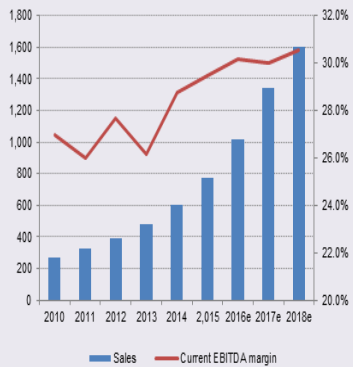
■ Given its rare profile in the online payment space (pure-player, present across all continents, with an in-house bank), Wirecard is the type of company which, sooner or later, will end up as an acquisition target. In the first instance, this could take place via the simple purchase of a minority stake. The management has effectively just confirmed that it is in discussions with a number of strategic partners regarding a possible entry into its share capital. In that the speculative attraction of the shares will be correlated with the world-wide development of e-commerce, it is set to see a significant increase.



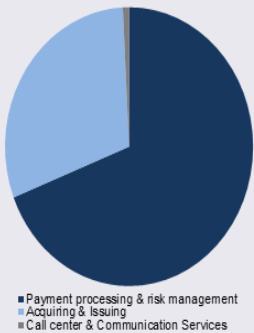
Analyst:
Richard-Maxime Beaudoux
 33(0) 1.56.68.75.61
 rmbeaudoux@bryangarnier.com

Sector Analyst Team:
 Thomas Coudry
 Gregory Ramirez
 Dorian Terral

Wirecard



FY 2015e sales



Company description

Wirecard is one of the world's leading independent providers of outsourcing and white label solutions for electronic payment transactions. It has been supporting companies in accepting electronic payments from all sales channels. A global multi-channel platform bundles international payment acceptances and methods, supplemented by fraud prevention solutions. When it comes to issuing their own payment instruments in the form of cards or mobile payment solutions, Wirecard provides companies with an end-to-end infrastructure, including the requisite licenses for card and account products.

Simplified Profit & Loss Account (EURm)	2013	2014	2015	2016e	2017e	2018e
Revenues	482	601	771	1,016	1,344	1,599
Change (%)	22.1%	24.8%	28.3%	31.7%	32.3%	18.9%
lfl change (%)	17.6%	21.0%	23.2%	20.3%	21.0%	18.9%
EBITDA	126	173	227	306	403	488
EBIT	98.5	133	173	241	317	386
Adjusted EBIT	109	150	197	271	356	432
Change (%)	16.4%	38.1%	31.2%	37.1%	31.5%	21.4%
Financial results	(4.2)	(6.7)	(7.2)	65.4	(8.6)	(7.6)
Pre-Tax profits	94.3	126	166	307	308	378
Tax	(11.6)	(18.2)	(23.0)	(34.1)	(47.8)	(58.6)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	82.7	108	143	272	261	319
Restated net profit	91.8	123	164	226	294	359
Change (%)	25.3%	33.9%	33.2%	37.9%	30.0%	22.2%
Cash Flow Statement (EURm)						
Cash flow	126	173	228	355	370	449
Change in working capital	2.9	(33.5)	(20.7)	(74.0)	(99.3)	(76.9)
Capex, net	(51.3)	(75.0)	(76.8)	(91.4)	(108)	(128)
Financial investments, net	(111)	(94.3)	(158)	(277)	(41.2)	(41.2)
Dividends	(12.3)	(14.8)	(16.1)	(16.1)	(17.3)	(18.5)
Other	27.1	28.3	138	(67.3)	0.0	0.0
Net debt	(246)	(597)	(692)	(522)	(626)	(810)
Free Cash flow	77.6	64.8	130	189	163	244
Balance Sheet (EURm)						
Net fixed assets	458	687	1,052	1,626	2,053	2,392
Investments	127	124	227	227	227	227
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	479	695	1,063	569	673	858
current assets	284	358	451	594	786	934
Other assets	82.2	131	142	187	248	295
Total assets	1,431	1,995	2,936	3,204	3,987	4,706
L & ST Debt	233	98.4	371	47.3	47.3	47.3
Provisions	7.8	10.8	15.7	15.7	15.7	15.7
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Others liabilities	581	813	1,269	1,671	2,211	2,629
Shareholders' equity	608	1,073	1,281	1,470	1,713	2,014
Total Liabilities	1,431	1,995	2,936	3,204	3,987	4,706
Capital employed	362	476	588	948	1,087	1,204
Ratios						
Operating margin	22.60	25.03	25.59	26.65	26.48	27.03
Tax rate	12.29	14.42	13.90	11.14	15.50	15.50
Net margin	17.17	17.96	18.49	26.82	19.39	19.98
ROE (after tax)	13.60	10.06	11.14	18.54	15.22	15.86
ROCE (after tax)	26.72	27.59	29.50	25.65	28.24	30.94
Gearing	(40.44)	(55.62)	(54.06)	(35.49)	(36.53)	(40.23)
Pay out ratio	14.92	13.54	11.25	6.35	7.11	6.18
Number of shares, diluted	112,297	121,841	123,497	123,497	123,497	123,497
Data per Share (EUR)						
EPS	0.74	0.89	1.16	2.21	2.11	2.59
Restated EPS	0.82	1.01	1.33	1.83	2.38	2.90
% change	23.0%	23.4%	31.4%	37.9%	30.0%	22.2%
BVPS	5.42	8.81	10.37	11.90	13.87	16.31
Operating cash flows	1.12	1.42	1.84	2.87	2.99	3.64
FCF	0.69	0.53	1.06	1.53	1.32	1.98
Net dividend	0.11	0.12	0.13	0.14	0.15	0.16

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?



The reason for writing now

Since the acquisition of a Citi subsidiary in the US, Wirecard has become a global player (in terms of both acquirer and issuer). This increase in size and international reach should be reflected in more transactions on its platforms and an automatic increase in margins (fixed-cost business). Since this acquisition, it seems that US investors have been revisiting the stock, further testifying to the quality of the group. Furthermore, short positions on the stock have begun to decline since May although the potential for a rebound remains very substantial. Lastly, the management has confirmed that it is in strategic discussion with various partners with a view to their becoming a shareholder.

Cheap or Expensive?



Valuation

Our FV is increased from EUR54 to EUR58. It is derived from the average between a DCF at EUR61, peer comparison at EUR51, historic multiples at EUR60 and PayPal's 2016 EV/TVP discounted by 15% to EUR59. For payment players not engaged in an overinvestment programme, we recommend that investors look at the PEG. Wirecard's own PEG is particularly compelling with a P/E of 22.2x compared with EPS growth of 33.9% over twelve rolling months.

When will I start making money?



Catalysts

Main catalysts for the share price: 1/ electronic payment growth, 2/ the development of e-commerce, 3/ mobile payment solution growth, 4/ the growing need for digital security, 5/ the leverage on operating expenses, 6/ acquisitions and partnerships, 7/ acquisition by another player (the structure of Wirecard's share capital leaves it open to a bid: freefloat of 93% and 7% held by the management).

What's the value added?



Difference from consensus

The market is under-estimating: 1/ the growth in the volume of transactions processed by Wirecard, linked to both market share gains (with existing and new customers alike, with a focus on medium/large-scale merchants), mobile payment solutions (monetisable since 2015), the synergies between its businesses which are increasingly integrated (processing, acquiring and issuing), and the company's external growth (America and the emerging countries); and 2/ the potential improvement in margins (economies of scale, accretive acquisitions and the profit opportunity on acquiring via the reduction in interchange fees).

Could I lose money?



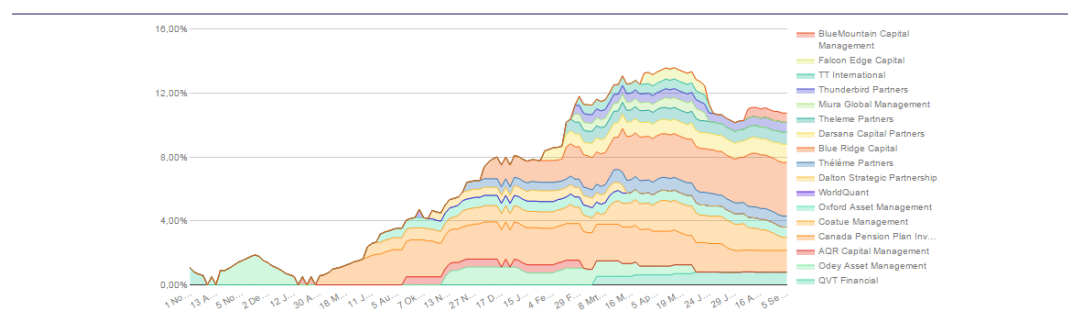
Risks to our investment case

The main factors which could potentially invalidate our scenario: 1/ new entrants or consolidation between several large players, 2/ disruptive technologies in which Wirecard may not be positioned, 3/ execution risk on a major acquisition.

2. Summary - Conclusion

After being impacted by the Zatarra research note, leveling incriminatory allegations against Wirecard (accusing the company of fraud, money laundering and facilitating the evasion of US restrictions on internet gambling), the share price has rebounded to recently exceed its previous level (EUR42.62 on 23/02). While the trend in uncovered short positions is downwards (they are probably now well below 20% vs a peak of 23% although it is difficult to provide precise figures since the positions below 0.5% are invisible), we estimate that there is still significant upside potential on the stock. It is moreover reassuring that the share price has regained 47% since 22/03 (the 2016 low) without the massive covering of short positions since this signifies that there is leverage for the coming months.

