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CREDIT OPINION
4 June 2020

New Issue

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RATINGS

Wirecard AG

Domicile	Germany
Long Term Rating	Baa3 , Possible Downgrade
Type	LT Issuer Rating - Dom Curr
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Wirecard AG

Update following placement of ratings on review for downgrade

Summary

On 2 June, we placed the ratings of Wirecard AG (Wirecard, Baa3 RUR-down) on review for downgrade. The action follows the ongoing uncertainties around the allegations regarding fraudulent accounting practices and concentration risks on third-party acquirers, with the repeatedly postponed publication of the audited financial statements for 2019, and the company's exposure to the travel and mobility industry, which is in significant decline following the coronavirus outbreak.

When we assigned the initial rating in August 2019, the governance and risk control issues already constrained the rating and were considered as ongoing, while the rating benefitted from a profitable growth and a relatively low leverage. The special investigation by KPMG identified broad deficiencies in the governance and risk-control structure and meaningful concentration of business routed via business partners with low transparency for the periods between 2016 - 2018. Whilst Wirecard has initiated organizational improvements, this weighs negatively on our rating assessment and requires clear and transparent measures by the company and no further adverse findings of any kind to maintain the rating category.

Additionally, Wirecard is facing headwinds from the outbreak of the coronavirus, with a significant decline in transaction volumes, especially within the travel and mobility sector. Because of the global lockdown measures, many stores and restaurants had to close for several weeks or are still closed, while the concurring domestic and international travel restrictions are still in place. Although a shift toward online shopping and the higher use of credit cards are positive side-effects, we see the risk of missing our base case for 2020.

Credit strengths

» Leading market share in Asia Pacific and strong market share in Europe, with revenue growing at a compound annual growth rate of 35% between 2014 and 2018

» High and stable Moody's-adjusted EBITA margin of 27%

» Strong cash generation because of its asset-light business model and moderate shareholder distributions

» Well-diversified customer base, with more than 300,000 merchants and 40 million consumers using the payment products issued by Wirecard

» Strong underlying global market growth of around 14% per annum until 2021, with high growth in Wirecard's core region, Asia Pacific, propelled by the ongoing shift toward electronic payments

Credit challenges

» Lack of governance and risk control and concentration on opaque business partners

» Risks of contracting transaction volumes amid the coronavirus outbreak and the concurring expected recession

» Fragmented market, with generally low switching costs for merchants and pockets of hidden competition or new market entrants

» Highly competitive market environment with consolidation trends leading to the commoditization of payment processing and related processing fees

» Inherent threat of changes in regulation or technology, which can affect the business

Rating outlook

We have placed Wirecard's ratings on review for downgrade. The review process will focus on (1) the audited financial statements of 2019, including the assessment of the special investigation by KMPG and additional information requirements around third-party acquirers; (2) implemented and planned changes to internal compliance, risk and control systems; and (3) the company's ability to sustainably grow EBITDA in the current difficult market conditions.

Factors that could lead to an upgrade

» Although unlikely given the recent development, we could upgrade Wirecard's ratings if its Moody's-adjusted debt/EBITDA is sustainably near 2x while the company maintains a track record of profitable above-market growth and strong liquidity, as well as free cash flow (FCF)/debt close to 20%, including the absence of major M&A activity. We also require no further adverse governance or compliance findings and a prudent financial policy, with no high shareholder distributions and a conservative financial profile even in a scenario of intensified M&A.

Factors that could lead to a downgrade

» We could downgrade Wirecard's ratings if the company fails to consistently grow EBITDA in the high teens to mid-20s in percentage terms and does not maintain its leverage below 3.0x. Additionally, we would consider a negative action in case of ongoing, unresolved governance and compliance issues and any signs of deteriorating liquidity.

