

April 6, 2010

**Dear clients and colleagues:**

We have recently initiated a position in Wirecard AG (WDI), following two corrections over the past weeks.

Wirecard is a Germany technology company that was founded in 1999. It seeks to provide its customers with electronic payment systems and risk management services. Its array of services includes standardized solutions for electronic payment-processing systems to industry-specific financial supply chain management solutions (payment matching, reporting, fund remittance, fraud protection, multi-currency functionality, etc.). Its portfolio is comprised of over 85 different payment and risk management solutions.

WDI employs more than 400 IT specialists and continues to add to this number. Most of its transaction volume (95%) occurs in Europe, with the remains coming from Asia. WDI serves three end markets: Consumer goods (47%), digital goods (35%) and travel & tourism (18%).

Over the past 3 years, WDI has achieved an impressive 40% annual sales growth while expanding its EBITDA 45% per annum. For the coming years, we expect the company will continue to grow faster than the global electronic payment market.

**Target market size**

The overall European electronic payment processing market represents €50B. The PSP (payment services provider) market in which WDI operates represents close to €10B. PSP market is forecast to grow high single-digit to low double-digit over the next couple of years.

**Competitive advantage**

WDI's unique selling proposition allows merchants to benefit from an extended solutions offering while saving in their payment processing operations. Its intellectual proprietary is solid and well-recognized in Europe. Part of that probably comes from the fact that over the year, the company has successfully retained its key employees (only 3 out of 40 have left the company).

In addition to having a healthy balance sheet, WDI has demonstrated its ability to innovate. It was among the first companies in this space to offer cards and account products for the prepaid payment model. This prepaid model has shown its advantages for all parties involved in payment processing (banks, merchants and consumers). The prepaid market has gained in popularity and although it represents only 10% of WDI's current revenue, its future is bright.

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### **Growth strategy**

Growth will come in different ways:

- 1) The company will benefit from an increase in transaction volume (from online transaction growth and outsourcing opportunities)
- 2) WDI should continue to do well in signing new merchants and limiting its churn rate to less than 1%
- 3) There is a strong cross-selling opportunity in this field
- 4) The firm wants to move geographically (in Asia especially) to improve its service offering to merchant customers. The management expects Asia could represent 50% of WDI's revenues in 3 years.
- 5) Although minimal and small in size, acquisitions are likely to be part of the company's growth strategy.

### **Risk**

With 20 different players in Europe, fierce competition seems to be a significant risk to consider. There is always an integration risk to consider when acquiring other businesses. Finally, the industry is in a very active consolidation phase and that could result in the takeover of WDI.

### **Investment theme**

An increasing number of people have access to the Internet and more and more merchants are using it to capture new sales. We have seen a change in consumer behaviour over the years: consumers are moving away from stationary stores to online stores. Internet provides cost-saving opportunities for both merchants and consumers. Also, the risks and complexity of electronic payment processing bring merchants to outsource their operations.

### **Valuation**

Based on a WACC of 9.0% and a terminal growth of 3%, our target price is €13 for an expected return of 85%.

Wirecard AG:

Market cap: €730 million, P/E (TTM): 15.4x, P/E (forward): 13.4x, EV/EBITDA (forward): 8.1x, Net debt to EBITDA -3.6x, Expected sales growth: 10%-15%, Free cash flow yield: 6.5%

Regards

The Global Alpha Team

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