Fig. 1: Outstanding short positions on Wirecard shares (01/11/12 - 05/09/16)



Source: shortsell.nl (Nov. 2012 - September 2016)

Wirecard is an atypical player, in view of its positioning in the industry’s fastest-growing segments (online payments and emerging countries), its in-house bank (Wirecard Bank) and its earnings growth potential which has yet to be fully priced in. In this high-fixed-cost payments industry, there is a real race for scale. Wirecard succeeds in this not only by generating strong organic revenue growth but also by making targeted acquisitions giving the group a presence across all continents. It is thus both a growth (sales >+20% like-for-like) and a margin story (EBITDA margin >30%).

Lastly, we recommend that investors play the positive momentum on Wirecard shares. The company should have no problem in achieving its 2016 targets and the 2020 plan looks totally credible. Finally, its status as a online payment pure-player and the 93% freefloat make it a target of choice. The management has, moreover, confirmed that it is in strategic discussions with several partners with a view to their potentially entering the share capital. While the valuation may look high in absolute terms over 12 rolling months (EV/Sales of 4.4x, EV/EBITDA of 14.6x and P/E of 22.2x), in reality it appears particularly compelling compared with its three-year historic average and especially its future earnings growth (growth in restated EPS of +33,9% over 12 rolling months). We are maintaining our Buy rating and increasing our FV from EUR54 to EUR56 (upside of 26%), derived from a blend of four valuation methods.

More generally, we expect the development of e-commerce (6% of global retailing is e-commerce, according to McKinsey) and digital security (>60% of the value of fraud world-wide is on the internet and c.50% in Europe) to take a big step forward and consolidation to continue in payment services (in both Europe and the US). In our view, this is why there have been so many IPOs in the upstream, i.e. in H2 2015: three in the US (PayPal, First Data and Square) and one in Europe (Worldpay). Other IPOs are likely to take place during 2017, this time mainly in Europe.

3. Significant potential for a share price rebound

Our **Fair Value on Wirecard is increased from EUR54 to EUR58** (potentiel upside of 26%). It is derived from an equi-weighted average of a DCF, peer comparison, three-year historic multiples and PayPal's EV/TVP multiple discounted at 15%. **We have kept the same valuation methodology since our initiation of coverage on 01/09/15** at a share price of EUR36.78.

Fig. 2: Summary of the various valuation methods (share price at 02/09/16)

EUR	Valuation/share	Potential on last price
DCF	61.1	33%
Peer comparison	50.7	11%
3 year historical fwd multiples	60.2	31%
EV/TVP 12 rolling months (based on PayPal)	59.3	29%
Equi-weighted average	57.8	26%

Source: Bryan, Garnier & Co ests.

3.1. DCF: EUR61

Our DCF valuation is based on the following assumptions:

- **A 2016/2025e sales CAGR of 15.0% like-for-like** (+18.9% in 2016/2020e and +11% in 2021/2025e), in line with the market to which it is exposed (based on our estimates of +14.7%e: +12.0%e in Europe and +22.9%e outside Europe) but cautious from a historical perspective (Wirecard averaged like-for-like growth of +19.6% over the 2009/15 period) and given the growth in e-commerce and diversification notably towards the emerging countries (particularly South-East Asia which is very dynamic in electronic and mobile payment solutions).
- **An average EBITDA margin of 31.5% for 2016/2025e.** This breaks down as follows: an EBITDA margin of 30.1% in 2016e (vs 29.5% in 2015) with a progressive increase to a peak of 33.4% in 2021e, before falling back to 31.4% in 2025e on our numbers (vs a margin which progressed by 350 bps between 2011 and 2015, thanks to the growth in e-commerce, economies of scale on the company's proprietary platform and the incremental EBITDA coming from mobile payment solutions and acquisitions).
- **A change in WCR in line with the revenue progression.**
- **Net investments to average 11.3% of sales from 2016e to 2025e** (i.e. excluding any new acquisitions), with a normative level of organic capex at 7.0% starting from 2019e.
- **A tax rate of 14%/15% had to date been normative** (subsidiaries with low tax rates like in Singapore, Iceland, Dubai, Ireland and Turkey, but also Germany due to the development of software and, more generally, Asia with the local fiscal gap). However, given the addition of India (acquisition of Great Indian Retail Group) whose tax rate is >30%, **the Group's tax rate should now be 15.5% for the coming years.**
- **A discount rate of 9.50%**, with a β of 1.13x, a risk premium of 7.00% and a risk-free rate of 1.6% (data used by the Bryan, Garnier & Co research team).
- **A growth rate to infinity of 3%** since the payments market is enjoying steady, strong growth, particularly in payment transaction services (Wirecard's core business).

Fig. 3: Calculation of the discount rate

Inputs	%
Risk free rate	1.60
Market risk premium	7.00
β (x)	1.13
Return on capital	9.50

Source: Bryan, Garnier & Co ests.

Since the group is in a net cash position, the discount rate is equal to the cost of equity.

Fig. 4: Discounted cash flow model

EURm	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Sales	1,015.9	1,344.5	1,598.7	1,880.4	2,197.9	2,527.6	2,856.2	3,170.4	3,455.7	3,697.6
<i>Y/Y change</i>	31.7%	32.3%	18.9%	17.6%	16.9%	15.0%	13.0%	11.0%	9.0%	7.0%
EBITDA	306.3	403.1	488.1	583.7	695.2	844.2	939.7	1027.2	1102.4	1161.1
<i>Margin</i>	30.1%	30.0%	30.5%	31.0%	31.6%	33.4%	32.9%	32.4%	31.9%	31.4%
EBIT	241.3	317.1	385.7	463.3	554.5	682.5	756.9	824.3	881.2	924.4
<i>Margin</i>	23.7%	23.6%	24.1%	24.6%	25.2%	27.0%	26.5%	26.0%	25.5%	25.0%
<i>Tax rate</i>	11.1%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
EBIT after tax	214.4	267.9	325.9	391.5	468.5	576.7	639.6	696.5	744.6	781.1
+ Amortisation, depreciation and	65.0	86.0	102.3	120.3	140.7	161.8	182.8	202.9	221.2	236.6
Cash flow from operations	279.4	354.0	428.3	511.8	609.2	738.4	822.4	899.4	965.8	1,017.8
- Net financial & tangible investments	-435.4	-148.7	-169.1	-131.6	-153.9	-176.9	-199.9	-221.9	-241.9	-258.8
- Change in WCR	-74.0	-99.3	-76.9	-85.2	-96.0	-97.3	-97.0	-92.8	-84.2	-71.4
Free cash flow	-230.0	105.9	182.3	295.0	359.4	464.2	525.4	584.8	639.7	687.5
Discounted free cash flows	-223.1	93.9	147.5	218.0	242.5	286.1	295.8	300.6	300.3	294.8
Sum of discounted FCF	1.956.6									
+ Discounted terminal value	4,674.8									
+ Net cash 2015	692.2									
- Minority interests, 2015	0.0									
+ Financial fixed assets 2015	227.2									
Valuation	7,550.8									
Number of shares fully diluted	123.5									
Value per share (€)	61.1									

Source: Bryan, Garnier & Co ests.

Fig. 5: Sensitivity to the discount rate and the growth rate to infinity

	EUR		WACC		
Growth rate to infinity	8.50%	9.00%	9.50%	10.00%	10.50%
2.50%	65.1	60.1	55.8	52.0	48.7
2.75%	68.7	63.1	58.3	54.1	50.5
3.00%	73.0	66.6	61.1	56.5	52.5
3.25%	78.2	70.7	64.5	59.3	54.8
3.50%	84.4	75.6	68.5	62.5	57.5

Source: Bryan, Garnier & Co ests.

Our DCF values the stock at EUR61.1 per share (potential upside of 33%).

3.2. Peer group comparison: EUR51

Wirecard has no stock market peers whose profile is exactly the same. We thus use the 2016e and 2017e multiples of the different payment players which are exposed to online or have a similar business model.

Our peer group comparison sample includes:

- **Card networks**, like Visa and MasterCard (whose business models are similar to that of Wirecard, i.e. the receipt of a fee per transaction).
- **Payment service providers** (PSPs: they facilitate electronic payments for merchants) **with a portion of their activity on line**. Namely Worldpay and Ingenico Group. They all have positioning in at least one of the card acquisition and payment processing activities).
- **PayPal**, a service which is the quasi equivalent of Wirecard's core business (online payment gateway), although positioned in a slightly different market segment, i.e. the exchange of small sums of money between individuals.

Fig. 6: Multiples for the Wirecard peer group (share price at 02/09/16)

x	EV/Sales	EV/Sales	EV/EBITDA	EV/EBITDA	P/E	P/E
	2016e	2017e	2016e	2017e	2016e	2017e
Visa	10.0	8.3	14.4	12.2	29.4	24.7
MasterCard	9.6	8.6	16.8	14.9	27.1	23.5
Worldpay	1.7	1.5	18.2	14.1	26.4	22.4
Ingenico Group	2.4	2.0	10.7	8.7	18.9	15.9
PayPal	3.8	3.2	14.8	12.4	25.3	21.6
Average	5.5	4.7	15.0	12.4	25.3	21.6
Wirecard	5.1	3.7	16.8	12.5	25.1	19.3
Premium (+) / discount (-)	-8%	-21%	12%	0%	-1%	-11%

Sources: Thomson Reuters; Bryan, Garnier & Co est.

