

Wirecard Conference Call February 4, 2019

Operator

Good afternoon ladies and gentlemen and welcome to the Wirecard management call. At this time all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host Iris Stöckl.

Iris Stöckl

Thank you very much. Welcome and good afternoon everyone. In light of recent events Wirecard has invited you to this conference call with management. Today with us are CEO Markus Braun and CFO Alexander von Knoop, and now let me immediately turn the call over to Markus which will have a duration of one hour.

Markus Braun

Hello ladies and gentlemen. At the starting point I would like to give a short overview of how events unfolded in relation to last week events **[01:00]**. This probably will be around fifteen minutes or less and then we would like to give you the possibility to come forward with questions. I think you all saw that we gave out a statement this morning that clearly rebukes the misleading media coverage that was coming out last week. Let me, in my own words, summarise events. By April 2018, an employee of our Wirecard Asia for our Singapore division brought forth allegations against another employee of this division. These allegations mainly comprise mature compliance breaches in the area of accounting. In total, and we have the numbers here **[02:00]** in our statement from this morning, revenues of 6.9 million, costs of 4.1 million, and a transfer of soft intellectual property valued at 2.6 million, whilst potentially alleging that there were some compliance breaches there. This is the total sum, all this, especially the revenue and the costs were distributed between four years, so this event in a period between 2014 and 2018. In a first step, and this is all normal compliance process... The local compliance team took up an issue and started an investigation. Let me say a few words to our compliance department. The compliance department that reports to our CFO, **[03:00]** Alexander von Knoop, has far reaching independent possibilities to start investigations. They also have full access to our accounting systems and to general Wirecard systems, and they can follow up on issues without any approval from senior management. So, of course, this body is structured in a way that theoretically they could also investigate me. So, they do not have to inform senior management. So, they started an independent investigation of these allegations. Their finding was that they are unfounded. Full stop. Still, as this is the normal standard process in compliance, if there are material allegations between employees, an independent **[04:00]** third party is involved to run an independent investigation, and this is why the compliance team decided "This was already also the centralised compliance team on group level, to involve a reputable third-party compliance law company, Rajah and Tann. In the first step, this law firm was given access to the employee who raised the allegations and the law company summarised in a first preliminary statement, or summary, all allegations that were put forward by this employee against the other employee. On the basis of this first summary, Rajah and Tann got mandated in May 2018 **[05:00]** to run a full independent investigation of the allegations. We have put the statement of Rajah and Tann on the page. So, in accordance, likewise, our internal compliance team, until now, today, didn't find any proof and any conclusive findings that any of these

allegations were true. We expect this investigation to be finalised quite quickly. We are definitely planning, when the investigation is finalised, to bring out a statement of the key findings to the market. From my point of view... **[06:00]** Let me say two things. First of all, I think the process shows perfect compliance. I think this is exactly how such an issue should be treated, and secondly, I can already today say, from our point of view, we do not expect any material things to come up from this process. So, we can give your full confidence. With this I would like to come to an end and give Alexander some possibility to give a rough overview about our compliance processes.

Alexander von Knoop

Thank you Markus. Welcome from my side. Markus already mentioned some aspects about our compliance structure and processes but let me give you a detailed **[07:00]** brief overview of our compliance structure, and of course the international compliance structure. Our compliance department within Wirecard group is part of Wirecard group legal department. The international structure is a worldwide hub setup where the general guidelines, for example our code of conduct, are set by the headquarter, and these general guidelines are adjusted to local requirements and of course implemented by the international subsidiary with guidance and consulting from our headquarter specialists, and of course, if necessary, from external consulting firms. The duties and responsibilities are multi-levelled. One duty is to analyse the international and local law, for example, **[08:00]** to provide work instructions to all of our employees, for example, the code of conduct. Our compliance team has to analyse requirements from supervisory authorities in different countries, and of course, implementing the rules and procedures to fulfil their requirements. The compliance department performs own audits on a regular basis, or of course, if they get an indication of a potential compliance case. The reporting line is directly into the CFO; the responsible person. The standard process is that our compliance experts are pre-validating if there are **[09:00]** hints of a potential breach of compliance rules, then of course there is reporting to the CFO, and if necessary, they are performing an independent audit, of course also in combination with external lawyers like the ones in Rajah and Tann in our case today. So, I think we are very well structured in the field of compliance and legal and in my opinion, the case we're talking about today is a proof of various strict structure and procedures. As we can see, all the requirements and regulations were performed. **[10:00]**