Key indicators

Exhibit 1

Wirecard AG [1]

WIRECARD AG

US Millions	Dec-16	Dec-17	Dec-18	LTM (Sep-19)	Moody's 12-18 month forward view [2]
Revenue	1,137.8	1,681.9	2,381.0	2,858.6	$3,300 - $4,100
EBITA Margin %	27.7%	26.5%	27.2%	27.3%	27% - 28%
Debt / EBITDA	2.4x	2.8x	2.7x	2.5x	2.2x - 2.8x
EBITA / Interest Expense	17.9x	20.2x	15.5x	16.2x	17x - 21x
RCF / Net Debt	-291%	93%	109%	1083%	-1000% - 0%

[1] All quantitative credit metrics incorporate Moody's standard adjustments to the financial statements for Non-Financial corporations.
[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimate

Profile

Headquartered in Aschheim, Germany, Wirecard AG is an international payment solution provider covering the whole payment value chain including payment processing and risk management (74% of revenue and 86% of EBITDA for the first nine months of 2019) and acquiring and issuing (26% and 14%). Its key operating areas are Europe (45% of revenue) and Asia Pacific (48%). Wirecard has more than 5,600 employees, of whom 48% were located in Asia Pacific, 28% in Germany and 13% in the Rest of Europe as of June 30, 2019. Around 46% of the employees are within research and development, and IT, followed by 22% in customer service as of June 30, 2019. The company processed a transaction volume of €124 billion in the first nine months of 2019 and provided its products to more than 300,000 merchants.

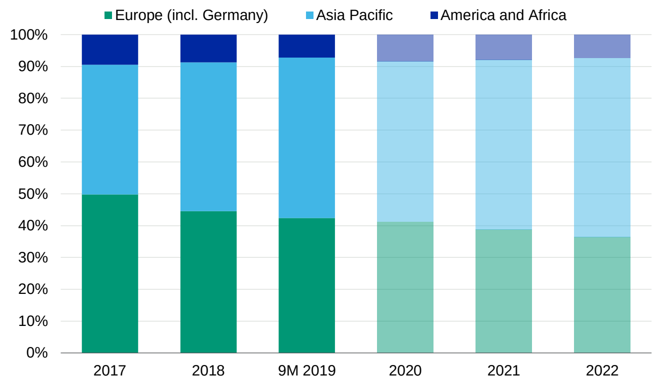
Wirecard generated €2,534 million in revenue and Moody's-adjusted EBITDA of €745 million in the 12 months ended September 2019. The company is listed on the German DAX and no shareholder has ownership exceeding 10%, with the CEO, Dr. Markus Braun, holding 7.07% of shares.

Detailed credit considerations

Strong market positions in Europe and the swiftly growing Asian market

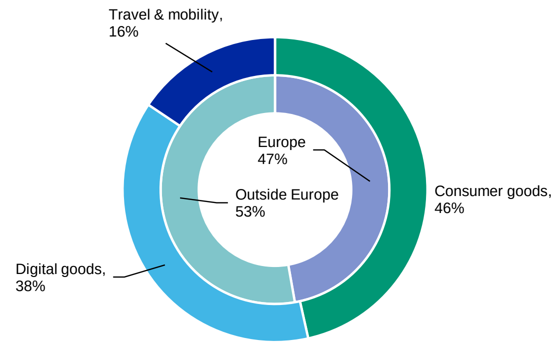
With revenue of €2.5 billion in the 12 months ended September 2019, Wirecard is a leading merchant acquirer and payment processor in its core markets of Europe and Asia, a key credit strength that is reflected in its Baa3 rating. Until 2018, Europe was Wirecard's biggest market, but it has been overtaken by Asia Pacific as growth in the market is significantly stronger than that in the more mature European market. The American market is still underrepresented, as Wirecard started operations there only in 2016 and is currently focusing on select large customers to enter the market. In November 2019, the company agreed to acquire a controlling stake in a mainland China-based payment service provider and will have access to the strongly growing Chinese market, domestically and abroad. In total, Wirecard is active in around 50 countries, partially via licensing agreements with third-party acquirers.

Exhibit 2
Asia Pacific is the main growth driver for Wirecard
Historical and expected revenue share per market



Sources: Company information and Moody's Investors Service estimate

Exhibit 3
Transaction volume by industry and geography
Based on €124 billion transaction volume



Source: Company information

The expected market growth is based on the combination of an increase in the penetration of fully digitized payment transactions, which are currently estimated at just around 8%-10%, the ongoing convergence of all sales channels and the emergence of monetization of data analytics, which is propelled by the proliferation of the internet and mobile phones. Additionally, merchants and customers are increasingly doing business across countries and demand a seamless purchase experience. Furthermore, there is an increasing demand from the yet-unbanked share of the population, especially in emerging markets.

The above-mentioned factors are the primary reason for the expected underlying global market growth in cashless payments, with emerging Asia being the strongest contributor in terms of growth, while more mature markets, such as the US and Europe, will grow in single digits in percentage terms.