Over 12 rolling months (six months in 2016e and six months in 2017e), Wirecard trades at an average discount of 5% to its peers. **Applying the average of the EV/Sales, EV/EBITDA and P/E multiples, we value Wirecard at EUR50.7/share** (potential upside of 11%).

3.3. Historic forward multiples: EUR60

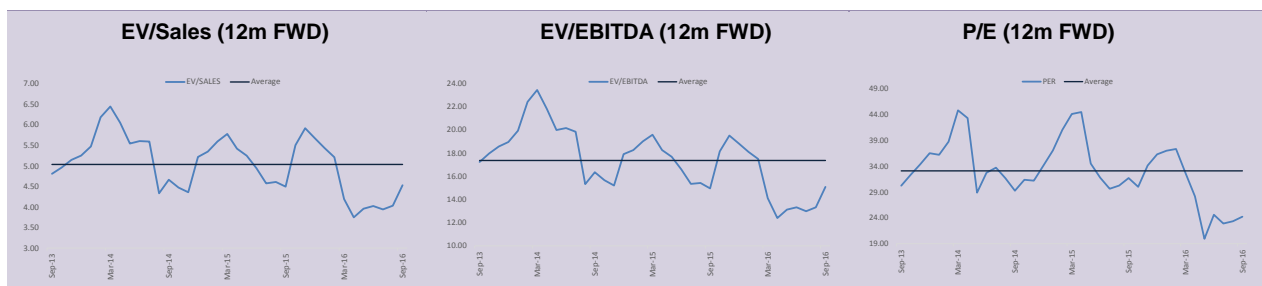
In the following table, we have calculated the **average valuation for Wirecard based on the three-year historic EV/Sales, EV/EBITDA and P/E multiples**. We don't use the EV/ROC multiples because not all the contributors to the consensus restate the figures in the same way to calculate the underlying operating result.

Fig. 7: Wirecard multiples over a rolling 12m vs historic (period: three years)

x	EV/Sales	EV/EBITDA	PE
3 years' historical average	5.0	17.4	33.1
Weighted average for Wirecard multiples over 2016/2017e	4.4	14.6	22.2
Premium +/discount - vs. historical average (%)	-12.6%	-15.7%	-33.0%

Sources: Thomson Reuters; Bryan, Garnier & Co ests.

Fig. 8: 3-year historic forward multiples (average from Sept. 2013 to Sept. 2016)



Sources: Thomson Reuters; Bryan, Garnier & Co (3 year historical, average from Sept. 2013 to Sept. 2016).

The stock is trading on 2016 and 2017 multiples which may appear high in absolute terms but which in reality offer substantial upside potential in view of the historical multiples and especially the future profitable growth.

The stock trades at an average discount of 20.4% over 12 rolling months relative to the three-year historic: EV/Sales multiples of respectively 5.1x in 2016e and 3.7x in 2017e (vs a historic of 5.0x), EV/EBITDA multiples of 16.8x and 12.5x (vs a historic at 17.4x) and P/E multiples of 25.1x and 19.3x (vs a historic of 33.1x). Applying these historic multiples to our Wirecard estimates for the weighted 2016e and 2017e financial years (6 months in 2016 and 6 months in 2017) values the company at EUR60.2/share (potential upside of 31%).

Note that, at our new FV of EUR58, the stock would trade at average rolling 12 month multiples of: 5.7x EV/Sales, 19.0x EV/EBITDA and 28.1x P/E, i.e. only 2.7% above the three-year historical average (5.0x, 17.4x and 33.1x). We deem this valuation method, which is based on the historical valuation multiples including the Zatarra affair, to be reliable and even conservative. Wirecard is experiencing rapid change and will take advantage of new opportunities in the coming years (e-commerce, mobile payment solutions, etc.), without taking into account the fact that security issues will be key and our view that the banks are increasingly looking to exit the payments business in favour of pure players like PSPs.

In the coming years, we believe that the more Wirecard:

1/ gains scale, the higher its operating margin will be (leverage effect on the transaction volume processed by its platforms). **PSPs are in a business where size matters due to their mainly fixed cost structures** (c.55% of sales), hence the importance of M&A. Wirecard is looking at targets to reinforce its operations in geographies it does not yet cover or insufficiently (e.g: America).

2/ increases the mix of its core business (e-commerce) in favour of the emerging countries (which are seeing very rapid growth in online payments: internet and/or mobile solutions), **the higher its multiples will be.**

3/ increases the weight of its banking services in its mix (Wirecard Bank, 28% of H1 sales), **the more the stock's valuation will approach the multiples of the card networks.**

3.4. 2016/17e EV/TVP ratio based on PayPal: EUR59

PayPal and Wirecard have a core business in common: they offer online payment services enabling payment for purchases, the receipt of payments, and the remittance or receipt of money. Concretely, the purchaser pays in just a few clicks (Wirecard talks about three phases), the merchant receives payment for the sale and settles the transaction rapidly since the payment is instantaneous and automatically notified by email (no need to wait for a cheque or deposit it at the bank). To benefit from their services, an individual must set up an online account. The transactions are subsequently carried out without having to re-enter the customer's bank details.

Main differences: PayPal, a consumer-oriented business (while Wirecard is directed at merchants), is more of an electronic wallet, i.e. a service perfectly adapted to the exchange of small sums of money between individuals (whereas Wirecard targets medium/large-scale merchants with substantial transaction volumes and who are seeking more complex solutions), and which requires a traditional bank account (not the case for Wirecard). Note also that Wirecard includes PayPal in its offers since it is agnostic as regards the payment solutions integrated in its platform. In this sense, Wirecard does not see PayPal as a competitor.

Valuation work: Since PayPal's services are fairly similar to the Wirecard core business (e-commerce) with broadly similar fundamentals (growth in sales and profitability) and since the value of the transaction volume processed (TVP) is a key performance indicator in the sector, we value Wirecard by applying the PayPal EV/TVP. Using this method and after applying a 15% discount (PayPal is listed for trading on Nasdaq), we value Wirecard at EUR59.3/share (potential upside of +29%).

Fig. 9: Valuation applying the PayPal EV/TVP

	Based on FY16e	Based on FY17e
Paypal (USDbn)		
EV	45.7	50.3
Transaction volume processed (TVP)	348.3	435.3
EV/TVP	0.13	0.09
Wirecard (EURbn)		
Transaction volume processed (TVP)	61.0	82.4
EV 2015e implied	8.0	7.6
+ Net cash 2015e	0.5	0.6
+ Financial assets 2015e	0.2	0.2
= Valuation implied	8.7	8.5
Valuation implied after a 15% discount (PayPal is listed on the Nasdaq)	7.4	7.2
Number of shares fully diluted (in million)	123.5	123.5
Valuation implied after a 15% discount / Wirecard number of shares diluted (EUR)	60.2	58.3
Upside(+)/ downside (-)	31.3%	27.1%

Source: Bryan, Garnier & Co ests.

4. The star pupil in the sector

Fig. 10: Snapshot of Wirecard in the payment services market

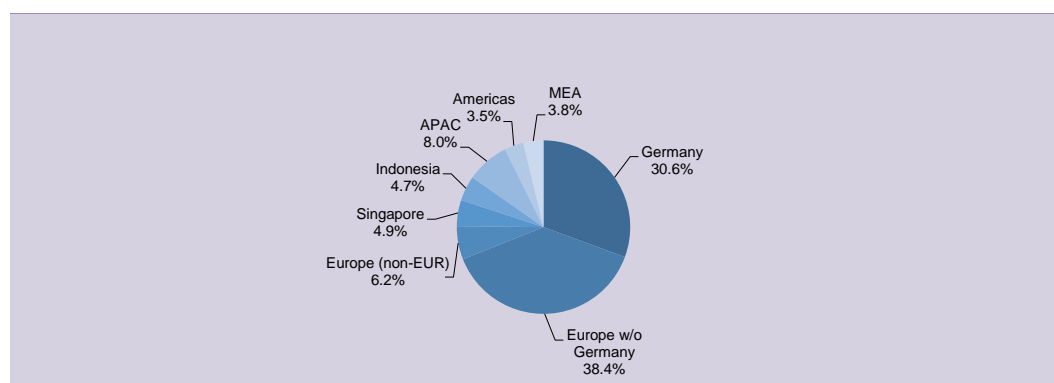
Wirecard's addressable market	EUR168bn (e-commerce in Western Europe).
Revenue 2015	EUR711.3m.
Transactions processed in 2015 (EURbn)	EUR45.2bn (including 24.8% outside Europe, mainly coming from South-East Asia).
Transaction volume growth	+31.8% in total: +26.3% Europe, +51.6% outside Europe.
Transaction volume organic growth	+30.3% in total: +26.0% Europe, +46.2% outside Europe.
Average fee per transaction processed in 2015	1.6% (1.4% in Europe and 2.1% outside Europe).
Wirecard's market share in 2015 (in value)	20.2% (Western Europe).
Market characteristics	The first four players have ~45% of Wirecard's addressable Market.
Typical client targeted	Merchants (providers of merchandise or services) with high transaction volume and looking for complex solutions. ~22,000 merchants.
Transaction volume industry allocation	45.9% consumer goods (+33.3%), 34.1% digital goods (+31.6%), 20.0% travel & mobility (+28.6%).
2015 sales breakdown	46.5% consumer goods, 36.5% digital goods, 17.0% travel & mobility.
Innovation	Leading Internet and mobile payment technology.
Core business	Payment processing and risk management (70% of group's revenue).
Core business offer	Payment gateway (XML open-Internet technology).
Differentiation	Unique value chain with fully integrated and licensed banking operations.