Iris Stöckl

Thanks a lot Alexander. Thanks a lot Markus. We can now go over to the Q&A session please.

Operator

Ladies and gentlemen, if you would like to ask a question, please press nine and star on your telephone keyboard. In case you wish to cancel your question, press nine star again. Please press nine star now to state your questions. And the first question comes from Analyst 1. Please go ahead with your question.

Analyst 1

Hi, thank you for taking my question. Firstly, Markus and Alex, can you actually share how many reported **[11:00]** events, similar to this, you have received over the past five years? And also, if you truly believe that a media report is proven to be lacking

any basis, why haven't you brought in a court law case against the report just to basically show that you haven't really been affiliating with any of the activity the report has been reporting on.

Markus Braun

Yeah. To answer the first question directly. This is the only compliance case in the area of accounting that came up in the last five years. To answer your second question... To be open here, we were also overwhelmed last week by events. Our legal team is analysing... Let's just say, [12:00] I always say we concentrate on innovations, on building up the company. This is what I very quickly want to come back to, these whole events are non-events, so that's my position as CEO. I leave everything else to our legal departments. They will decide what they do. They are analysing... So, I wouldn't rule out further steps there, but again, my job really is to concentrate on developing the company, execution... Such events do not distract us in any way from that, so I am always on the positive side and I do not concentrate too much on our legal battles, let me say.

Analyst 1

Okay thank you Markus. Just a quick follow up; you said there's only one accounting case over the past five years. What about other areas, not only limited to accounting? Have you received any over the past five years? [13:00]

Alexander von Knoop

We can of course talk about numbers but let me answer this question in a general way. That's part of our compliance procedures and proves that these procedures work in a very good way. Several, some, compliance cases, but not too many.

Analyst 1

Okay, thank you.

Operator

The next question comes from Analyst 2. Please go ahead with your question.

Analyst 2

Yes, good afternoon. Thank you everyone. Can you talk about what triggers for you the material threshold for anything that needs to be reported into the board, and in terms of investigations [14:00], how often has it happened in recent history that you had to consult a third-party legal office?

Markus Braun

Let me say generally how the process again works. The compliance team very independently can decide to investigate things if they have indications. They do not have to consult the board. That's exactly how it works. I think that's the best way to set up such a team. Also, the decision-making process is very independent. Yes, Alexander von Knoop is spearheading that, but at the end of the day, he follows the advice of the compliance team, and approves that to some extent. So, that's basically the process. To answer your second question, we don't have a number. We cannot give you a number. I don't have this number. I can just say [15:00] I don't

know of any material things on this basis that was reported to the board. Let me say perhaps the final word... The compliance department, when there are allegations between employees, also, that they... To make it concrete, a sexual harassment case, also give them after an investigation, clear advice; how they would deal with the accused employee. So, this is how it works. So, it mainly is run by the compliance department and the board then follows mainly their advice that the compliance department is giving up.

Analyst 2

Okay, thank you. Just to quick follow up... When was the board notified of this special audit case? Secondly, [16:00] maybe you can outline all of the communication with the FT. Did you have some before the publication of the article?

Alexander von Knoop

Yes, of course. To answer your first question, as the responsible member of the board, I first heard about this case in the beginning of May last year, and then of course, as I described before, there were meetings with our internal compliance team to discuss further steps to be taken, and outcome of these meetings was to mandate Rajah and Tann on May 18th.

