SHADOWFALL

NETWORK INTERNATIONAL:
When Irish Eyes are Smiling on Africa and the Middle East

FOR PROFESSIONAL CLIENTS ONLY. ShadowFall is short Network International Holdings Plc (NETW).

Network International is a £1.5bn market cap UK main market listed company which provides payment solutions services in the Middle East and Africa.

In July 2020, Network International announced its intention to acquire an African based payment solutions provider, DPO Group, for USD 288 million. While DPO may be focused on Africa, it was borne in Ireland in 2016, birthed by the “back-room boys” to Wirecard UK & Ireland; it is even registered two floors above. The first business DPO bought on its four-year roll-up was from a former Wirecard Director, who in November 2016 was convicted of fraud and money laundering. The auditor to DPO was a colleague of the convicted money launderer. The secretary and initial Director to DPO are two individuals who were also associated with a company which is subject to an ongoing US CFTC court case regarding binary option scams.

DPO is to be acquired on 12x its FY19 pro-forma revenue, even though it has acquired its revenue on what we calculate to be between 1x-2.5x sales; less than a year ago DPO acquired c. 37% of its pro-forma revenue on 2.5x sales. The last time we saw such a significant mark-up in value in such a short period of time was when Wirecard acquired the Indian business, GI Retail.

Key areas of concern are:

- We believe that the major pre-IPO shareholder, who also happens to be Network International’s major customer, could have been incentivised to boost Network International’s numbers ahead of IPO. Now that this shareholder retains a fraction of its former holding, this incentive is significantly reduced.
- We are unconvinced that losses which were attributed to “discontinued operations” were entirely related to the disposed businesses.
- Information relating to business disposals does not, in our view, reconcile with the local filings nor the buyer’s version of events.
- In our view, there is a rising risk of debt covenant breach.

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Summary of Findings

Network International is a UK Main Market listed, Middle East and Africa focused payment solutions provider with a market capitalisation of c. £1.5bn.

The IPO: "Show me the incentives and I will show you the outcome"[1]

In the run-up to its IPO in April 2019, we reckon that Network International pulled on many strings to present as good numbers as it could. We calculate that its largest customer was certainly incentivised to send significant business Network International's way. As well as being its largest customer, ahead of IPO, Emirates NBD was Network International's biggest shareholder. We calculate that for each USD 10 million in revenue that Network International could generate from Emirates NBD, this would create an additional USD 54 million in shareholder value for Emirates NBD upon its exit. Maybe this is why revenue from Emirates NBD appears to have grown at 5.4x the rate that revenue from the wider Middle East region grew in FY19, despite a fee cap theoretically meaning Emirates NBD revenue could have declined in FY19. Either way, now that Emirates NBD holds a fraction of its former equity interest in Network International, the fee cap may feature more prominently in its forward interactions.

Discontinued operations: were significant costs placed in "discontinued operations" to make the continuing operations appear better?

In FY16, FY17, FY18, and FY19, Network International reported significant losses which it attributed to discontinued operations. Consequently, these losses are excluded from Network International's calculation of its "Underlying EBITDA". However, we are unconvinced that these losses were entirely attributable to the discontinued operations.

Poor form of prior acquisitions: Spending USD 70.9 million only to dispose of the same businesses a few years later for USD 17.7 million

Even if the losses as reported by Network International for the discontinued operations are accurate, it appears that Network International has form in buying businesses at a significant cost, only to several years later impair almost all the value which was paid in cash. We believe this should raise concern. Especially in the context of its latest USD 288 million acquisition of DPO Group.

[1] Quote from Charlie Munger, Vice Chairman, Berkshire Hathaway Inc.

Business disposals that cannot be reconciled: Selling to Finablr which suggests it was paid to acquire the business

The buyer of the majority of Network International's disposed businesses was Finablr, the now suspended UK listed business, which in April 2020 revealed its debt was 4x greater than it had reported. In one disposal to Finablr, Network International reports a USD 4.8 million cash inflow in its investment cash flow section for the disposal. By contrast, Finablr reports that it received a USD 2.0 million cash inflow for this business. We note *en passant*, that in April 2020, Network International's former CEO and apparently ongoing advisor to its board, Bhairav Trivedi, was appointed as CEO to Finablr. We also find other inconsistencies between Network International's IPO Prospectus and the local filings of its subsidiaries.

Delaying payments to Merchant Creditors in 1H20?

It appears to us that in 1H20, Network International had a fortuitous development in its settlement related balances regarding its Merchants. Merchant Solutions revenue declined by 39% and Total Processed Volume (TPV) fell by 28% in the period, compared to 2H19. Scheme Debtors fell by 35% in 1H20; broadly in line with the decline in revenue and TPV. This is to be expected and is cash generative. However, Restricted Cash and Merchant Debtors rose by 60% and remained flat respectively in 1H20. It seems to us that despite a significant decline in revenue and TPV during the 1H20 period, Network International was due less from Scheme Debtors but owed more to its Merchants, relative to 2H19, and held on to significantly more cash.

A USD 24 million cash call and rising risks of a breach of covenants?

In July 2020, Network International announced its intention to acquire DPO Group for USD 288 million. Network International appears to us to have raised USD 24 million in cash which is surplus to requirement for this acquisition. Also, in 1H20, Network International refinanced its syndicated loan facility, increasing it from USD 350 million to USD 525 million. Had Network International not increased the facility, then we calculate that the 1H20 debt would have equated to 105% of the prior facility. We believe that if Network International's consolidated net debt was used instead of its habit of adjusting it lower (for example removing USD 22.6 million in overdraft related debt), then leverage on a pro-forma basis would have been 3.8x in 1H20. This would have been in breach of the 3.5x covenant. The zero movement in 1H20 Merchant Creditors looks to have been pivotal.

We also find repeated inconsistencies in Network International reported drawings on its syndicated loan facilities.

The origins of DPO Group

In July 2020, Network International announced its intention to acquire an African based payment solutions provider, DPO Group for USD 288 million. DPO appears to have been borne in 2016, birthed by the "back-room boys" to Wirecard UK & Ireland. Despite its focus on Africa, it is registered in Ireland, two floors up in the same premises as Wirecard UK & Ireland. Perversely, in our view, for an Africa focused enterprise, the first business DPO acquired on its four-year roll-up was a German based company, AconaOnline.

AconaOnline was sold to DPO by Dietmar Knoechelmann, the former Wirecard Director, who in 2016 was convicted of fraud and money laundering offences. The Wirecard connections do not end there.

Alongside, Knoechelmann, Andy Quinn was the co-director to the business, that was sold to Wirecard, which then became Wirecard UK and Ireland. Until 2017, Andy Quinn audited DPO (since then Quinn's associate has performed the audit). DPO itself was originally incorporated with Liam Grainger as secretary and Bob Richmond as its Director. These are the same individuals who were also directors to Greymountain Management, which is now detailed in an ongoing US CFTC court case relating to a binary option scam.

DPO itself is a roll-up. As far as we can tell, it has acquired almost all its revenue on valuations of between 1x to 2.5x revenue. DPO's most recent acquisition was in August 2019, when it acquired what we believe to be c. 37% of its pro-forma revenue for 2.5x sales. Less than a year later, Network International announced its intention to acquire DPO for USD 288 million, paying what we calculate to be 12x FY19 pro-forma (15x actual FY19) revenue.

According to its FY19 accounts, DPO has NET TANGIBLE LIABILITIES of USD 8.9 million. Given that Network International is paying USD 288 million for DPO, the value attached to it will likely be almost entirely goodwill. We calculate that if the same goodwill impairment test methodology were to be used solely for DPO as Network International uses for its existing goodwill, then the DPO acquisition could fail the impairment test. We also see the potential that DPO's goodwill may have been double counted in its financial statements and find goodwill to be attached to a company which is not listed as a subsidiary.

Several of the metrics provided by Network International for DPO we regard as contradictory to historical reporting. Further, the projections provided by Network International's management relating to DPO, in our view, make little sense.

The last time we saw such a strange acquisition with a considerable mark-up in valuation in such a short period of time, was when Wirecard announced its acquisition of the Indian business, GI Retail. Given the provenance of DPO, and its touch points to persons connected with Wirecard, makes this acquisition in our view, all the more concerning.

INTRODUCTION

Network International was established in 1994 as a subsidiary of Emirates Bank International. The business operates through two primary segments, **Merchant Solutions** which processes payments on behalf of merchants and **Issuer Solutions** which issues payment cards to consumers on behalf of banks. The business operates in the Middle East (73% 2019 revenues) and Africa (27% 2019 revenues). Network International is the current market leader, in terms of market share, for both Merchant Solutions and Issuer Solutions within the Middle East. That said, competition is rising with Adyen announcing its expansion into the region, with an office in Dubai on November 10, 2020.

In April 2019, the firm was spun out of Emirates NBD Bank, IPOing in London. The selling shareholders were Emirates NBD Bank PJSC, with 51% of the equity and Warburg Pincus and General Atlantic, with 49% of the equity. Both entities have since sold down their stakes, and now hold less than 10% of the equity.

Network International market information

	London Stock Exchange
Ticker	NETW LN
Share price	270.0 GBp
Market Cap (M)	£1,485
3 month average daily volume	2,556,920
3 month average daily value (M)	£6.9
Short interest	6.2%
Days to cover	9
Active available quantity (M)	104.0
Active available value (M)	£280.7

	Top holders	% Out
1	T Rowe Price Group	12.4%
2	Capital Group	10.6%
3	Mastercard	9.1%
4	Emirates NBD Bank	5.2%
5	FMR	4.4%
6	Vanguard	4.1%
7	Harding Loevner	3.9%
8	Federated Hermes	3.5%
9	Wellington Management	3.3%
10	BlackRock	2.9%
	Total	**59.2%**

Figure 1: Key market information. Source. Bloomberg Finance LP, Apps Black. Data accurate 22 December 2020

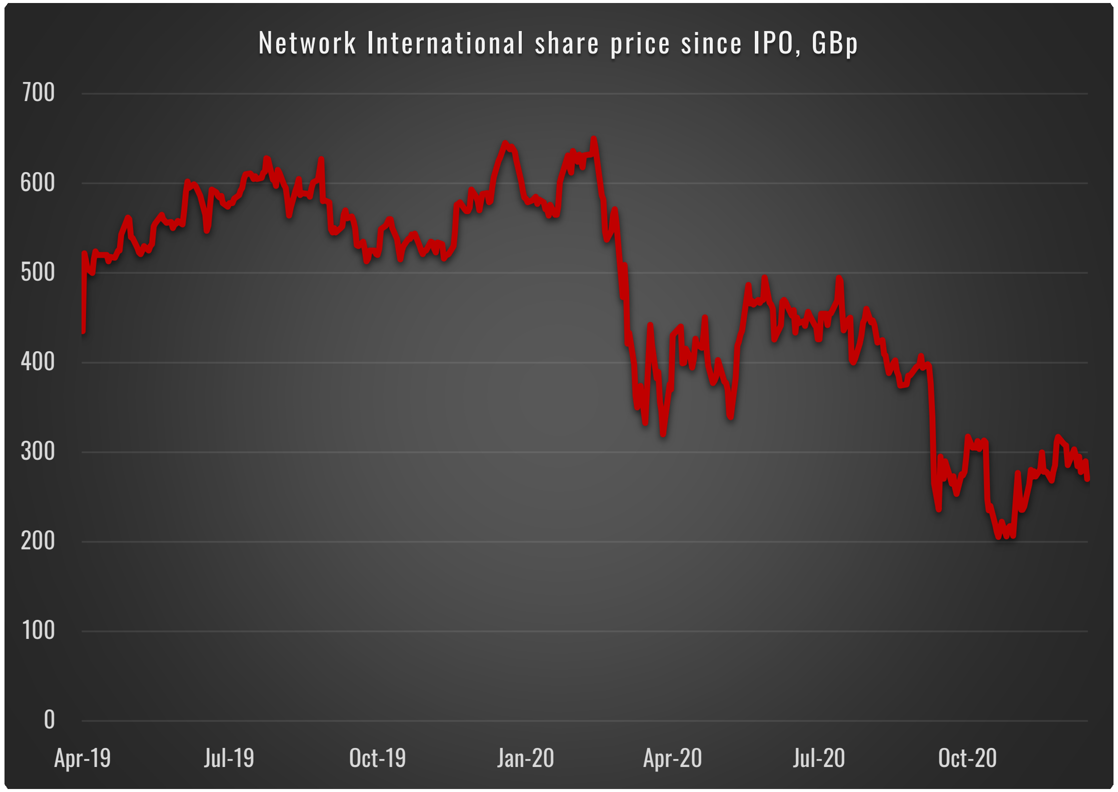

Figure 2: Network International share price since its IPO in 2019. Source: Bloomberg Finance L.P.

Key Data

Network International Holdings		2016	2017	2018	2019	2020E	2021E	2022E
Revenue	USDm	234.7	262.0	297.9	334.9	278.0	329.2	386.0
Revenue growth	*%*		*11.6%*	*13.7%*	*12.4%*	*-17.0%*	*18.4%*	*17.3%*
EV/Sales	x				5.8x	7.0x	5.9x	5.1x
EBTIDA	USDm	108.0	126.2	124.4	132.0	104.4	137.8	179.2
EBITDA Margin	*%*	*46.0%*	*48.2%*	*41.8%*	*39.4%*	*37.6%*	*41.9%*	*46.4%*
Underlying EBTIDA	USDm	125.2	138.6	152.0	172.3			
Underlying EBITDA Margin	*%*	*53.3%*	*52.9%*	*51.0%*	*51.5%*			
EV/EBITDA	x				14.8x	18.7x	14.2x	10.9x
Net Debt (Bloomberg definition)	USDm	269.7	343.7	366.7	335.3	233.3	236.3	170.3
ND/EBITDA	x	2.5x	2.7x	2.9x	2.5x	2.2x	1.7x	1.0x
FCF (Bloomberg definition)	USDm	32.1	(18.6)	52.8	55.7	20.8	18.0	87.4
Net proceeds from borrowings and share issuance	USDm	267.2	(16.3)	-	(22.7)	382.3*		

* 2020 ytd for net proceeds from borrowings and share issuance

Figure 3 Network International key data and consensus forecasts. Source: Bloomberg Finance L.P., company filings.

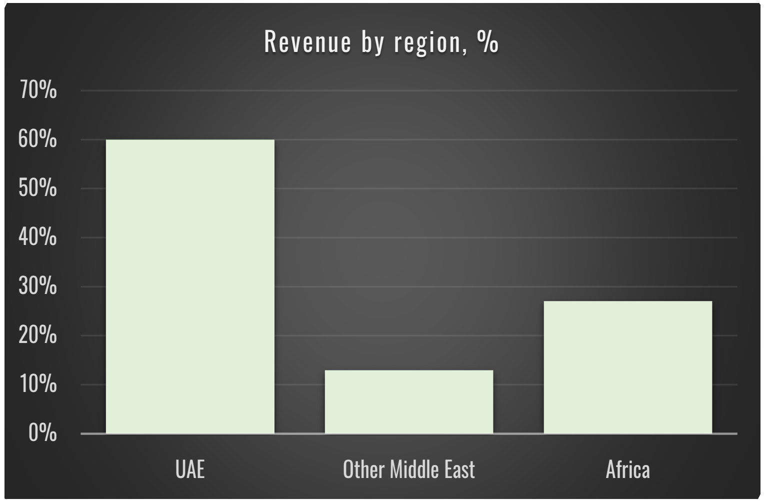

Figure 5 Network International 2019 revenue by region. Source: company filings, ShadowFall.

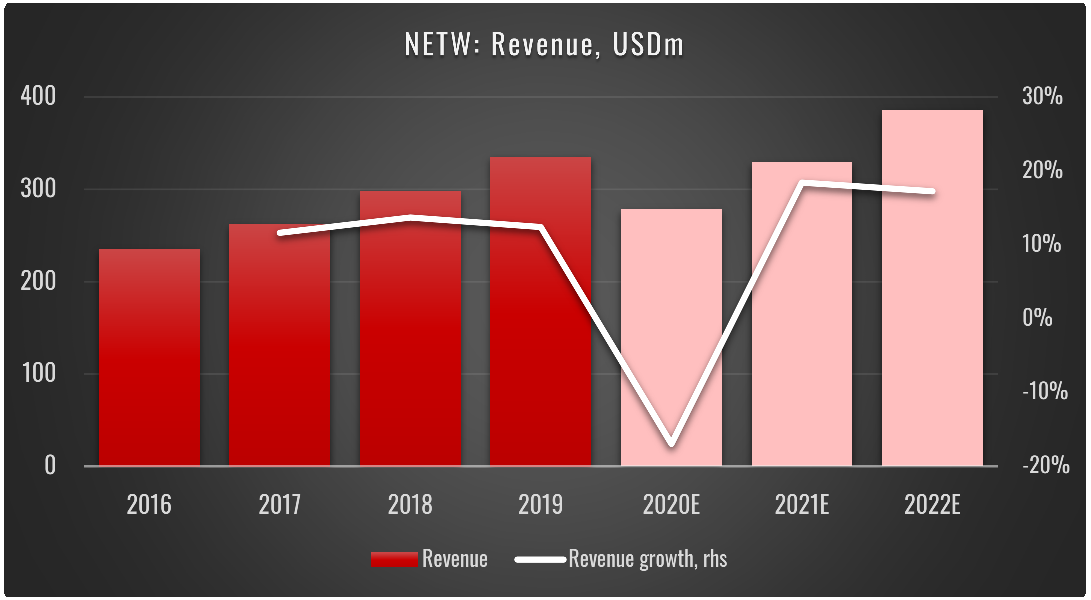

Figure 4 Network International revenue and consensus forecast. Source: Bloomberg Finance L.P, company filings.

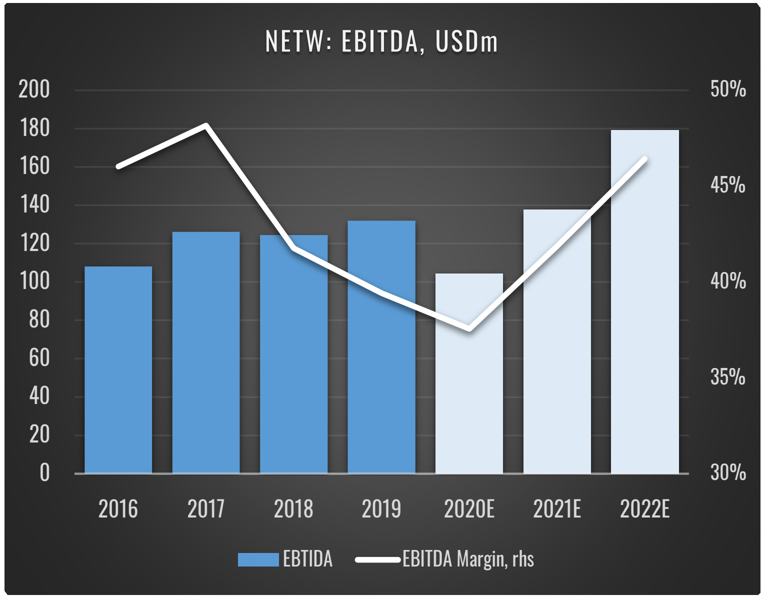

Figure 6 Blue Prism EBITDA and consensus forecast. Source: Bloomberg Finance L.P., company filings.