Source: Bryan, Garnier & Co ests.

4.1. A solid H1 2016 and encouraging for the full year

Wirecard's H1 sales came in at EUR451.8m (+32.8%, +20% on an organic basis) with an EBITDA of EUR132.4m (margin of 29.3%, +40bps over one year) incl. EUR1.7m from mobile payment. The results were in line with our expectations, which is reassuring since we have an EBITDA forecast towards the top end of the annual guidance that was increased at the end of March (the consensus is close to the middle of the guidance range). **The processed transaction volume was positive, standing at EUR27.4bn at the end of June, annual growth of 35.3% (+29.2% on an organic basis).** This is the key indicator to watch at Wirecard since it is the main source of sales (the company receives a percentage of each transaction, especially since it combines the roles of processor and acquirer) and thus of operational leverage in this high-fixed-cost business (economies of scale via its standardised and mutualised proprietary platform, the marginal cost of an additional transaction being virtually zero).

Fig. 11: Geographical breakdown of the volume of transactions in 2015



Sources: Company Data; Bryan, Garnier & Co ests.

For the current financial year, the management is targeting an EBITDA of between EUR290m and EUR310m, compared with our forecast of EUR306m and the Thomson Reuters consensus of EUR303m. Note that the middle of the range is based on organic growth of 23% (described as conservative by the management), a mobile payment solution contribution of EUR5m (vs BG: EUR5.5m), a EUR16m contribution from the Great Indian Retail Group acquisition (vs BG: EUR16.5m) and a contribution from Provus Group and MoIP amounting to EUR4m (vs BG: EUR5.2m).

We are maintaining our forecasts for the 2016 financial year, which are positioned at the top end of the range and above consensus. We are targeting sales of EUR1,016.3m (+31.7% on the previous year, +20.3% like-for-like) vs a consensus of EUR1,013.9m, and an EBITDA of EUR306.3m (margin of 29.9%, +60bps, a level which would constitute a new record for the group) vs a consensus of EUR303.0m (margin of 29.9%). These figures include the decline of interchange fees, namely a negative impact of EUR30m on the revenue but neutral on the EPS (less revenue offset by higher gross margin). As a result, our restated group net income is of EUR225.9m (margin +100bps to 22.2%, excluding Visa Europe and other exceptional items) vs a consensus of EUR212.2m.

Fig. 12: Treatment of the sale of Visa Europe at Wirecard (0.5% stake)

Main deal	<p>Visa Inc has agreed to buy Visa Europe for as much as EUR21.2bn. The aim is to regain ground lost to rival MasterCard.</p>
Background and deal structure for Wirecard	<p>Proceeds from Visa Europe sale are based on the membership of Wirecard Bank AG and Wirecard Card Solutions Ltd. Closing on June 21, 2016:</p> <ul style="list-style-type: none"> - cash component: EUR71.8m, - preferred stock component : EUR25.6m, - deferred cash to be paid in three years closing: EUR6.2m.
Balance sheet and P&L effects	<ul style="list-style-type: none"> • Release of the revaluation reserve recorded as of 31st December 2015 (except for the effects of the preferred stock). • Increase in cash & cash equivalents in the amount of EUR71.8m. • Preferred stock classified as „available for sale financial assets“, valued with a discount and based on market value of Visa Inc A-shares. EUR14.1m recorded in financial and other assets. Subsequent changes in the valuation will be booked against equity. • EUR5.7m deferred cash recorded in financial and other assets based on its discounted value. • EUR91.7m profit shown in „other financial income. • Profit of the sale is taxable at 5% for Wirecard Bank in Germany.

Source: Wirecard.

In the past few years, the management has regularly revised up its annual guidance over the course of the year (one upwards revision already this year, at the end of March). On average, the company has reported EBITDA 2% above the middle of its initial range. **This outperformance was 6% in 2015 and we expect the same magnitude in 2016.** Lastly, each year the group has reported a figure increasingly closer to the top of its initial guidance range, **even surpassing the top end for the first time in 2015. Here too, we expect a similar scenario this year.**

Fig. 13: Management track record over 2010/15 (EBITDA vs initial guidance)

Year	2010		2011		2012		2013		2014		2015	
	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.	Init. Guid.	Rep. Fig.
EURm												
EBITDA	70-75	73.3	81-89	84.4	103-115	109.2	120-130	126.0	160-175	172.9	205-225	227.2
Mid-point	72.5	73.3	85.0	84.4	109.0	109.2	125.0	126.0	167.5	172.9	215.0	227.2
Reported vs. mid-point		+1.1%		-0.7%		+0.2%		+0.8%		+3.2%		+5.7%
Reported vs. upper range		-2.3%		-5.2%		-5.0%		-3.1%		-1.2%		+1.0%

Source: Bryan, Garnier & Co.

Fig. 14: Initial guidance 2016 vs. BG estimates

Year	2016	
EURm	Init. Guid.	BG est.
EBITDA	280-300	306.0
Mid-point	290	
BG est. vs. mid-point		+5.5%
BG vs. upper range		+2.0%

Source: Bryan, Garnier & Co ests.

In our view, these remarkable performances are explained by the strategy deployed by the group since 2009. The group started by signing contracts with merchants with substantial transaction volumes everywhere in the world (a strategy focused on medium/large-scale merchants) and requiring complex solutions (e.g. transaction volumes in several different countries, with different currencies, etc.). **Wirecard is aiming to combine the functions of payment services provider and acquirer**, i.e. enable merchants to accept electronic payments on their websites (Wirecard is agnostic as regards the payment systems it integrates, supporting both cards and alternative payment methods) while acting as their bank. The bulk of Wirecard's sales is thus based on commercial relationships with merchants, who outsource to Wirecard the processing of their payments. Wirecard is focusing on e-merchants located in Europe (Germany remains its number one country), in South-East Asia (Singapore, Malaysia, Indonesia, Vietnam and Thailand) and South Africa and, since 2015, Australia-Pacific/New Zealand. In the fullness of time, it will also address both North and South America (both are attractive for e-commerce: 12% of retailing is e-commerce in the US and 2% in Brazil).

Fig. 15: Wirecard's current exposure to B2B and B2C

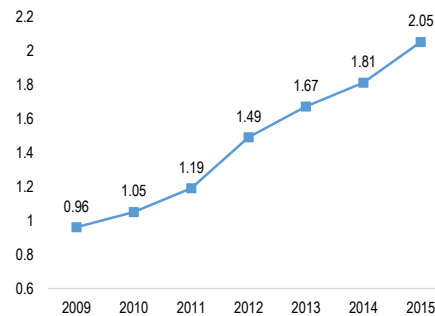
EURm	Payment processing & Risk management	Acquiring	Issuing	Call Centre & Communication Services	Wirecard's exposure
B2B	X	X			95%
B2C			X	X	5%
Comments	Products & services for the acceptance, implementation and the downstream processing of e-payments	Merchants are offered settlement services for credit card sales for online and terminal payments	Prepaid cards are issued to private and business customers. Mobile payment will contribute in the future.	Call centre support, aftersales service to customers.	100%

Source: Bryan, Garnier & Co. Ests.

Fig. 16: Categorisation of merchants and average fees at Wirecard

EURm	Small	Mid	Large
Merchant's transaction volume per month	<1	1-5	>5
Average	2.8%		1.2%

Source: Bryan, Garnier & Co ests.

Fig. 17: Average transaction volume by merchant (in EURm): CAGR +14%


Sources: Company Data; Bryan, Garnier & Co.

In 2015, the average fee received by Wirecard was 1.6% (1.4% in Europe and 2.1% outside Europe). We expect a **continued progressive reduction in the group's fee** (in line with the historic trend: Wirecard is enjoying more and more success with large merchants where fees are lower) **but on a transaction volume which more than offsets this phenomenon** (driven by the e-commerce and mobile payment solution dynamic, and the growing exposure to emerging countries).

Fig. 18: Average fee for Wirecard (% of the transaction processed)

EUR	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	
Revenue (m)	228.5	271.6	324.8	394.6	481.6	601.0	771.3	1,015.9	1,344.5	1,598.7	1,880.4	2,197.9	
Y/Y growth (%)		16.1	18.9	19.6	21.5	22.1	24.8	28.3	31.7	32.3	18.9	17.6	16.9
Y/Y organic growth (%)		16.1	18.9	19.6	17.2	17.6	21.0	23.2	20.3	21.0	18.9	17.6	16.9
Transaction processed (bn)	10.6	12.6	15.5	20.8	26.7	34.3	45.2	61.0	82.4	107.1	133.9	160.6	
Y/Y growth (%)		-	18.9	23.0	34.2	28.4	28.5	31.8	35.0	35.0	30.0	25.0	20.0
Average fee (%)		2.16	2.16	2.10	1.90	1.80	1.75	1.60	1.56	1.53	1.40	1.31	1.28

Source: Bryan, Garnier & Co ests.

