



Aktuelle Schwerpunktthemen der investorentseitigen Bilanzanalyse – Wirecard und Co.

„There are decades where nothing happens; and there are weeks where decades happen.“ (Lenin)

26. November 2020

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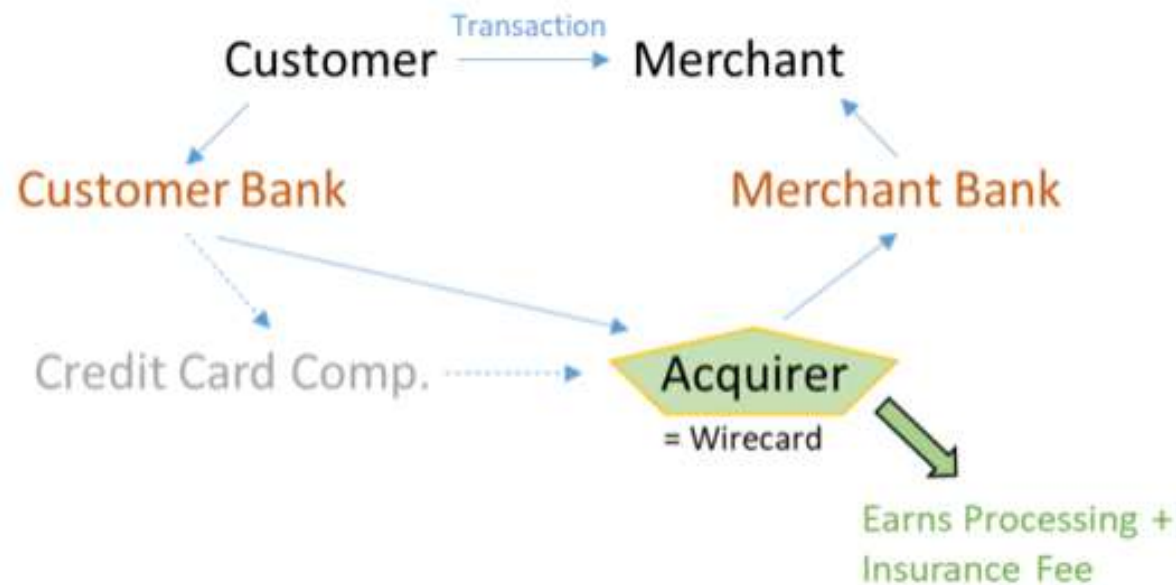
Finance | Auditing | Controlling | Taxation

Friedrich-Alexander-Universität Erlangen-Nürnberg
Rechts- und Wirtschaftswissenschaftliche Fakultät





Wirecard



Last Reporting

	Q3/2019
Receivables from Acquiring Business	732.8 mio Euros
Payables from Acquiring Business	578.6 mio Euros

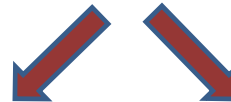
- Usually a negative working capital business
- FT 2015: Why positive WC?*
- Wirecard early years: some receivables are rather collaterals
- Wirecard later years: because of the MCA business

*Financial Times Alphaville, 23 July 2015, Wirecard: adjust your perspective (part 1),
<https://ftalphaville.ft.com/2015/07/23/2131270/wirecard-adjust-your-perspective-part-1/>



Wirecard

$$\frac{\text{Cash Taxes}}{\text{Consolidated Pre Tax Income}} = \text{low!}$$



Due to aggressive tax optimisation

Might be legally ok, but bears the risk of backfiring in future years via reactions of tax authorities

Due to overstatement of earnings in the consolidated accounts

Sign at least for aggressive consolidated accounting

... or a combination of both ...

Wirecard AG

		2018	2017
	weight	Tax Rate	
Germany	15%	27,025%	27,025%
Other	85%	9,7%	14,8%
Total*	100%	12,30%	16,60%

* Wirecard information on average tax rates

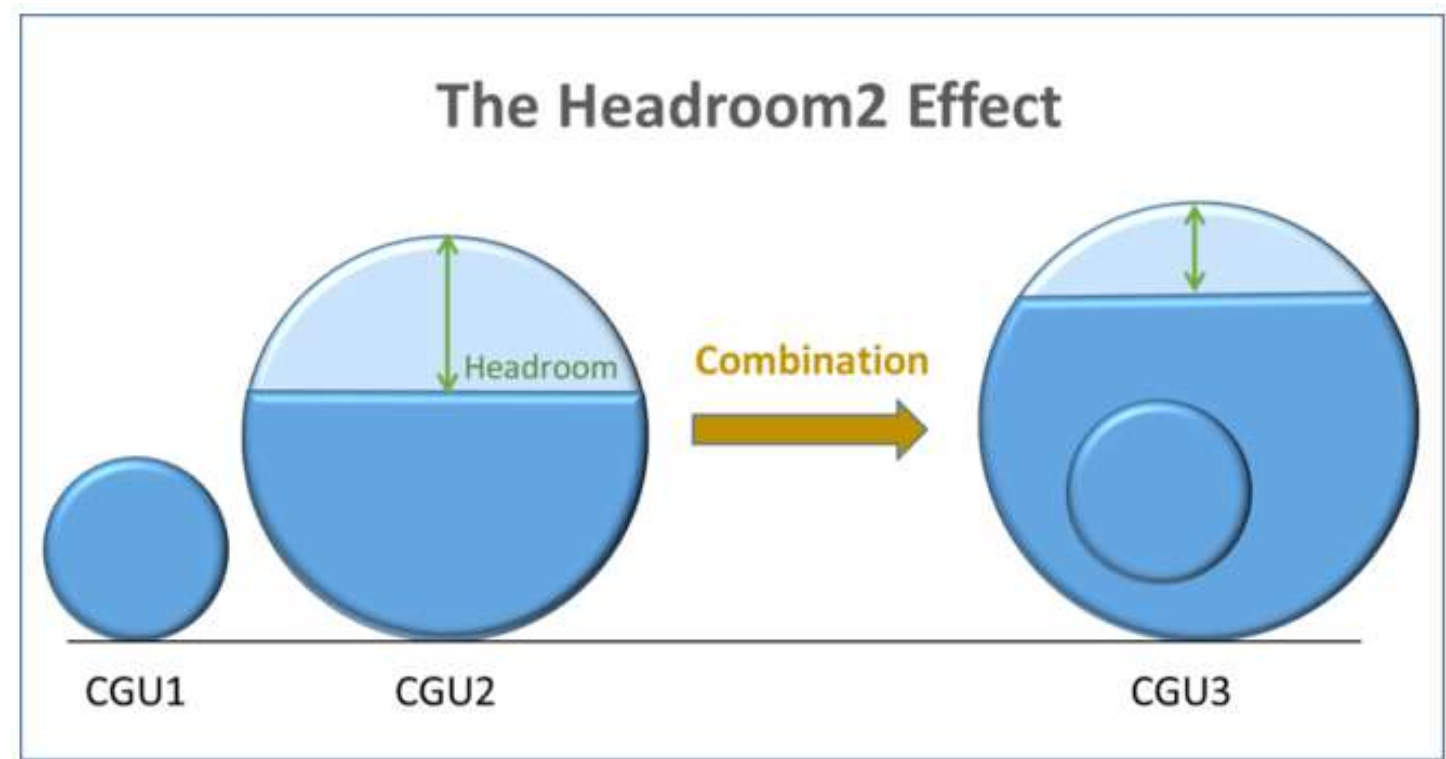
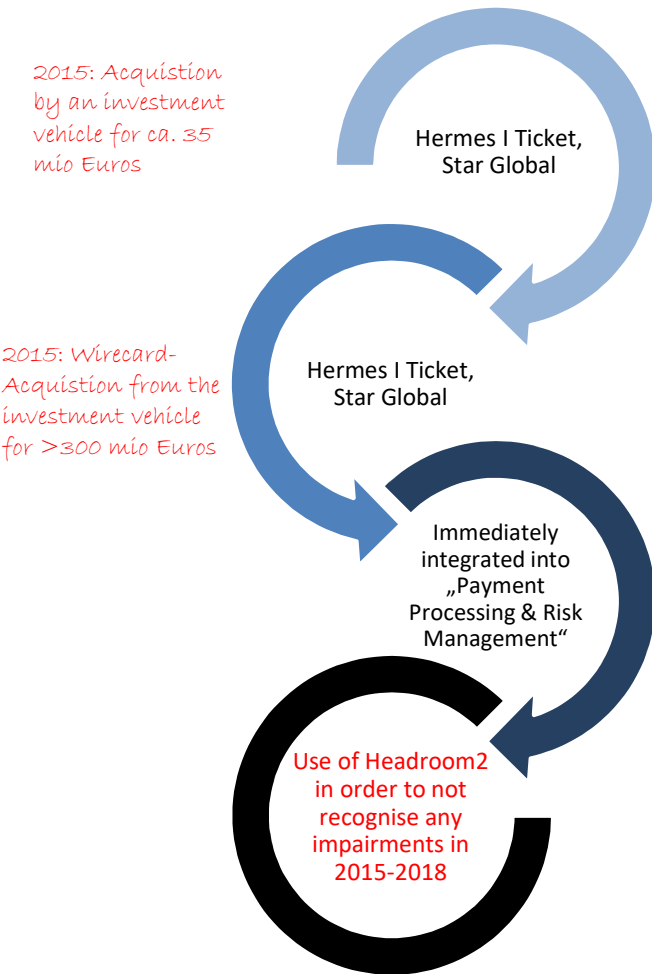
Adyen N.V.

