Investment Proposal

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WISE Ltd.

FACULTAS CONFIDENTIA AMICITIA

DE ZILVEREN RIJDER

Introduction

This investment proposal provides an overview of the company WISE!, an LSE listed mid-cap company active within the financial service sector. In this report one can read the risk factors of the proposed venture along with its strengths, opportunities and prospects.

This report will start with an executive summary and the fit with its current strategy. Then the company overview of WISE! is discussed to get a familiar feel for the company. Next, an analysis is made from an internal perspective to discover shortcomings, opportunities and even potential risks of the venture. Then the outcomes of an extensive corporate valuation exercise are listed to objectively assess the value of the company. In turn, a technical analysis is made to assess when to purchase this company.

Executive summary

In short, the company has a good fit with the investment strategy of De Zilveren Rijder given that it is a long-term stock focussed on attaining growth. On the other hand, one has to remember that WISE! is a growth company, which makes it appear as a poor performer on value investment metrics such as its current PE ratio (217.19) .

Then overall risk level of the company is low, which is remarkable for a company with revenue growth figures surpassing 20% per quarter. It has enjoyed an excellent track record and retains its management for long periods of time. Furthermore, the industry outlook is highly attractive with high growth prospects, on top of which WISE!'s future B2B customer base is perceived as highly underserved at present.

Given that WISE! is a tech company, there are significant opportunities in the future for expansion. Variable costs are low and investments are expected to stifle, allowing for a significant increase in profitability over time. All these variables have been considered and have been included in a corporate model which forecasts an expected value of 1308 GBX, or an expected upside of 123% averaged over the PEG ratio and the price to revenue valuation.

Although the book shows that WISE PLC has good fundamentals, its technical analyses indicate that it is however not the ideal time to buy right now, price movement is complying with the Fibonacci retracement and the Bollinger bands, however, there appears to be no clear indicator of a break-out phase. This severe downtrend is complimented with the stock is being oversold in the past 5 months as indicated by the William %R oscillator. In short, LSE:WISE is a buy for De Zilveren Rijder with high upside potential. Yet due to the unfavourable market conditions purchase will be postponed.

Strategic fit with De Zilveren Rijder

De Nyenrodiaanse Handelsvereniging de Zilveren Rijder (DZR) predominantly invests in value-stocks. Although, long term orientation also plays an important role in beating the AEX. Given that the AEX on average grows with 7.26% it seems evident that this benchmark appears as a minimal threshold towards investment strategies.

The diversification of DZR might pose a problem for this investment. First of all, the company is a service provider that significantly relies on technology (in line with 41% of the current portfolio) which carries the risk of high impact on returns due to the industry's cycle (De Zilveren Rijder, 2021). Lastly, the company is largely active within the banking industry, which is uncharted territory for this association. Overall, the company appears to have a good fit with other companies in the portfolio, yet it does not fully fit the picture of value investing at present, given it relatively weak value metrics.

Company overview

Founded in 2011 as a matching platform for finding the cheapest conversion rates, WISE! has since grown towards a limited company that is moving more than 2% of the world's money between borders. It has diversified towards new customers yet still focusses on its earliest mission statement 'to create money without borders: instant, convenient, transparent and eventually free." This mission is achieved by catering to consumers through its payment software which is accessible through its online applications and credit/debit card. The bank is solely providing its services online to both businesses and consumers. Services vary, yet where its business clients are predominantly offered payment solutions, its consumers are offered all other regular banking activities. A key point of differentiation is that, unlike at any other bank, an account holder at at WISE! can hold its savings in more than 40 currencies at any time whilst also providing the cheapest conversion rates of the industry.

Since its inception WISE! has grown substantially as a market disrupter, carving out a whole new niche in banking and quickly growing towards becoming the market leader in currency conversion. Recently, WISE! has taken on the new vision of also providing banking services to its customers. This would imply a virtually untouched market penetration for a company with an excellent image and established customer base. In terms of customer satisfaction, the company experiences 67% word-of-mouth growth and has reached double-digit revenue growth rates during the last four years. Especially its business segment (founded in 2017) appears to be performing exceptionally.

The drawback of WISE! is that it does not incorporate interest rates into its business model. The trend of (growing) negative interest rates might be troubling for this company, given that the managed pile of cash is accelerating more than its growth of customers each year. Another drawback is that WISE! is still an online bank with little prior experience in the other business segments of banking, such as providing credit, wealth management, etc.. It might therefore be hard to transition into another banking segment at a point of stagnation. Similarly, there is the risk of increased resource and currency volatility worldwide. A trend that could undermine the profits of the company heavily. Furthermore, wise only support bank-to-bank transfers and requires a social security number. This means that for legal reasons this bank can be inconvenient or even require another bank for its customers to comply with regulations.