Markus Braun

But the general board... So, for example, I wasn't informed... formally informed in the whole process, which is not necessary. Again, this is how it works. These investigations are done... Let's say, the set-up is also that I [17:00] cannot take influence if you understand what I mean. So, it's really mainly a structure that is run independently. The government is done by the CFO and the internal management board normally is not involved until there are results that require actions. That wasn't the case here. So, there were never any results that required actions. This is why there was never a formal information to the management board about this issue. If you have a second question...

Analyst 2

Sorry. Regarding the timeline of the FT correspondence?

Markus Braun

I think we received Wednesday 10, 9, 7, 8, something like that in the morning. Not a document, [18:00] but I think it was an email for our priority department where, let's say, some allegations were brought forward, and I think until one or two, we gave out an answer, and then the article came out.

Analyst 2

Thank you.

Operator

The next question comes from Analyst 3. Please go ahead with your question.

Analyst 3

Great thank you. Markus, can you clarify that from the allegations that were made, have there been any concerns from your customers or partners, and do you anticipate having a potential impact on your ability to conduct ongoing business?

Markus Braun

We see no impact at all. We expect a strong 2019 [19:00]. So, I think we can go back to work very quickly here. Again, we see this, generally speaking, as a non-issue.

Analyst 3

And if I can just follow up. You mentioned up front that you expect the issue to be resolved. Can you give us a sense of the timeline? Are we talking days or weeks?

Markus Braun

Let me first say... Already today, we consider the whole issue as resolved. So, we do not expect any material findings here. Formally we think it will be resolved quite quickly. We can never, let's say, anticipate a third-party, but we think that in the very near future we can come up here with a conclusive statement.

Analyst 3

Okay. [20:00] Thank you.

Operator

The next question comes from Analyst 4. Please go ahead with your question.

Analyst 4

Right. Thanks very much for taking the questions. Maybe I've got three, if that's okay. Just first of all, on the review, are the transactions that you've mentioned in your press release the only ones that were reviewed in the process, or have you looked at other transactions and discounted them as not being worthy of an investigation? So, for example, with the transactions with Flexi Flex that were mentioned in the FT article; were they separately investigated? That would be the first one. Just secondly, could you help us understand why the review has taken so long to complete? It feels as if this is a debate about revenue recognition, whether these were real transactions or not... Could you help us then understand the complexity of why that's taken such a long time to conclude? And maybe just finally, the allegations [21:00] all seem to centre around businesses that Wirecard's acquired. Could you maybe talk around the due diligence and incremental compliance you've done since the acquisitions, to make sure that you're happy with the processes and procedures that are going on in those businesses now? Thank you.

Alexander von Knoop

Yes, of course. To answer your first question, of course we took all our allegations from the first summary very seriously, and of course we analysed all the allegations and all the transactions mentioned. So, that's the answer to your first question. Some of them were just very quick to cut out because they were just simply, there was no entry into the accounting. [22:00] So, then of course we then follow up that. The second question about the timeline of the external auditors of Rajah and Tann; the process is quite complicated because it's not only about checking the transactions but it's about interviewing people, trying to get a full picture of the whole case, and of course if there are allegations, made the way they were, that takes some time and

then after the interviews you have to try to find the entry into the accounting and I believe that also takes some time for our external auditors, and that for me explains the duration of the audit.

Markus Braun

But again, [23:00] I think we can say that the big steps have been finalised and we expect a final conclusion quite quickly, and perhaps to follow up on the first question, I think that the majority of these allegations couldn't be found or couldn't be refracted in accounting items. So, this was one big reason for our internal compliance team from the very beginning to question the whole allegations. Any further questions, sorry?

Analyst 4

Just around the [24:00] procedures, how you've got yourselves comfortable, given it's an acquired business, that the practices you'd associate with the core business have been put into place and followed and that you're not going to find further issues in future?