		2018	2017
	weight	Tax Rate	
Netherlands	15%	25,0%	25,0%
Other	85%	26,9%	28,8%
Total*	100%	26,63%	28,26%

* Adyen info, adj. for "Innovation Box" effects



Wirecard





Wirecard

Revenue Recognition

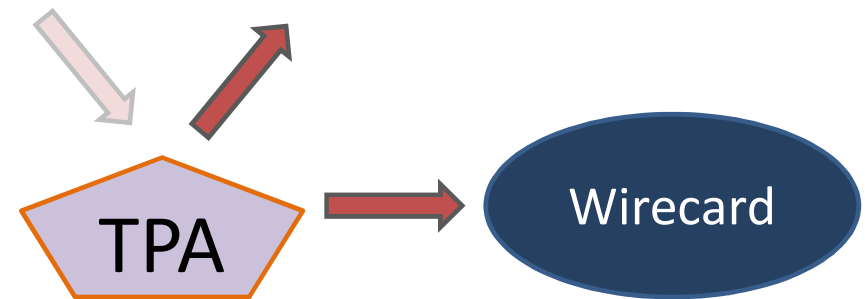
Usually ONE single number



Cash

End-Customer

Merchant



IFRS 15: Who is in the driver seat of the transaction with the merchant?

KPMG: Perhaps „other financial assets“

	Wirecard	TPA
	gross approach	net approach
Revenues	100	70
./. Cost of Materials	-30	-
= EBIT	70	70



Wirecard





Wirecard



- Very difficult to assess from an external perspective
- The story about the missing account confirmation from the Singapore bank could break the neck IF true.



- Forensic investigation report with a clear message
- although it could have already been clearer with the information we have today



- Very difficult to assess from an external perspective



- Brave behaviour
- But after the 2015 Working Capital article they got stuffed with whistleblower information
- This should not shrink their performance but make clear that it was not only an analytical effort



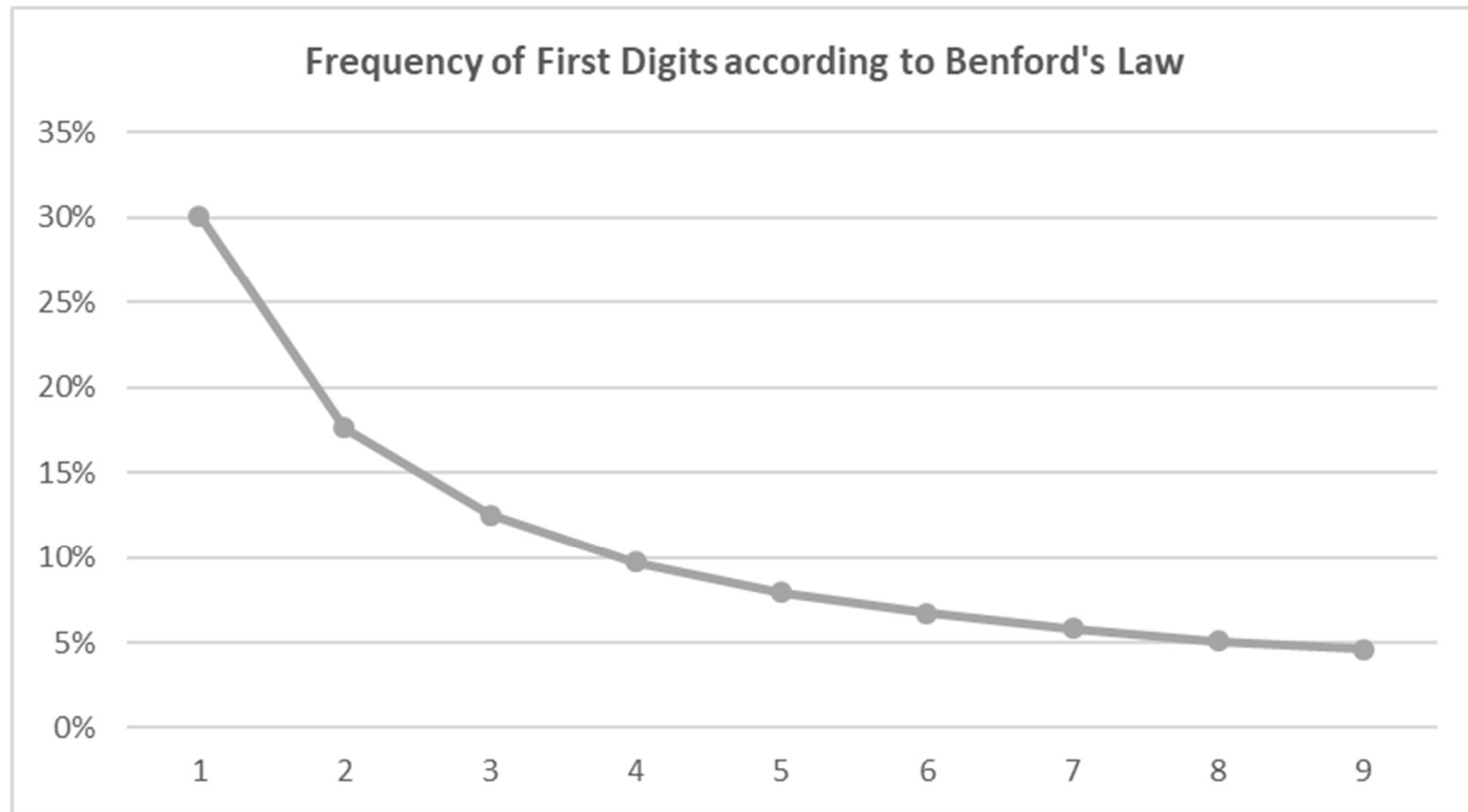
Wirecard

Lessons:

- In most cases you cannot detect fraud as an external analyst (but probably aggressive accounting)
- A bad corporate governance does not automatically mean that the company is fraudulent, but fraud nearly always comes along with bad CG (risk assessment)
- For investors the best way to deal with Wirecard-like cases: Stay away if in doubt!