The group is benefiting from some ground-breaking developments, namely the growing trend towards electronic payments, e-commerce and the demand for seamless and secure solutions (payment platform on the merchant side and purchasing experience on the customer side) irrespective of the channel or method of payment. It has **been able to adapt to behavioural changes** (customers increasingly connected to the internet and increasingly mobile), to the **highest security standards** (PCI DSS certification on its international services platform) and **to regulation** (its geographical coverage and various partnerships enable the group to offer solutions adapted to each country). All the above, combined with its **cutting-edge technology in e-commerce and m-commerce** (specialist in online payment with economies of scale linked to the processed transaction volume on its proprietary platform), its **development in the banking business** via Wirecard Bank (acquisition and issuance of cards) and its geographical mix oriented towards the emerging markets (including South-East Asia which is a rapidly-growing region for online payment; it is even the leader

in Singapore, Indonesia and Vietnam) **all explain the strong growth in the group's sales and gross margin** (+20% like-for-like and +350bps respectively over 2011/15).

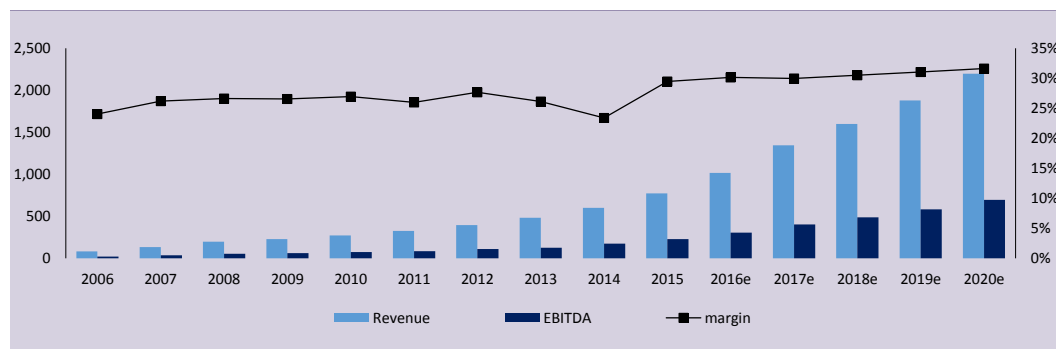
Overall, for the next few years, Wirecard **will continue to generate double-digit growth and a margin of over 30% even with the recent acquisitions** (see below for the drivers).

Fig. 19: Current drivers of the group's growth and margin

B2C e-commerce in Western countries	Market growth: 12% (CAGR 2013-18).
Transaction volume	Increase in transaction volume processed with existing and new customers.
Economies of scale	Economies of scale from transaction-oriented business model.
Cross-selling	Cross-selling effects with existing customers.
Integrated capabilities	Competitive advantage from integrated capabilities across online, mobile and POS channels.
Further growth	Driven by technological leadership, experience and global footprint.
Wirecard Bank	Expanding issuing and bank services, including mobile services.
Mobile-payments	First earnings contributions from m-payments.
Falling interchange fee	The interchange fee is a cost of sale which is passed to the merchant. We believe smaller merchants may not demand that the entire fall is passed on to them. This will result in an incremental gross profit for Wirecard.
M&A transactions	Earnings contributions from M&A transactions.

Source: Bryan, Garnier & Co ests.

Fig. 20: Trend in sales (EURm) and EBITDA margin over 15 years (2006-2020e)



Source: Company Data; Bryan, Garnier & Co ests..

In our view, Wirecard enjoys the best possible positioning in payments, explaining why it has by far the best fundamentals of all the payment players under our coverage. By way of illustration, we present below a comparison table of the KPIs of the European payment players, harmonising the reporting in 2016e.

Fig. 21: Comparison of the European payment players (on comparable reporting)

FY16e (m – local currency)	Wirecard (Buy, EUR58)	Worldpay (Neutral, 278p)	Worldline (Buy, EUR31)	Ingenico Group (Buy, EUR112)
Revenue (gross revenue)	1,015.9	4,240.4	1,460.7	2,278.2
LFL growth	20.3%	7.0%	4.0%	7.1%
EBITDA	306.3	392.2	276.4	455.6
Margin	30.1%	9.3%	18.9%	20.0%
Underly. EBIT	270.7	366.8	203.6	387.3
Margin	26.6%	8.7%	13.9%	17.0%
Rest. attrib. net income	225.9	226.2	143.1	251.1
Margin	22.5%	5.3%	9.8%	11.0%
Payout ratio (%)	6.5	25.0	25.0	35.0
FCF/Underly. EBIT (%)	68.3	25.2	70.0	68.5
Gearing (%)	-35.3	158.2	-50.0	5.3
EV/sales (x)	5.1	1.7	2.5	2.5
EV/EBITDA (x)	16.8	18.2	12.8	12.5
P/E (x)	25.1	26.4	27.4	22.5
FCF yield (%)	3.3	3.2	3.1	4.7

Source: Bryan, Garnier & Co ests.

4.2. An opportunistic and well-targeted M&A policy

To reduce its exposure to Europe, as of 2009 Wirecard has been pursuing a pro-active acquisition strategy. The group has adopted a **'buy and build' strategy**, i.e. it purchases players then adds its additional services while benefiting from the synergy effects of the new group. **It is primarily looking for: 1/** customer relationships (the main barrier to entry in the sector) rather than a specific technology (being a software player it already has all it needs in-house), **2/** unlisted targets, **3/** which are small in size but with a strong regional footprint, and **4/** in the emerging countries (particularly Asia: South Korea and Japan remain to be explored) and/or America (both North and South). Wirecard **generally pays 8x to 12x EBITDA for these acquisitions, potentially rising to a maximum of 15x** (logically below its own multiples for the current year), knowing that they generally have top-line growth equivalent to its own and an EBITDA margin of between 20% and 30%.

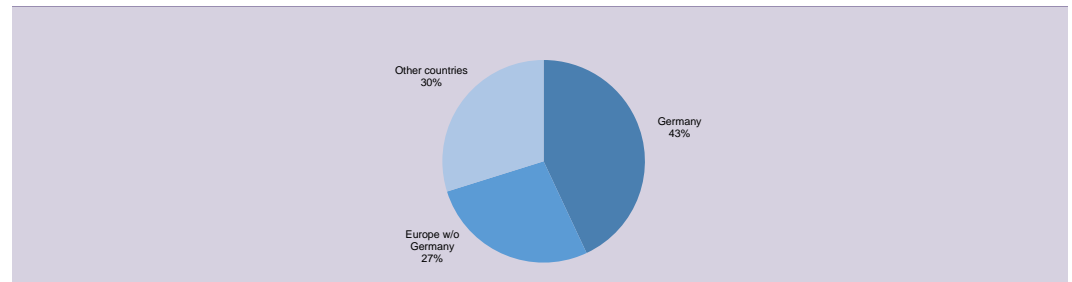
Fig. 22: Wirecard's acquisition strategy

Transaction multiples (x)	Historical range	Maximum
EBITDA multiple	8-12	15

Source: Bryan, Garnier & Co ests.

Since the announcement of the acquisition of Citi Prepaid Card Services in the US (CPCS has its head office in Philadelphia, 120 employees, and is an issuer of physical prepaid cards with more than 2,500 programmes), **Wirecard has become a bona fide global player**. This is its first transaction in the United States and the first significant move into the American continent (it had previously acquired Moip Pagamentos in Brazil but this business only generated EUR2.2m of EBITDA). We expect CPCS to generate 2017 sales of EUR86m and an EBITDA margin of 20%, with no debt. If our forecasts prove accurate, Wirecard will have paid around 10x 2017 EBITDA (vs 10x-12x generally for this type of company) of which half using its own net cash and the other half financed by debt. The transaction obtained anti-trust approval from the Federal Trade Commission (FTC) on 3 August. The close is expected in Q4 2016.

Fig. 24: Breakdown of 2015 sales by geography



Source: Company Data.

4.3. The 2020 plan: ambitious but realistic

Last May saw Wirecard's 2020 financial targets (excluding acquisitions) presented in London, setting the following route map:

- A transaction volume which is expected to move from EUR45.2bn in 2015 to more than EUR160bn in 2020, i.e. a CAGR of +28.8%, of which +25% in Europe and +40% outside Europe (mainly in India).
- Organic sales of EUR2.1bn, i.e. a CAGR of +22.2% (vs BG: EUR2.2bn with the latest acquisitions).
- An EBITDA margin of between 30% and 35% (vs BG: 31.6% with the latest acquisitions).
- An EBITDA to FCF conversion rate of more than 65% (vs BG: 56.3%), limiting capex to 7%/8% of sales on average over the period (vs BG: 7.8% on average over 2016/20) and with a neutral or even negative WCR over the medium term (fee-revenue-based model).

Fig. 25: 2020 strategic plan (excluding acquisitions)

EURbn	2020 financial targets (IfI)	CAGR	BG est.
Transaction volume	160	+28.8%	
Revenues	2.1	+22.2%	2.2
EBITDA margin	30-35%		31.6%
FCF/EBITDA conversion (%)	>65		56.3%

Sources: Company Data; Bryan, Garnier & Co est.

The three main assumptions that will help the company to achieve these medium-term targets are:

- 1/ the convergence between online, mobile and physical points of sales via the internet technology (omni-channel offer).