The coronavirus outbreak will, at least in the short term, hurt the transaction volumes in the payment processing industry. The outbreak has triggered a deep recession globally and we forecast global GDP to decline by 4% in 2020, with advanced markets being hit the most. In 2021, we forecast a global GDP growth of 4.8%. Many governments have initiated a broad range of social-distancing measures to slow down the spread of the virus, which includes travel bans, domestically and abroad, and closure of shops, restaurants, hotels and many leisure activities. Wirecard is, therefore, facing a decline in transaction volumes in its travel and mobility segment, and the consumer goods segments. The latter might nevertheless benefit from a shift toward e-commerce during the lockdown, but it is unlikely to fully compensate for the losses in the other segments. Despite our view of long-term secular growth in the industry, the deep recession reduces the overall spending and weighs negatively on expected growth.

Comprehensive product portfolio along the payment value chain

Wirecard is the link between merchants and consumers, and is active in the B2B, B2C and B2B2C segments. With merchant acquisition being the core of the product suite, the company has expanded its offering significantly over time. Wirecard maintains a comprehensive product portfolio to cover the whole payment value chain, including banking services via its subsidiary Wirecard Bank or partnerships in countries where it does not have a banking license. This includes the issuance of debit and credit cards, and a wide range of value-adding services ranging from risk management, data analytics, loyalty programs, mobile wallets and peer-to-peer lending to cash advance, fraud prevention and call center services. Acquiring and issuing are provided either under Wirecard's own brands, for example, boon, or via white label or co-branding agreements. The product offering embeds the company deeply into the processes of the merchants and leads to quite a sticky customer base, as the cost of service usually represents a fraction of the total cost base of its customers. Additionally, we consider Wirecard's ability to constantly innovate in terms of products another credit strength.

Wirecard's above-market growth was also a result of its focus on defined industry verticals, that is, consumer goods, digital goods, and travel and mobility, with additional white-label issuing solutions for banks and fintechs. These verticals have compelling growth characteristics and a naturally high online purchase rate. The company offers tailored solutions to these verticals and was able to sign contracts with a range of large merchants during the last year. Historically, Wirecard was focused on small and medium-sized companies, but has meanwhile developed a balanced customer portfolio; its top 16 merchants accounted for 26.8% of total processed transactions in 2018, which nevertheless entails some concentration risk.

Concentration risk on business partners and weak governance and risk control

In markets where Wirecard does not have its own banking or payments license, the company collaborates with third parties that provide the licenses on its behalf, while the company has the full merchant customer ownership. In the merchant acquiring business, Wirecard has significant concentration risk, with three third-party acquiring partners processing transactions generating a significant share of its revenue. We, therefore, see a risk of business disruption in case one of these ceases to provide its acquiring license portfolio from acquiring banks to Wirecard, in which case the company will need to shift merchants to other third-party acquiring partners with a respective license network or will not be able to accept payments in certain countries. The relationship with these third-party acquirers is also one of the main reasons behind the accusations against the company and has led to the above-mentioned special investigation by KPMG.

When we assigned the Baa3 ratings with a stable outlook in August 2019, the risks related to governance, risk control and compliance were already constraining the rating and were considered ongoing, while the rating benefited from the company's profitable growth and relatively low leverage. The company's strong and swift expansion led to some instances in its Asian operations where a lack of corporate control resulted in non-material periodic restatement of booked revenues. Management had immediately taken meaningful measures to prevent such issues in the future. Considering the opinion of external auditors, we assumed that these have been isolated, regionally concentrated events for the period between 2016 - 2018. In contrast to our previous expectations, the lack of sufficient control and risk managements are ongoing. Negative rating pressure could, therefore, materialize over the next few weeks in case the audited financial statement for 2019 do not receive a clean opinion and ongoing issues regarding compliance and risk management are identified.

Furthermore, the review will focus on the opacity of the business generated via the third-party acquirers through which Wirecard generates a significant share of its revenue.

The repeatedly postponed financial statements for 2019 and the open issues from the KPMG report weigh negatively on our assessment of the company's governance. We see, furthermore, the risk of customers switching away from Wirecard for reputational reasons.