Management

WISE is currently still guided by its two founders: Kristo Käärmann (CEO) and Taavet Hinrikus (Executive Chairman); two Estonian professionals from London.

Kristo Käärmann used to be a consultant at Deloitte and PwC before starting the venture. Taavet Hinrikus is familiar with tech start-ups as he used to be Skype's director of strategy until 2008, is an active investor and holds a degree from INSEAD business school. The Chief Financial officer (Matthew Briers) is the last of the long term board members in the company given that he joined in 2015. Prior to WISE!, Matthew worked as head of sales and finance for Google UK and Head of Strategy Asset Finance at Lloyds Banking group with 20+ years of experience in Finance. These long term leaders are not expected to stop any time soon given that they own almost 30% of the shares from WISE!.

The board currently consist of eight people, five of which joined during or after 2019, which implies the strive for professionalization in the company and a strong pressure towards increasing profitability. Although all of these people have significant experiences in IT (commerce) and Finance it has to be stressed that a board of predominantly new members does hold a significant risk of short term policymaking leading to a 'squeeze of profitability'.

Industry trends and threats

The proposed company falls in line with the remainder of the portfolio as it falls in the financial and professional service industry, yet with a strong backbone in technology as it is known by the market as an industry disrupter. Furthermore, it aspires to diversify towards becoming a fully-fledged bank. An industry that is not tackled yet.

Figures for the technology sector and the professional services industry propose a favourable investment climate. IT is expected to grow by 4% in the coming year whereas professional services are expected to bounce back to pre-existing covid levels. Furthermore, as the company is a currency provider and banking software, seeing an increase of 40% in leisure implies an increase in the use of its services (ABN AMRO, 2021). Then there are the downsides of the investment climate. The recent developments of high inflation and negative interests might significantly affect the industry. Another risk is that of a potential crisis looming, reducing the revival of the beforementioned sectors.

Given that the operating model is viable throughout the world, the Total Addressable Market is virtually limitless. Even if the vision of becoming a bank does not come through, WISE! still has more market share to grasp. The bank currently transfers 2% of the world's money across currencies and extracts a cut of 0.69% on average. Knowing that the current revenue of WISE! (measured from Q2 2021 to Q1 2022) is 571.1 million GBP the total addressable market of 55.967.8 billion GBP on the premise that 81.112 trillion GBP worth of cash is being transferred annually.

Continuing, according to research by Goldman Sachs (2018) the B2B market for SME's is valued at 1.5 trillion worldwide with 4.5% CAGR. Furthermore, the SME segment of this market has been cited as 'the biggest untapped market opportunity for the payments industry' (Goldman Sachs, 2018, p.3).

Revenue by geographical region	2019 *in £mln*	2020 *in £mln*	2021 *in £mln*
Europe	£ 49.7	£ 94.5	£ 136.3
Y.O.Y. growth		*90%*	*44%*
United Kingdom	£ 51.0	£ 72.7	£ 95.8
Y.O.Y. growth		*43%*	*32%*
Asia-Pacific	£ 24.4	£ 47.4	£ 89.2
Y.O.Y. growth		*94%*	*88%*
North America	£ 39.0	£ 62.9	£ 73.0
Y.O.Y. growth		*61%*	*16%*
Rest of world	£ 13.8	£ 25.1	£ 26.7
Y.O.Y. growth		*82%*	*6%*
Total	£ 177.9	£ 302.6	£ 421.0
		70%	*39%*

Figure 1: The revenue of geographical regions

WISE! reports on its geographical sectors. Here we see that there is a significant potential for future growth and utilizing their economy of scale. As the UK market becomes saturated (although disputed by the pursuit of business clients as well) we see significant growth through all areas of the world. This is extremely relevant given that WISE! operates an economy of scale business model. In figure 2, one can easily see that the company is able to provide services throughout the entirety of Europe and other massive economies. In other words, the company can utilize its current infrastructure and fully focus on its journey to scale throughout the world without the need of expending its current offering.

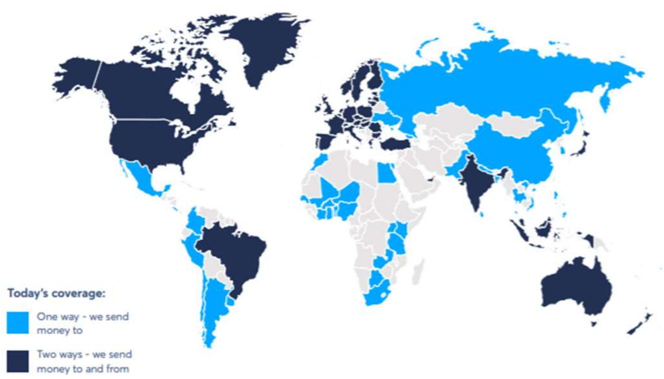

Figure 2: The coverage of WISE!'s main product Wise Transfer

WISE! is a real growth company as is customary in companies with high revenue growth rates. Yet it has the real potential of turning into a real value investing stock as well given that it currently sells its services at 1/8th of the price of its competing banks (and on 1/18th of payment providers such as Paypal). This combined with the potential of technological economy of scale (relatively low variable costs) and limitless expansion possibilities creates a favourable tipping point after scale.

