

Rating Action: Moody's downgrades Wirecard to B3, ratings under review for further downgrade

19 Jun 2020

Frankfurt am Main, June 19, 2020 -- Moody's Investors Service, ("Moody's") has today downgraded the €500 million senior unsecured rating of Wirecard AG (Wirecard) to B3 from Baa3. Moody's has today assigned a B3 Corporate Family Rating and a B3-PD Probability of Default Rating to Wirecard. All ratings remain on review for further downgrade.

The downgrade of Wirecard's ratings and review for further downgrade reflect the accounting irregularities and related implications on the company's liquidity and financial profile following its failure to publish the already postponed audited consolidated accounts for 2019.

The auditor of Wirecard did not find sufficient evidence for cash balances amounting to €1.9 billion and there are indications of fraud related to the balance confirmations. Additionally, the postponement of the audited statements could trigger an event of default under the debt documentation, leading to high and immediate refinancing needs.

RATINGS RATIONALE

The supervisory board of Wirecard hired KPMG in November 2019 to perform an independent review in reaction to renewed allegations for fraudulent accounting practices and concentration risks of their customer base. Moody's had published an issuer comment which outlined the credit negative impact of these ongoing allegations, as the rating was already constrained due to governance and control weaknesses.

When we placed the Baa3 ratings on review for possible downgrade on 2 June 2020, we had outlined that, in contrast to our previous expectations, renewed allegations around fraudulent accounting practices and lack of sufficient control and risk managements were ongoing. We further outlined that negative rating pressure could therefore materialize over the next weeks should the final KPMG report, or the audited financial statements for 2019, identify ongoing and material accounting irregularities, or further governance and control weaknesses, and our review of compliance and risk management policies did not reflect material improvements.

The current findings are even more material compared to previous allegations, as they refer to the substance of available cash holdings, which had been a key credit strengths of Wirecard's previous rating.

While we acknowledge the issues still being under investigation, the non-publication of audited financial statements might lead to an event-of-default under the company's debt documents putting severe pressure on the financial profile.

Additionally, we see a high risk that Wirecard is facing a swift decline in its customer base and a related decline in transaction volumes driven by trust issues.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's will review the rating with a focus on the validity of the cash position, the stability of the operating performance and the company's access to financing sources.

We would consider a downgrade should Wirecard's financial debt fall due after failing to present audited financial statements or the fraudulent cash position materializes, or the operational performance deteriorates.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016 and available at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1037985. Alternatively, please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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