Payment services is a highly competitive industry and technology risks are high

Wirecard operates in a highly competitive industry that is also characterized by rapid technology-driven innovation. The large size of the industry and its attractive growth profile generate significant interest among a variety of nontraditional companies, including vendors in the mobility value chain and social media networks. On a global scale, Wirecard competes with non-bank operators such as Global Payments Inc. (Baa3, stable), Worldpay (recently acquired by Fidelity National), Total Systems (Baa3 stable, currently in the process of being acquired by Global Payments) and First Data Corporation (recently acquired by Fiserv Inc.), as well as financial institutions that offer merchants acquiring and issuing solutions. Competition has intensified in recent years as the more recent entrants, such as Stripe, Square and Adyen, which offer technology-enabled payment services and, in certain cases, also offer short-term financing, continue to scale rapidly. Wirecard's comprehensive product offering, including a full suite of value-adding services, and its strong distribution capabilities in Europe and Asia provide a competitive advantage. However, the standalone payment processing services are increasingly being commoditized and are facing pricing pressure. In Europe, the market is less fragmented and competitive compared with that in the US and is still dominated by financial institutions that provide in-house acquiring and payment processing services. The Asian market is also quite fragmented, and we cannot deny the pockets of hidden competition at least in local markets. The margin levels are still quite stable, but will deteriorate in line with the commoditization of the core service. Especially in maturing markets, we expect an ongoing decline, whereas emerging markets are still stable. The Baa3 ratings have been assigned based on our expectation that Wirecard will be able to defend its profitability levels, supported nonetheless by its ability to innovate.

The payment card industry is inherently susceptible to information security breaches, which could have a material impact on the business. We expect the insurance policy against business disruptions from cybersecurity events, the company's technological skill set, and its focus and investments in risk management to mitigate the potential financial impact on its business to some degree.

Strong EBITDA growth and high FCF provide good deleveraging capacity

Wirecard's EBITDA grew by 26% in the 12 months ended September 2019 compared with 2018, mostly organically. The company's asset-light business model with manageable capital spending requirements, a low interest burden and moderate shareholder distributions allowed for Moody's-adjusted FCF of €435 million in the 12 months ended September 2019, a growth of 35% compared with 2018.

In line with the strong market growth, especially in the Asian market, the company's EBITDA is likely to grow in the high teens to mid-20s in percentage terms in the next few years, with absolute EBITDA growing close to €1.0 billion. If margins and FCF remain unchanged, the company will have fairly strong capacity to de-lever, a key driver of the assigned Baa3 ratings. Moody's-adjusted gross debt/EBITDA was 2.5x as of September 2019 and is likely to increase to 3.1x for the full year 2019 as the company has only partially used the proceeds of the €900 million convertible bond issued in the fourth quarter to repay utilizations under the revolving credit facility.

Exhibit 4
Pro forma leverage reconciliation table

(in EUR Millions)	Pro Forma EBITDA		Pro Forma Debt
EURm	Dec-19		Dec-19
Preliminary reported EBITDA	785.0	Bond 9/24	500.0
Moody's-adjusted EBITDA	**785.0**	Convertible Bond Softbank	900.0
		RCFs & bilateral loans	928.7
		Leases	68.8
		Moody's-adjusted Debt	**2,397.5**
Moody's-Adjusted debt / EBITDA			3.1x

Source: Moody's Investors Service and Moody's estimates

For 2020, we forecast revenue growth at around 10%, down from our initial expectation of around 25% because of the coronavirus outbreak. We nevertheless expect the company to maintain its margins because the e-commerce segment, which is likely to grow despite the recession, has higher margins than, for example, the travel and mobility segment. Without larger acquisitions and with a stable dividend and expected full execution of the €200 million share buyback, we forecast FCF will reach around €400 million in 2020. However, given the ongoing crisis, we see a clear risk to achieve the base case in 2020.