Key developments

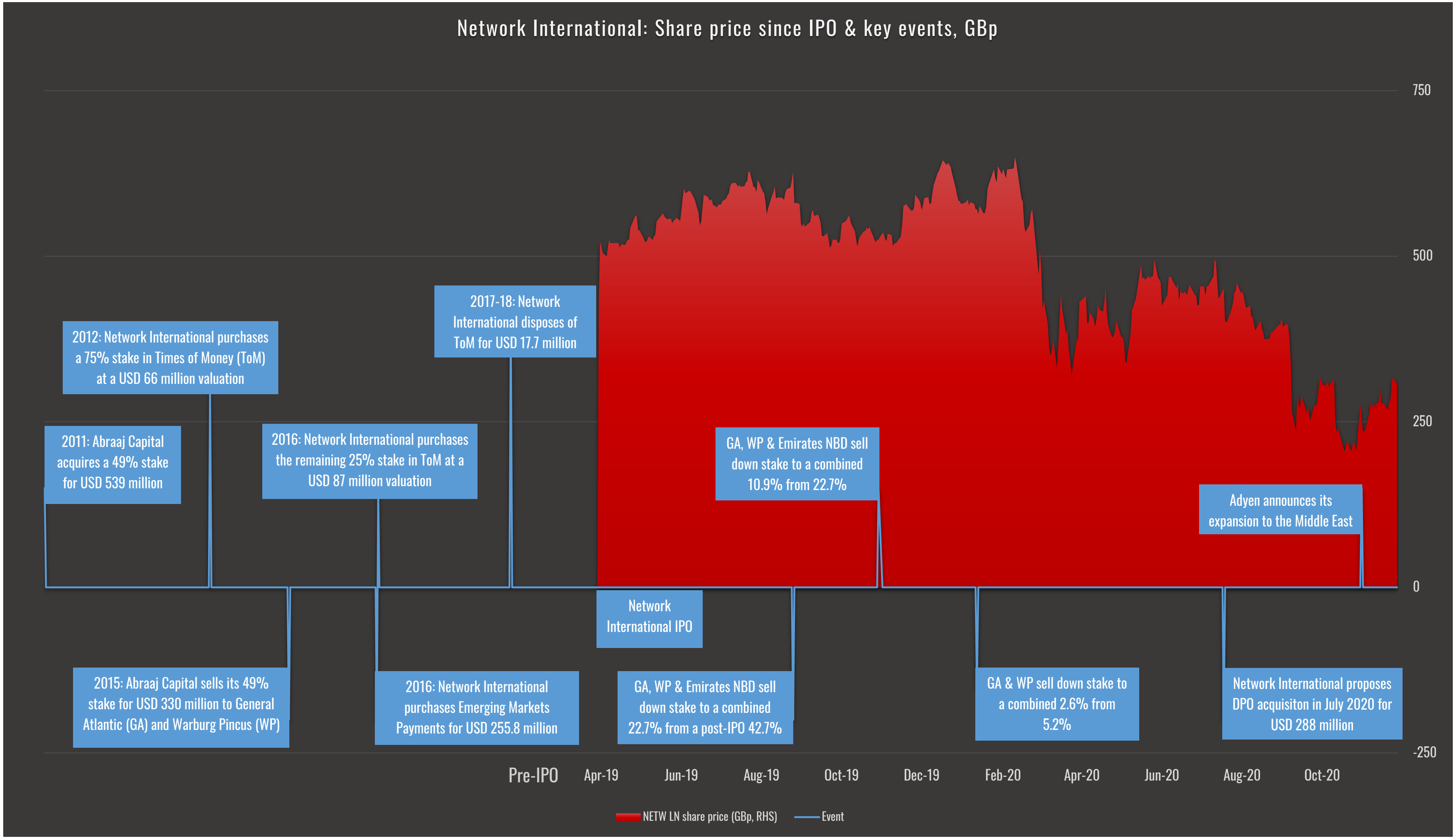

Figure 7 Network International key events. Source: Company filings, Bloomberg Finance L.P., ShadowFall.

Summary Section

The rapid selling after a boost from its major shareholder and largest customer?

Network International IPO'd in April 2019. The two selling shareholders were Emirates NBD (51% pre-IPO holding) and Warburg Pincus/General Atlantic (WP/GA Dubai) (49% pre-IPO holding). GBP 1.2 billion was raised, all "old money" for Emirates NBD and WP/GA at a GBP 2.2 billion market valuation. Both sellers agreed to enter a 180-day lock-up period for their remaining holdings. Within 2 trading days of Admission, both sellers carried on selling. Presumably with the permission of the Admission Global Coordinators.

As well as being Network International's largest shareholder ahead of its IPO, Emirates NBD was also its biggest customer, accounting for 18.1% of FY19 revenue (FY18: 16.2%).

Ahead of the IPO, Network International entered an agreement with Emirates NBD that would cap its fees from Emirates NBD at c. USD 47.9 million in FY19. In FY19, Network International reported USD 60.7 million in revenue from Emirates NBD; 27% higher than the fee cap. We calculate that total revenue from Emirates NBD rose by 25.5% YoY and growth in the wider Middle East region was 4.7% YoY in FY19. Emirates NBD revenue growth was 5.4x that of the rest of the region.

We see a significant risk that Emirates NBD may have boosted revenue and profit to Network International in the year of its IPO to achieve a greater valuation that it could then crystalise. We also believe that revenue per Emirates NBD card likely increased sharply in FY19 (the year of the IPO) as compared to more stable growth with other Issuers.

The selling shareholders swift exit since IPO. So much for a lock-up!

Network International was floated on the LSE's main market on 11 April 2019. The selling shareholders were Emirates NBD Bank PJSC (**Emirates NBD**, with 51% of the equity and Warburg Pincus and General Atlantic (**WP/GA Dubai**), with 49% of the equity.

Following the IPO, Emirates NBD would hold 26.8% and WP/GA Dubai would retain 25.7% of the equity. We note that according to the IPO document, **WP/GA Dubai arranged a margin loan facility**, granting security over all or some of its ordinary shares following Admission. The total facility available was up to a maximum of USD 300 million.

The selling shareholders also agreed that they would enter a lock-up period of 180 days from the date of Admission, which theoretically should have been through to 8 October 2019. The selling shareholders would be permitted to sell with consent of the Joint Global Coordinators of the Admission.

Both WP/GA Dubai and Emirates NBD began selling within 2 trading days of Admission, although Emirates NBD didn't notify this until 10 June 2019, 56 days after it began selling.

On 4 September 2019, Emirates NBD and WP/GA Dubai placed a further 100 million shares into the market at a price of 580 pence per share, raising gross proceeds of GBP 580 million.

Both Emirates NBD and WP/GA have continued to steadily sell down their equity interest in Network International.

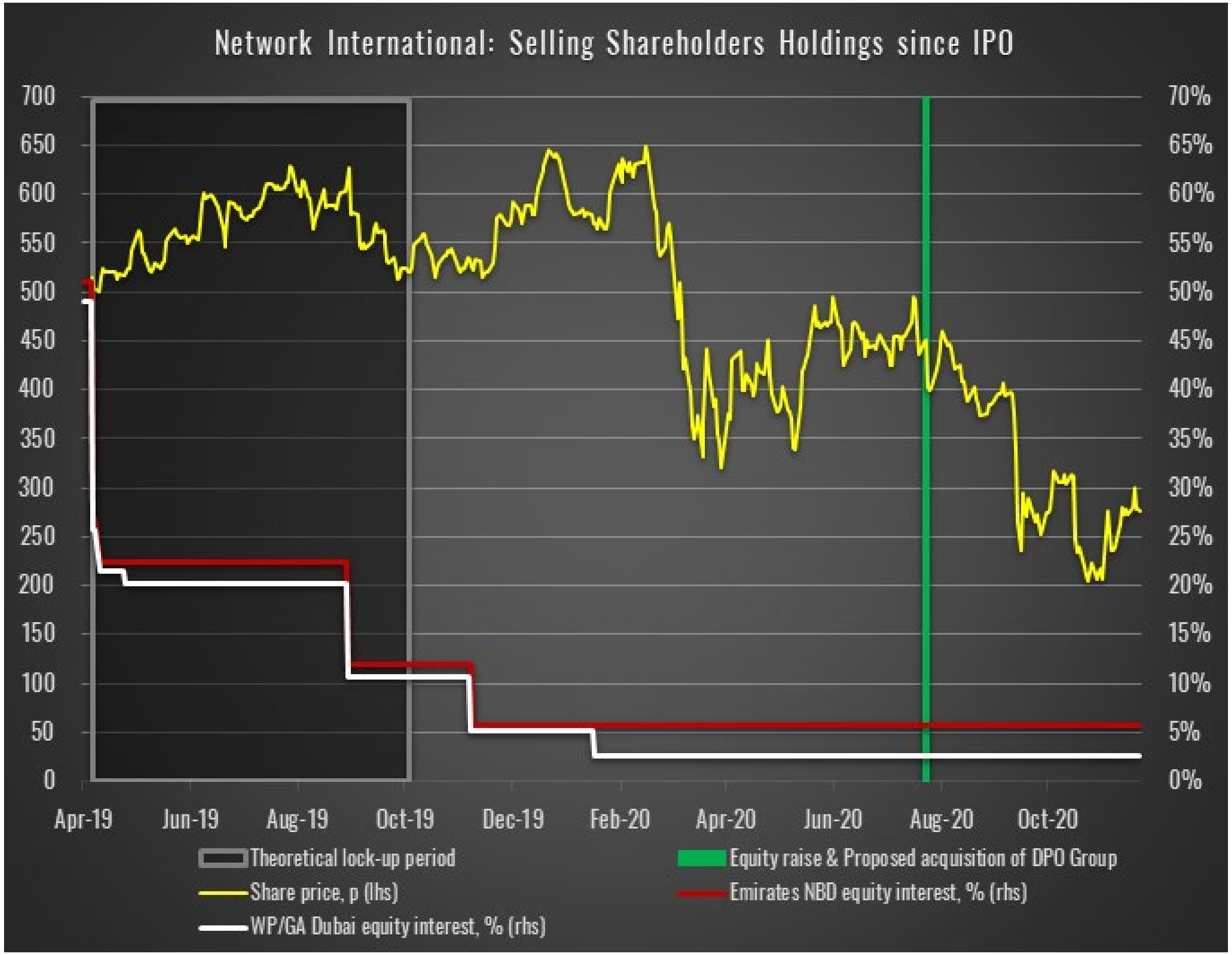

Figure 8 Network International share price and major shareholder share disposals. Source: Bloomberg Finance L.P., ShadowFall.

The Agreements with and Incentive for Network International's largest customer and selling shareholder

Emirates NBD is a former significant co-owner and rapid seller of Network International. As discussed above, prior to IPO, Emirates NBD owned 51% of Network International. At present, Emirates NBD holds a 5.2% equity interest in Network International. Emirates NBD is also a significant customer of Network International, accounting for 18.1% of Network International's revenue in FY19 (FY18: 16.2%). In terms of profitability, we believe that Emirates NBD's contribution could be even more significant. On the basis that Emirates NBD owned so much of Network International ahead of IPO and is also a significant customer, we believe that there was a significant incentive for Emirates NBD to bolster Network International's revenue and profitability ahead of its IPO.

We calculate:

- For each USD 10 million in revenue that Network International could generate from Emirates NBD, using a trailing EV/revenue multiple at IPO, this would create an additional USD 44 million in shareholder value for Emirates NBD.

We note:

- In FY19, Network International entered an Agreement with Emirates NBD which was intended to cap its fee revenue at USD 47.9 million. In FY19, Network International reported USD 60.7 million in revenue from Emirates NBD; i.e. 27% above the fee cap. Further, despite revenue increasing 27% above the fee cap, we note that the expenses incurred in servicing Emirates NBD fell by 5% in FY19. We calculate that this extra revenue received above the fee cap in FY19 created an additional USD 56 million in shareholder value to Emirates NBD.

To put this additional revenue growth into perspective:

- We calculate that in FY19, revenue from Emirates NBD rose by 26% YoY. By contrast, we calculate that revenue from the remaining Middle East region rose by 4.7% YoY in FY19. In FY17 and FY18, respective growth rates for Emirates NBD and the remaining Middle East region were broadly similar. In FY19, the year of Network International's IPO, also the year when Emirates NBD sold 90% of its shareholding, revenue growth with Emirates NBD was over 5x the revenue growth in the remainder of the Middle East region.

Based on the above, we see a significant risk that Emirates NBD may have boosted revenue and profit to Network International in the year of its IPO to achieve a greater valuation that it could then crystalise. An alternative explanation is that Emirates NBD's revenue did simply grow over 5x that of other Middle Eastern customers in FY19.

The Master Services Agreement (MSA) with Emirates NBD

The IPO prospectus highlights that Network International entered into a Master Services Agreement (MSA) with Emirates NBD effective from 1 January 2019.

The MSA lasts for five years and it effectively caps the revenue which Network International can receive from:

- Emirates NBD at AED 136 million (USD 37 million) with a 2% escalator p.a.
- Emirates Islamic at AED 40 million (USD 10.9 million) with a 5% escalator p.a.
- **Total fees are capped at USD 47.9 million with a 2.7% escalator p.a.**

Despite this fee cap being effective from 1 January 2019, Network International received USD 60.7 million in revenue from Emirates NBD, i.e. USD 12.8 million more or 27% above the fee cap. Network International grew its Emirates NBD related revenue by 25.5% in FY19, whereas under the fee cap, if revenue was capped at USD 47.9 million, then Emirates NBD revenue would have fallen by 1.0% in FY19. Network International listed with an Enterprise Valuation on a multiple of 10.5x revenue in FY19. **We calculate that this additional USD 12.8 million in revenue above the fee cap from Emirates NBD would have equated to an additional USD 56 million in value creation attributable to Emirates NBD, following its listing.**

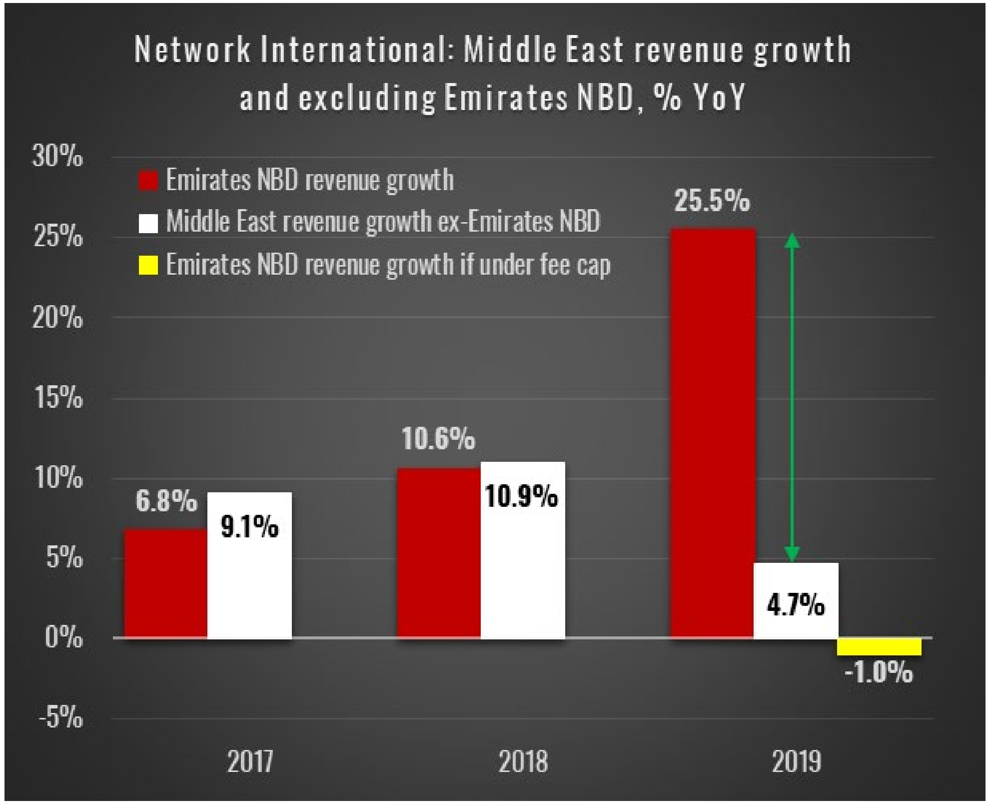

Figure 9 Network International Middle East revenue. Source: company filings, ShadowFall calculations.

REVENUE ATTRIBUTABLE TO MAJOR CUSTOMER	Unit	2016	2017	2018	2019	1H18	2H18	1H19	2H19	1H20E
Emirates NBD	USD m	41.0	43.8	48.4	60.7	22.6	25.7	28.8	31.9	????
Emirates NBD revenue under fee cap	USD m				47.9			24.0	24.0	24.4
Middle East revenue	USD m	186.0	201.9	223.8	244.4	102.0	121.8	111.5	132.8	94.5
Emirates NBD revenue growth	% YoY		6.8%	10.6%	**25.5%**			27.1%	24.0%	
Emirates revenue growth if under fee cap	% YoY				**-1.0%**			5.8%	-6.9%	2.0%
Middle East revenue growth	% YoY		8.6%	10.9%	9.2%			9.3%	9.1%	-15.3%
Middle East revenue growth ex-Emirates NBD	% YoY		9.1%	10.9%	**4.7%**			4.2%	5.0%	????

Figure 10 Network International Middle East revenue. Source: company filings, ShadowFall calculations.

Future risk to superior profit margins from Emirates NBD?

Network International reported USD 177.6 million in revenue from Issuer Solutions in FY19 (FY18: 157.1 million). The number of cards hosted was reported to be 14.2 million in FY19 (FY18: 11.5 million). This suggests that average revenue per card rose to USD 12.5 in FY19 from USD 11.5 per card in FY18. However, according to a Nilson Report, Emirates NBD had 2.2 million cards issued in 2018. Network International reported USD 48.4 million in revenue from Emirates NBD in FY18. This would suggest that the average revenue achieved per Emirates NBD card equated to c. USD 22 in FY18. Excluding Emirates NBD, we calculate that the average revenue per card equated to USD 9.5. Network International appears to earn more than twice as much in revenue per card with Emirates NBD that it does with other Issuer Solutions customers.

Now that Emirates NBD is no longer a significant shareholder in Network International, we question how much longer this significant pricing differential will continue? Further, in the light of the fee cap which has been implemented between Network International and Emirates NBD, then if card issuance is to grow with Emirates NBD, average revenue per card will decline. We also note that in the MSA, it stipulates that in the event that the number of cards hosted by Network International for Emirates NBD exceeds annual growth of 15%, then Network International will charge Emirates NBD USD 5.88 per card and USD 0.875 per prepaid or payroll card per annum. I.e. if card growth exceeds 15% then Network International receives approximately a quarter of the prior fee on those incremental cards.

We also believe that revenue per Emirates NBD card appears to have increased sharply in FY19 (the year of the IPO) as compared to more stable growth with other Issuers.