Markus Braun

This process shows how integrated already all processes are because this compliance process was totally in line with our corporate compliance process. So, I think, probably it has to be taken into account that there were personal animosities between employees involved. So, within the whole issue, is not so much an accounting compliance or whatever issue, but an issue between people, that things happen... Where there are human beings, there are sometimes emotions... We don't align this whole case and I have [25:00] now after Friday a lot of insight. I would really say this whole case has more to do with the relationship between people and not so much processes etcetera.

Alexander von Knoop

Let me maybe just add one more sentence. Of course, within Wirecard group we have a dedicated M&A team to implement all the headquarter guidelines, also in new acquired entities, and of course that's the standard process after doing M&A and part of this process always is to implement all kind of guidelines, including compliance guidelines.

Markus Braun

And let me also say as a last sentence [26:00] we have a big migration project currently running; Asia Pacific. I think it is moving on quite well. Also, by this integration project, let's say, all processes on group level are implemented in the most robust way.

Analyst 4

Thank you very much.

Operator

The next question comes from Analyst 5. Please go ahead with your question.

Analyst 5

Good afternoon. Thank you for taking my questions. I have two. First, I was wondering in what format the results of the release will likely be released? Will there be a statement from the law firm as well as from Wirecard? And secondly, in your statement this morning, you stated that the law firm investigated breaches in the area of accounting. For the purpose of clarity, did the law firm statement this morning cover only the accounting breaches or also the other allegations made in the FT article, such as money laundering?

Markus Braun

Yes, of course. Sorry. Two [27:00] answers to your question. First of all, in which format we will do that, please respect. This all was worked out over the weekend, normally we wouldn't give insight, especially not into a positive resolution of such a process. But in this case, as it is of material interest for the capital market, and there was this kind of very negative reporting. It is our clear intention to give full transparency of the results of the investigation. In which form, I hope you respect. We cannot say today. It probably will be a statement. We have to verify that with the law company. So, nothing we can completely define today, but our commitment as the board is to give the markets here a robust statement and clear insight and transparency [28:00] what came out by this investigation, even though we don't see it in any way as material. We think it's our obligation to be here fully transparent and to give this confidence to the market. The second question, sorry, can you repeat...

Alexander von Knoop

To answer your second question, yes, Rajah and Tann was mandated to investigate on all allegations, including the money laundering allegation.

Markus Braun

And their statement includes everything.

Analyst 5

Okay, great. Thank you.

Markus Braun

Because money laundering of course would be criminal.

Operator

The next question comes from Analyst 6. Please go ahead with your question.
[29:00]

Analyst 6

Yeah. Can you hear me?

Markus Braun

Yeah.

Analyst 6

Yeah, hi, thanks for taking my question. I have two as well, if I could. Firstly I was wondering if you could just give us a bit of an overview actually of how big your compliance team is globally and also how many people you have specifically in Asia and specifically looking at accounting issues, and then how you have invested in headcount in your compliance teams over the last years that you have done those acquisitions. I think that would be helpful. Secondly, I was just wondering, did you have any contact either with the local or the German regulators around any of these issues at all? So, have you contacted them, have they contacted you? Do you think that's actually required, or do you not expect any contact here? Thank you.

Alexander von Knoop

To answer your first question, as I described, the compliance team is part of our legal team [30:00] and they are of course supported by our legal team, consisting of more than twenty people working in the compliance sector. Additionally, to that, of course we have an effective internal auditing team also checking procedures and cases of the compliance part, and of course as I said, sometimes it's necessary sometimes they are supported by external law firms to perform the audits.

Markus Braun

Let me add, this compliance team has the absolute rights, if the case is necessary, also to take resources from the IT department, the accounting department, etcetera. They have the right [31:00] to basically, recruit all resources that they need to follow up on an investigation from all departments. So, that's how it is defined today.

Analyst 6

So, that's very clear. The twenty is a global number essentially.

Markus Braun

Yes.

Analyst 6

How many of those would be in Asia or does it not work like that? Is it a global team really?

Markus Braun

It is a global team.