Environmental, social and governance considerations

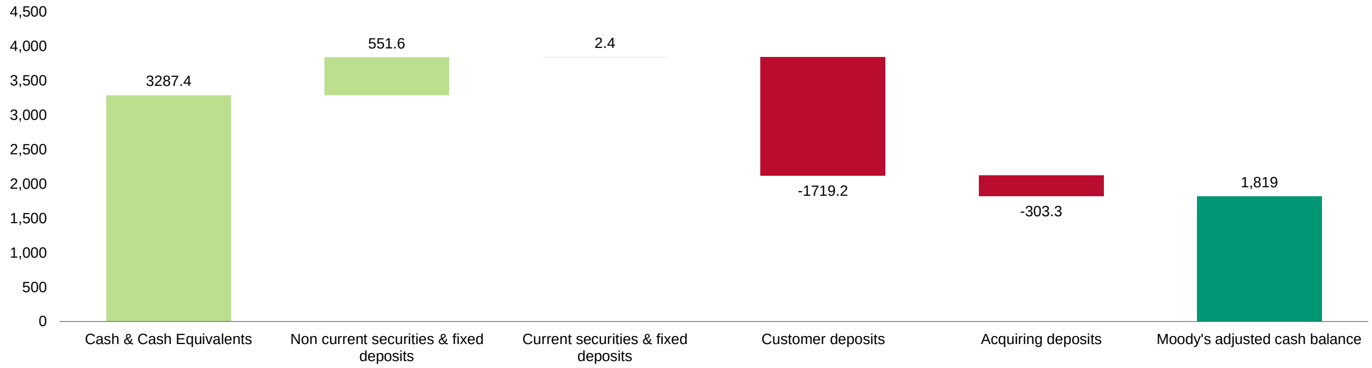
The rapid and widening spread of the coronavirus outbreak, the deteriorating global economic outlook, falling oil prices and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The payment processing industry, where Wirecard operates, is one of the sectors significantly affected by the shock, given its sensitivity to consumer demand and sentiment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. This rating action reflects the impact on Wirecard of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

While Wirecard will benefit from the strong long-term industry growth, we see credit negatives in terms of governance and risk control. The company's swift expansion has led to some instances in its Asian operations where a lack of corporate control resulted in non-material periodic restatement of booked revenues. Management has immediately taken measures to prevent such issues in the future. Nevertheless, the special investigation identifies significant group-wide weaknesses and, thus, we have elevated concerns around governance. A strong improvement and clear communication around the improvements are expected as well as a clean opinion for the audited financial statements of 2019, including the assessment of the special investigation by KPMG, to maintain the Baa3 rating category.

Liquidity analysis

Wirecard's liquidity is strong. The company generated a high FCF of €435 million in the 12 months ended September 2019 on a Moody's-adjusted basis, representing a cash conversion of 58% of Moody's-adjusted EBITDA. We expected FCF in the range of €400 million in 2020. This is based on our assumption of a stable dividend policy (including €200 million share buybacks) and no major acquisition. The company further benefits from its high cash on balance sheet of €1,819 million in Moody's-adjusted terms. From the total cash position, we exclude customer deposits from the banking operations and deposits from the acquiring business as these are not freely available to Wirecard. We furthermore include the interest-bearing securities and fixed deposits.

Exhibit 5
Moody's-adjusted cash balance as of 30 September 2019
In € millions



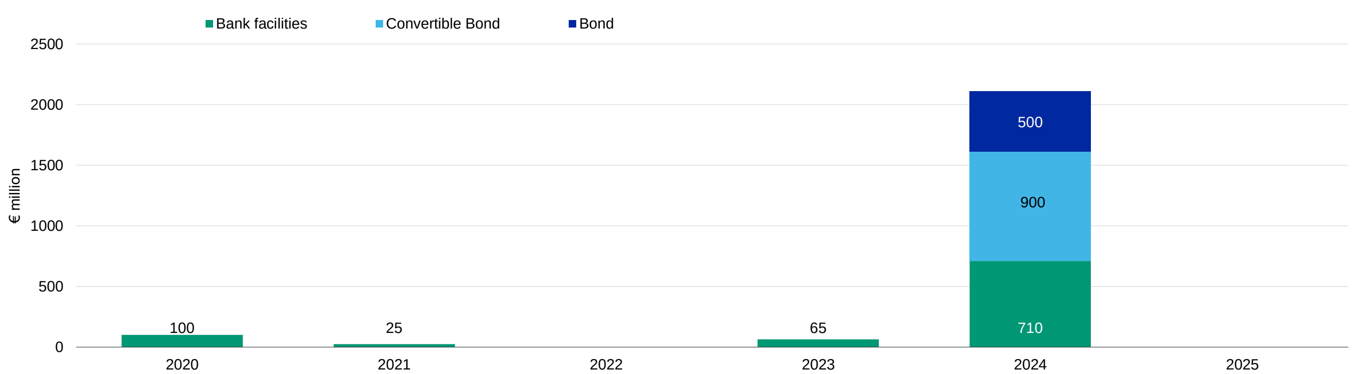
Source: Moody's Investors Service

The company has access to a €1,750 million revolving credit facility due in 2024 that was drawn by €800 million as of December 2019. The documentation entails a leverage covenant with ample capacity.