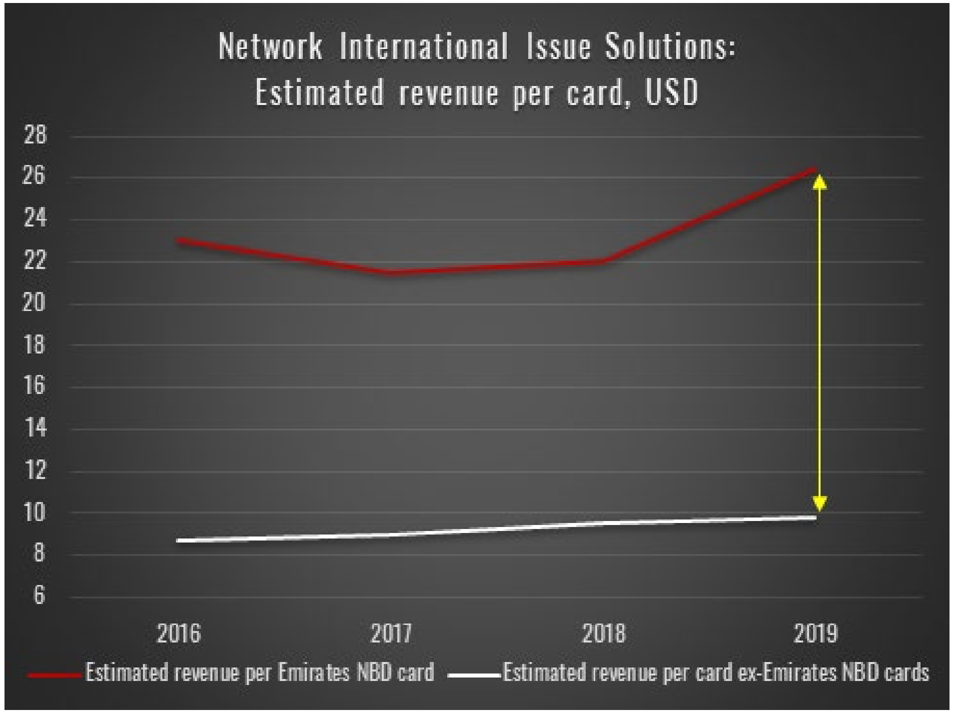

Figure 11 Network International estimated revenue per card. Source: Nilson Reports (estimate that Emirates NBD has 2.2 million cards in issue in 2018), ShadowFall calculations.

ISSUER SOLUTIONS	Unit	2016	2017	2018	2019
Revenue from Issuer Solutions	USD m	121.5	138.5	157.1	177.6
Revenue from Emirates NBD	USD m	41.0	43.8	48.4	60.7
Revenue from Issuer Solutions ex-Emirates NBD	USD m	80.5	94.7	108.7	116.9
Total Cards (in millions)	m	11.0	12.6	13.6	14.2
Growth in total cards	% YoY		14.5%	7.9%	4.4%
Estimated Emirates NBD related cards	m	1.8	2.0	2.2	2.3
Total cards excluding estimated Emirates NBD	m	9.2	10.6	11.4	11.9
Revenue per card	USD	11.0	11.0	11.5	12.5
Estimated revenue per Emirates NBD card	USD	23.0	21.5	22.0	26.4
Estimated revenue per card ex-Emirates NBD cards	USD	8.7	9.0	9.5	9.8
Revenue per Emirates NBD card as % of other cards	%	**264%**	**239%**	**231%**	**269%**

Figure 12 Network International estimated revenue per card. Source: Nilson Reports (estimate that Emirates NBD has 2.2 million cards in issue in 2018), ShadowFall calculations.

Summary Section

Losses from continuing business attributed to the discontinued operations?

In FY16, FY17, FY18, and FY19, Network International reported significant losses which it attributed to discontinued operations. Consequently, these losses are excluded from Network International's calculation of its "Underlying EBITDA". However, we are unconvinced that these losses were entirely attributable to the discontinued operations. Put another way, we believe that losses attributable to the continuing business may have been included in the discontinued line, significantly improving the appearance of Network International's underlying profitability. Even if the losses as reported by Network International for the discontinued operations are accurate, it appears that Network International has form in buying businesses at a significant cost, only to several years later impair almost all the value which was paid in cash. We believe this should raise concern, especially in the context of its intended USD 288 million acquisition of DPO Group.

More specifically we find:

- Network International acquired 75% of the Times of Money (ToM) business at a valuation of USD 66 million in 2012, then purchased the remaining 25% in 2016 at a USD 87 million valuation. During the year prior to and the year after owning 100% of ToM, Network International impaired c. USD 30 million of its goodwill.
- Having paid USD 70.9 million for ToM, Network International sold part of it in 2017 and the remainder in 2018 for USD 17.7 million. The buyer of ToM was Finablr, the now suspended UK listed business, which in April 2020 revealed its debt was 4x greater than it had reported.
- In one disposal to Finablr, **Network International reports a USD 4.8 million cash inflow** for the disposal. By contrast, **Finablr reports that it received a USD 2.0 million cash inflow for this business**.

We note *en passant*, that in April 2020, Network International's former CEO and apparently ongoing advisor to its board, Bhairav Trivedi, was appointed as CEO to Finablr.

We also find inconsistencies between Network International's IPO Prospectus and:

- The local filings of subsidiaries in Singapore and India.
  For example,
  - Network International recognises an FY18 loss on disposal of USD 4.3 million for a business as compared to the parent company of the disposed business recognising a USD 0.4 million gain.
  - Network International appears to indicate that the disposed business in FY18 had USD 4.1 million in losses attributable to it, whereas local filings suggest it reported a net income of between a loss of USD 403 thousand and a profit of USD 53 thousand. The buyer of the business, Finablr, suggests the loss would have been USD 85 thousand.

2016 to 1H 2020: USD 171.2 million in Specially Disclosed Items (SDIs) and losses from Discontinued Operations

When it comes to its underlying EBITDA, Network International extracts significant costs. These costs are what it calls "Specially disclosed items" (SDIs). Since 2016, these SDIs have totalled a cumulative USD 107.5 million.

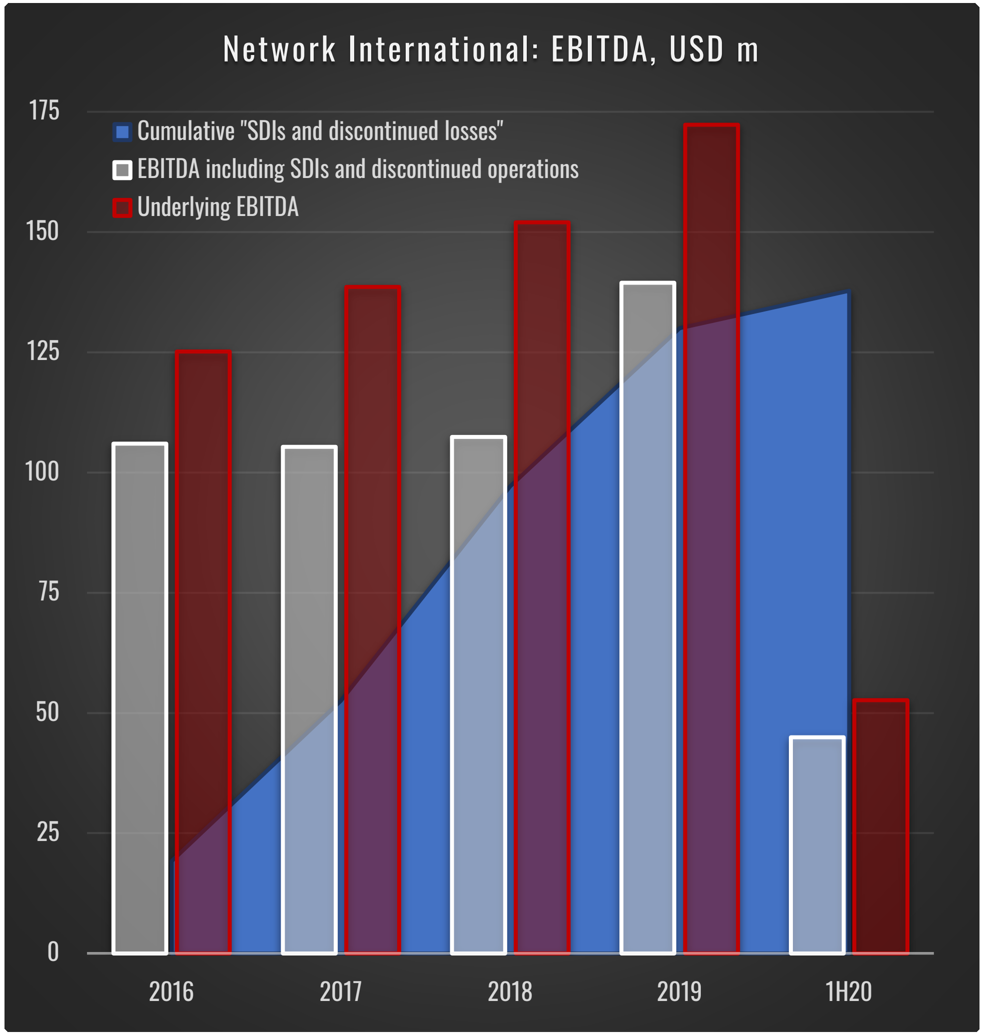

Figure 13 Network International Underlying EBITDA. Source: Company filings, ShadowFall calculations.

These SDIs relate to such items as reorganisation costs, share-based compensation, M&A and IPO costs or other one-off items.

For example, in its IPO prospectus, Network International indicated that it would incur **c. USD 11 million in IPO-related costs** in FY19. By 1H19, these **IPO-related costs had risen to USD 13.5 million**. Then in FY19, **these had risen further still, to USD 15.0 million** in FY19, so that with USD 3.7 million incurred in in FY18, total **IPO-related costs equated to USD 18.7 million.**

More recently, in 1H20, Network International announced that it was expected **to incur USD 11-12 million related to due diligence and advisory fees.** These would be in relation to its acquisition of DPO Group, **which would equate to c. 61% of DPO Group's FY19 revenue** (see figure 14).

- Specially Disclosed Items i) impacting underlying EBITDA of cUSD 24-25m, which includes USD 11-12m related to DPO diligence and advisory fees ii) impacting net income to be a further USD18m

Figure 14 Network International DPO related fees. Source: Company filings.

Before the SDIs are subtracted, Network International starts it underlying EBITDA calculation with "profit from continuing operations". It deducts the impact of discontinued operations. Since 2016, these discontinued losses have totalled USD 63.7 million. Ordinarily, this is understandable and common practice. However, in the light of the inconsistencies we found between Network International's IPO prospectus, its subsidiary filings and the counterparty's version of events relating to some of the disposals, we question whether the costs associated with the discontinued operations were entirely attributable to them.

Significant capitalisation rate, with material impairments, question the quality of the investment

Network International appears to capitalise a significant portion of its spend on work in progress.

Over 2016 to 2019, capitalised work in progress has averaged 21.1% of revenue and totals USD 237.6 million. The group has been conducting an IT transformation project for several years. At best, if we assume that all of this spend was included within the "work in progress", then we still find that over 2016 to 2019, capitalised work in progress has averaged at least 9.5% of revenue and totals USD 106.8 million.

Over the same period, Network International has recognised USD 42.1 million in impairments to capitalised work in progress, or 17.7% of its net new capitalised work in progress over 2016-2019.

Management commentary states that most of these impairments relate to the ongoing IT transformation project, which given the scale of impairments, leads us to question the quality of this investment project.

Excluding the IT transformation project from our analysis, Network International's policy of capitalising work in progress has been a significant tailwind to EBITDA.

Since 2016, Adyen has capitalised intangibles, at a rate of less than 1% revenues. Through Network International using a higher capitalisation rate than Adyen, we calculate that **it has been able to boost Underlying EBITDA by 20.2% on average from 2016-2019**.

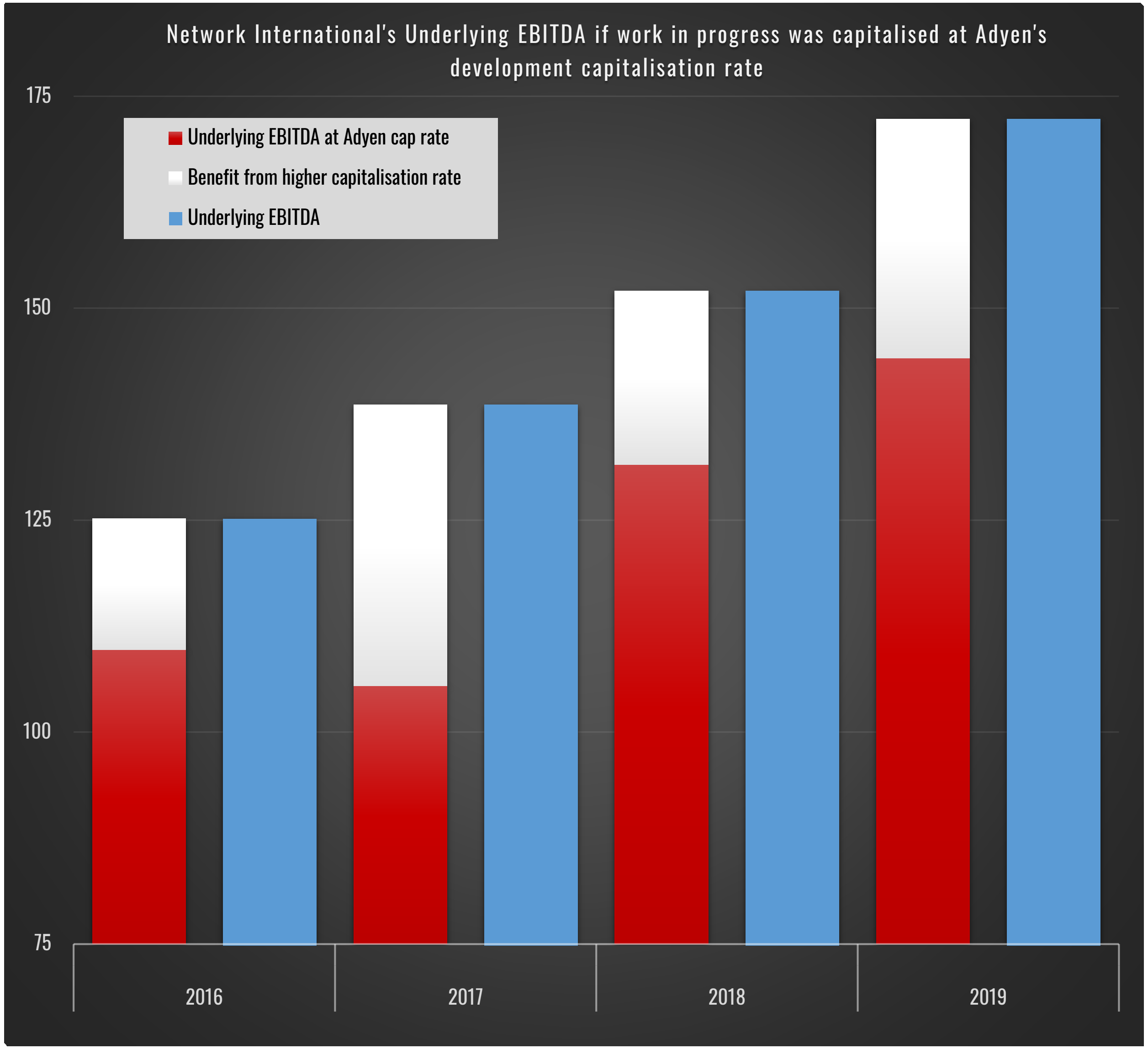

Figure 15 Network International Capitalisation rate. Source: Company filings, ShadowFall calculations.

TimesOfMoney: Purchased for USD 70.9 million. Sold to Finablr for USD 17.7 million. Or was it USD 10.9 million?!?

The principal business disposal was a company called, **TimesOfMoney (ToM)**.

Network International acquired 75% of the Indian based business, **TimesofMoney** Private Limited (**ToM**), on 29 October 2012. The 75% was acquired from **Times Internet Limited**, for USD 49.2 million, implying a **valuation of USD 65.6 million**.

Tangible net assets were USD 2.7 million, so **goodwill and intangibles were USD 63.6 million**.

A few months prior to this, a Singaporean based business, **Network International Investment** PTE Ltd (**NII**) was incorporated on 21 August 2012.

ToM was held under **NII**, and **NII** was held under Network International LLC. Quite why a Singaporean business was incorporated to act as a holding company for an Indian business, with both companies ultimately sat under the UAE based Top Co, is not clear to us.

For a "Fun Fact": we note that **NII** was registered to the same address as **Wirecard Asia**, namely 112 Robinson Road, #05-01 Singapore. We can only assume that this is a popular address to register payments businesses (see figure 16). As we go on to highlight in the section on DPO Group, this is not the last time there has been a Wirecard overlap.

Having acquired 75% of **ToM**, Network International entered a call-put option, where between 3 to 7 years after the acquisition date, either Network International had the right to buy or Times Internet had the right to sell, the remaining 25% shareholding. In Network International's prospectus it details that the remaining 25% was acquired by Network International in 2016, due to Times Internet, exercising its put option. Somewhat oddly, the subsidiary filing for **NII**, suggests that the remaining 25% was acquired in 2015.

The remaining 25% of ToM was purchased by Network International for USD 21.65 million, implying a valuation of USD 86.6 million.

Network International Investment Pte. Ltd. and its subsidiaries
Financial Statements
Period from 21 August 2012 (date of incorporation) to 31 December 2013

Domicile and activities

Network International Investment Pte. Ltd. ("the Company") was incorporated under the Companies Act (Cap 50) of the Republic of Singapore as a private company limited by shares on 21 August 2012. The Company has its registered office at 112 Robinson Road, #05-01 Singapore 068902.

The immediate and ultimate holding company of the Company is Network International LLC ('NI Dubai') which was incorporated as a limited liability company in the Emirate of Dubai in June 1994 and registered with the Department of Economic Development under license number 234939.

E-Payment Asia Pte Ltd
(formerly known as Wirecard Asia Pte Ltd)

Notes to the Financial Statements
For the financial year ended 31 December 2014

1. Corporate information

E-Payment Asia Pte Ltd (the "Company") is a private limited liability company incorporated and domiciled in Singapore. During the year, the Company's immediate and ultimate holding company, Wirecard AG had sold the Company to Manboo Singapore Pte Ltd. Manboo Singapore Pte Ltd is a company incorporated in Singapore.

The registered office and principal place of business of the Company is located at 112 Robinson Road #05-01, Singapore 068902.

The E-Credit Group, consisting of E-Credit Plus Pte. Ltd. and its seven subsidiaries, in particular E-Credit Plus Corp. (Philippines), Infotop Singapore Pte. Ltd. (Singapore) and E-Payments Singapore Pte. Ltd. (Singapore), is engaged in the field of online payment processing, chiefly for eCommerce merchants in the eastern Asian region. In the process, Wirecard AG is extending its existing presence in eastern Asia with its Philippine subsidiary Wirecard Asia Pacific Inc. For its operations in Asia, Wirecard expects synergy effects to be generated for the Group as a whole.

INFOTOP SINGAPORE PTE. LTD.
(Incorporated in Singapore)

Notes to the financial statements – 31 December 2012

1. Corporate information

The company (registration no. 200804066N) is a limited liability company, which is incorporated in Singapore and the registered office of the company is located at 112 Robinson Road, #05-01, Singapore 068902.

The principal activity of the company is to earn commission by providing e-payment solution and settlement services.

Figure 16 Network International Investment Pte Ltd registered address. Source: Company filings.

