

Details relating to the research on Wirecard within the framework of INVESTORS' DARLING

by Prof. Dr. Henning Zülch, HHL Leipzig Graduate School of Management

In the dimension **reporting**, Wirecard showed deficits in both annual and interim reporting, particularly in the areas of *financials* (presentation of the company's assets, finances and earnings) and *prospectives* (future-oriented presentation of the company's development). Wirecard achieved less than 50% of the maximum score in these areas which are ever so important for the capital market (see Figure 2). The earnings section, for instance, did not contain any detailed information or explanations on the major factors influencing the development of sales or other highly relevant earnings figures. These details and figures, however, are easy to report on both the group and the business segment level and offer valuable information to the addressees of the report, such as investors, financial analysts and other stakeholders alike.

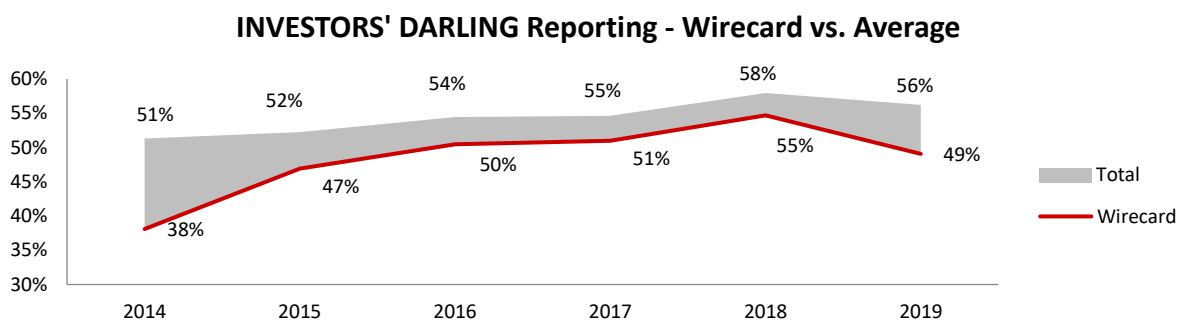


Figure 2: Comparison of Wirecard's reporting quality from 2014 to 2019

Wirecard's interim reports detailed the development of the company's assets, finances and earnings just as little as the annual reports did, with the disclosed information being reduced to the bare minimum. Any statements on the future development of the company were similarly scaled back. Only one earnings figure was explained in a bit more detail while further information on the expected development of Wirecard were missing altogether. However, the forecasts are very important for assessing the future of a company. If significant information like this is left out, the interim reports do not provide genuine updates.

In the dimension **investor relations**, an area which can be practiced mostly voluntarily, the example of Wirecard shows that many companies refuse to disclose relevant information relating to the company and its business activities to investors and analysts. This information, consisting of the strategy or development forecasts, can be presented in a very uncomplicated

fashion, for instance, on the company's *IR website*, as part of effective future-oriented reporting. Compared to the other companies examined within the framework of INVESTORS' DARLING, Wirecard showed and continues to show little willingness to make information available through the channels of *IR presentations* and *digital communication* on a voluntary basis. However, this form of supplying information is used by many successful companies which have a persuasive business model and a clearly defined strategy, to stand out from the crowd by providing an extra bit of communication. While, on average, all companies in the competition showed continuous positive development and professionalization in the field of investor relations and achieved a significant leap forward in the last year, the quality of Wirecard's financial communication stagnated at a low level (see Figure 3). This is rather unusual for a DAX-listed company.

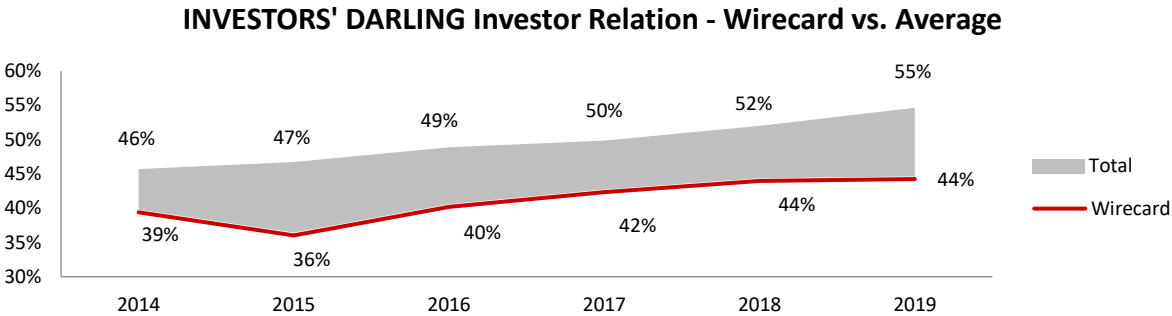


Figure 3: Comparison of Wirecard's IR quality from 2014 to 2019

As a DAX member and tech company, Wirecard could be expected to have a strong online presence to outline its status and explain the complexity of its business model. However, the opposite is the case! The digital annual report is practically non-existent, which suggests an enormous 'investment lag' in the field of financial communication. Thus, Wirecard came in last among the DAX companies in the subfield of *digital communication*. This assessment of the IR activities is further reflected by surveying analysts. In this survey, Wirecard was ranked 141st (out of 160) by the analysts in 2019— an insufficient result for a company that has been celebrated as much as Wirecard.

Looking at the quality of the financial communication in general over the last few years and the increasing importance of Wirecard for the German capital market, it becomes obvious that Wirecard did not raise the quality of its financial communication as it ascended on the DAX. It remains subpar, leaving many questions unanswered. In this context, an expansion of the voluntary reporting was expected, particularly with regard to assets, finances and earnings as well as forecasts. Wirecard, however, has stood out with an increasing level of secrecy.

"The example of Wirecard shows once again that companies with a restricted corporate reporting policy often have something to hide."

Conclusion

In this dimension, Wirecard can be considered an isolated case. According to the findings of INVESTORS' DARLING, reporting on the German capital market has seen a positive development and, as of today, is characterized by an excellent disclosure quality, even among European countries. It would be short-sighted to deny the German capital market its credibility and reliability because of Wirecard. Trust and credibility continue to exist as proven by the collected data. There is a strong relation between the dimensions of *reporting* and *investor relations* because investments in reporting transparency can spill over to the investor relations function, therefore offering a holistic image of the sender's perspective in capital market communication.

The Wirecard case *may* even have some positive side effects. The severe lack of transparency and — as we know today — the cooked accounts of Wirecard raise the question of how far the auditors would have had to limit, or even refuse, their audit opinion. The auditors have to learn the lessons from this case to avoid similar disasters in the future.