Analyst 6

Okay, thank you.

Markus Braun

What is the second question?

Analyst 6

Yes, just on the regulators, did you have any contact with the local regulator or the German regulator about this, at all? So, have they contacted you or have you contacted and notified them at any point? Or do you not think that this will be the case and necessary here? Thank you.

Markus Braun

Yes, we notified them. We had contact with them, but in a standard way, so to say.

Analyst 6

So, both regulators or just the local one? [32:00]

Markus Braun

Both.

Analyst 6

Okay, thank you.

Operator

Next question comes from Analyst 7. Please go ahead with your question.

Analyst 7

Yes, thank you. For the question regarding this presentation that was named in the Financial Times report, did you see this presentation that the journalist was talking about? And do you especially know the context of the presentation, which additionally may be also involved here? And secondly do you see the possibility that there might be a third report by Financial Times coming soon, maybe with additional information, or do you think that is the last one?

Markus Braun

So, let me firstly say openly, I can just... let's say, make assumptions here, the Financial Times never forwarded it to us, the report that they have. So, I can just back away there, we think that the material that they have is probably the summary [33:00] of allegations that were brought forward before the investigation really started. That were put together by Rajah and Tann on the basis of the allegations of the employee, before they were mandated for running this independent investigation. But, then again this is just a speculation, we never saw what they had.

Analyst 7

Any possibility for a third report?

Markus Braun

No, we... we've been advised to say that we wanted to give full insight into all processes here. So, that's it. It's on the table. Normally of course a company wouldn't give such insight, I think that with this frank and open step I really want to clarify

things here, that's the whole case. We don't think that there can be any further detail to this case.

Analyst 7

Okay, thank you. [34:00]

Operator

Next questions comes from Analyst 8. Please go ahead with your question.

Analyst 8

Hi, good afternoon. I have two questions. Does the employee who made the allegations still work for Wirecard?

Markus Braun

If I, or let's say our compliance, rules in such a case, if the employee who raises such allegations, absolute anonymity...only the compliance team knows the name. I don't know their name. I cannot answer this question.

Analyst 8

Okay, second question. So, your press release this morning mentioned one employee who raised concerns to the Singapore legal team, but the FT article on Friday said it received information from whistle-blowers, that's plural, more than one. Just to be clear, you're only aware [35:00] of one employee who has filed a complaint and not more than one. Correct?

Markus Braun

Yes. This is what our compliance department gave us as information. And that is...we have substantial doubt about this whistle-blower's part.

Analyst 8

Thank you.

Markus Braun

That it's too early to answer this question, finally, of course.

Operator

The next question comes from Analyst 9. Please go ahead with your question.

Analyst 9

Hi, I just have one question. Basically, an article on Bloomberg saying that the Singapore Police has reached out and that they are looking into this matter. What do you have to say about that, in the sense that, have the authorities reached out to you? [36:00] And the other thing that I have to ask – sorry, another question, sorry. Is that, there was a company mentioned within the earlier press release.... well, within the report FT files, which was called Flexiflex, I guess. And then, Wirecard

came out with the statement saying that they have never done business with this company. Is that something that's like...because someone mentioned earlier the question regarding this company as well, whether these transactions took place. Are you willing to stand by this statement, at the moment?

Markus Braun

So, to give an answer to your first question, we haven't been contacted by any regulator, but we contacted the regulator here. And, we know that there's nothing behind that, so we do not expect any, let's say, investigations starting there. This is also true for the Singaporean regulator. [37:00] For your second question, I think the allegation with Flexiflex was that there were no business relationships but still there were accounts or revenues, and this is not true. So, there were neither a business relationship nor any revenue booked in our account.

Analyst 9

Okay, thank you very much.

Operator

The next question comes from Analyst 10. Please go ahead with your question.

Analyst 10

Yes. Thanks for taking my questions. I just have a couple of questions. Now first thing, you know the countries of the article, they actually, the capital markets seemed extraordinary [38:00] why do you think it was? And do you think you can do something about it? My second question is, do you consider bolstering your audit team and your audit committee to help with these kinds of attacks?