According to its Indian filings, ToM's revenue had already begun to deteriorate ahead of Network International acquiring its 75% equity interest. In the years that followed Network International's acquisition, revenue and profitability weakened further.

The Singaporean holding company, NII, began impairing its interest in ToM in 2015, writing off USD 15.2 million. By 2016, NII, impaired a further USD 5.9 million in relation to ToM.

In our view, Network International must have felt perturbed at having to acquire the remaining 25% of ToM at a 32% premium to the price it had paid a few years earlier, since within four years of acquiring the initial 75%, NII had impaired 60% of ToM's goodwill.

Just over a year after acquiring the remaining 25% in **ToM** for USD 21.65 million at a USD 86.6 million valuation, and writing-off USD 21.0 million in value, Network International began to dispose of **ToM**.

The disposals proceeded as follows:

July 2017
Network International Global Service India Pvt Ltd (NIGSI)

August 2017
ToM Technology Services Private Limited (TTSPL)

November 2018
TimesOfMoney (Software business)

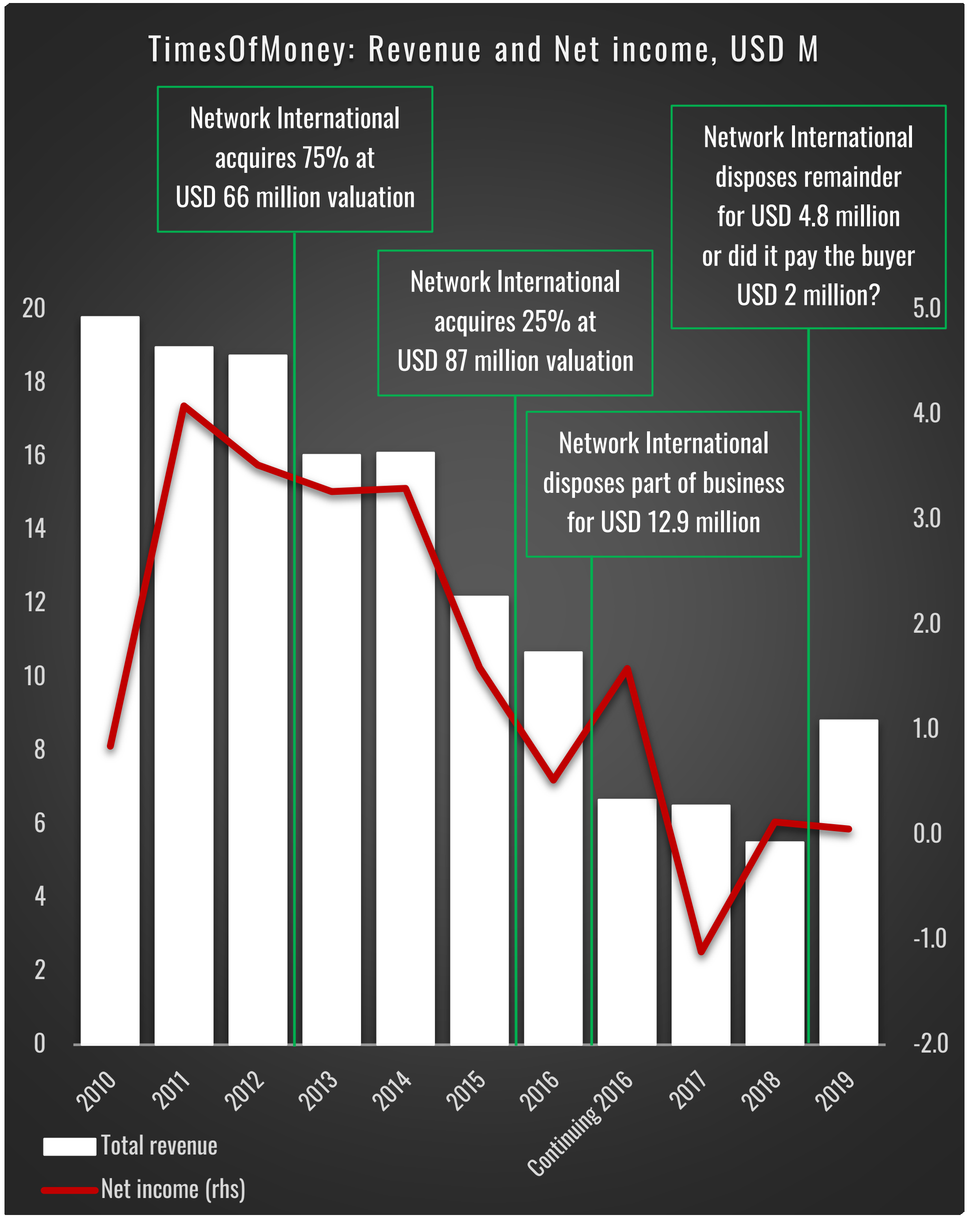

Figure 17 Network International acquisition and disposal of TimesOfMoney. Note: Year end 31 March. Source: Company filings, ShadowFall calculations.

Network International Global Service India Pvt Ltd (NIGSI)

NIGSI was first to be disposed. Network International only incorporated and invested into this business on 22 August 2014.

Three years later, in July 2017, according to the IPO prospectus, **NIGSI** was disposed for a consideration of **USD 0.8 million**, with a **USD 1.3 million loss recognised**.

However, **NII**'s filings indicate that **NIGSI** was disposed for a **consideration of USD 0.11 million**, with a **USD 3.5 million loss recognised**.

NIGSI reported USD 3.5 million in revenue and USD 331 thousand in net income in the year to 31 March 2017. This grew to USD 5.6 million in revenue and USD 816 thousand in net income in 2018.

Whether Network International sold NIGSI for USD 0.8 million or USD 0.11 million, it sold it for between 0.3 to 2.4 x 2017 and between 0.1 to 1.0 x 2018 net income.

Network International Holdings Limited

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 11849292, to be re-registered as a public limited company prior to Admission)

Business combination and disposals

Network International Investment Pte. Ltd.

On 31 July 2017, the Group disposed of a subsidiary, Network International Global Service India Pvt. Ltd., at a consideration of USD 0.8 million and accordingly, the Group has booked a loss of USD 1.3 million.

Network International Investment Pte. Ltd.
and its subsidiaries
Registration Number: 201220635G
Annual Report
Year ended 31 December 2017

On 31 July 2017, the Group disposed a subsidiary, Network International Global Service India Pvt. Ltd., at a consideration of USD0.11 million and accordingly, the Group has booked a loss of USD3.5 million.

Figure 18 Network International IPO Prospectus compared to local filings. Source: Company filings.

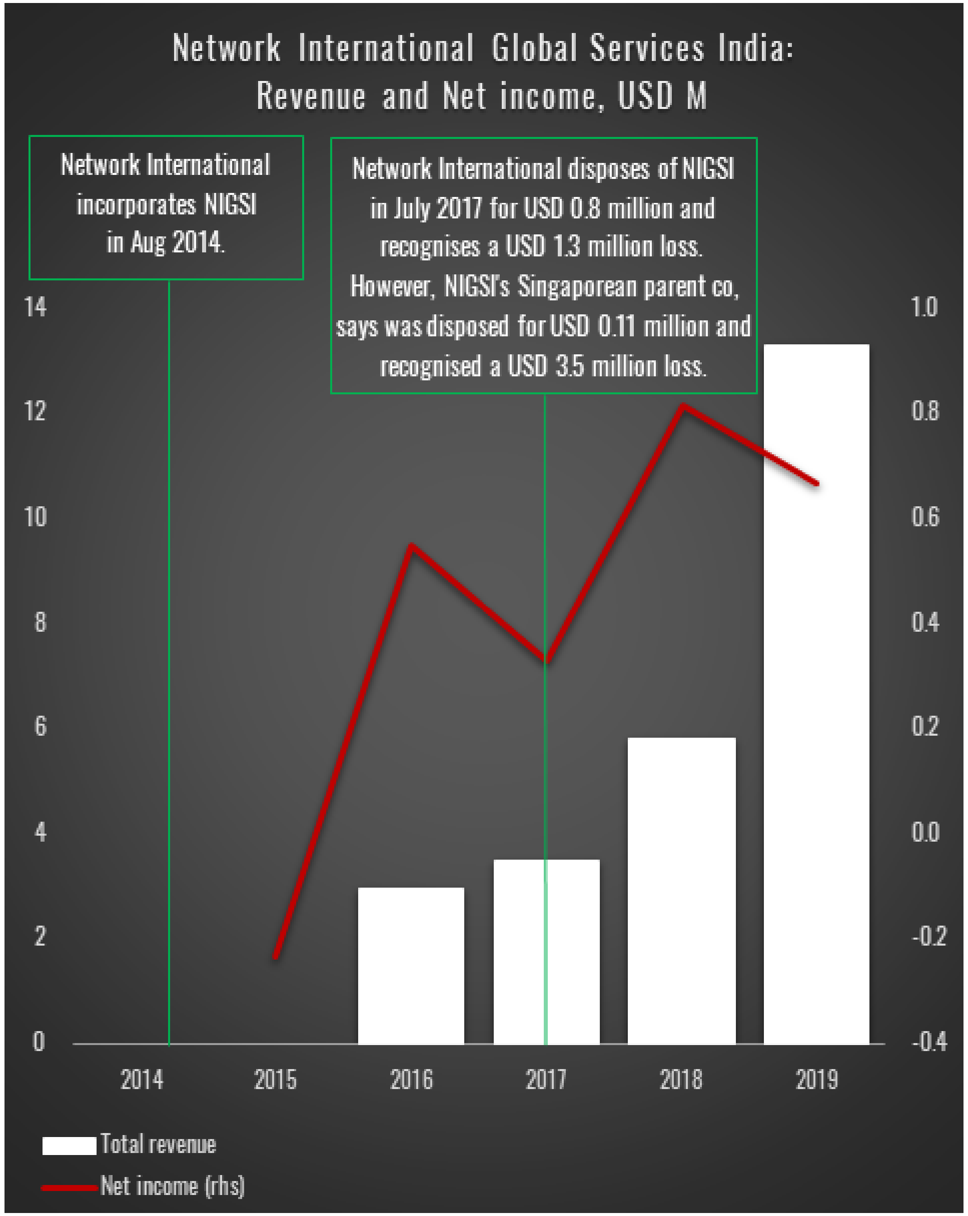

Figure 19 Network International acquisition and disposal of NIGSI. Note: Year end 31 March. Source: Company filings, ShadowFall calculations.

ToM Technology Services Private Limited (TTSPL)

A month later, in August 2017, and according to the IPO prospectus, **TTSPL** was disposed for a **consideration of USD 12.9 million** with **no gain / loss recognised**.

Again, what we find strange is that the filings for **NII** indicate differently, suggesting that **TTSPL** was disposed for a **consideration of USD 14.95 million** with a **USD 1.7 million gain recognised**.

TTSPL was acquired by Finablr

Most will likely know of Finablr, but for those that do not, in March 2020, trading in Finablr was suspended as it clarified its financial position. In April 2020, Finablr reported that its debt was c. 4x greater than it previously disclosed, at c. USD 1.3 billion.

While **Network International reports that it received USD 12.9 million for TTSPL** (or was it USD 14.95 million – see figure 20), **Finablr states that it paid cash of USD 15.3 million** for the business. It is unclear to us where the extra USD 2.3 million went.

Network International Holdings Limited

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 11849292, to be re-registered as a public limited company prior to Admission)

Business combination and disposals *(continued)*

Network International Investment Pte. Ltd.

On 22 August 2017, the Group disposed of a subsidiary, TOM Technology Services Private Limited, to sell the Remittance Technology Business at a consideration of USD 12.9 million against the same net asset value of the business. Accordingly, no gain / loss has been booked by the Group. Further, upon disposal, foreign exchange loss of USD 6.1 million has been reclassified from OCI to the consolidated statement of profit or loss.

Network International Investment Pte. Ltd.
and its subsidiaries
Registration Number: 201220635G
Annual Report
Year ended 31 December 2017

On 22 August 2017, the Group disposed a subsidiary, TOM Technology Services Private Limited (Remittance Technology Business) at a consideration of USD14.95 million against the net asset value of the business of USD13.3 million for which a gain of USD1.7 million has been booked by the Group. Further, upon disposal, foreign exchange loss of USD6 million has been reclassified from OCI to the consolidated statement of profit or loss.

Figure 20 Network International IPO Prospectus compared to local filings. Source: Company filings.

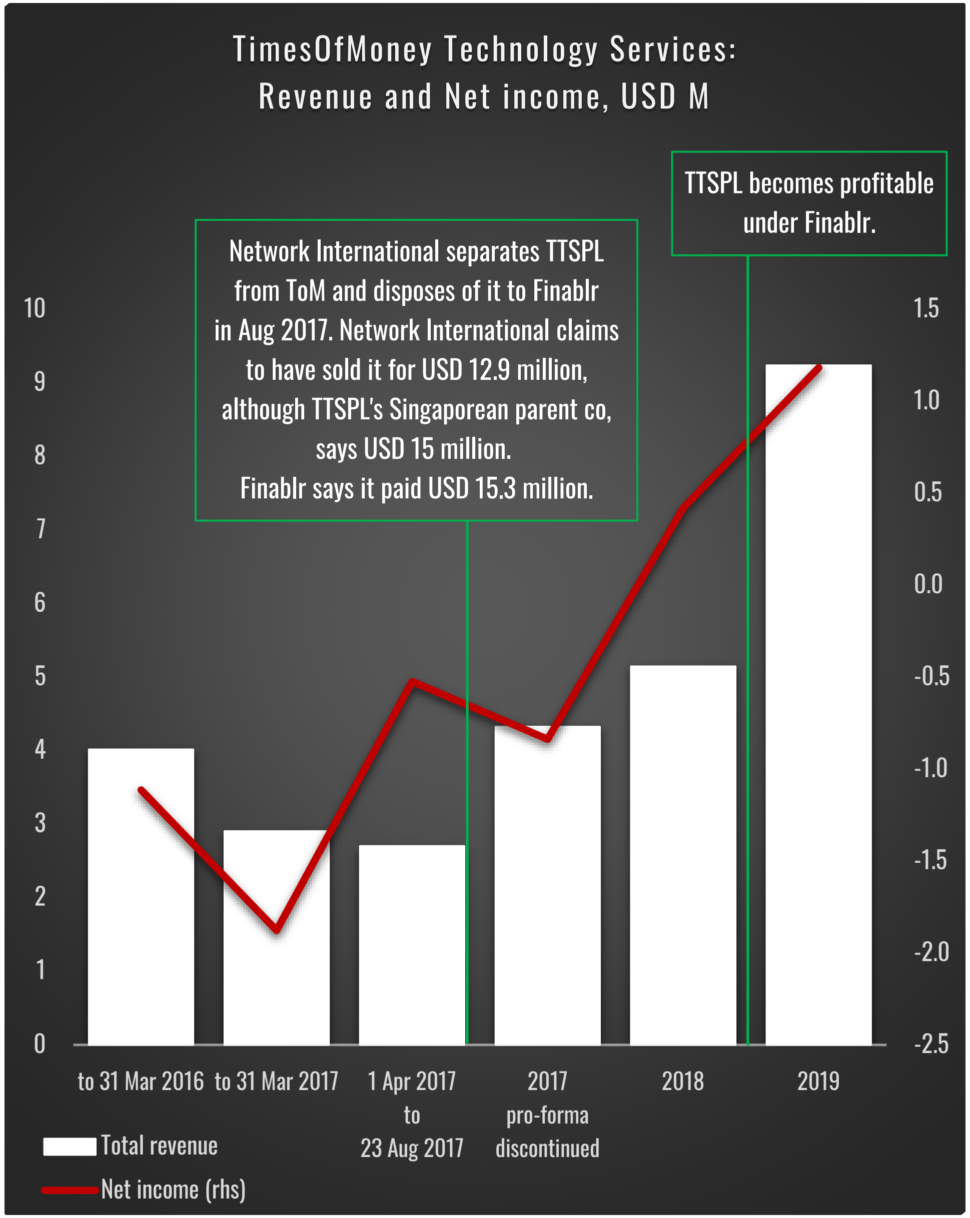

Figure 21 Network International acquisition and disposal of TimesOfMoney TS. Note: Year end 31 March. Source: Company filings, ShadowFall calculations.

TimesOfMoney (Software business)

On 14 November 2018, Network International disposed of the remainder of TimesOfMoney, **ToM Software**, the software business division.

The IPO prospectus indicates that this was sold for a **consideration of USD 4.8 million** with **a loss of USD 4.3 million booked**. However, again the **NII** filings show an inconsistency.

In FY18, **NII**'s accounts indicate that it disposed of its last subsidiary, **Times of Money Private Limited**, which operates the Financial Technology Business ". . . at **a consideration of USD 4.8 million**." It goes on to state, ". . . accordingly, **a gain of USD 348,432 has been recognised** in the statement of profit or loss."

Network International Holdings Limited

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 11849292, to be re-registered as a public limited company prior to Admission)

Business combination and disposals *(continued)*

Network International Investment Pte. Ltd.

On 14 November 2018, the Group disposed of the other part of the business i.e. software business division at a consideration of USD 4.8 million and resultant loss amounted to USD 4.3 million has been booked in the consolidated statement of profit or loss. Further, upon disposal, unrealised foreign exchange loss previously recognised in the OCI, amounting to USD 8.3 million, has been reclassified in to the consolidated statement of profit or loss.

Network International Investment Pte. Ltd.
Registration Number: 201220635G

Annual Report
Year ended 31 December 2018

Times of Money Private Limited

In 2017, the Company has classified its investment in subsidiary (TOM) as held for sale as management is in the advance stage of discussion to sell the Financial Technology Business. The investment in TOM amounted to USD4,463,398 and is presented accordingly as Assets held for sale.

On 14 November 2018, the Company has disposed its remaining investment in TOM at a consideration of USD4,811,830 and accordingly, a gain of USD348,432 has been recognised in the statement of profit or loss.

Figure 22 Network International IPO Prospectus compared to local filings. Source: Company filings.

In addition to the discrepancy, between NII's version of events and Network International's IPO prospectus, we also note that in its FY19 Annual Report, Network International indicates that it received a USD 4.8 million cash inflow regarding the disposal of ToM Software. However, Finablr indicates that it acquired ToM Software with USD 6.8 million in cash. **As such, Finablr reports a USD 2.0 million cash inflow regarding its acquisition.** It is unclear to us whether Network International sold ToM software for USD 4.8 million, or paid Finablr USD 2.0 million to acquire it.

Finablr

3 BUSINESS COMBINATIONS AND ACQUISITIONS continued

Acquisition date	14 Nov 2018
% of ownership acquired	100%
Entity name	*Times of Money Private Limited USD ('000)*
Net cash flow on acquisition:	
Cash acquired	6,793
Cash paid	(4,811)
	1,982

Network International Payment Solutions

Consolidated Statement of Cash Flows
for the year ended 31 December

	Notes	2019 USD'000	2018 USD'000
Investing activities			
Purchase of intangible assets and property and equipment		**(79,310)**	(68,470)
Dividends received from an associate		**2,723**	2,741
Interest received		**1,093**	1,644
Disposal of investment securities		**-**	14,050
Disposal of subsidiary		**-**	4,812
Net cash outflows from investing activities		**(75,494)**	(45,223)

Figure 23 Network International FY19 AR compared to Finablr IPO Prospectus. Source: Company filings.