Figure 3: The average price that TransferWise charges its customers (WISE 2021).

- ✓ 85% of the bank accounts in the world are reachable by WISE, signalling a relative increase of profitability during scale.
- ✓ 1/8th priced measured against average industry conversion costs.

WISE's revenue streams

As mentioned before, the company currently operates (partly) in three industries. Payment service provider, currency conversion services and to a lesser degree banking software. Yet it also utilizes its current infrastructure and rents it out towards corporate clients and other banks

WISE currently tailors to three customer types, yet reports on two as it groups business (SME and corporate partners). Although a bit confusing at start, it poses an easy and powerful analysis. Listed below one can find the quarterly numbers of the last three years, ending with the first quarter of 2022 for the financial year ends on the 31st of March.

Year	2019					2020					2021					
Quarter	Q1 in £mln	Q2 in £mln	Q3 in £mln	Q4 in £mln	Sum in £mln	Q1 in £mln	Q2 in £mln	Q3 in £mln	Q4 in £mln	Sum in £mln	Q1 in £mln	Q2 in £mln	Q3 in £mln	Q4 in £mln	Sum in £mln	Q1 in £mln
Business unit 1: Personal																
Revenue	28.8	37.3	39.3	45.7	151	48	62.1	65.5	76.1	251.7	70.8	87	89.8	93.7	341.3	123.5
Y.O.Y.	0%	0%	0%	0%	0%	67%	67%	67%	67%	67%	48%	40%	37%	23%	36%	74%
Q.O.Q.	0%	29%	5%	16%		5%	29%	5%	16%		-7%	23%	3%	4%		32%
Customers																
Business unit 2: Business																
Revenue	4.9	6.6	7.5	8.0	26.9	9.3	12.4	14.1	15.1	50.9	15.5	18.9	22.1	23.2	79.7	26.6
Y.O.Y.	0%	0%	0%	0%	0%	89%	89%	89%	89%	89%	67%	52%	57%	54%	57%	72%
Q.O.Q.	0%	33%	14%	7%		17%	33%	14%	7%		3%	22%	17%	5%		15%
Customers																
Total																
Revenue	33.7	43.8	46.7	53.6	177.9	57.3	74.5	79.6	91.2	302.6	86.3	105.9	111.9	116.9	421	150.1
Y.O.Y.	0%	0%	0%	0%	0%	70%	70%	70%	70%	70%	51%	42%	41%	28%	39%	74%
Q.O.Q.	0%	30%	7%	15%		7%	30%	7%	15%		-5%	23%	6%	4%		28%
Customers	1.4	1.6	1.8	1.9 -		2.1	2.4	2.6	2.8 -		2.8	3.2	3.4	3.5 -		

Figure 4: The revenue overview of the past performance of WISE!

The numbers are impressive in themselves, the company clearly has faced a small dip in the first months of covid as its personal business unit 1 performance is relative to global trade (if people don't convert their money then no revenue is generated). Likewise, for its second business unit, it seems fairly logical that businesses have sold less and cut back on extra costs. What is exceptional is that the company has continued to be profitable throughout the crisis, expressing a resilient business model.

If one extrapolates the current revenue streams and incorporates a decelerating growth rate then it becomes apparent that after four additional years of trading the company is expected to have grasped 6.7% of the total addressable market, which appears to be feasible overall. The implied growth of 307% over four years at first hand appears to be unreachable, yet in line with current growth trends.

Another interesting outcome is the significant increase in 'free debt' as the average value hold by WISE!'s customers is increasing, likewise, the number of WISE users is increasing as well.

Corporate valuation

In this chapter a look is given into three valuation methodologies that are drafted from the attached Corporate Model. The summary of this valuation is listed below in figure 5. In summary the model highlighted a slight devaluation based on these three valuation. What is interesting is that both the p/e growth ratio and price to revenue ratio are closely related. This is somewhat to be expected given that costs are often expressed as a percentage of revenue.

There are some assumptions to consider. Currency pricing is currently conducted on 1/6th of that of competitors. The company, therefore, has more potential than initially expected. If prices are raised then, effectively, there is a 0% increase in general expenses. Furthermore, WACC is alarmingly low due to the abundance of capital. For the DCF formula the increase in accounts payable from WISE account holders has not been included. Otherwise, the DCF valuation of the company would result in £ 201.16 (or 3336% upside potential). Although not used in the calculations, it does hint at the availability of zero cost capital for WISE!.