Markus Braun

Yes, so the market's reaction, I can just speculate, and I say now, I speculate from our knowledge now and again, this is just a first assessment over the weekend and not proven. We think that somebody with malicious intents has probably sent out a document or more than one document six weeks ago. So, the question now is what's happened between the six weeks and now. We can just speculate that there was probably a good set-up, and somebody perhaps used it [39:00] and when this comes out and then this market's reaction was there. But this is all speculation. I think in this case there are good chances that authorities can find out what really happened. Again, our job is not We are not an investigation company, we are not a public, we are not following up on crime, so whatever this is not our job. Our job is to build up a strong company, this is my focus, to bring out innovations etcetera. So, I personally will not spend one minute on this issue. I think there are specialist for that. This is also more for public institutions and not for us. You probably read that without any, let's say, interference from us, the German regulator took up investigations whether there [40:00] was market manipulation, so this is really for the regulator to find out. What we can definitely say it's quite unusual that 20 or 15 minutes after on Wednesday, such an article comes out the share price is under pressure by over 20%. This is definitely... let's say gives some strange indication. But again, that is for authorities to find out, whether there was some non-compliant behaviour there.

Analyst 10

Yes, sorry, can you hear me still?

Markus Braun

Yes.

Analyst 10

My question was more to do with... You still had some responsibility towards the investors and these kinds of words are clearly not [41:00] helping your stock. So, what can you do about this kind of fear that the market has?

Markus Braun

Yes. Let me first say, I think that what we can do is give absolute transparency. This we do today, even for normally I think companies don't give insight into such compliance processes. We do that today, so I think that is one measurement. Secondly, we can strongly execute our strategy, I can hopefully confirm our guidance for 2019, we think that we'll have a very strong year. I think in the long run, the capital market works. We will concentrate on fundamentals, and such events do not distract us one bit. I think this is what we can do and concentrate also, and this is why we brought also here today, more insight into how we deal with compliances etcetera. I think we have a very robust and strong compliance processes. [42:00] I think that also, this event shows that, because at the end of the day the compliance really improved in a good way. We can give here total confidence today. So, I think we are really on a very good way to grow here a big company and this is what we concentrate on.

Analyst 10

Thanks.

Operator

The next question comes from Analyst 11. Please go ahead with your question.

Analyst 11

Yes, hello, good afternoon. I have two questions. The first one is more general and a personal question, and would be to know Markus, have you analysed the reason why, in your view, this kind of event is happening from time to time at Wirecard? What's so special about your business [43:00] that brings some reactions like that? And the second one is, to give reassurance to the market, would you consider either to buy back shares on your side or to build a share-buy-back plan by the company? Thank you.

Markus Braun

To the first question, again I do not want to speculate on that, it is obvious for them, I guess, that sometimes the same names come up in such an attack. So, again I think my job is really to build a strong company and not to speculate on such things, this is what I concentrate on, and yes, I have brought enthusiasm in what we do, we're bringing up innovations everyday and this is really what [44:00] I want. What I would like to focus on, and this is my message, I think we have a very good story before us, and again, this doesn't distract us. What was your second question, sorry?

Analyst 11

It was about buying back shares on your side personally, or a share-buy-back programme for the company.

Markus Braun

An open and frank answer from myself, I never saw this as a strong statement from a company. I think really... share price is at the end of the day, the reflection of the market. I do not have, let's say, buy-a-share-back programme in a defensive way, let's say react to share price development. I think we have to react with strong execution, and this is again what we concentrate on. I never saw a share-buy-back programme as a strong **[45:00]** statement from a company. That's my personal view on that.

Analyst 11

Okay, thank you very much.

Iris Stöckl

Okay, thanks a lot for attending this call. As usual the Investor Relations team is there, if you contact us, any follow-ups. Thanks for taking the time. Good afternoon, goodbye.

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