Discontinued Operations: How were they reflected in the IPO Prospectus?

In its IPO prospectus, Network International states that it had USD 4.5 million in discontinued revenue and USD 8.6 million in discontinued expenses, resulting in a USD 4.1 million discontinued operating loss in FY18. In FY17, the discontinued losses were even greater, at USD 11.0 million. These losses are before Network International also reports significant impairment losses, FX transfer losses, as well as losses on disposal.

Discontinued operations and assets held for sale *(continued)*

Loss from discontinued operations

	2016	2017	2018
	USD`000		
Revenues	7,792	5,510	4,496
Expenses	(13,413)	(16,487)	(8,606)
Operating loss	(5,621)	(10,977)	(4,110)
Impairment losses	(5,896)	(10,395)	(7,666)
Loss on disposal	-	-	(3,418)
Taxes	791	202	127
Share of results from a joint venture	292	141	-
Transfer of foreign exchange loss from OCI on disposal of subsidiary	-	(6,077)	(8,250)
Net loss	**(10,434)**	**(27,106)**	**(23,317)**

Figure 24 Network International IPO Prospectus. Source: Company filings.

Network International's disposals were:

2017

- Network International Global Service India (**NIGSI**) in July 2017
- TimeOfMoney Technology Services (**TTSPL**, remittance business) in August 2017
- **Sinnad** W.L.L in November 2017

2018

- **ToM Software** in November 2018

Regarding the TimesOfMoney businesses, TTSPL & ToM Software and NIGSI, we are unable to reconcile these losses.

For example, the only business which was disposed of in FY18 was ToM Software. Network International reports an operating loss from discontinued operations of USD 4.1 million in FY18. Presumably, this must relate to ToM Software.

The local filings of ToM Software which changed its name to Unimoni Enterprise Solutions, show losses to 31 March 2018 of c. USD 403 thousand (**10% of what Network International reports**). Further, ToM Software became profitable to 31 March 2019 by c. USD 53 thousand.

Further still, Finablr, which acquired the ToM Software in November 2018, indicates that for a full year, the business would have provided a loss of USD 85 thousand. **Again, this is nowhere near the USD 4.1 million in losses which Network International reports.**

We are also reminded that TimesOfMoney is the business which it appears represented a USD 2.0 million cash outflow on disposal to Finablr as compared to Network International which reported a USD 4.8 million cash inflow. Also, Network International booked a loss on disposal of USD 4.3 million, whereas the immediate Singapore based parent, Network International Investment, reported a USD 348 thousand GAIN (see figure 22).

UNIMONI ENTERPRISE SOLUTIONS PRIVATE LIMITED
Consolidated Financial Statements for period 01/04/2018 to 31/03/2019

[100200] Statement of profit and loss

Unless otherwise specified, all monetary values are in INR

	01/04/2018 to 31/03/2019	01/04/2017 to 31/03/2018
Statement of profit and loss [Abstract]		
Total revenue	62,98,97,912	38,45,07,622
Total expenses	61,51,57,188	37,44,48,541
Total profit before prior period items, exceptional items, extraordinary items and tax	1,47,40,724	1,00,59,081
Total profit before extraordinary items and tax	1,47,40,724	1,00,59,081
Total profit before tax	1,47,40,724	1,00,59,081
Total tax expense	1,09,22,853	16,33,351
Total profit (loss) for period from continuing operations	38,17,871	84,25,730
Profit (loss) from discontinuing operations before tax	0	-3,65,26,210
Tax expense of discontinuing operations	0	0
Total profit (loss) from discontinuing operation after tax	0	-3,65,26,210
Total profit (loss) for period	38,17,871	-2,81,00,480

Loss in the year to 31 Mar 2018 = c. USD 403,000
Then becomes profitable to 31 Mar 2019 = c. USD 53,000
Network International appears to report a loss from operations of USD 4.11 million attributable to TimesOfMoney (name changed to Unimoni Enterprise Solutions).

Finablr

3 BUSINESS COMBINATIONS AND ACQUISITIONS continued

Year ended 31 December 2018

During 2018, the Group acquired, from non-related parties, control of the entities as per the table below:

Acquisition date	14 Nov 2018
% of ownership acquired	100%
Entity name	*Times of Money Private Limited USD ('000)*
Profit (loss) contributed from the date of acquisition	(135)
If the combination had taken place at 1 January 2018, the combined loss of the Group would have been (higher) lower by	(85)
Net cash flow on acquisition:	
Cash acquired	6,793
Cash paid	(4,811)
	1,982

Finablr also suggests the losses were lower

Figure 25 TimesOfMoney AR 2019 compared to Finablr IPO Prospectus. Source: Company filings.

As figure 26 (below) highlights, based on the local filings by the disposed business, NIGSI, TTSPL, and TimesOfMoney, as well as the Singapore parent, Network International Investment, we are unable to reconcile USD 6.6 million, USD 7.8 million, and USD 9.2 million of the reported discontinued losses as reported by Network International for FY16, FY17, and FY18 respectively. It is possible that some losses were attributable to Sinnad, however, the revenue streams from the other disposed businesses suggest that Sinnad was likely de minimis.

TTSPL & NIGSI combined, USD M	**2016**	**2017**	**2018**	**2019**
Revenue	7.0	6.4	10.9	22.5
Expenses	(7.5)	(7.8)	(9.7)	(20.0)
Operating profit	**(0.6)**	**(1.5)**	**1.2**	**2.5**
Net income	(0.6)	(1.5)	1.2	1.8

TimesOfMoney Software (ex-TTSPL), USD M	**2016**	**2017**	**2018**	**2019**
Revenue	6.7	6.5	5.5	8.8
Expenses	(5.0)	(7.5)	(5.4)	(8.6)
Operating profit	**1.6**	**(1.0)**	**0.1**	**0.2**
Net income	1.6	(1.1)	0.1	0.1

TimesOfMoney Software, TTSPL & NIGSI combined, USD M	**2016**	**2017**	**2018**	**2019**
Revenue	13.6	12.9	16.4	31.4
Expenses	(12.6)	(15.4)	(15.1)	(28.6)
Operating profit	**1.1**	**(2.5)**	**1.4**	**2.7**
Net income	1.0	(2.7)	1.4	1.9

Local filings and losses from discontinued operations reported by Network International, USD M	**2016**	**2017**	**2018**
Loss from discontinued operations reported by Network International	(5.6)	(11.0)	(4.1)
Loss on disposal repoted by Network International		(1.3)	(3.4)
Combined Times of Money Software, TTSPL & NIGSI net income	1.0	(2.7)	1.4
Gains or losses on disposal reported by parent to ToM, TTSPL and NIGSI	-	(1.8)	0.3
Difference	**(6.6)**	**(7.8)**	**(9.2)**

Figure 26 Network International IPO Prospectus data compared to data from local filings. Source: ShadowFall calculations, company filings.

Finally, we note that the FY17 filings from the parent company, Network International Investment (**NII**), show revenue from discontinued operations was USD 5.8 million in FY17. Since the IPO prospectus reports USD 5.5 million in discontinued revenue in FY17 (see figure 27) we assume this suggests that Sinnad had approximately zero revenue.

What is also clear from NII's filing is that when excluding the impairment losses and FX related losses of USD 10.4 million and USD 6.1 million respectively in FY17, NII reported a loss from discontinued operations of USD 2.9 million. This echoes the losses reported locally in India of the businesses, which we calculate to have been approximately USD 2.7 million, a figure also indicated by the acquirer of some of these businesses, Finablr.

Based on our analysis above, it does not appear to us that all the losses reported by Network International in its IPO Prospectus as associated with discontinued operations, were attributable to the disposed businesses.

Even if the losses as reported by Network International for the discontinued operations are accurate, the fact that Network International has form in buying businesses at a significant cost, to later impair almost all the value and dispose of the businesses at a loss, we believe, should concern investors. Especially in the context of its latest USD 288 million acquisition of DPO Group.

As discussed later in this note, we have considerable concerns regarding the provenance of DPO Group.

Network International Investment Pte. Ltd.
and its subsidiaries
Registration Number: 201220635G

Annual Report
Year ended 31 December 2017

Investment in subsidiaries

	Company 2017 USD	Company 2016 USD
Equity investments at cost less impairment	–	29,637,005

In 2017, the investment in subsidiary (TOM) amounted to USD4,463,398 and is presented under Assets held for sale (Refer to Note 21).

Name of subsidiaries	Principal activity	Place of incorporation and business	Effective equity held by the Company 2017	2016
Directly held				
Times of Money Private Limited (TOM)	Remittance services/ Financial Technology services	India	–	100%
TOM Technology Services Private. Ltd.*	Remittance services	India	–	100%
Network International Global Services India Private Limited **	IT related services	India	–	99%

Loss from discontinued operations

	2017 USD	2016 USD
Revenue	5,875,811	5,699,288
Other income	3,255,477	4,214,361
Depreciation and amortisation expenses	(2,220,707)	(2,847,583)
Impairment loss	(10,395,222)	(5,895,876)
Transfer of foreign exchange loss from OCI on disposal of subsidiary	(6,076,972)	485,808
Employee benefit expenses	(4,202,589)	(5,317,301)
Other expenses	(5,636,474)	(4,968,283)
Net finance income	416,562	716,865
Result from operating activities	(18,984,114)	(7,912,721)
Income tax	792,251	622,713
Results used in operating activities, net of tax	(18,191,863)	(7,290,008)
Gain on sale of Remittance business	1,670,179	–
Loss on sale of an associate	(918,056)	–
Net gain on sale of discontinued operation	752,123	–
Tax on sale of discontinued operation	(2,158,970)	–
Loss from discontinued operations	(19,598,710)	(7,290,008)

Figure 27 Network International Investment Pte. Source: Company filings.

Summary Section

Delayed payments to merchant creditors, a USD 24 million cash call, and rising risks of a breach of covenant?

It appears to us that in 1H20, Network International had a fortuitous development in its settlement related balances regarding its Merchants. Merchant Solutions revenue declined by 39% and Total Processed Volume (TPV) fell by 28% in the period, compared to 2H19. Scheme Debtors fell by 35% in 1H20; broadly in line with the decline in revenue and TPV. This is to be expected and is cash generative. However, Restricted Cash and Merchant Debtors rose by 60% and remained flat respectively in 1H20. **It seems to us that despite a significant decline in revenue and TPV during the 1H20 period, Network International was due less from its Scheme Debtors and owed more to its Merchants, relative to 2H19, and held on to significantly more cash.**

In July 2020, Network International announced its intention to acquire DPO Group for USD 288 million. **Network International appears to us to have raised USD 24 million in cash which is surplus to requirement for this acquisition.**

Also, in 1H20, Network International refinanced its syndicated loan facility, increasing it from USD 350 million to USD 525 million. **By the end of 1H20, Network International has already drawn down on the newly enlarged facility!**

The group's cash balance also rose in 1H20. However, given the increase in the cash balance and the expensive cost of servicing the stock of debt (in 1H20 trailing 12-month cash interest paid was USD 22 million, equating to an effective cash interest rate of 6.8%) we find it somewhat odd that the group increased its loan borrowings by USD 127.0 million.

We believe that if consolidated net debt was used instead of Network International's habit of adjusting it lower (for example removing USD 22.6 million in overdraft related debt), then **leverage on a pro-forma basis would have been 3.8x in 1H20. This would be in breach of the 3.5x covenant.**

The zero movement in Merchant Creditors looks to have been pivotal.

We also find repeated inconsistencies in Network International reported drawings on its syndicated loan facilities. For example, in its FY19 Annual Report, the balance is reported to be USD 281 million for FY19. However, in the 1H20 Interim Report, this balance has risen to USD 289 million.

We are unable to reconcile these differences. If Oscar Wilde was alive as an auditor, he may well have cried "To misstate a debt balance once may be regarded as misfortune; to misstate twice looks like carelessness."

Scheme Debtors, Merchant Creditors and Restricted Cash

The dynamics of the digital payments market are detailed in the slide provided by Network International and shown in figure 34. From a cash flow perspective, the aspects to monitor are from points 5 to 8. Network International is the Merchant Acquirer and sits in between the consumer's Issuer (where the consumer holds their funds) and the Merchant, who the consumer has transacted with. The flow of cash passes from the consumer's bank (the Issuer) to the Merchant Acquirer (Network International) and then on to the Merchant. Before the Merchant Acquirer passes cash on to the Merchant, it deducts a small fee (or take) which constitutes the Merchant Acquirer's Merchant Solutions revenue.

The cash flow is as follows:

1. The consumer makes a purchase of goods or services with the Merchant.
2. The Merchant relays the transaction to its Merchant Acquirer (Network International).
3. The Merchant Acquirer (Network International), via the payment scheme (Visa, Mastercard) sends the transaction details to the consumer's Issuer.
4. The consumer's Issuer (subject to fraud checks etc) releases the funds relating to the transaction through the payment scheme to the Merchant Acquirer (Network International). For cash which is owed to the Merchant Acquirer (Network International) from the consumer's Issuer via the payment scheme, this becomes the Merchant Acquirer's (Network International's) **Scheme Debtors**.
5. The Merchant Acquirer (Network International) then releases funds relating to the transaction to the Merchant. For cash which is owed by the Merchant Acquirer (Network International) to the Merchant, this becomes the Merchant Acquirer's (Network International's) **Merchant Creditors**.

Restricted Cash is cash payments that are due to be paid by the Merchant Acquirer (Network International) to Merchants, but the payments are held back in accordance with contractual agreements or will eventually be payable on demand or as mutually agreed.

Settlement Balances = Scheme Debtors, Restricted Cash and Merchant Creditors combined. It is effectively how much cash Network International has tied up as working capital in receivables and payables relating to its Merchant Solutions business.

Theoretically, as Network International grows, it should generate cash from its Settlement Balances. This is because of where Network International sits within the payment chain. For example, as described in points 1 to 5 above, when a consumer makes a purchase, a Scheme Debtor (cash owed to Network International) and a Merchant Creditor (cash owed by Network International) is generated. Network International will not pay the Merchant the cash (less Network International's fee) to settle the Merchant Creditor entry until it has received the cash from the Scheme Debtor. So as more customers make purchases with Network International's Merchants, theoretically Merchant Creditors should be greater than Scheme Debtors. Further, Network International holds restricted cash, of which some is presumably a portion of cash held back by the company in relation to Merchant Creditors if payments are cancelled or reversed.

However, historically, Network International's Scheme Debtors have been significantly greater than its Merchant Creditors. This can be seen in figure 29. For example, in FY17, Network International reported Scheme Debtors of USD 247.1 million, some USD 48.0 million higher than Merchant Creditors of USD 199.1 million. Post the group's IPO, these balances have sharply narrowed, principally driven by a rapid decline in Scheme Debtors. In 1H20, Merchant Creditors were USD 47.6 million more than Scheme Debtors. This compares to 2H19, when Scheme Debtors were USD 15.7 million more than Merchant Creditors. **This suggests a USD 63.3 million swing in the balance, which should theoretically be extremely cash generative.**

We also note that in 1H20, Network International reported a balance of USD 86.4 million in Restricted Cash. This was up from USD 54.0 million in 2H19. **As a percentage of Merchant Creditors, Restricted Cash rose significantly, from 32.3% in 2H19, to 51.7% in 1H20.**

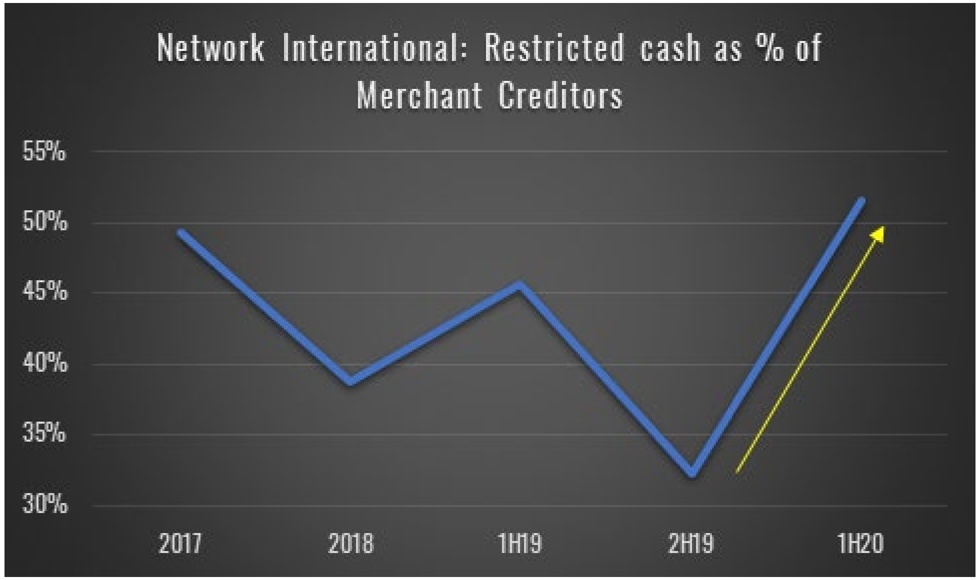

Figure 28 Network International settlement balances. Source: Company filings, ShadowFall calculations.

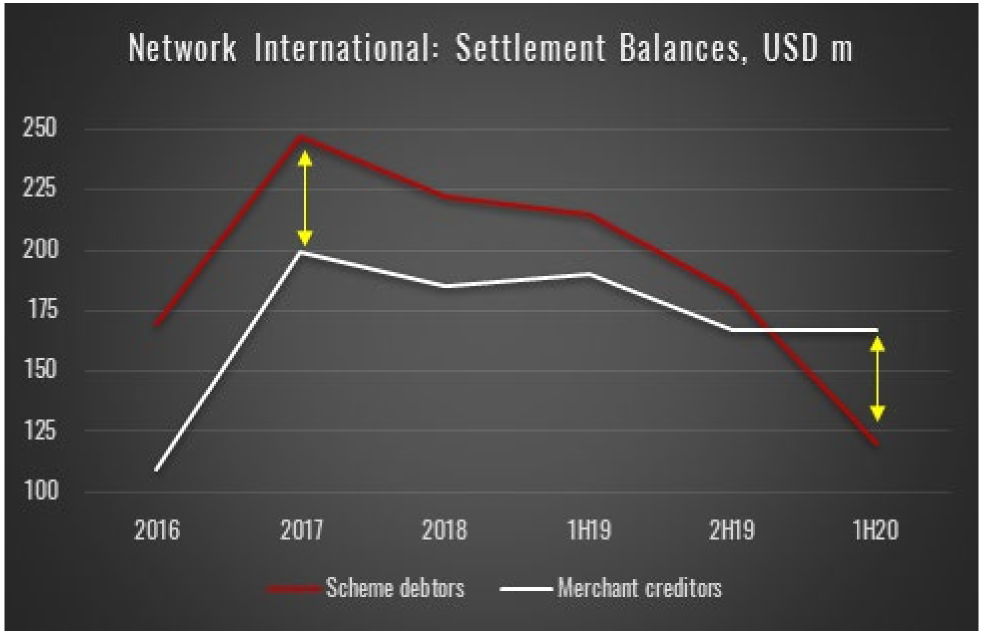

Figure 29 Network International settlement balances. Source: Company filings, ShadowFall calculations.