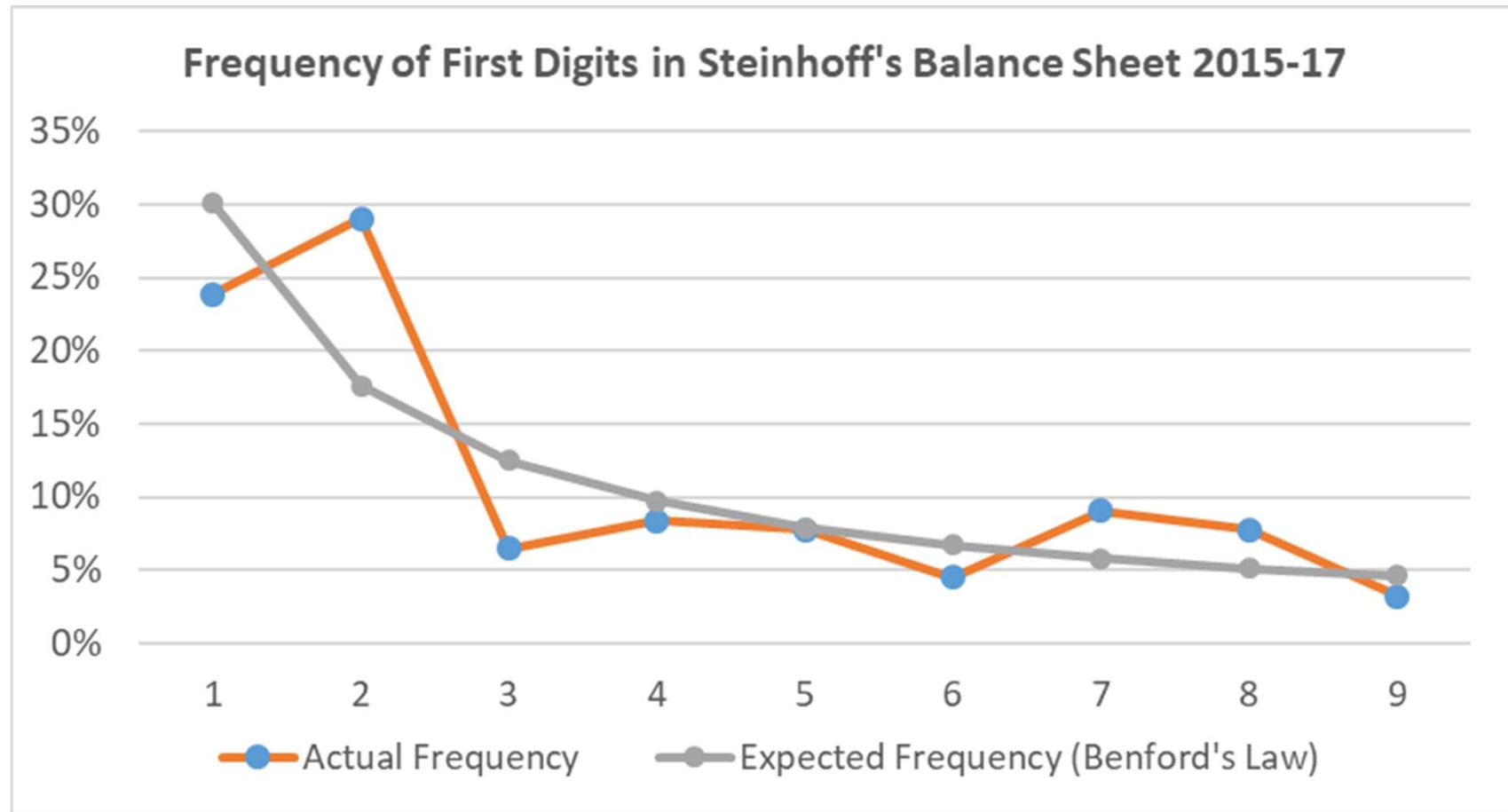


Detecting Fraud



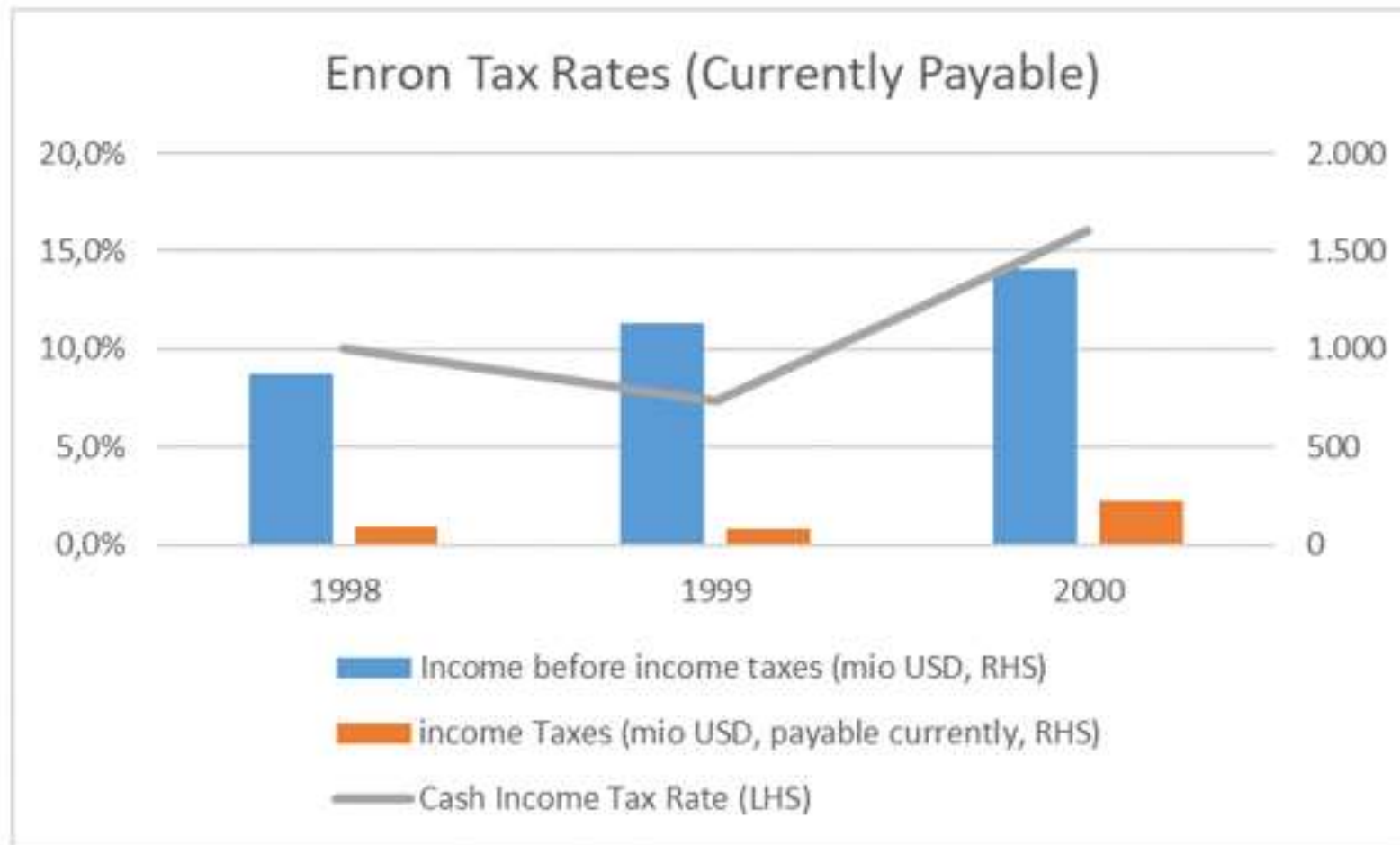


Detecting Fraud





Detecting Fraud





Detecting Fraud

the vesting schedules for awards granted to date are as follows:

	Total earnings per share growth per annum (not compounded) over three financial years	
	Threshold vesting	Full vesting
Awards made prior to 23 January 2007	RPI +5% (33% vests)	RPI+15%
Awards made on 24 January 2007	RPI +7.5% (33% vests)	RPI+20%
Awards made on or after 23 January 2008	RPI +10% (25% vests)	RPI+30%
Awards made on or after 20 January 2010	RPI + 10% (25% vests for awards up to 100% of base salary) RPI + 25% (for any additional awards over 100% of base salary)	RPI + 25% (for awards up to 100% of base salary) RPI + 30% (for awards up to 125% of base salary)*

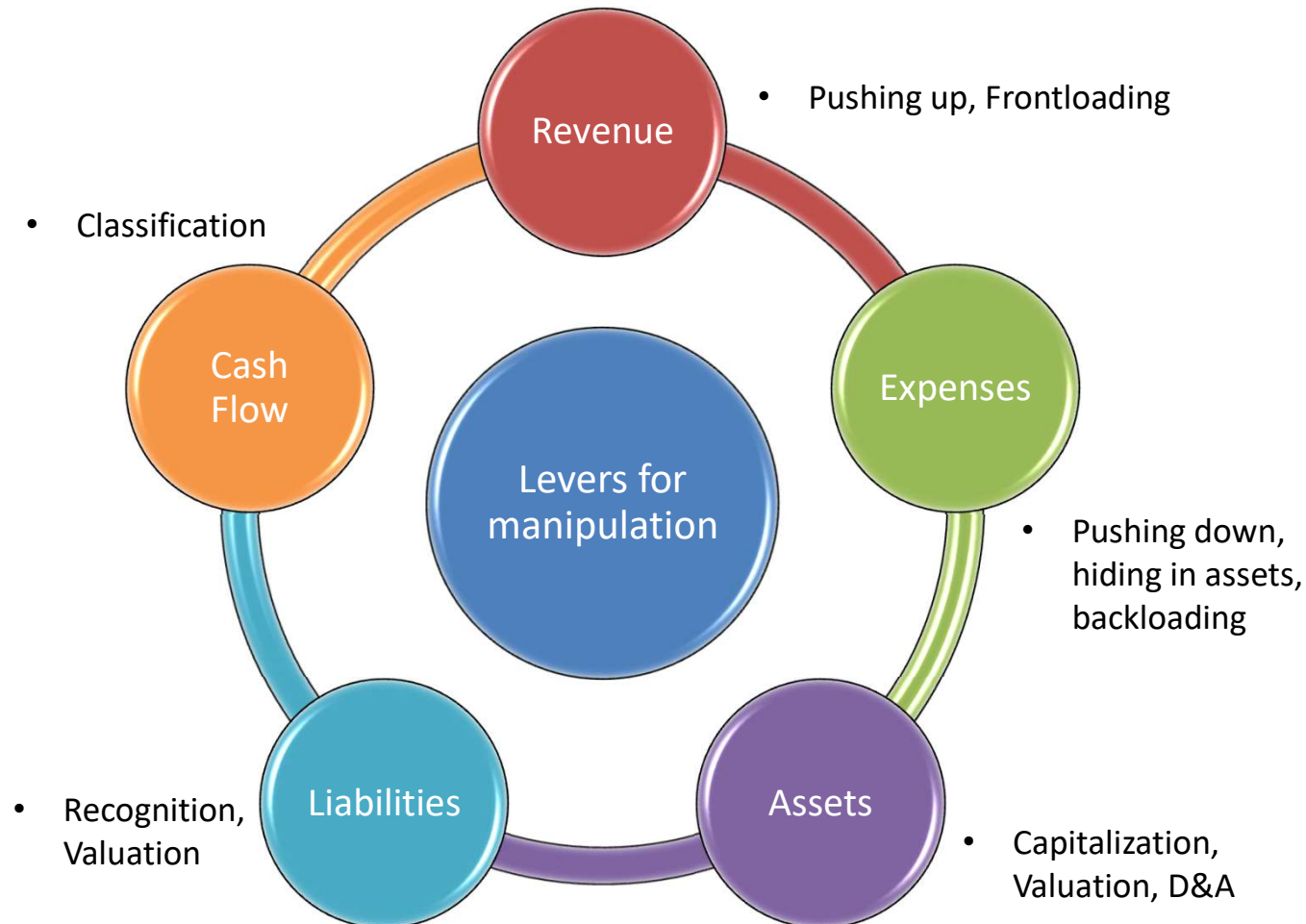
* For awards of up to 125% of base salary, 100% will vest at RPI + 25%, with the additional 25% vesting on a straight-line basis between RPI + 25% and RPI + 30%

The following vesting schedule will therefore apply for awards made in 2012:

Total earnings per share growth per annum (not compounded) over three financial years	Value of award that will vest
Less than 3% p.a.	0%
3% p.a.	15% of base salary
5% p.a.	25% of base salary
10% p.a.	100% of base salary
10% p.a. up to 12.5% p.a.	100% to 150% of base salary



Detecting Aggressive Accounting



Interaction

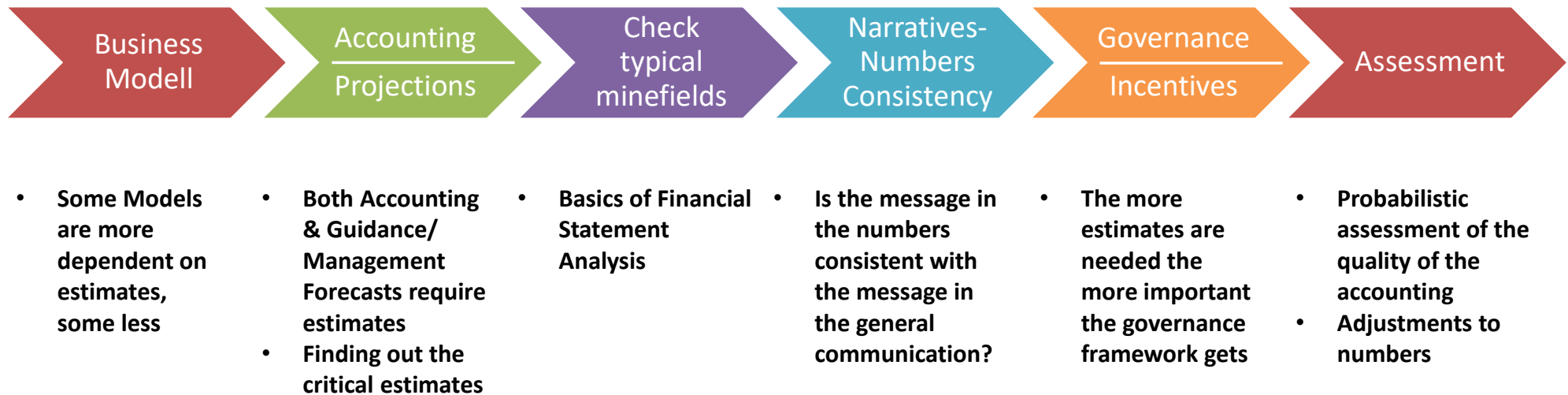
- Asset vs. Expense
- Revenue vs. receivables vs. cash flows
- ...