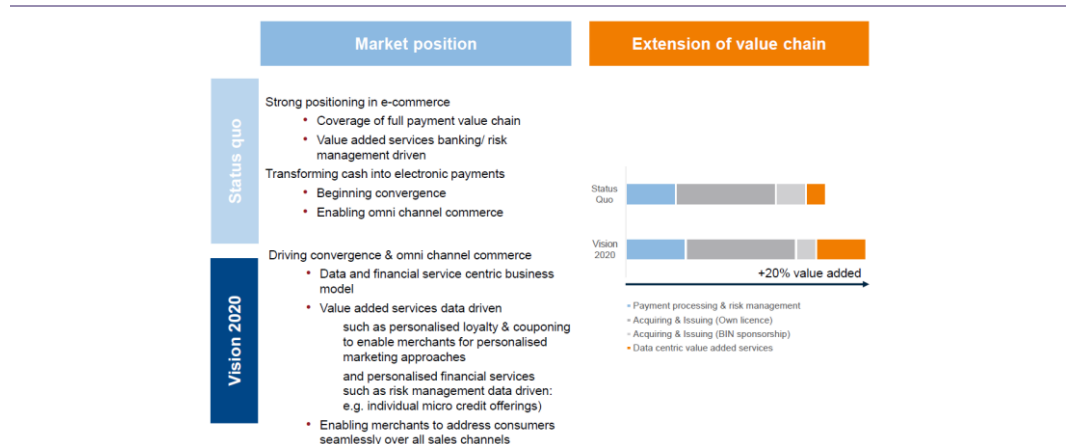
Fig. 26: The multi-channel offer as seen by Wirecard

Data driven commerce	<ul style="list-style-type: none"> • Real-time, data driven retail is the new imperative • Next generation POS systems must integrate all data-sources across sales channels and back office systems to deliver a holistic, on-demand insight into retailers' KPIs
Personalisation	<ul style="list-style-type: none"> • To enable a truly personalized experience POS systems need to maintain a unified customer profile by facilitating online & offline customer data collection Two-way communication with consumers' via web, mobile and social media channels is a must
Empowering shop associate	<ul style="list-style-type: none"> • Shoppers may prefer researching products online but brick-and-mortar stores remain the first choice when making purchases • Retailers need to adapt a mobile-first approach at the POS – from empowering associates with relevant information to bringing checkout process to the store aisle.
New payment schemes	<ul style="list-style-type: none"> • POS infrastructure cannot remain static for long times. It has to follow constant shifts in payments and security landscape. Consumers increasingly vote with their digital wallets, and merchants that cannot adapt will be left behind
New fulfilment strategies	<ul style="list-style-type: none"> • POS must be able to support fulfilment and returns in a non-linear buying process, yet many systems fail to meet these needs from both consumer and merchant perspective

Source: Company Data.

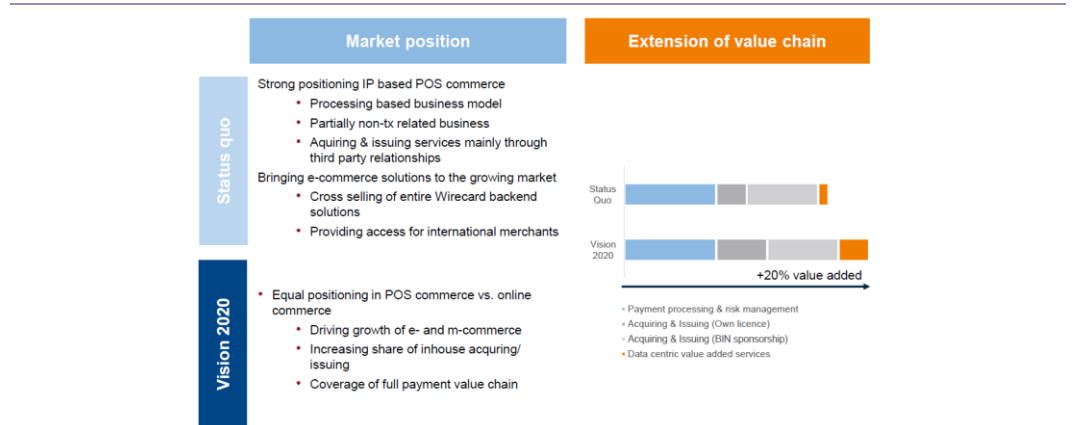
2/ a progressive but steady extension in the payments and services value chain towards associated added value (+20% targeted by the group by 2020).

Fig. 27: Extension of the value chain in the developed countries (Europe)



Source: Company data

Fig. 28: Extension of the value chain in the emerging countries



Source: Company data

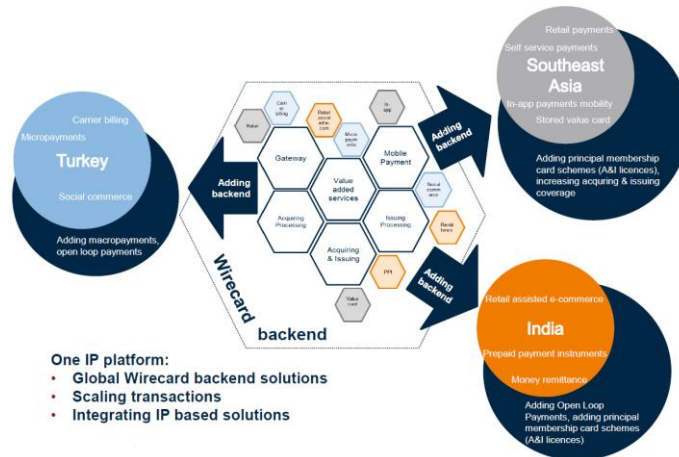
3/ the globalisation of payment technologies, principal licensing frameworks, risk management, value-added services and big data, but also the extension of proprietary platforms and hubs to all the geographies that will be deemed relevant.

Fig. 29: From the status quo to the 2020 vision

Statut quo	Vision 2020
<ul style="list-style-type: none"> • Leading position in Europe • Dominant position in South-East Asia • Outsider in Americas: acquisition of Citi Prepaid Card Services in the US and Moip Pagamentos in Brazil • Global provision of payment technology • Global airline & travel licences • Adding relevant global markets • Addressing needs of local and global merchants 	<ul style="list-style-type: none"> • Addressing all relevant markets with: <ul style="list-style-type: none"> - Global payment technology - Global licensing framework - Global risk management - Global provision value added services and big data - Hubs in all relevant geographies • One global technology platform, one global licensing framework, global sales and service hubs

Source: Company Data.

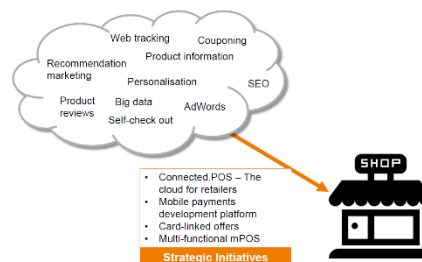
Fig. 30: Extension of the proprietary platform at global level



Source: Company data

Lastly, the players all see the multi-channel offer as the future for the payments industry but don't all see the route map in the same way. **Wirecard believes that the internet technology will ultimately arrive naturally in stores.** And as there is a premium for the first entrant, we understand rather better why its priority is to expand globally as of today.

Fig. 31: The internet arrives in stores



Source: Company data

Within online, the fastest-growing segment will be mobile payment solutions (since starting from a low base). If we believe that all consumers will in time end up paying for everything with their mobile phones, **Wirecard is the only PSP to be credible currently, in our view, for this type of solution**. We deem it to be the best placed thanks to its initial positioning on prepaid cards. Given that its cards (white brand or co-branded, or under its own brand) are already dematerialised they are easy to download to an NFC smartphone. **We are believers in the short term since prepaid cards are less problematic in the event of loss or theft, thereby encouraging their use** (unlike debit cards, they are not linked to a bank account) since the card holder will only lose the amount loaded on the card. The group has, moreover, already signed several partnerships in this area and its position as technology provider and PSP for this type of application is set to expand (2015 EBITDA of EUR3.8m and a BG forecast of EUR5.5m in 2016). It generally deals with processing services, money loading and payments between users, etc. and also offers TSM and TSH-type (downloading platforms) software services for the electronic management of loyalty programmes, etc. ‘Boon’, the company’s first fully-digital mobile payment solution (with associated value-added services) is in this respect very promising. **Mobile payment solutions represent one of the group’s growth drivers for the second half of its 2020 plan.**

Fig. 32: Breakdown of sales and profitability from 2014 to 2020e

EURm	2014	2015	2016e	Cons.	2017e	Cons.	2018e	2019e	2020e
Sales	601.0	771.4	1,015.9	1,013.9	1,344.5	1,276.4	1,598.7	1,880.4	2,197.9
<i>Y/Y change</i>	24.8%	28.3%	31.7%	31.4%	32.3%	25.9%	18.9%	17.6%	16.9%
<i>Y/Y change (Ifl)</i>	21.0%	23.2%	20.3%		21.0%		18.9%	17.6%	16.9%
EBITDA	172.9	227.3	306.3	303.0	403.1	384.0	488.1	583.7	695.2
<i>Margin</i>	28.8%	29.5%	30.1%	29.9%	30.0%	30.1%	30.5%	31.0%	31.6%
EBIT	132.9	172.8	241.3		317.1		385.7	463.3	554.5
<i>Margin</i>	22.1%	22.4%	23.7%		23.6%		24.1%	24.6%	25.2%
Current EBIT	150.4	197.4	270.7		356.1		432.1	517.8	618.2
<i>Margin</i>	25.0%	25.6%	26.6%		26.5%		27.0%	27.5%	28.1%
Attrib. net profit	107.9	142.6	272.5	212.4	260.6	260.1	319.5	385.9	463.0
<i>Margin</i>	18.0%	18.5%	26.8%	20.9%	19.4%	20.4%	20.0%	20.5%	21.1%
Rest. attrib. net profit	123.0	163.8	225.9		293.6		358.7	432.0	516.8
<i>Margin</i>	20.5%	21.2%	22.2%		21.8%		22.4%	23.0%	23.5%
EPS	0.89	1.16	2.17	1.89	2.11	2.08	2.59	3.12	3.75
Rest. EPS (fully diluted)	1.01	1.33	1.83		2.38		2.90	3.50	4.18
<i>Y/Y change</i>	23.4%	31.4%	37.9%		30.0%		22.2%	20.4%	19.6%
P/E									

Sources: Bryan, Garnier & Co ests; Thomson Reuters.