Concluding, there is a potential upside of 139% and a potential downturn of -56% (excluding the account value of users). Although, based on the P/R and P/E growth ratio an upside of 123% is expected. Still, one has to consider that this analysis has been conducted on the assumption of current operations and that pursuing profit optimalization may be preferred by the company in the future.

- Note: the monetary flows of the company are extremely difficult to track. This complicates the model significantly. It is therefore extremely important to critically assess the methodology and the assumptions on which this model is build in the provided excel sheet.

Valuation methodology 1/3: Price to revenue multiple valuation				
P/R	2022	2023	2024	2025
Revenue	£ 711.95	£ 1,056.03	£ 1,460.31	£ 1,880.73
Yearly growth %	69%	48%	38%	29%
Bullish				
10x's revenue				
Price target	£ 7.16	£ 10.62	£ 14.68	£ 18.91
Marketcap (x1,000,000)	£ 7,119.47	£10,560.29	£14,603.11	£18,807.27
Bearish				
5x's revenue				
Price target	£ 3.58	£ 5.31	£ 7.34	£ 9.45
Marketcap (x1,000,000)	£ 3,559.74	£ 5,280.14	£ 7,301.55	£ 9,403.63
Just right				
7.5x's revenue				
Price target	£ 5.37	£ 7.96	£ 11.01	£ 14.18
Marketcap (x1,000,000)	£ 5,339.61	£ 7,920.22	£10,952.33	£14,105.45

Discount 2025 price target to today target price	**£ 12.15**

Valuation methodology 2/3: Price to Earning Multiple Valuation				
P/E	2022	2023	2024	2025
EPS	£ 0.11	£ 0.17	£ 0.24	£ 0.32
Yearly growth	349%	56%	40%	34%
Bullish				
2x PEG that year				
Price target	£ 75.83	£ 19.18	£ 19.26	£ 21.81
Marketcap (x1,000,000)	£ 0.00	£ 0.00	£ 0.00	£ 0.00
Bearish				
1x PEG that year				
Price target	£ 37.91	£ 9.59	£ 9.63	£ 10.90
Marketcap (x1,000,000)	£ 0.00	£ 0.00	£ 0.00	£ 0.00
Just right				
1.5 PEG that year				
Price target	£ 56.87	£ 14.39	£ 14.44	£ 16.36
Marketcap (x1,000,000)	£ 0.00	£ 0.00	£ 0.00	£ 0.00

Discount 2025 Price target to tday target price	**£ 14.01**

Valuation methodology 3/3: Dicounted Cashflow	
	DCF Valuation price per share target
Bullish Case	£ 7.31
Bearish Case	-£ 0.57
Just Right Case	£ 2.60

Bottom line	**Price target**	**% to target**
Valutation P/R	£ 12.15	108%
Valuation P/E	£ 14.01	139%
Valuation DCF	£ 2.60	-56%
Average of all	£ 9.59	64%

Market cap today	£ 10,398,440,000.00	
Stock price today	£ 5.85	GBP
	1,776,296,549.37	

Figure 5: The valuation of WISE! as drafted from the attached corporate model.

Technical analysis

Technical Analysis helps forecast the direction of the stock price movement through the analysis of historical market data. In the technical analysis, a mix of indicators are scrutinized and the results are interesting while being subtly contradictory to the book value of the company.

Figure 6: Historical Market data against technical indicators

The technical analysis starts with the Fibonacci retracement in combination with the support of the morning/evening candle stars. This analysis is used to figure out the break-out point of the price movements thereby indicating the ideal time to buy or sell any stock.

A quick analysis shows that the stock follows the golden ratio patterns which is a good sign in terms of technical analysis. However, from the graph, there is no clear retracement indicator which basically means that there is going to be a further downtrend in the stock price movement. Additionally, a lot of strong evening stars candles are seen which indicate the further downtrend to come. The price pattern is then traced against the Bollinger's band to analyse the trend better; a few squeezes are observed in the bands in January 2022 indicating a period of upcoming volatility. The price movement is also trying to get lower from the band indicating a strong will for further downtrend. From this, the hypothesis of the downtrend period will continue until a retracement is observed and also speculate severe selling of WISE in the market. The massive sell-off of WISE is also shown by the Oscillator. For this, the William % R indicator to track when the asset is oversold or overbought. From the William % R indicator, we see that the last quarter witnessed a massive sell leading to a further decrease in the stock price. Also, the plot of moving averages convergence and divergence (MACD) to analyze WISE better, however, there are ambiguous results since it is relatively a new listing and MACD being a lagging indicator needs much more data to show better results.

From the technical analyses, it is observed that although WISE is a fundamentally strong business the market does not agree with the current share price. This is a strong indication of an undervalued stock further undervalued with the current market corrections. Altogether, from the technical analyses performed, WISE is indeed a good buy just not in this period.

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