Structural considerations

The revolving credit facility, the rated €500 million bond, a €900 million convertible bond and two minor debt positions are the main debt instruments of Wirecard, and are all unsecured and guaranteed by five wholly owned subsidiaries representing around 70%-80% of EBITDA. All major debt instruments mature in 2024, which is the source of the company's refinancing risk.

Exhibit 6
Debt structure pro forma for the Softbank convertible (pro forma as of September 2019)



Source: Company information

Methodology and scorecard

The principal methodology used in rating Wirecard is the Business and Consumer Service Industry rating methodology, published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology. The assigned rating deviates from the scorecard-indicated outcome by two notches based on the company's comparably smaller scale relative to its peers, the concerns around governance and transparency, and the inherent risks related to the very swift expansion of the business in emerging markets.

Exhibit 7

Rating factors

Wirecard AG

Business and Consumer Service Industry Grid [1][2]	LTM 9/30/2019		Moody's 12-18 Month Forward View As of 5/28/2019 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.9	Ba	$3.3 - $4.1	Ba
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	Baa	Baa	Baa	Baa
b) Competitive Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability (10%)				
a) EBITA Margin	27.3%	A	27% - 28%	A
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.5x	Baa	2.2x - 2.8x	Baa
b) EBITA / Interest	16.2x	Aa	17x - 21x	Aa
c) RCF / Net Debt	1,083.2%	Aaa	-1,000% - 0%	Aaa
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-indicated outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2019.
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer comparison

in USD

	Wirecard AG Baa3 RuR down			Fiserv, Inc. Baa2 Stable			Fidelity National Informatio Baa2 Stable			Global Payments Inc. Baa3 Stable		
(in US millions)	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Dec-19
Revenue	$1,682	$2,381	$2,859	$5,823	$10,187	$12,454	$8,423	$10,333	$11,354	$3,366	$4,912	$4,912
EBITDA	$488	$700	$841	$2,204	$3,551	$4,303	$3,288	$4,399	$4,928	$1,392	$2,092	$2,092
Total Debt	$1,465	$1,851	$2,045	$6,374	$22,879	$22,942	$9,578	$20,934	$21,108	$6,178	$10,128	$10,128
Cash & Cash Equiv.	$1,012	$1,337	$1,983	$415	$893	$896	$703	$1,152	$1,373	$1,211	$1,678	$1,678
EBITA Margin	26.5%	27.2%	27.3%	29.5%	27.0%	26.5%	34.0%	37.7%	38.0%	36.2%	36.9%	36.9%
EBITA / Int. Exp.	20.2x	15.5x	16.2x	8.4x	6.2x	5.7x	8.5x	9.4x	10.3x	5.7x	5.7x	5.7x
Debt / EBITDA	2.8x	2.7x	2.5x	2.9x	6.4x	5.3x	2.9x	4.8x	4.3x	4.4x	4.8x	4.8x
RCF / Net Debt	92.9%	109.0%	1083.2%	30.6%	12.9%	14.7%	24.1%	13.8%	15.1%	23.5%	18.0%	18.0%
FCF / Debt	17.1%	19.9%	23.2%	18.7%	8.4%	9.6%	9.9%	4.4%	3.6%	14.3%	9.8%	9.8%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial Year-End. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

Wirecard AG

(in EUR Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Sep-19
As Reported Debt	**614.0**	**1,092.5**	**1,509.8**	**1,854.2**
Operating Leases	47.2	67.7	77.6	0.0
Earn-out / Purchase Liabilities	77.2	59.4	31.5	21.3
Moody's-Adjusted Debt	**738.4**	**1,219.6**	**1,618.9**	**1,875.5**

Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
WIRECARD AG	
Outlook	Rating(s) Under Review
Issuer Rating -Dom Curr	Baa3[1]
Senior Unsecured -Dom Curr	Baa3[1]

[1] Placed under review for possible downgrade on June 2 2020

Source: Moody's Investors Service

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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