When we compare our estimates with those of the **consensus**, the latter **does not appear to have factored the accounting effect of the sale of Visa Europe to Visa Inc into the 2016 financial statements** (Wirecard had a shareholding of around 0.5%, see chart 12), **or the recent acquisition of Citi Prepaid Card Services into its 2017 forecasts** (see our part 4.2).

In this payment industry dominated by the race for scale (organic or acquisition-driven), we deem the final arbiter in stock valuation to be the **PEG ratio**. On this metric, Wirecard looks particularly compelling with **P/Es of 25.1x in 2016 and 19.3x in 2017** compared with **restated EPS growth of 37.9% and 30.0% respectively**.

5. The momentum is returning positive

5.1. History: multiple attacks

The first few months of the year were marked by the publication of a hundred-or-so-page research note levelling accusations at Wirecard (24/02/16), published by an unknown investment bank named Zatarra Research (for which we know neither the place of incorporation for the company nor the names of the directors). With no tangible proof, the latter accused Wirecard of fraud, money laundering and having facilitated evasion of the US restrictions on online gambling. Lastly, Zatarra valued the company at a share price of zero. **Obviously enough to unleash a real panic amongst investors** (these accusations pointing to the risk of licence losses with Visa and MasterCard), especially since, during this same period, the research house and short seller Muddy Waters Research had laid into Casino (the major difference being that Muddy Waters is known, its founder Carson Block signs its research reports, it has a track record and criticises companies from a real accounting and financial perspective).

The target was all the easier in that Wirecard is a purely online player, making international acquisitions, and that this is not the first time in its history that it has had to contend with false rumours. This has tended to happen at key moments in its history, namely transformations in scale: when it moved from being a small to a medium-sized company (the two first attacks) and lastly when it became a group with global reach. **It is extremely important to stress that the company has always emerged exonerated and strengthened by these different experiences.** Finally, these destabilisation attempts aim to sully its reputation to generate a short-term profit from short selling. Following multiple discussions with the company and in view of its track record, it seems clear to us that Zatarra was surfing on the Muddy Waters effect and invented a fiction based on past rumours regarding the group (the past incidents having always been settled in favour of Wirecard) with the sole aim of generating a profit with the support of hedge funds. Lastly, 95% of the research report is false (the context and all the allegations against the company) and 5% true (the individuals and the companies mentioned do exist). **The successful bouts of short-selling in 2008 and 2010 no doubt inspired Zatarra to see through its strategy:**

1/ **In 2008**, Wirecard was drawn into a legal battle with the director of SDK, a German association of small shareholders, who accused the company of having falsified its accounting in 2007 and having hidden illegal activities. Wirecard rapidly denied this and expedited an audit of its financial statements by Ernst & Young to verify any anomalies. This audit was made public in 2008. The director of SDK subsequently resigned and was investigated for share price manipulation and trading operations ahead of the publication of negative reports on a number of listed companies (including Wirecard). He was fined and served a prison sentence.

2/ **In 2010**, a report claimed that Wirecard had been cited in a US criminal procedure against a resident of Florida, who finally pleaded guilty for having set up an unauthorised funds transfer business. According to the charge, 'the man allegedly used Wirecard Bank to transfer the money from a UK company to the United States'. Wirecard then issued a press release stating that 'the individual was and is in no way associated with the Wirecard group. The company strongly and categorically refutes all the allegations raising suspicion regarding the laundering of illegitimate funds.'

These two incidents had a highly negative impact on the share price. Two key individuals behind these attacks served prison terms in Germany and there were no proceedings engaged against Wirecard.

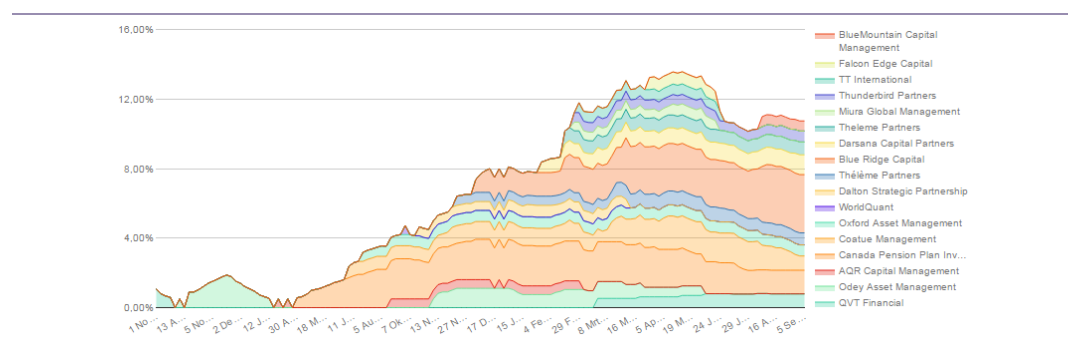
3/ In April 2015, a journalist for the Alphaville blog (hosted by the Financial Times) published the first episode in a series on Wirecard, entitled the ‘House of Wirecard’, questioning the very existence of the company, its acquisitions, etc.

4/ In November 2015, a so-called ‘research report’ published by JCap, a research boutique in Hong Kong, essentially consisted of questioning the group’s acquisitions in Asia (Great Indian Retail Group, etc.), knowing that this report was far from acceptable in terms of its quality or ethical standards (biased arguments serving the interests of third parties like competitors, for example). Given the lack of credibility of this research, there was little impact on the share price.

5/ In February 2016, another unknown company (Zatarra Research) published a this-time-unsigned report, accusing the company of fraud, money laundering and facilitating evasion of the US restrictions on online gambling services. This report had a real share price impact since it was more detailed (some hundred pages) and more complex to address in that it recycled past false rumours (those of 2008 and 2010, putting senior executives and members of the Board of Directors in a false context), mixing up the rumours and trying to reconcile the facts to suggest that Wireward had been behind all this.

As luck would have it, no sooner were these JCap and Zatarra reports published (albeit by unknown companies) then they were picked up by the Alphaville journalist and thus found themselves on the Financial Times website and subsequently on the Bloomberg news feed... hence the share price impact. **There is a clear correlation between these publications (the ‘House of Wirecard’ series, articles on the JCap and Zatarra reports) and the beginning of the build up of short positions in the stock** (this level even reached a peak of c.23% of the capital, coming mainly from US funds). It is impossible for us to verify all the data in the Zatarra report as this would require a detective and not a sell-side analyst...What is certain is that this strong correlation merits at least an investigation on the part of the regulator for share price manipulation. This is moreover what BaFin (the German stock market regulator) ended up by stating (the 25% intraday share price fall on the day the Zatarra report was published having attracted its attention).

Fig. 33: Short positions in Wirecard shares (01/11/12 – 05/09/16)



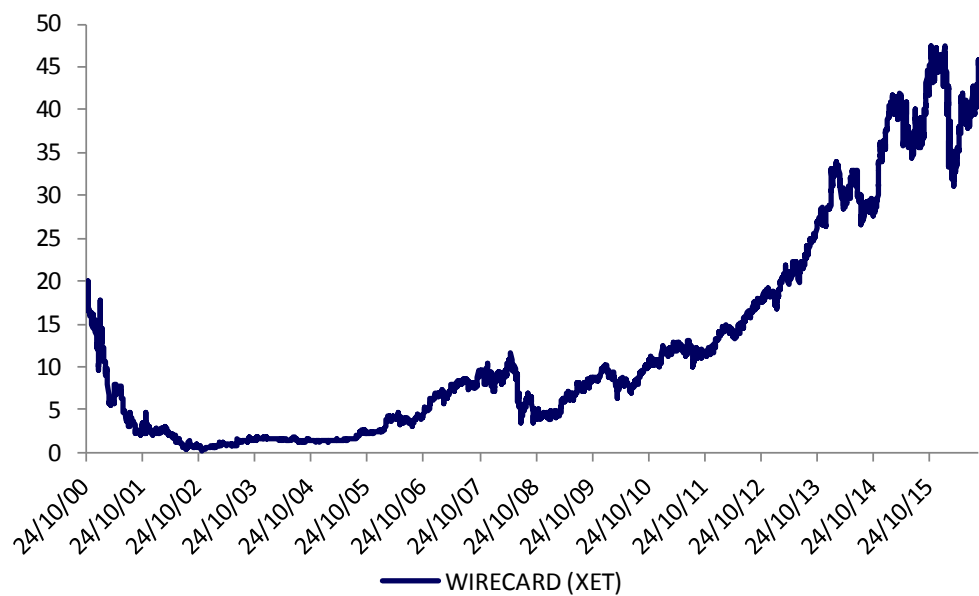
Source: shortsell.nl (Nov. 2012 - July 2016)