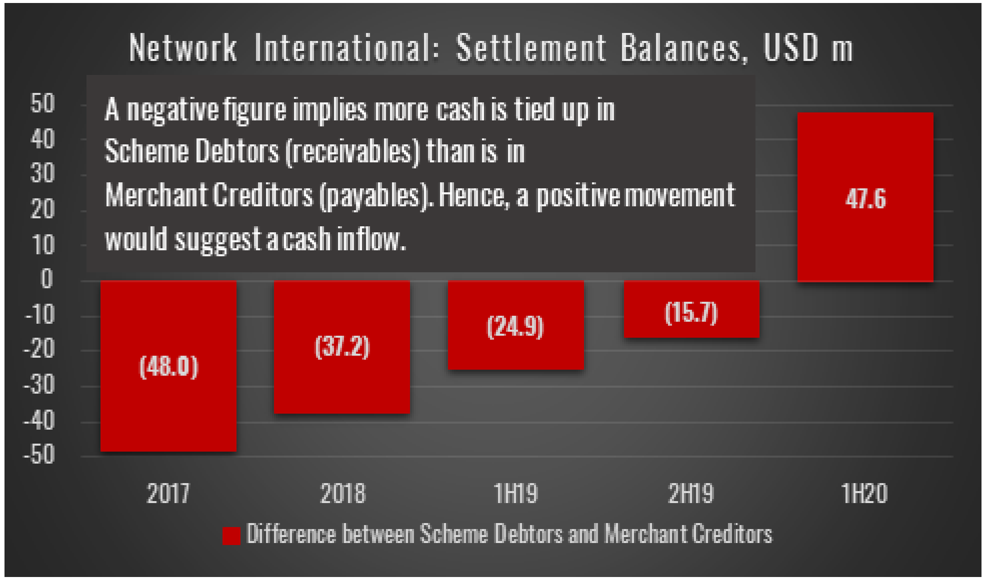

Figure 30 Network International settlement balances. Source: Company filings, ShadowFall calculations.

In 1H20, although Merchant Solutions revenue declined by 39%, and total processed volume (TPV) fell by 28% as compared to 2H19, we note that:

Scheme Debtors

- Fell by USD 63.2 million or 35%; and as a percentage of trailing 12-month (TTM) TPV declined by 25% to 0.31%.

Restricted Cash

- Rose by USD 32.4 million or 60%, and as a percentage of TTM TPV increased by 83% to 0.23%.

Merchant Creditors

- **Remained flat, and as a percentage of TTM TPV increased by 15% to 0.44%.**

I.e. Despite a significant decline in revenue and TPV during the 1H20 period, **Network International was less from Scheme Debtors but owed more to its Merchants, relative to 2H19, and held on to significantly more cash**. These, in our view, counterintuitive trends improved Network International's cash generation and its net debt position in 1H20.

MERCHANT DATA	Unit	2016	2017	2018	2019	1H18	2H18	1H19	2H19	1H20
Scheme debtors	USD m	169.3	247.1	222.7	182.8	149.8	222.7	214.8	182.8	119.6
Restricted cash	USD m	3.9	98.2	71.9	54.0	99.0	71.9	86.7	54.0	86.4
Merchant creditors	USD m	-109.2	-199.1	-185.5	-167.2	-225.5	-185.5	-189.9	-167.2	-167.2
Settlement related balances	**USD m**	**64.0**	**146.2**	**109.1**	**69.7**	**23.3**	**109.1**	**111.6**	**69.7**	**38.8**
REVENUE	**Unit**	**2016**	**2017**	**2018**	**2019**	**1H18**	**2H18**	**1H19**	**2H19**	**1H20**
Merchant solutions	**USD m**	106.4	118.5	136.3	152.5	62.1	74.2	69.1	83.4	51.1
Scheme debtors as a % of Merchant Solutons revenue	%	159%	209%	163%	120%		163%	150%	120%	89%
Restricted cash as a % of Merchant Solutions revenue	%	4%	83%	53%	35%		53%	61%	35%	64%
Merchant creditors as a % of Merchant Solutions revenue	%	103%	168%	136%	110%		136%	132%	110%	124%
TOTAL PROCESSED VOLUME	**Unit**	**2016**	**2017**	**2018**	**2019**	**1H18**	**2H18**	**1H19**	**2H19**	**1H20**
Total processed volume (in USD millions)	USD m	31,217	36,207	39,932	43,779	19,443	20,489	21,543	22,236	15,999
Scheme debtors as a % of TTM total processed volume	%	0.54%	0.68%	0.56%	0.42%		0.56%	0.51%	0.42%	0.31%
Restricted cash as a % of TTM total processed volume	%	0.01%	0.27%	0.18%	0.12%		0.18%	0.21%	0.12%	0.23%
Merchant creditors as a % of TTM total processed volume	%	0.35%	0.55%	0.46%	0.38%		-0.46%	-0.45%	-0.38%	-0.44%
% INCREASE / (DECREASE) YoY & HoH	**Unit**	**2016**	**2017**	**2018**	**2019**	**1H18**	**2H18**	**1H19**	**2H19**	**1H20**
Scheme debtors as a % of total processed volume	%		25.8%	-18.3%	-25.1%			-8.4%	-18.3%	-25.1%
Restricted cash as a % of total processed volume	%		2044.5%	-33.6%	-31.5%			14.6%	-40.2%	83.1%
Merchant creditors as a % of total processed volume	%		57.1%	-15.5%	-17.8%			-2.8%	-15.5%	14.5%

Figure 31 Network International settlement balances. Source: Company filings, ShadowFall calculations

Figure 33 shows our estimate of the impact on Network International's net debt had the Merchant balances remained stable at 2H19 rates as a percentage of Merchant Solutions revenue and TTM Total Processed Volume.

Instead of a USD 31 million cash inflow, we calculate that 1H20 would have realised a settlement related balance cash inflow of c. USD 8 million.

Actual net debt was USD 324 million in 1H20 (although adjusted to USD 300 million as Network International does not include part of its overdraft facility as debt).

If the settlement related balances had been in proportion with 2H19 rates, then we calculate that actual net debt would have been c. USD 346 million in 1H20.

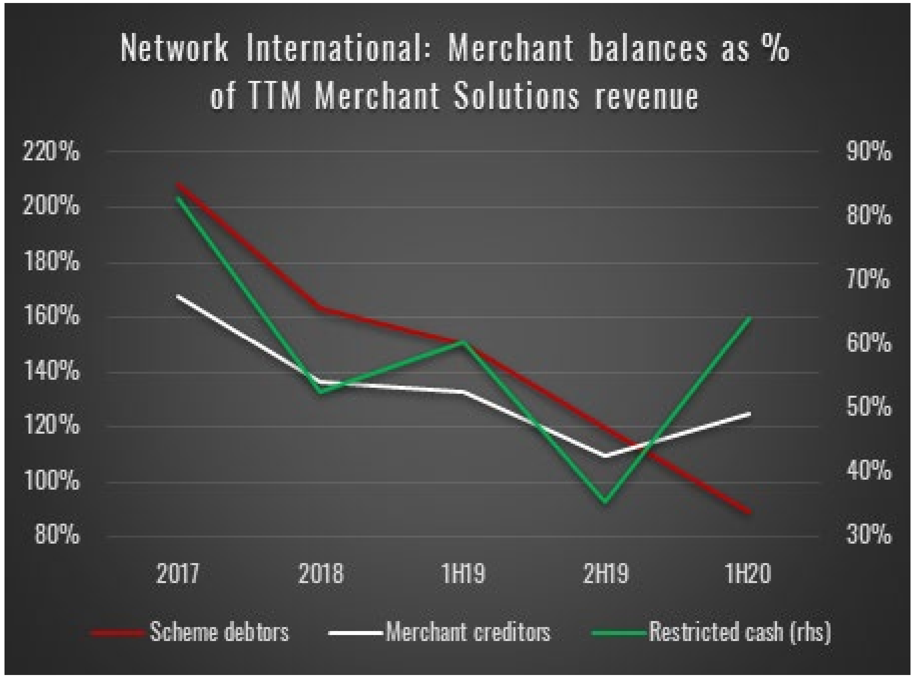

Figure 32 Network International settlement balances. Source: Company filings, ShadowFall calculations.

MERCHANT WORKING CAPITAL	Unit	1H19	2H19	1H20
Merchant Solutions Revenue	USD m	69.1	83.4	51.1
Merchant data				
Scheme debtors	USD m	214.8	182.8	119.6
Restricted cash	USD m	86.7	54.0	86.4
Merchant creditors	USD m	-189.9	-167.2	-167.2
Settlement related balances	USD m	**111.6**	**69.7**	**38.8**
Change in settlement related balances	USD m	**-2.5**	**41.9**	**30.9**
Merchant data as % of Trailing 12 Month (TTM) Merchant Solutions revenue				
Scheme debtors	%	150%	120%	89%
Restricted cash	%	61%	35%	64%
Merchant creditors	%	132%	110%	124%
Merchant data if at 2H19 % of Trailing 12 Month (TTM) Merchant Solutions revenue				
Scheme debtors	USD m		182.8	161.2
Restricted cash	USD m		54.0	47.6
Merchant creditors	USD m		-167.2	-147.4
Settlement related balances	USD m		**69.7**	**61.4**
Change in settlement related balances	USD m			**8.3**
Merchant data as % of Trailing 12 Month (TTM) Total Processed Volume				
Total processed volume (in USD millions)	USD m	21,543	22,236	15,999
Scheme debtors as a % of total processed volume	%	0.51%	0.42%	0.31%
Restricted cash as a % of total processed volume	%	0.21%	0.12%	0.23%
Merchant creditors as a % of total processed volume	%	-0.45%	-0.38%	-0.44%
Merchant data if at 2H19 % of Trailing 12 Month (TTM) Total Processed Volume				
Scheme debtors	USD m		182.8	159.7
Restricted cash	USD m		54.0	47.2
Merchant creditors	USD m		-167.2	-146.0
Settlement related balances	USD m		**69.7**	**60.9**
Change in settlement related balances	USD m			**8.8**
NET DEBT				
Actual net debt		382.5	333.7	**323.7**
Net debt if Merchant data at 2H19 % of TTM Merchant Solutions revenue				**346.3**
Net debt if Merchant data at 2H19 % of TTM Total Processed Volume				**345.8**

Figure 33 Network International settlement balances. Source: Company filings, ShadowFall calculations.

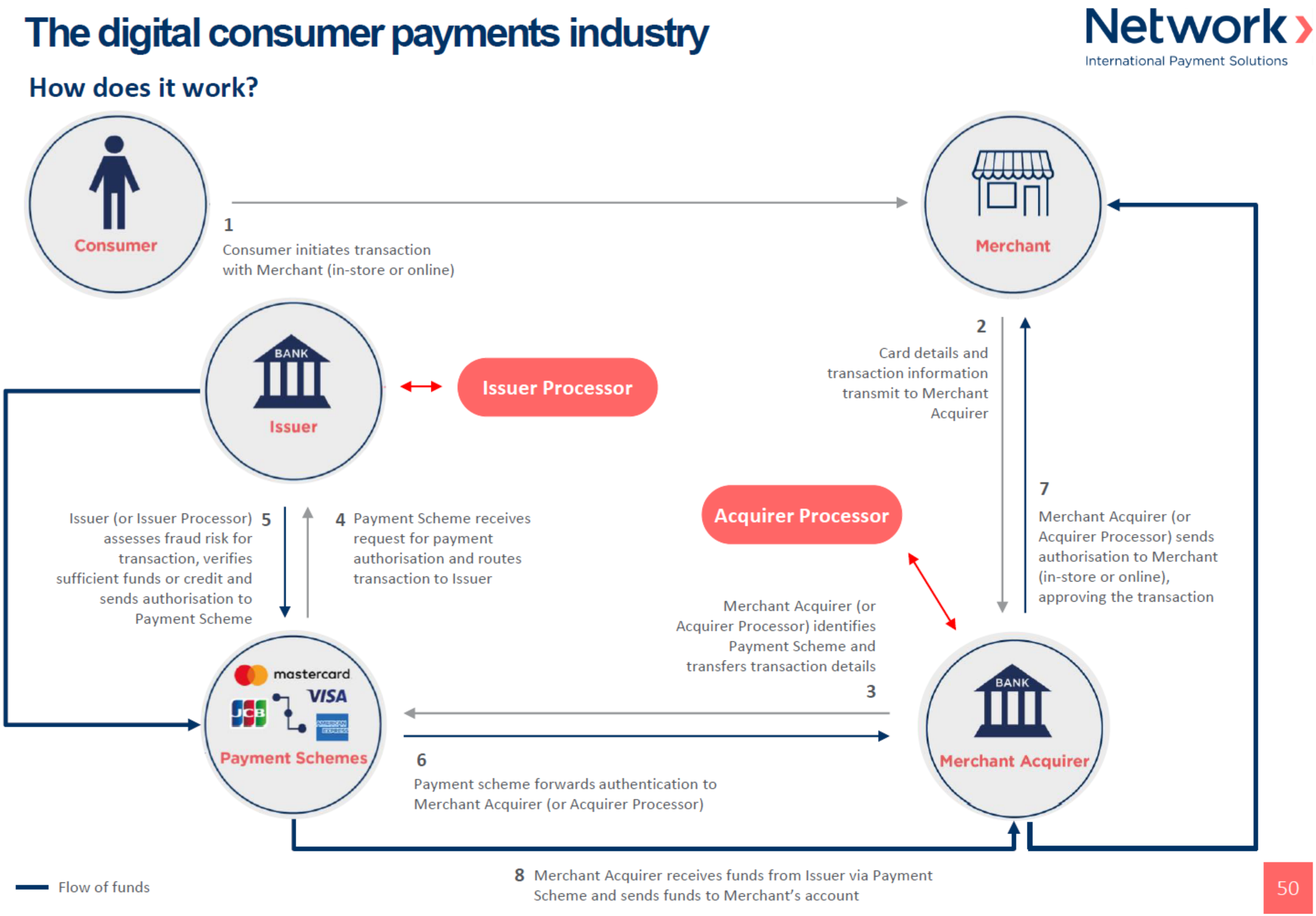

Figure 34 How the payment cycle functions. Source: Network International, November 2020 Investor Presentation.

The USD 24 million cash call going under the radar

Network International announced the acquisition of DPO Group (see further analysis on DPO on pages 37 to 53) along with the placing of 50m new shares on July 28, 2020. The announcement read as follows:

> "Network International . . .. has entered into an agreement to acquire DPO Group . . .. for a total consideration of approximately USD 288 million (the "Transaction"). The consideration will be almost entirely funded through the proceeds from an equity placing representing 10.0% of the Company's existing issued share capital, USD 50 million vendor consideration shares issued to Apis Growth Fund I, managed by Apis Partners ("Apis"), USD 13 million consideration shares issued to the DPO co-founders, with any small remaining balance to be funded via existing debt facilities."

As detailed above, the total consideration for the acquisition is stated as USD 288 million. On top of this we know from the 1H20 results that the acquisition would cost Network International an additional USD 11 to 12 million in diligence and advisory fees.

> "Specially Disclosed Items, which includes USD 11-12m related to DPO diligence and advisory fees"

This makes the total cost to Network International for the DPO acquisition as c. USD 300 million.

However, as we detail in figure 35 to the right, we find the reconciliation hard to bridge.

Network International stated that it would place 10% of the company's equity to fund the acquisition, generating gross proceeds of USD 265 million. If we assume Network International incurs 150bps in fees, this provides net proceeds of USD 261 million.

Vendor and Management Consideration shares total USD 63 million, bringing the total financing to USD 324 million. Network International states that "any small remaining balance to be funded via existing debt facilities", however we calculate that the total financing exceeds the total cost by USD 24 million.

Network International appears to us to have raised USD 24 million in cash which is surplus to requirement for this acquisition.

July 28, 2020 Equity Raise	
Shares issued, m	50
Placing price, GBp	410
Proceeds, GBPm	205
Proceeds, USDm	**265**
Assumed costs	1.5%
Net proceeds, USDm	**261**
Acquisition of DPO	**USDm**
Total consideration	288
Fees	12
Total cost to acquire	**300**
Funded via:	
Vendor consideration shares	50
Management consideration shares	13
Remainder	**237**
Equity raise	261
Cash surplus	**24**

Figure 35 DPO acquisition financing, FX Rate was GBP:USD 1.2932 on 28 Jul 2020. Source: Company filings, ShadowFall calculations

Risk of covenant breach?

In 1H20, Network International reported USD 492.7 million in gross debt and USD 169.0 million in cash and cash equivalents. The debt in 1H20 is divided between:

- USD 368.3 million in Syndicated loans;
- USD 75.0 million in a RCF;
- USD 1.3 million leases; and
- USD 48.1 million bank overdraft facility.

The USD 48.1 million overdraft carries to the cash balance, so the true gross debt figure is USD 444.6 million, and the true cash figure is USD 120.9 million (see figure 39).

Network International increased its syndicated loan facility in 1H20, to USD 525 million from USD 350 million. **Had Network International not increased the facility, then we calculate that 1H20 debt would have equated to 105% of the prior facility.**

	(Unaudited) 30 June 2020 USD'000	(Audited) 31 December 2019 USD'000
Non-Current borrowings	368,793	211,783
Current borrowings	123,892	165,661
Total	492,685	377,444
Split into:		
a) Syndicated term loan		
- Non-Current portion	368,283	210,930
- Current portion	-	70,000
Sub Total	**368,283**	**280,930**
b) Revolving credit facility		
- Current portion	75,000	35,000
Sub Total	**75,000**	**35,000**
c) Lease liability		
- Non-Current portion	510	853
- Current portion	766	766
Sub Total	**1,276**	**1,619**
Bank overdraft (for working capital)	48,126	59,895
Total	**492,685**	**377,444**

Figure 36 Network International net debt breakdown, Source: Company filings

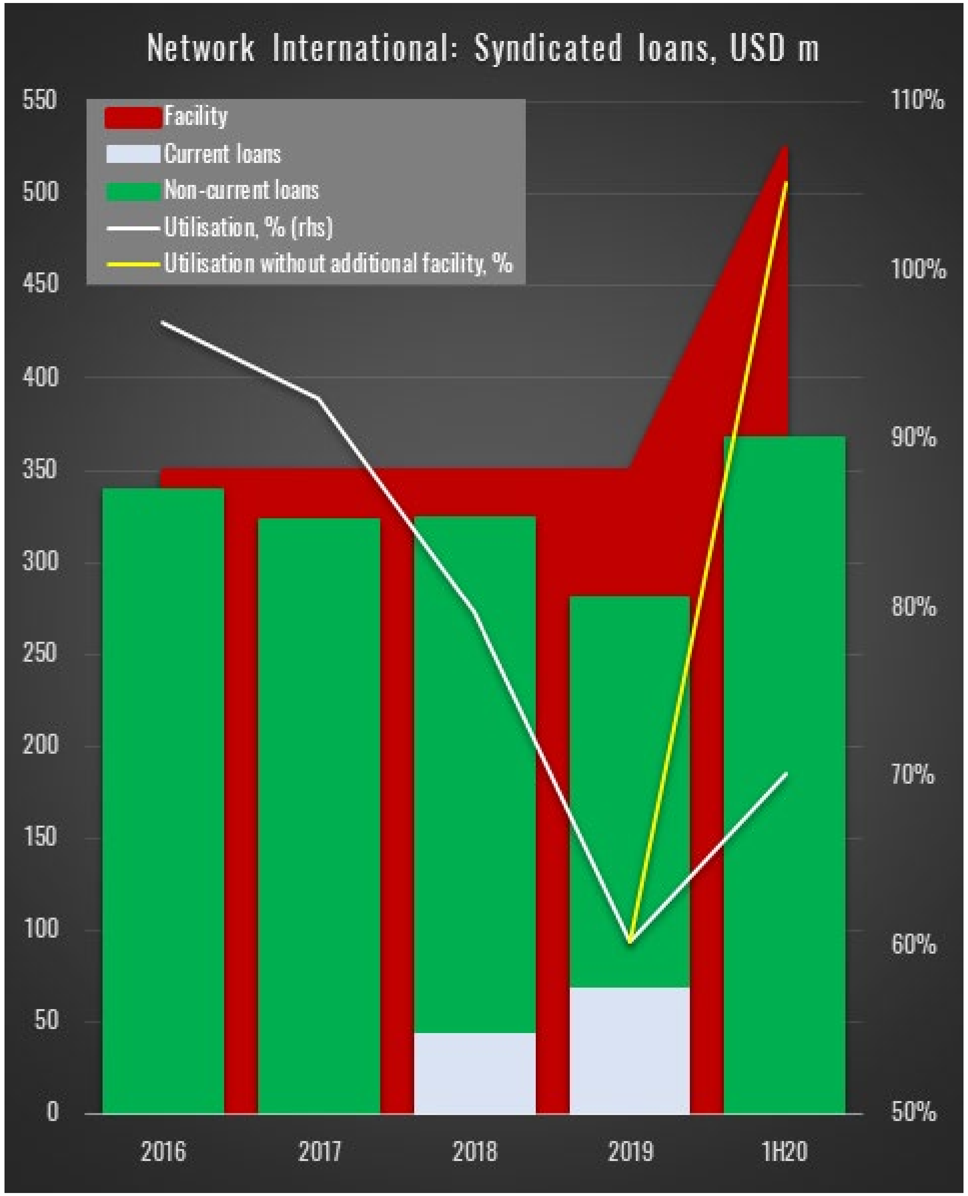

Figure 37 Network International utilisation of available facilities, Source: ShadowFall calculations

As figure 39 shows, in 1H20, Network International went from having negative true cash of USD 16.1 million in 2H19 (the overdraft facility was used for the Group's cash needs) to positive cash of USD 120.9 million. Cash increased by USD 137.0 million in 1H20. We note that gross debt also increased in 1H20, by USD 127.0 million.