Economic Consequences

- Third Party R&D expense cutting vs. long-term performance
- Prolongation of useful lives vs. replacement capex and asset performance

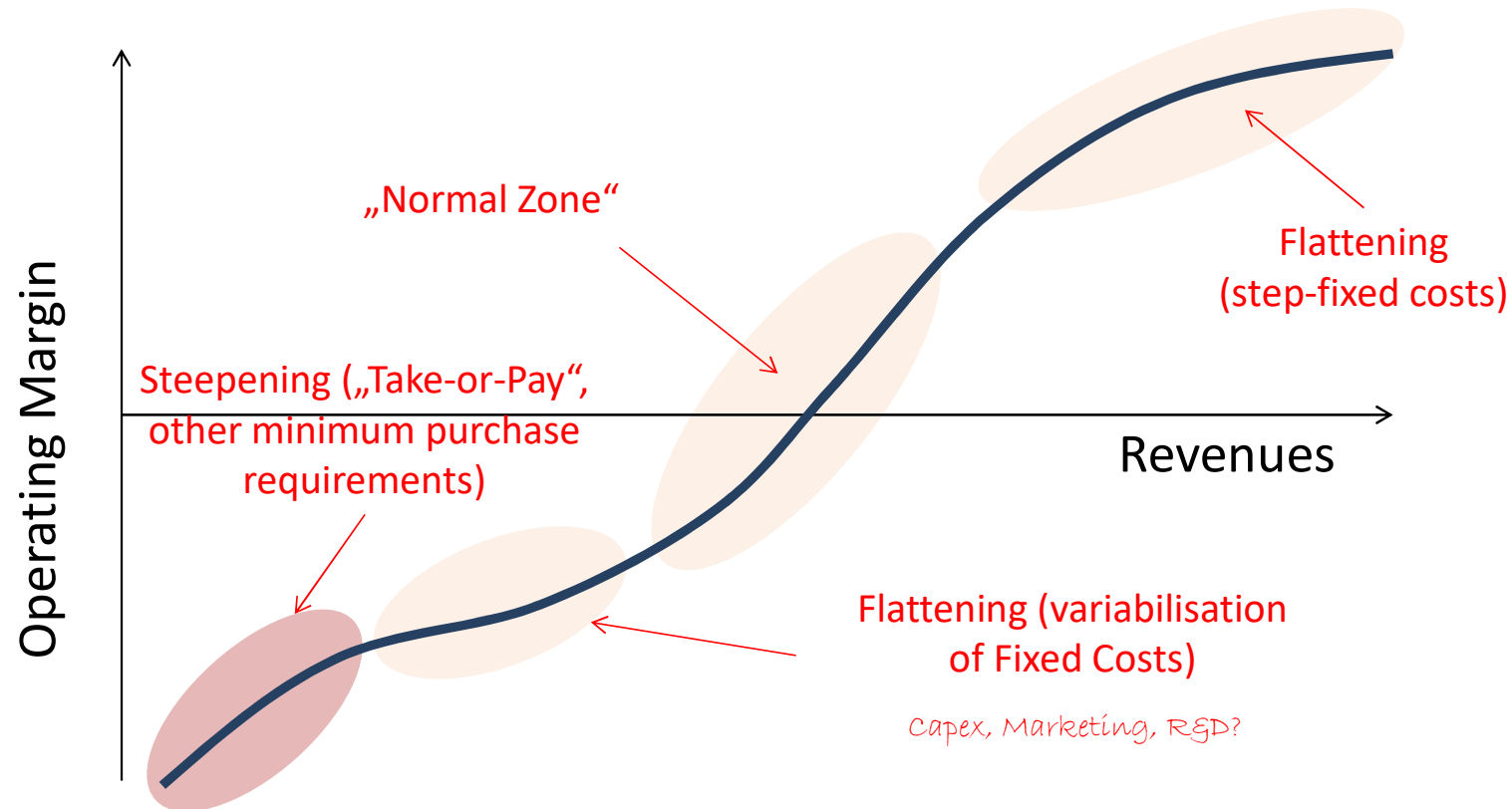


Detecting Aggressive Accounting





Fixed Costs

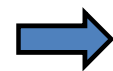
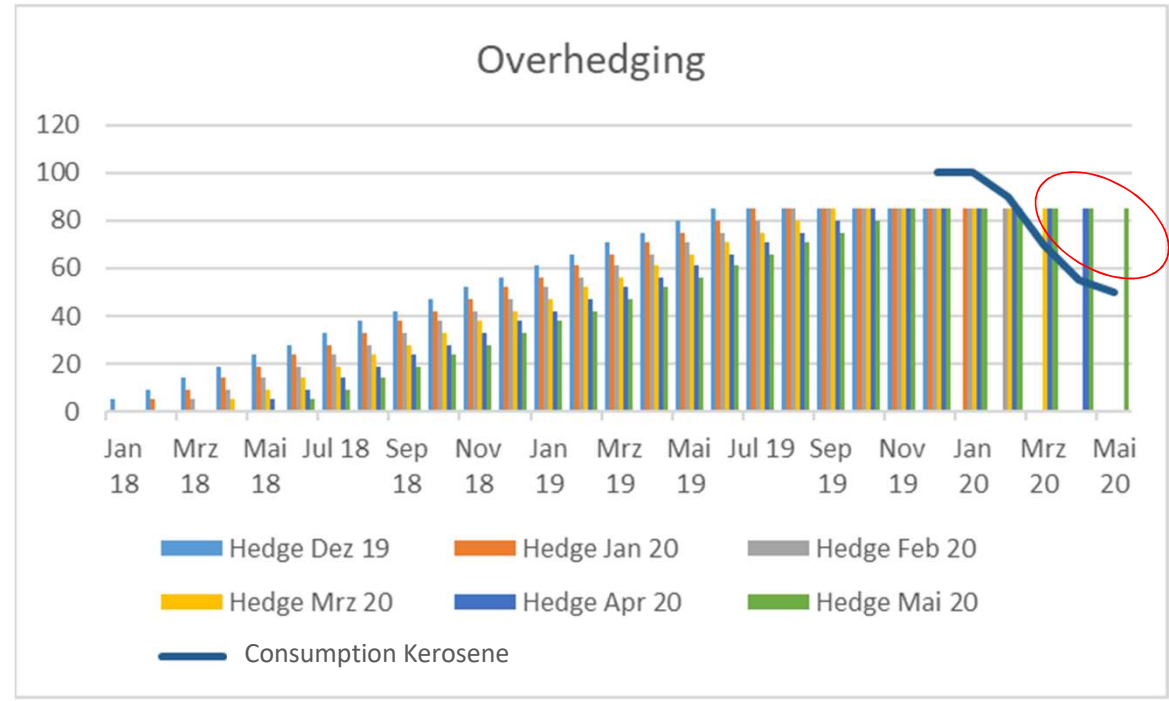




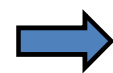
Hedging



Source: Deutsche Lufthansa AG, AR 2019, S. 72.