When participating in our TMT conference (last March), the Wirecard management told us that they were not the least concerned about losing clients and expected no operational impact on the business. We can only note that this seems to be the case since the make-up of the latest results remains very positive. Moreover a number of agreements with Visa have since been announced, only a few days after the publication of the aforementioned first report (2 March: announcement of the launch of mycard2go, a new prepaid Visa card). The group does not work with consumers but with a top-notch business customer base and enjoys their full support. Note, moreover, that Wirecard is the partner of choice for Visa, that it has a very good relationship with

MasterCard and has 60 major airlines in its portfolio. **Both its customers and some of its competitors have sent messages of support.** The CEO of another PSP even confided to us that he had been shocked by this whole business because he does not believe the accusations against Wirecard (who he knows very well and admires its track record) and because this type of incident can impact any payment or services player. ‘Replace the name Wirecard by our own and that also works!’ **It is absolutely vital to identify the individuals hiding behind Zatarra to be able to bring them to justice so that this situation does not recur in future.**

For the past few months the group has not only engaged the services of specialised lawyers and a large US investigation firm (Kroll) but also provided more transparency in terms of the information in its slide shows and presentations. It is even officially in discussions with a number of partners with a view to their potentially entering its share capital and could, in our view, even initiate changes to its Board of Directors. In the light of the affair mentioned above, and following our discussions with sector companies, the accusations leveled at Wirecard have provided more of an opportunity to buy the stock at a cheap price rather than constituted a reason for concern. **Lastly, as after the earlier rumours, in our view the stock is now ready to head higher and reconnect with the concrete, i.e. its solid fundamentals.**

Fig. 34: Historique du cours de Wirecard



Sources: Thomson Reuters

5.2. The future: an undeniable speculative attraction

In payment services, the most recent transactions were done at a multiple of 15.2x EV/EBITDA vs 16.8x and 12.5x for Wirecard at the current share price on our 2016 and 2017 numbers.

Fig. 35: Main M&A transactions in payment services

Date	Target	Acquirer	Country	EV (EURm)	EBITDA multiple (x)
Dec-09	Worldpay	Bain Capital/Advent	UK	2,030	8.2
Nov-09	Easycash	Ingenico Group	Germany	284	13.0
Apr-10	Mercury Payment Syst.	Sylver Lake	USA	726	14.8
Aug-10	DataCash	MasterCard	UK	520	19.5
Dec-10	Loyalty Partner	American Express	Germany	496	10.8
Jan-13	Ogone	Ingenico Group	Belgium	360	29.0
Feb-13	NetSpend	Total System Services	USA	1,400	14.6
Aug-13	Skrill	CVC Capital Partners	UK	600	12.0
Jan-14	PayPros	Global Payments	USA	420	19.1
Mar-14	NETS	Bain Capital/Advent/ATP	Denmark	2,300	12.4
May-14	Mercury Payment Syst.	Vantiv	USA	1650	17.7
Oct-14	DIBS	NETS	Sweden	790	17.9
Oct-14	GlobalCollect	Ingenico Group	Netherlands	820	16.4
Oct-14	TransFirst	Vista Equity Partners	USA	1,500	13.2
Mar-15	Skrill	Optimal Payments	UK	1,100	13.5
May-15	ICBPI	Bain Capital/Advent/Clessidra	Italy	2,150	11.0
Nov-15	Equens ¹	Worldline	Netherlands	1,490	11.8
Dec-15	Heartland Payment Syst.	Global Payments	USA	3,957	18.1
Average					15.2

¹ full price estimated i.e. cash out (Paysquare + transaction and reorganization costs) and buyout of 100% of the JV (Equens Worldline).

Source: Bryan, Garnier & Co.

It is interesting to note that the transactions involving **bank card issuance processing players** are done at **10x-12x**, and those for **physical merchant acquirers** at **12x-15x** (transaction multiples relatively stable over time). On the other hand, there has been **real inflation in the multiples paid for online payment solutions, moving from 13x EBITDA to 15x, to 17x+ and increasingly at 20x+**. All the players in the payments industry are looking to reinforce their businesses and in this segment (with a high proportion of fixed costs) size matters, thus leading to acquisitions.

Fig. 36: Recent acquisition multiples in online payment services.

Conso. date	Target	Acquirer	Country	EV (EURm)	Sales multiple (x)	EBITDA multiple (x)
January 2013	Ogone	Ingenico Group	Belgium	360	8.6	29
March 2014	NETS	Capital/Advent/ATP	Denmark	2,300	2.9	11
May 2014	Mercury Payment Systems	Vantiv	USA	1,650	7.0	18
October 2014	DIBS	Nets	Sweden	790	4.5	18
October 2014	GlobalCollect	Ingenico Group	The Netherlands	820	2.7	16
May 2015	ICBPI	Bain Capital/Advent/Clessidra	Italy	2,150	3.2	11

Source: Bryan, Garnier & Co ests.

In our view, Wirecard is the type of company which will sooner or later be acquired. In the first instance, this could take place via the purchase of a simple minority stake. Wirecard's management has effectively confirmed that they are in discussions with several strategic partners regarding their possible entry into the share capital. The group's speculative attraction resides, in particular, in the company's **positioning across the whole online payment value chain** and its atypical profile (supplier of payment services with, in addition, online banking services). It is the **global number two in e-commerce and one of the rare pure online players in the payment solutions universe.** While Worldpay is the leader in terms of market share, its e-commerce activity only contributes 23% of its sales. Lastly, the player the most similar to Wirecard is the Dutch company Adyen (in private equity hands).

Fig. 37: Market share of the European e-commerce players in 2015

In %	Global market share	Market share in Western Europe
Worldpay	6%	20
Wirecard	5%	18
Adyen	4%	15
Ingenico Group (Ogone + GlobalCollect)	3%	10
Top 4	18	63

Source: Bryan, Garnier & Co ests.

Lastly, note that Wirecard has a **shareholder structure which leaves it open to a bid since its float amounts to 93%** (the management holding the remaining 7%). **This combination of factors makes it a rare player in the industry and consequently an ideal target.**

In our view, the types of players with a potential interest in a technology company providing online payment services are:

- Direct competitors or physical payment players looking to dispose of a multi-channel offer or to expand their customer bases.
- Payment card networks or issuing banks looking to enrich their digital content.
- Advertising platforms/social media seeking integrated payment solutions.
- Electronic wallet providers looking to change scale.
- Private equity funds attracted by the high levels of growth and profitability for the online payment players.

Fig. 38: The potential acquirers of a group like Wirecard

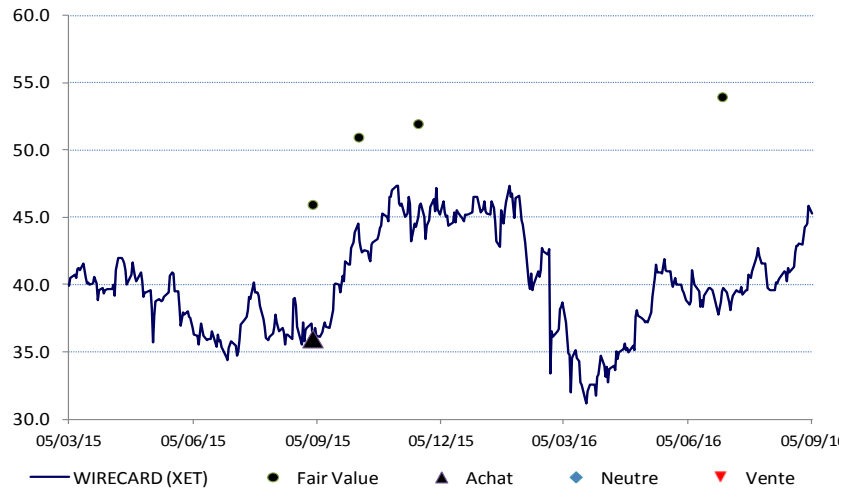
Who?	Direct competitors, or from in-store physical payment	Card network or issuing banks	Ad platforms/Social networks	e-wallet providers	Private equity firms
Why?		Increase digital mix (offensive) and defend turf (defensive)	Improve conversion	Add scale and global acceptance	
Examples	Worldpay, Worldline, Ingenico Group...	Global banks, Visa, MasterCard, Discover...	Facebook, Google, Microsoft...	PayPal, Alipay, Apple, Amazon, Google, Microsoft, Samsung...	Bain Capital, Advent, Blackstone...

Source: Bryan, Garnier & Co.

The speculative attraction of Wirecard shares will be closely correlated to the trend in the weight of e-commerce at global level and is thus set to see a significant increase in the next few years.

Price Chart and Rating History

Wirecard



Ratings

Date	Ratings	Price
01/09/15	BUY	EUR36.78

Target Price

Date	Target price
06/09/16	EUR58
30/06/16	EUR54
18/11/15	EUR52
05/10/15	EUR51
01/09/15	EUR46

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SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.3%

NEUTRAL ratings 33.3%

SELL ratings 11.3%

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London	Paris	New York	Munich	New Delhi
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