Given the increase in the cash balance in 1H20 and the cost of servicing the stock of debt (in 1H20 trailing 12-month (TTM) cash interest paid was USD 22 million equating to a TTM effective cash interest rate of 6.8%) we find it somewhat odd that the group increased its loan borrowings by USD 127.0 million.

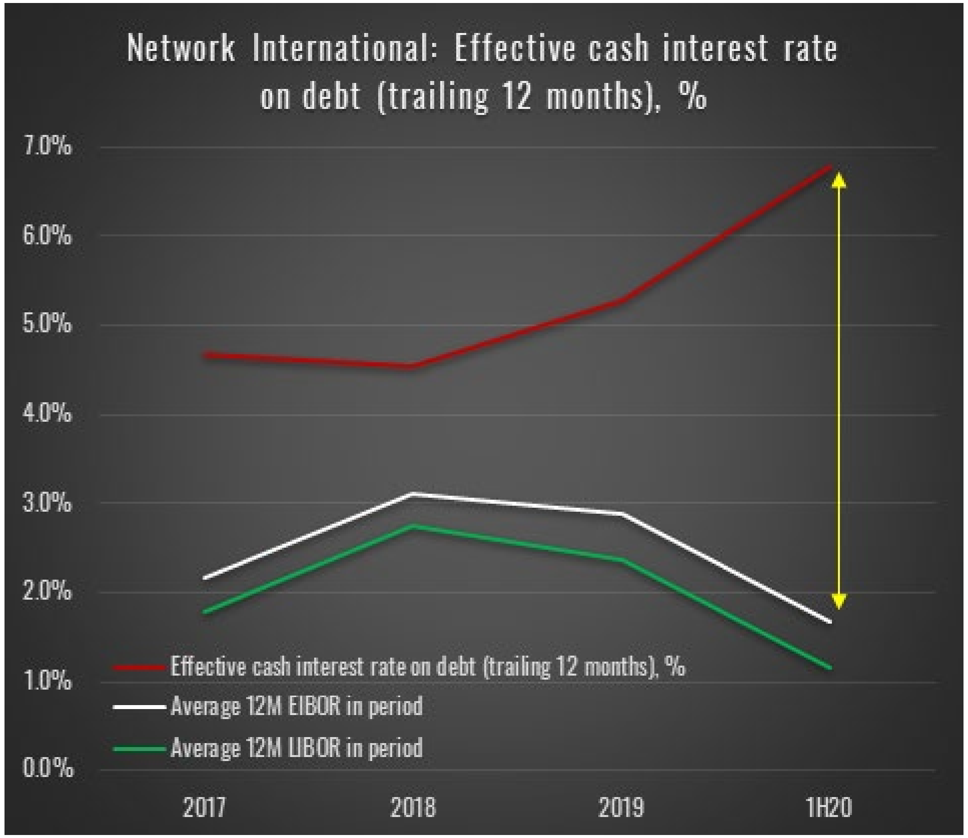

Figure 38 Network International cash interest rate vs average 12m EIBOR and LIBOR, Source: Company filings, ShadowFall calculations

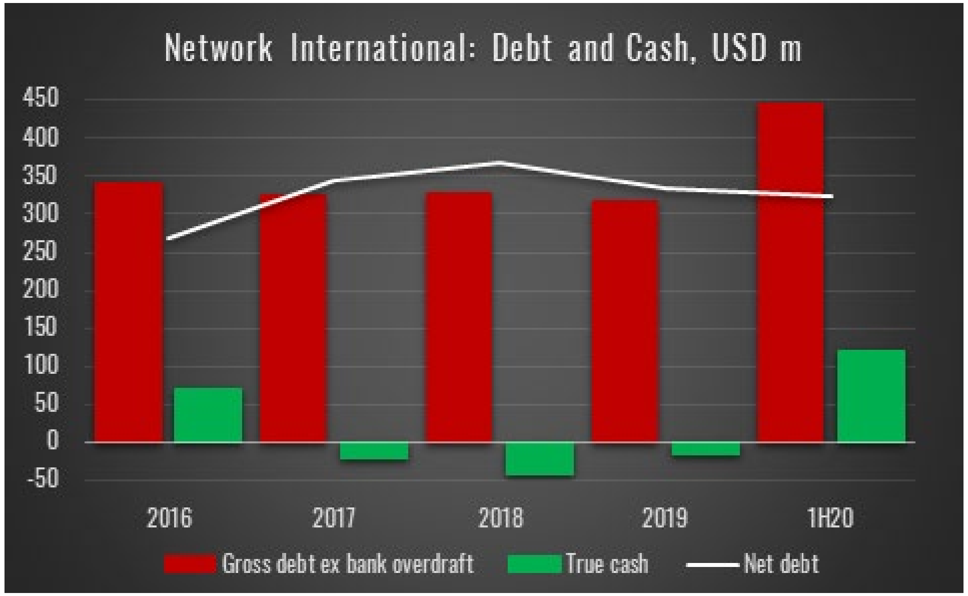

Figure 39 Network International gross debt and true cash, Source: Company filings, ShadowFall calculations

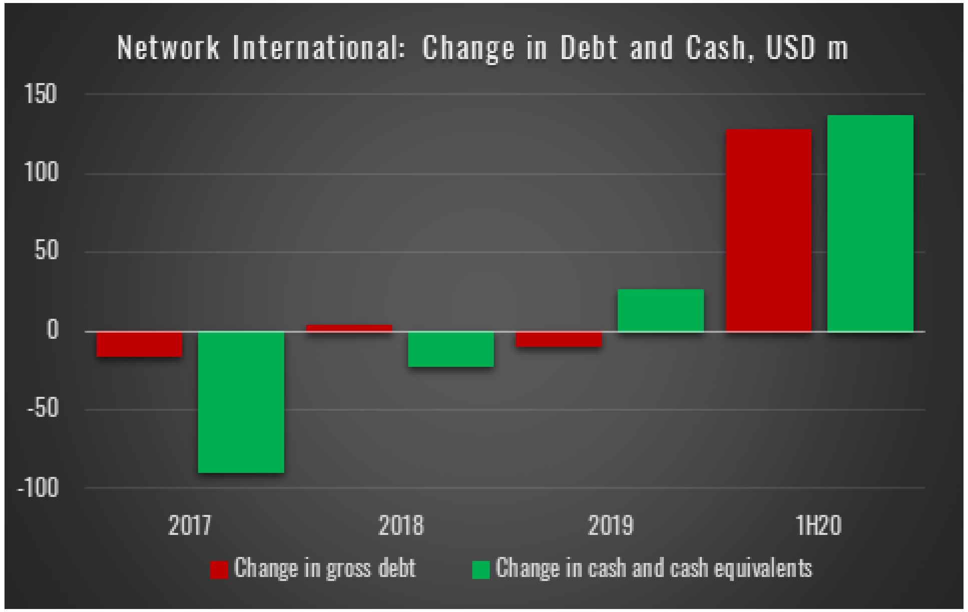

Figure 40 Network International change in gross debt and cash, Source: Company filings, ShadowFall calculations

The new facility has a cost set by a margin depending on the Group's net debt to underlying EBITDA, whereby increased / (decreased) leverage increases / (decreases) the margin. The initial margin was set at 1.95% per annum on AED financing and 2.20% on USD and Islamic financing over EIBOR and LIBOR respectively.

Network International's debt covenant limit is set to 3.5x net debt to EBITDA.

Network International reported that its leverage was 2.0x in 1H20 (FY19: 1.6x). However, this was on a trailing 12 months (TTM) EBITDA basis. On a pro-forma basis, we calculate that leverage would have been 2.8x.

Further, if consolidated net debt was used instead of Network International adjusting lower, for example, discounting USD 22.6 million in overdraft related debt, then **we believe that leverage on a pro-forma basis would have been 3.8x in 1H20. This would be in breach of the 3.5x covenant.**

In figures 42 and 43, we also show how key the moves in settlement balances appear to have been in 1H20, <u>especially the zero movement in Merchant Creditors</u>.

NET DEBT	**2016**	**2017**	**2018**	**2019**	**1H20**
Non-current borrowings	339.3	323.7	279.3	210.9	368.3
Current borrowings	0.0	0.0	45.0	105.0	75.0
Total borrowings excluding overdraft facility	**339.3**	**323.7**	**324.2**	**315.9**	**443.3**
Overdraft facility	18.0	120.8	102.7	59.9	48.1
Lease debt			2.3	1.6	1.3
Total borrowings	**357.4**	**444.5**	**429.3**	**377.4**	**492.7**
Cash	-87.6	-100.8	-60.3	-43.8	-169.0
Cash excluding overdraft facility	**-69.6**	**20.0**	**42.5**	**16.1**	**-120.9**
Net debt	**269.7**	**343.7**	**369.0**	**333.7**	**323.7**
Adjusted for:					
Working capital facility overdraft	-18.0	-120.8	-102.7	-61.5	-22.6
Restricted cash			2.8	-0.9	-0.9
Cash balance (share of assets held for sale and associate)				-5.3	-7.1
Unamortised debt issuance cost			9.4	7.8	6.7
Net debt reported by Network International for debt covenant purposes	**251.7**	**223.0**	**278.5**	**273.8**	**299.8**
Difference from consolidated figure	18.0	120.8	90.5	59.9	24.0

EBITDA	**2H19**	**1H20**	**T12M**	**Pro-forma**
Underlying EBITDA	95.9	52.7	148.6	105.4
Reported EBITDA	81.9	42.8	124.7	85.7

NET DEBT to EBITDA	**2016**	**2017**	**2018**	**2019**	**T12M**	**Pro-forma**
Underlying EBITDA	125.2	138.6	152.0	172.3	148.6	105.4
Network International net debt to underlying EBITDA, x	2.0	1.6	1.8	1.6	2.0	**2.8**
Reported EBITDA	108.0	126.2	124.4	132.0	124.7	85.7
Consolidated net debt to reported EBITDA, x	2.5	2.7	3.0	2.5	2.6	**3.8**

SETTLEMENT RELATED BALANCES	**2016**	**2017**	**2018**	**2019**	**1H20**
Scheme debtors	169.3	247.1	222.7	182.8	119.6
Restricted cash	3.9	98.2	71.9	54.0	86.4
Merchant creditors	-109.2	-199.1	-185.5	-167.2	-167.2
Change from prior period (positive is cash generative)					
Scheme debtors		-77.8	24.4	39.9	**63.2**
Restricted cash		-94.2	26.3	17.9	**-32.4**
Merchant creditors		89.9	-13.6	-18.4	**0.0**
Cash inflow/(outflow)		**-82.2**	**37.1**	**39.4**	**30.9**
Reported change in settlement related balances in cash flow statement		-61.2	12.7	42.8	30.9
Consolidated net debt excluding change in settlement related balances		**261.6**	**406.1**	**373.1**	**354.6**

NET DEBT to EBITDA	**2017**	**2018**	**2019**	**T12M**	**Pro-forma**
Consolidated net debt excluding change in settlement related balances to underlying EBITDA, x	1.9	2.7	2.2	2.4	**3.4**
Consolidated net debt excluding change in settlement related balances to reported EBITDA, x	2.1	3.3	2.8	2.8	**4.1**

Figure 41 Network International summary of net debt, EBITDA and settlement related balances, Source: Company filings, ShadowFall calculations

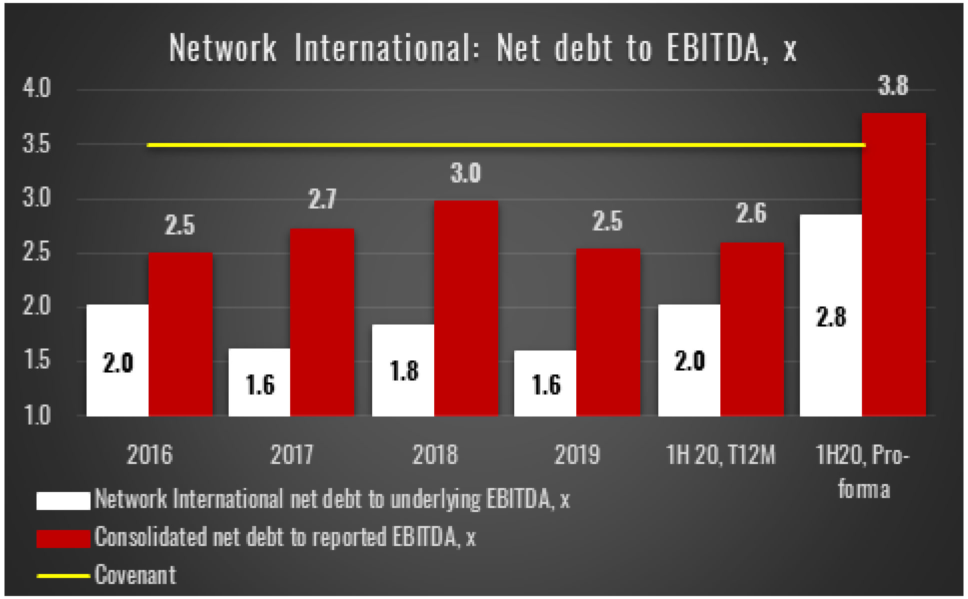

Figure 42 Network International net debt to EBITDA, Source: Company filings, ShadowFall calculations

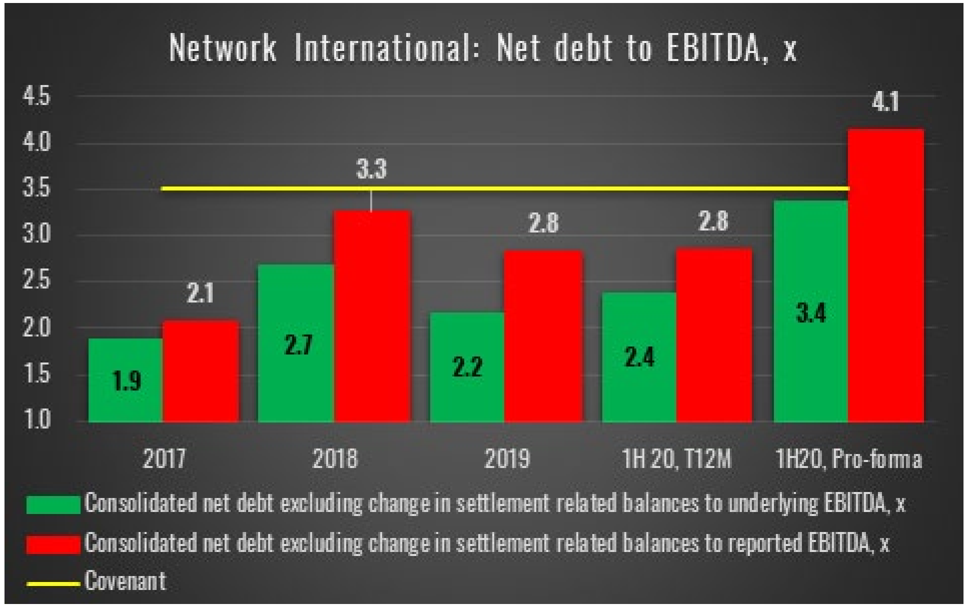

Figure 43 Network International net debt to EBITDA adjusted for settlement related balance changes, Source: Company filings, ShadowFall calcs

Our leverage ratio, which represents net debt to underlying EBITDA[1] and is computed as per the methodology provided in the financing facility agreement with the lending banks, was 2.0x at the end of the period (FY 2019: 1.6x). Underlying EBITDA[1] is taken for rolling 12 months, i.e. from 1 July 2019 – 30 June 2020 (for comparatives: FY 2019).

	June 2020 USD'000	December 2019 USD'000
Net debt	299,729	273,754
Underlying EBITDA[1]	148,618	172,314
Leverage ratio	2.0	1.6

Condensed consolidated statement of profit or loss

		Six months ended 30 June (Unaudited)	
Continuing operations	*Note*	2020 USD'000	2019 USD'000
Revenues	5	134,157	152,345
Personnel expenses	6	(43,115)	(45,605)
Selling, operating & other expenses	7	(48,202)	(56,646)
Depreciation and amortisation		(24,907)	(21,436)
Share of profit of an associate		2,451	2,641
Profit before interest and tax		20,384	31,299

	Six months ended 30 June (Unaudited)	
	2020 USD'000	2019 USD'000
Items affecting EBITDA:		
Reorganisation, restructuring and settlements[(1)]	-	1,087
Share-based compensation [(2)]	5,145	5,244
M&A and IPO related costs [(3)]	789	15,677
Other one-off items [(4)]	(219)	(237)
Total specially disclosed items affecting EBITDA	5,715	21,771

Without using trailing 12 months EBITDA, leverage would be 2.8x not 2.0x

On a consolidated net debt and pro-forma reported EBITDA, leverage would be 3.8x

Figure 44 Network International presentation of net debt to EBITDA, Source: Company filings, ShadowFall calculations

WHAT EXACTLY IS THE DRAWDOWN?