Revenue-side: FX-hedging

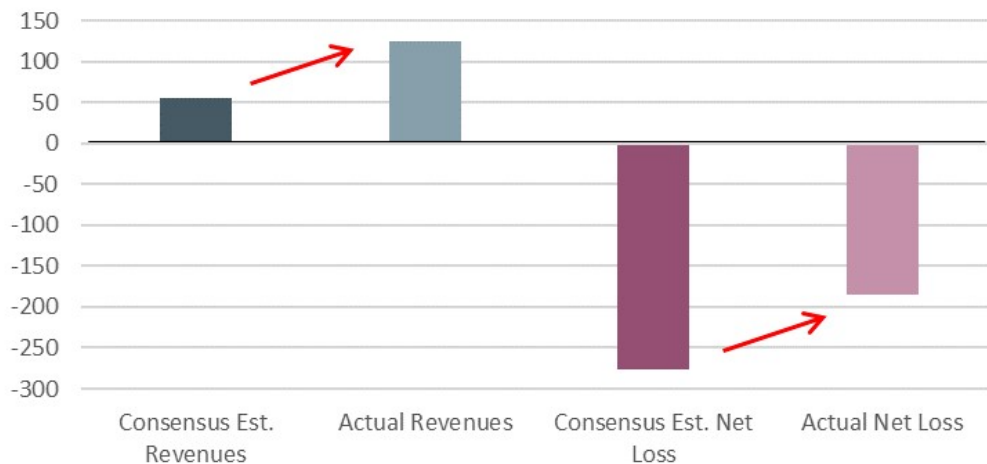


Sourcing-side: FX- and commodity hedging

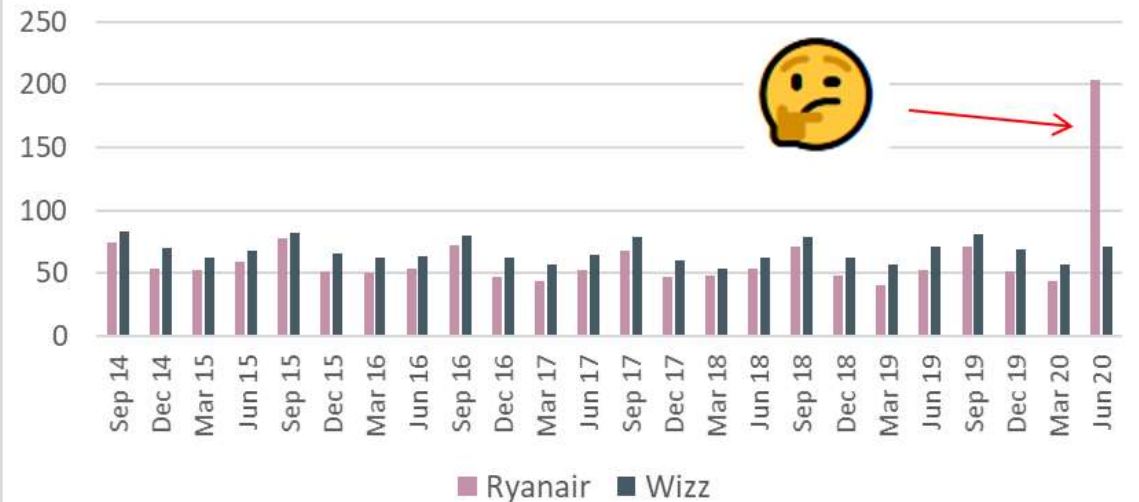


Little „Simplifications“ become material...

Estimates and Surprises in Ryanair's Q1/21 Reporting (mio Euros)



Revenue per Passenger



„Exceptional items in the year ended March 31, 2012 relates to a one-off release of ticket sales revenue of €57.8 million, net of tax, due to a change in accounting estimates relating to the timing of revenue recognition for unused passenger tickets which were made as a result of the availability of more accurate and timely data obtained through system enhancements.“ (Source: Ryanair AR 2012, p. 10).

Down to 8 weeks delay, still valid today!



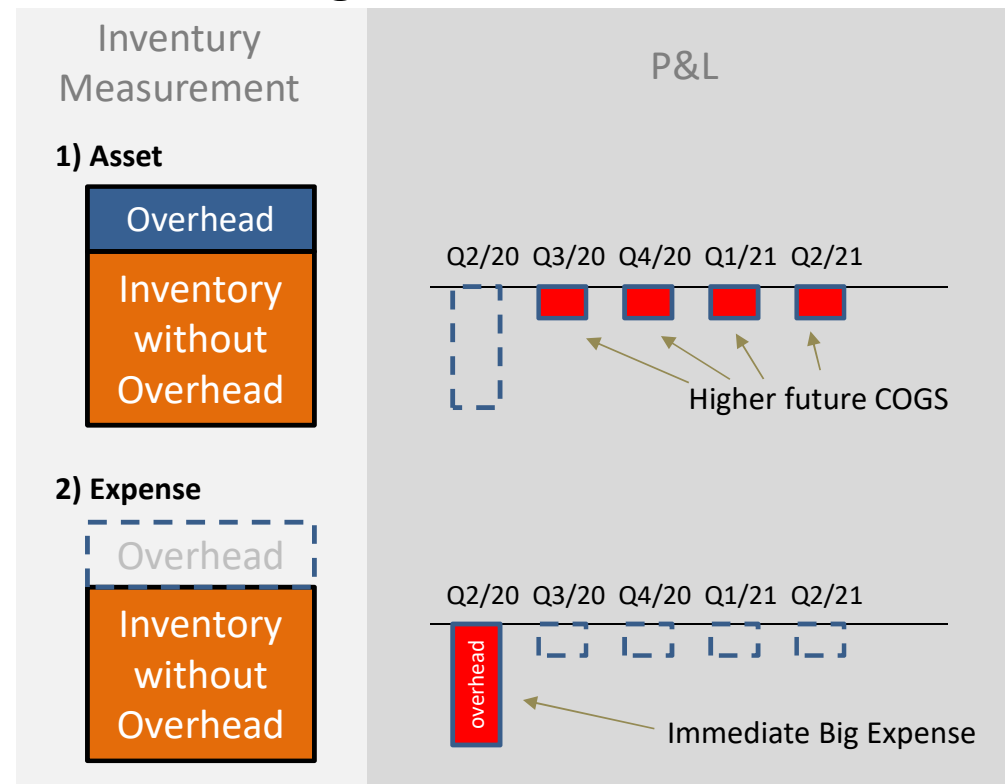
Inventories and hidden fixed costs

Dealing with „Overheads“ when valuing inventories in 2020

IAS 2.10

cost of inventory should include all:

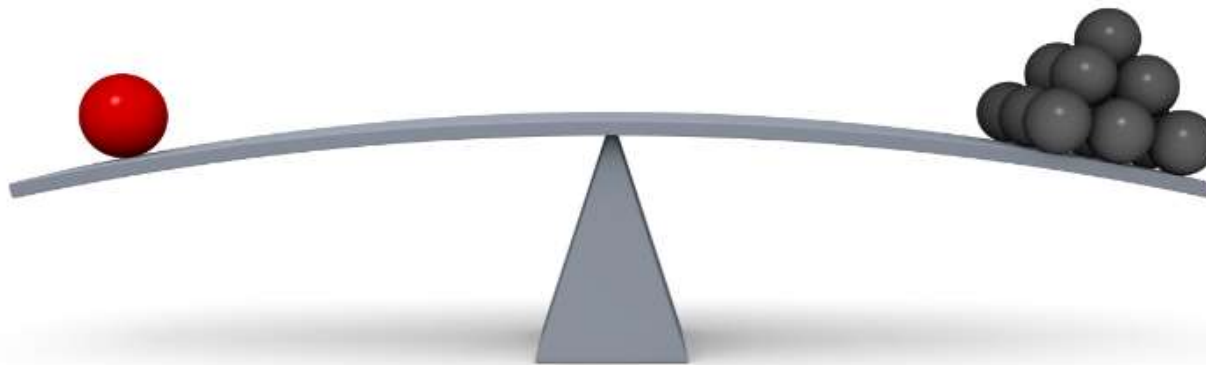
- costs of purchase (including taxes, transport, and handling) net of trade discounts received
- costs of conversion (including variable and fixed manufacturing overheads) and
- other costs incurred in bringing the inventories to their present location and condition





Loss Reluctance vs. Big Bath

Goodwill Impairments	<ul style="list-style-type: none"> ▪ Too little too late vs. value relevance ▪ Debt covenant breaches? ▪ Dividend payments?
Bad Debts (Receivables)	<ul style="list-style-type: none"> ▪ IFRS 9: anticipated losses as a basis for measurement (no „gone bad“ accounting anymore) ▪ Simplified as compared to Banks' IFRS 9 accounting ▪ Credit losses are recorded as an expense ▪ Sustainability of credit losses?
FV accounting	<ul style="list-style-type: none"> ▪ IFRS 9: Tricky issue (take care, markets are still at high levels) ▪ Mark-to-Market, Mark-to-Comparable, Mark-to-Model

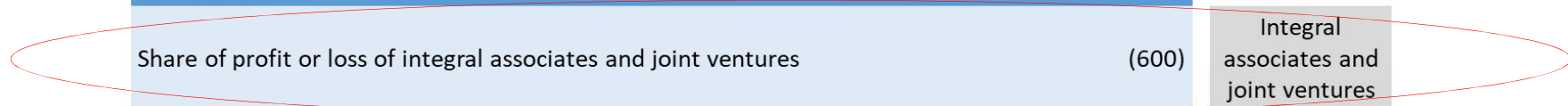




IASB's General Presentation and Disclosure Project

Revenue	347,000	Operating
Other income	3,800	
Changes in inventories of finished goods and work in progress	3,000	
Raw materials used	(146,000)	
Employee benefits	(107,000)	
Depreciation	(37,000)	
Amortisation	(12,500)	
Professional fees and other expenses	(10,030)	
Operating profit	41,270	
Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
Operating profit and income and expenses from integral associates and joint ventures	40,670	
Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
Dividend income	3,550	
Profit before financing and income tax	47,600	
Expenses from financing activities	(3,800)	Financing
Unwinding of discount on pension liabilities and provisions	(3,000)	
Profit before tax	40,800	
Income tax	(7,200)	
Profit for the year	33,600	

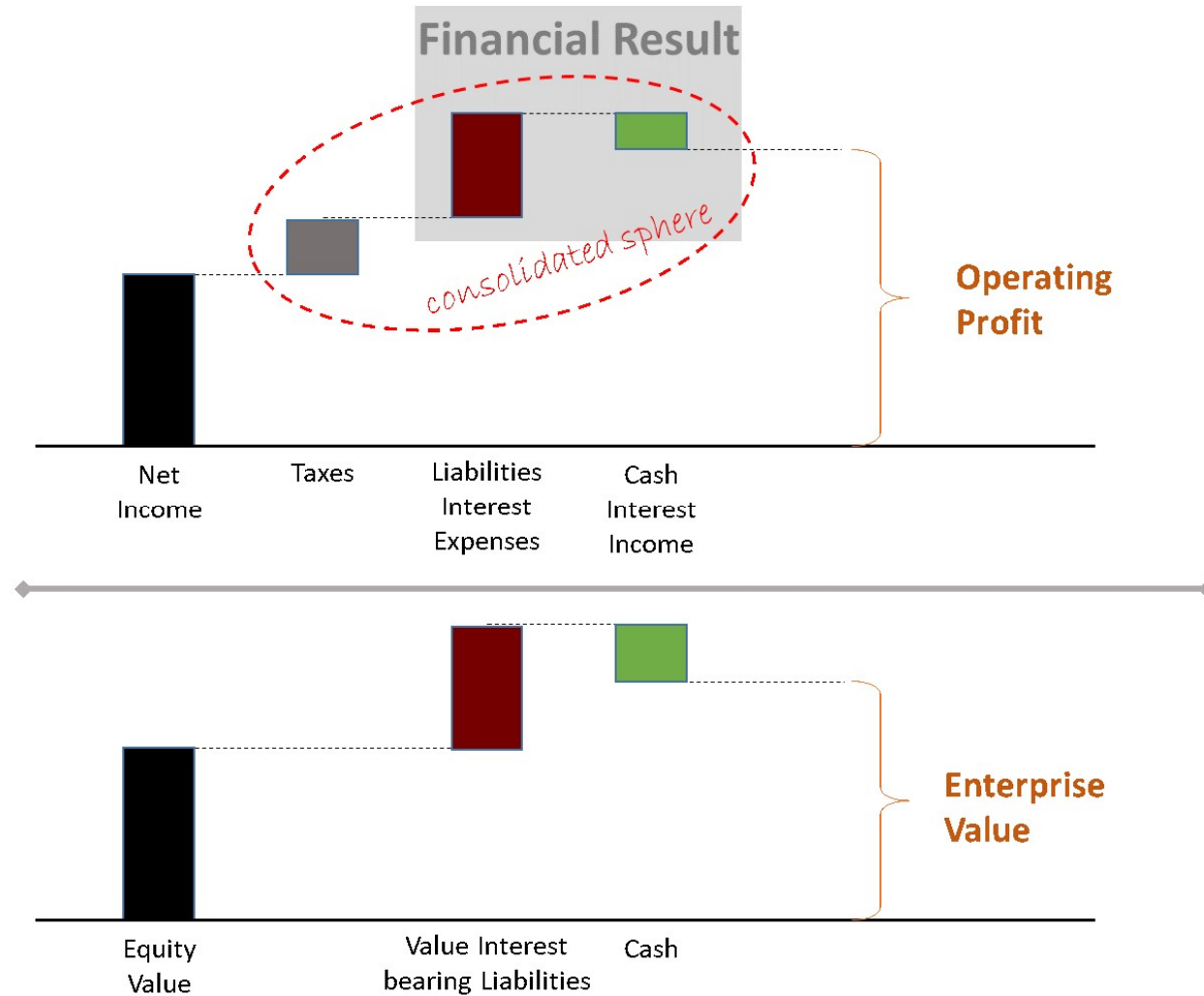
?





