

Wirecard Was a Fairy Tale With an Unhappy Ending

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Stories too good to be true often aren't. The curtain has at long last been pulled back on high-flying payments fintech Wirecard AG. A whopping \$2.1 billion in cash on its balance sheet can't be verified and likely never existed. Chief executive Markus Braun has resigned and was arrested. Chief operating officer Jan Marsalek was fired. And on June 24, Germany's fintech jewel announced it was filing for insolvency.

Strong, global, secular growth—and annuity streams of transaction fees—make the payments sector attractive. Modest enhancements have enormous value, and at innovators like Adyen, PayPal, Square, and Stripe, they enable double-digit growth and heady valuations.

Munich-based Wirecard was Germany's candidate for the club of payments rock stars. Chief “storyteller” Braun aggressively sold the vision and an opportunity fueled by double-digit organic growth and a spate of acquisitions worldwide. It reported 37% revenue growth year-over-year for the first nine months of 2019, 35% for 2018, 45% for 2017, 33% for 2016, and 28% for 2015. There have, however, been suggestions that as much as two thirds of sales may have been **counterfeit**.

Wirecard's roots were in lucrative processing for riskier and reputation-challenged e-commerce. It later broadened its suite of processing, trumpeting wins of conventional merchants like Ikea and storied department store KaDeWe, banks, mobile network operators, and fintechs. While it acquired processors in the United States, China, and Brazil, Wirecard cast a wide net, also picking up processors in Indonesia, Vietnam, the Philippines, India, South Africa, Turkey, Romania, and India, along with a New Zealand payments software firm. These are mostly riskier

but alluring high-growth emerging markets, where more conservative processors feared to tread.

Wirecard's growth story—featuring e-commerce, mobile payments, digital wallets, issuing and issuer processing, and beachheads on six continents—proved irresistible for many investors. Some sell-side analysts cheered and didn't probe too deeply.

Dan McCrum of The Financial Times, however, did yeoman's work investigating and reporting irregularities, notwithstanding the company's denials and attempts to intimidate the paper by suing. In 2016, Matthew Earl and Fraser Perring, under the name Zatarra Research & Investigations, accused Wirecard of fraud. The German processor counterpunched, charging Earl with defamation, and employed private investigators to surveil him. Munich prosecutors sought to fine the **publishers** of Zatarra's accusatory report.

Skeptical hedge funds played an invaluable role policing Wirecard. They alleged fraud and shorted the stock. Faced with a torrent of allegations of fraud, the German regulator BaFin, instead of vigorously investigating, circled the wagons around the home team, banning short-selling Wirecard.

There's been a cloud of suspicion over Germany's fintech darling for years. A quote from the movie Ronin captures it. Jean Reno's character Vincent asks Robert DeNiro's character Sam how he knew they would be ambushed by a Parisian gang. Sam replies "When there's doubt, there's no doubt."

Wirecard's story isn't unique. Mozido raised over \$300 million from marquee investors, including Wellington Capital, Julian Robertson, Eric Schmidt's venture fund, and Mastercard, and was once valued at a lofty **\$5.6 billion**. Charismatic founder Michael Liberty, CEO until 2015, pitched global mobile payments and financial inclusion. Like Wirecard, it acquired a slew of payments companies in emerging markets to boost the story, but the story was too good to be true. Mozido crashed.

In 2018, the SEC charged Liberty with a scheme to defraud investors and misappropriate funds. In 2019, **the U.S. Department of Justice charged Liberty** with conspiracy to commit fraud, wire fraud, securities fraud, and money laundering conspiracy.

Dan Wagner's Powa Technologies was a high-flying mobile-payments unicorn. With Wellington as lead investor, it raised \$177 million and was briefly valued at \$2.7 billion. Wagner spent lavishly on prestigious offices, parties, and promoting the vision, but never built a real business. While there wasn't outright fraud, there was never a there there. Powa Technologies went bankrupt in 2016 and three constituent businesses were sold.

Wirecard, too, will now be liquidated, in whole or more likely piecemeal. Unlike the case with Mozido and **Powa Technologies**, it has real processing businesses. Management and the liquidator must reassure clients and ensure they're serviced to stem inevitable increased attrition and maintain value. Behemoth payment-processing consolidators FIS, Fiserv, Global Payments, and Worldline might scoop up bits. Nuvei and Paysafe could be interested in riskier merchants. And national players might opportunistically look to pick up some of Wirecard's far-flung assets.