IASB's General Presentation and Disclosure Project

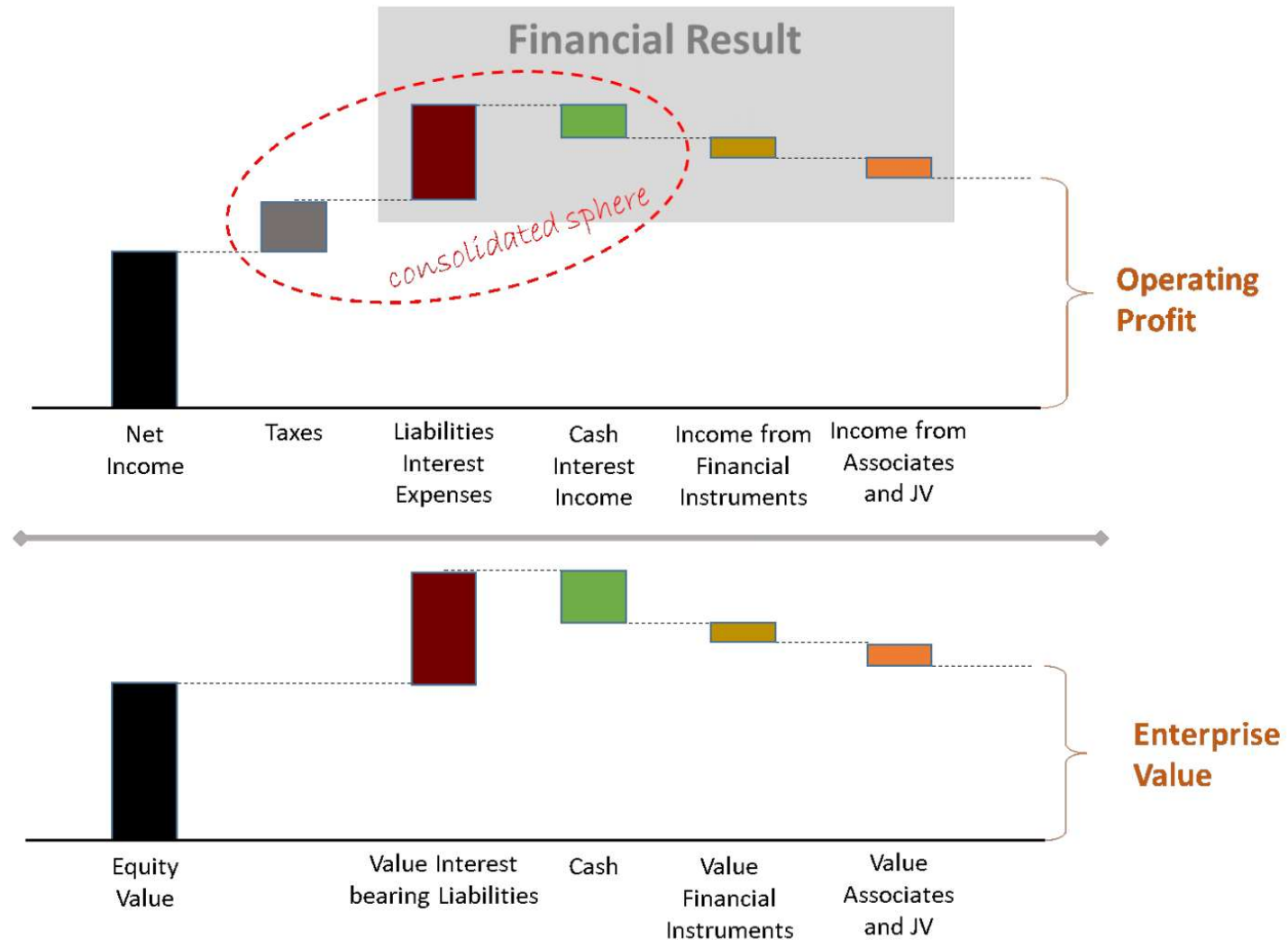
$\frac{EV}{EBIT}$ – Multiple





IASB's General Presentation and Disclosure Project

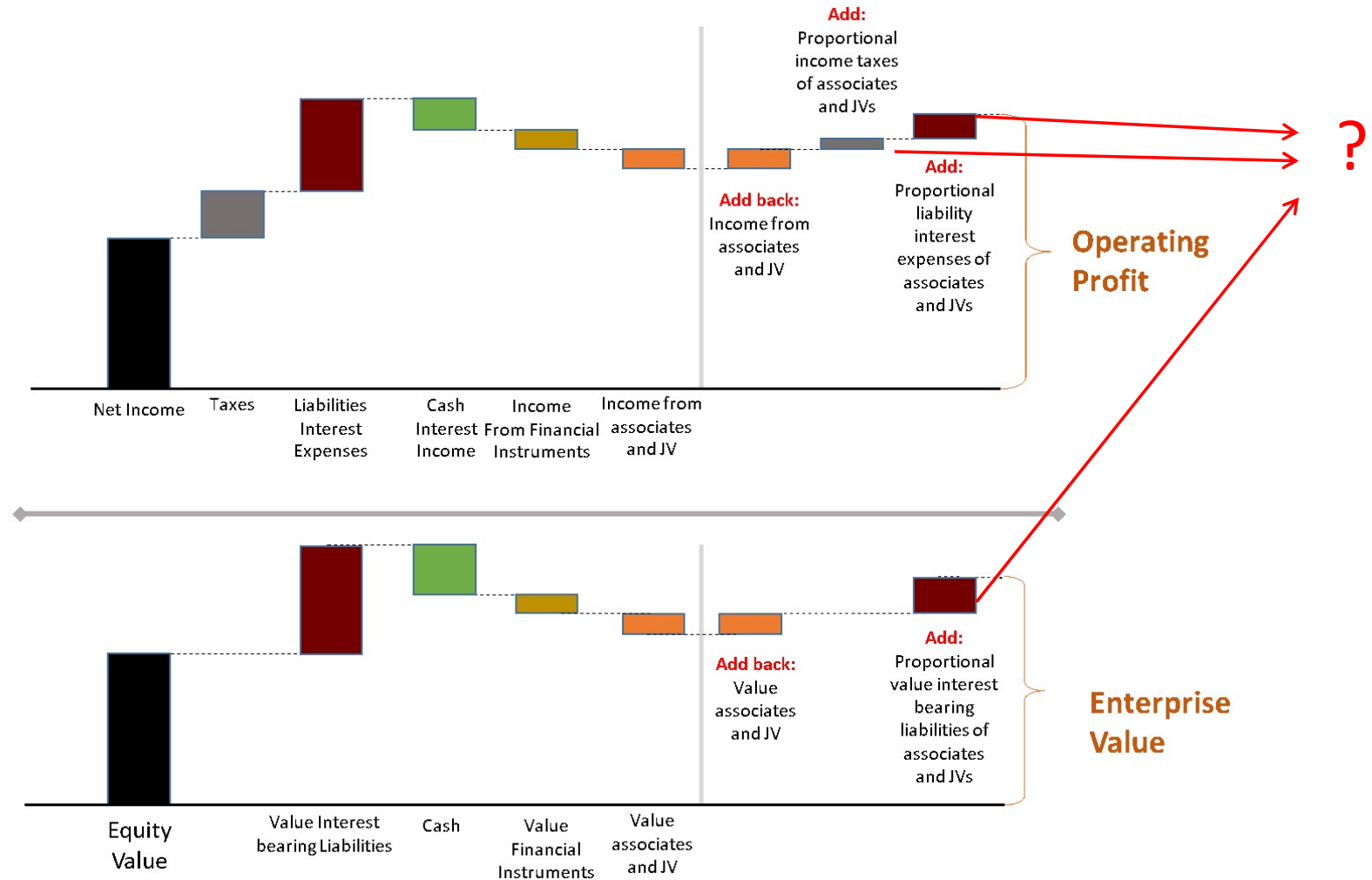
$\frac{EV}{EBIT}$ – Multiple





IASB's General Presentation and Disclosure Project

$\frac{EV}{EBIT}$ – Multiple





Danke



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