Somewhat oddly, when we read Network International's IPO Prospectus, FY19 Annual Report (AR) and 1H20 Interim Report (IR), we noticed significant inconsistencies.

In the wording to the Prospectus, Network International indicates that its syndicated term loan facility had an outstanding balance of USD 334 million in FY18. However, later in a table in the Prospectus and in the FY19 AR, this outstanding balance is reported to be USD 10 million lower.

In the FY19 AR, this balance is reported to be USD 281 million for FY19. However, in the 1H20 IR, this balance has risen to USD 289 million.

We are unable to reconcile these differences. If Oscar Wilde was alive as an auditor, he may well have cried "To misstate a debt balance once may be regarded as misfortune; to misstate twice looks like carelessness."

The Group's outstanding debt could have an adverse effect on its financial condition

The Group has outstanding debt and significant debt service obligations. Its material debt obligations include a syndicated amortising term loan facility of USD 350 million (with an outstanding balance of USD 334 million as of 31 December 2018) and a committed, unsecured overdraft revolving credit facility. As of December 31, 2018, the Group's total consolidated debt was USD 437.4 million, including USD 102.7 million for the overdraft facilities to meet the Group's acquiring settlement needs that are based on timing difference.

Network International Holdings Plc Annual Report and Accounts 2019 171

The table below provides a breakdown of the borrowing:

	2019 USD'000	2018 USD'000
Non-current borrowing	211,783	280,802
Current borrowing	165,661	148,457
Total	**377,444**	429,259
Split into:		
a) Syndicated acquisition financing		
– Non-current portion	210,930	279,297
– Current portion	70,000	44,950
Sub Total	**280,930**	324,247

2018	**Lease liability**	**Borrowings**	**Retained earnings**
	USD'000		
Opening balance	-	323,741	-
Recognition of lease liabilities under IFRS 16	9,573		
Interest expense	-	-	-
Amortisation of borrowing fees	-	506	-
Payment of lease liabilities	(2,298)	-	-
Payment of dividends	-	-	(89,857)
Closing balance	**7,275**	**324,247**	(89,857)
Current portion	-	**44,950**	-
Non-current portion	-	**279,297**	-

We find it difficult to decide what to believe with the filings.

The IPO document suggests outstanding syndication financing of USD 334 million in FY18.

But a table in the IPO document also says the figure is USD 324.2 million in FY18. I.e. USD 10 million lower.

The IPO document also indicates total consolidated debt was USD 437.4 million in FY18.

The FY19 annual report suggests outstanding syndication financing of USD 324.2 million in FY18, but also reports total debt of USD 429.3 million in FY18.

During the period, we successfully refinanced our syndicated term lending facility. The syndicate, which consists of 16 banks with both global and regional presence, was considerably over subscribed, with around half of the facility funded by banks who are new to the syndicate. The purpose of the facility is for general corporate use, and to fund growth accelerator projects. The facility is for USD 525 million and replaced the Group's USD 350 million term financing facility, which had a drawn down balance of USD 289 million on 31 December 2019.

Then in 1H20, Network International reports that its syndication financing had been drawn down by USD 289 million as of 31 December 2019, whereas the FY19 accounts show this figure to be USD 280.9 million.

Figure 45 Network International inconsistencies in debt filings, Source: Company filings, ShadowFall

Summary Section

DPO Group, acquisition announced July 2020 for USD 288 million

We have several concerns regarding the acquisition of DPO.

Provenance concerns:

- DPO is a roll-up. It appears to have early origins in Israel from 2006, and despite its focus on Africa, it was registered on 17 October 2012 in Ireland, two floors above at the **same premises that Wirecard UK & Ireland** is based.
- The first business DPO appears to have acquired was a German based business, **AconaOnline GmbH**, in late 2012 or early 2013.
- **AconaOnline** was purchased from **Dietmar Knoechelmann**, the **former Wirecard Director**, who sold the Wirecard Payments business to Wirecard. According to the Times of Israel, Knoechelmann was convicted in Israel in November 2016 for abetting fraud and money laundering.
- AconaOnline was registered to the same address as Inatec Solutions GmbH, a business managed by **Rüdiger Trautmann, the former COO to Wirecard**.
- Alongside Knoechelmann was **Andy Quinn**, who were the two **directors of the businesses which were sold to Wirecard**.
- **Andy Quinn audited DPO** and its parent (which was incorporated later on 1 March 2016) until 2017. Since 2018, an associate of Quinn's has audited the DPO Group.
- In June 2020, AconaOnline was dissolved, six weeks ahead of Network International's announcement that it was to acquire the DPO Group for USD 288 million.
- At incorporation, of DPO Group's holding company in 2016, **Liam Grainger was appointed secretary**.
- **Greymountain Management Limited** is a company for which **Liam Grainger** and **Bob Richmond** served as Directors.
- In September 2020, **Greymountain** was detailed by the US CFTC as being involved in the fraudulent processing of USD 165 million in credit card payments for binary option transactions.
- **Andy Quinn** presented the **Greymountain filings** to the Irish Companies Registration Office.
- **Liam Grainger** and **Bob Richmond** incorporated **DPO Group's holding company**.

The African roll-up and "old friends" of Network International invest:

- **3G Direct Pay South Africa** was incorporated in South Africa on 7 March 2016, **six days after the DPO Group** holding company was incorporated in Ireland.
- Six months later, **Apis Partners**, managed by **Matteo Stefanel** and **Udayan Goyal**, invest a reported **USD 7.3 million into DPO Group**.

- **Matteo Stefanel** is a former partner of the **Abraaj Group** (August 2008 to August 2013). In 2019, the Abraaj Group was reportedly fined USD 315 million for deceiving investors and misappropriating funds. To be clear, there is no evidence to suggest that Mr Stefanel was involved in the issues which befell the Abraaj Group since he had departed some years earlier. We mention the doom of the Abraaj Group *en passant*.
- The **Abraaj Group** was a **former owner of Network International**, having acquired a 49% interest in Network International in December 2010 from Emirates NBD for USD 539 million. The Abraaj Group sold its interest in Network International in November 2015, reportedly for USD 330 million.

- **DPO acquired PayGate** in September 2016, reportedly **for USD 7.3 million**.
- **DPO acquires five further companies** in 2017, paying what appears to be **between 1x to 2x revenue** for the acquisitions to date.
- **DPO acquires PayFast** in August 2019 for c. 2.5x revenue. We calculate that **PayFast contributes c. 37% of DPO's pro-forma revenue**.
- Less than a year later, **Network International** announces it is **to acquire DPO for USD 288 million, paying what we calculate to be 12x pro-forma FY19 revenue (15x actual)**. The deal carries an additional USD 11-12 million in due diligence and advisory fees. Network International raises c. USD 266 million to finance the cash and stock purchase. We calculate that Network International raised c. USD 24 million in cash surplus to requirement for the transaction (see figure 35).

Quality concerns:

- According to its FY19 accounts, DPO has NET TANGIBLE LIABILITIES of USD 8.9 million. Given that Network International is paying USD 288 million for DPO, the value attached to it will likely be almost entirely goodwill (or goodwill on top of goodwill considering DPO is a roll-up). We calculate that if the same goodwill impairment test methodology were to be used for DPO as Network International uses for its existing goodwill, then the **DPO acquisition could fail the impairment test**.
- In our view, we see the potential that DPO's goodwill may have been double counted in its financial statements. We also find goodwill to be attached to a company which is not listed as a subsidiary.
- We view several of the metrics provided by Network International regarding DPO as meaningless, since based on management's commentary and DPO's historical announcements some of the numbers provided either do not add up or they are contradictory to historical reporting.
- Projections provided by Network International's management, in our view, make little sense. Network International's CFO, Rohit Malhotra, has indicated to expect DPO's revenue to grow at a CAGR of c. 61% over the next four years. DPO grew its revenue by 69.4% YoY in FY19, however this was assisted by the acquisition of PayFast. Excluding PayFast, **DPO's revenue grew by 36.3% YoY**. **The prospect of DPO growing its revenue at the rate envisaged by Mr Malhotra is, in our view, low, unless further acquisitions are in the pipeline.**

WIRECARD IRELAND HEADQUARTERS

Despite operating in Africa, the DPO Group is not registered in Africa. Instead, it is **incorporated under a different name**, that being **3G Direct Pay Holdings** and is registered to an address in Ireland: **Ulysses House, Foley Street, Dublin, Ireland.**

Wirecard afficionados will recognise this address as also having been the home of:

- **Wirecard Payment Solutions Holdings Limited; and**
- **Wirecard UK and Ireland Limited**

ORIGINS IN ISRAEL

Quite why the African focused payment services group is registered to an Ireland based address is unclear. We also note that 3G Direct Pay appears to have earlier origins, in 2006, as an Israel based incarnation, 3G Enterprise and Investments Ltd, which was a shopping and online payments provider.

The Israel based 3G Enterprise and Investments business appears to have provided these services by a licencing arrangement with another Israeli business, Enoyaone Ltd, for which according to his LinkedIn profile, **Eran Feinstein was founder and CEO of Enoyaone from 2006 to 2010**.

The Ireland based 3G Direct Pay Limited (trading as DPO Group) was incorporated on 18 October 2012, registered to Ulysses House, Ireland.

A day later, on 19 October 2012, two directors were appointed to 3G Direct Pay:

- **Eran Feinsten (Slovakian); and**
- **Meir-Offer Gat (Israeli).**

Messrs Feinstein and Gat also became the majority shareholders of 3G Direct in 2012.

The first thing that Messrs Feinstein and Gat appear to have done is to buy another business. In our view, somewhat oddly, the business they acquired wasn't based in Africa, where the company is focused. Instead, they appear to have acquired a German business, **AconaOnline GmbH**. Again, Wirecard afficionados may recognise this business.

DPO Group: The Ireland based, African payment business buys a German company from former Wirecard Directors

AconaOnline GmbH was originally controlled by **Dietmar Knoechelmann** and **Ralf Buchholz**.

Knoechelmann co-owned two businesses, the Gateway companies, which were sold to Wirecard in 2007 for EUR43 million. Subsequently, the names of the two Gateway companies were changed and they became:

- **Wirecard Payment Solutions Holdings Limited; and**
- **Wirecard UK & Ireland Limited**

For a time, both Knoechelmann and Buchholz were employed by Wirecard as CEO and VP of Risk and Operations respectively for Wirecard Payment Solutions.

According to the Times of Israel, **Knoechelmann was convicted in Israel** in November 2016 for abetting fraud in the ICC-Cal money laundering scandal in 2009:

> In 2016, Knoechelmann pleaded guilty to helping to deceive Visa and Mastercard as well as US authorities by helping to process tens of millions of dollars of payments to online gambling websites that were illegally targeting Americans.
>
> Knoechelmann pleaded guilty to carrying out this fraudulent activity between 2008-2010. Until March 2009, he still worked for Wirecard, as a director of its Ireland subsidiary, Wirecard Payment Solutions Holdings Limited.

It is unclear to us why 3G Direct Pay acquired the AconaOnline business from Knoechelmann in 2013. Further, as figure 49 shows below, AconaOnline was 3G Direct Pay's only subsidiary that it held for at least three years, until it began a roll-up process in 2016.

In June 2020, AconaOnline was dissolved just six weeks prior to Network International announcing its intention to acquire DPO.

We also note that the former directors to Gateway Payment Solutions Holdings (which was sold to Wirecard and became Wirecard Payment Solutions) were:

- **Dietmar Knoechelmann; and**
- **Andy Quinn**

We note that Andy Quinn performed the audit for:

- **3G Direct Pay Limited in the years 2013 to 2016; and**
- **3G Direct Pay Holdings Limited in 2016 (the year in which it was incorporated).**

In 2017, the auditor remained Moore UK, however, the audit partner that took on the audit was Diarmuid O'Connell. We note that in August 2017, Andy Quinn transferred his shareholding in Gatal Limited to Diarmuid O'Connell. Gatal Secretarial Services Limited is the company secretary to 3G Direct Pay Holdings.

DPO's (3G Direct Pay) Auditor is:

the former director of Gateway Payment Solutions ....

.... AND GATEWAY BECAME WIRECARD PAYMENT SOLUTIONS

GATEWAY PAYMENT SOLUTIONS HOLDINGS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	Mr. Dietmar Knoechelmann Mr. Andy Quinn
Registered office	1st Floor Ulysses House Foley Street Dublin 1

20 MAR 2007

Company name *in full*

Gateway Payment Solutions Limited

Subject to the approval of the Registrar of Companies, the name of the company shall be changed to

G TWO PAY LIMITED

I hereby certify that the above particulars are correct (note one)

Signature ☑ Director ☐ Company secretary Date 30/1/2007

Name DIETMAR KNOECHELMANN

Notice of Resolution (G1, G2 including change of name)

Company details

Company name	G TWO PAY LIMITED
Resolution to be filed	Registration of change of name
Subject to the approval of the Registrar of Companies, the	WIRECARD PAYMENT SOLUTIONS LIMITED

Details of Person(s) who are certifying that the information provided is correct

Type of Signature	Signature as Director

Individual details

Surname	QUINN
Forename	ANDY

3G Direct Pay Holdings Limited

For the period ended 31st December 2016

Independent auditors' special report to the directors of 3G Direct Pay Holdings Limited pursuant to the section 356 of the Companies Act 2014

Matters on which we are required to report by exception

We have nothing to report in respect of our obligation under the Companies Act 2014 to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of the Act are not made."

Andrew Quinn F.C.A.
For and on behalf of,
Moore Stephens,
Chartered Accountants and Statutory Audit Firm,
Ulysses House
Foley Street
Dublin 1

15/03/17
Date signed

This is to certify that this is a true copy of the auditors' report in respect of 3G Direct Pay Holdings Limited.

Meir-Offer Gat
Director

15/03/17
Date signed

Gillian Foy
Secretary

10/3/17
Date signed

Figure 46 Gateway Payment Solutions filings Source: Company filings, ShadowFall

AconaOnline was the only business 3G Direct Pay / DPO owned for three years. We are unable to reconcile DPO's filings with those locally for AconaOnline

AconaOnline GmbH

Frankfurt am Main

Annual financial statements for the business year from 01/01/2013 to 12/31/2013

ASSETS

	Euro	Full year / as of euros	Euro	Previous year euro
A. Fixed assets		2.00		4,041.00
I. Intangible Assets				
II. Tangible assets	2.00		4,041.00	
III. Financial assets				
B. Current Assets		34,447.61		8,272.74
I. Inventories				
II. Receivables and other assets	13,719.35		5,913.50	
III. Securities				
IV. Cash in hand, Bundesbank balances, bank balances and checks	20,728.26		2,359.24	
C. Prepaid expenses				
D. Deficit not covered by equity	81,082.98	81,082.98	82,553.57	82,553.57
Total assets	115,532.59	115,532.59	94,867.31	94,867.31

LIABILITIES

	Euro	Full year / as of euros	Euro	Previous year euro
A. Equity		-81,082.98		-82,553.57
I. Drawn capital	25,000.00		25,000.00	
II. Capital reserve				
III. Retained earnings				
IV. Profit carried forward / loss carried forward	-107,553.57		-100,155.10	
V. Annual surplus / annual deficit	1,470.59		-7,398.47	
Shortfall not covered	81,082.98	81,082.98	82,553.57	82,553.57
B. Provisions	2,450.00	2,450.00	2,300.00	2,300.00
C. Liabilities	113,082.59	113,082.59	92,567.31	92,567.31
D. Prepaid expenses				
Total liabilities	115,532.59	115,532.59	94,867.31	94,867.31

Other Information

Management bodies:

In the year under review, the company's business was led by Dietmar Knöchelmann and Eran Feinstein. Apart from the managing directors, no other bodies were appointed in the year under review

Frankfurt, December 17, 2014

The managing directors:

Eran Feinstein

[1] Section 284 (2) No. 1 HGB

[2] Section 285 sentence 1 no. 1a HGB; alternatively: note in the balance sheet

Frankfurt, December 17, 2014

signed Eran Feinstein

The annual financial statements were adopted and approved on: December 17, 2014

AconaOnline GmbH

Frankfurt am Main

Annual financial statements for the business year from 01/01/2014 to 12/31/2014

ASSETS

	Euro	Full year / as of euros	Euro	Previous year euro
A. Fixed assets				2.00
I. Intangible Assets				
II. Tangible assets			2.00	
III. Financial assets				
B. Current Assets		408,153.36		34,447.61
I. Inventories	5,506.00			
II. Receivables and other assets	7,863.95		13,719.35	
III. Securities				
IV. Cash in hand, Bundesbank balances, bank balances and checks	394,783.41		20,728.26	
C. Prepaid expenses				
D. Deficit not covered by equity	78,827.27	78,827.27	81,082.98	81,082.98
Total assets	486,980.63	486,980.63	115,532.59	115,532.59

liabilities

	Euro	Full year / as of euros	Euro	Previous year euro
A. Equity		-78,827.27		-81,082.98
I. Drawn capital	25,000.00		25,000.00	
II. Capital reserve				
III. Retained earnings				
IV. Profit carried forward / loss carried forward	-106,082.98		-107,553.57	
V. Annual surplus / annual deficit	2,255.71		1,470.59	
Shortfall not covered	78,827.27	78,827.27	81,082.98	81,082.98
B. Provisions	4,252.28	4,252.28	2,450.00	2,450.00
C. Liabilities	482,728.35	482,728.35	113,082.59	113,082.59
D. Prepaid expenses				
Total liabilities	486,980.63	486,980.63	115,532.59	115,532.59

3G DIRECT PAY LIMITED

NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
Acona Online	Germany	Ordinary	100.00

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Principal activity	Capital and reserves 2014 $	Profit/(loss) for the year 2014 $
Acona Online	Online consulting	95,722	2,740

3G Direct Pay appears to have acquired AconaOnline in 2013 from former Wirecard Director, Dietmar Knöchelmann.
For some reason, 3G Direct Pay reports AconaOnline with Capital and Reserves to be USD95,722.
However, locally, AconaOnline reports NET LIABILITIES of EUR78,827.

Figure 47 AconaOnline GmbH and 3G Direct Pay Limited filings, Source: Company filings, ShadowFall

In March 2016, 3G Direct Pay Holdings (DPO Group) was incorporated by the same persons who incorporated a payments business, Greymountain Management. Greymountain Management was central to a binary options fraud

3G Direct Pay Holdings (the holding company for the DPO businesses) was incorporated on 1 March 2016. **Liam Grainger was appointed secretary** to the company and **Bob Richmond** was the initial Director. In September 2020, the US CFTC, in an ongoing case, detailed a company, **Greymountain Management Limited**, as being involved in a USD 165 million binary option fraud. **Liam Grainger** and **Bob Richmond** were the secretary and initial director to Greymountain Management Limited, respectively.

A1 - Application to incorporate a company

6079780

Company Details

Date	16 May 2014
Company details	
Company name	GREYMOUNTAIN MANAGEMENT LIMITED
New address	3rd Floor Ulysses House Foley Street Dublin 1

Director (1)

1 Director

Do you know the CRO person number for this individual?	No
Director	
Resident	Individual Resident within EEA
Surname	GRAINGER
Forename	LIAM

Director (2)

2 Director

Do you know the CRO person number for this individual?	No
Director	
Resident	Individual Resident within EEA
Surname	RICHMOND
Forename	BOB

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS

COMMODITY FUTURES TRADING COMMISSION,
Plaintiff,
v.

Case No.:1:20-cv-908

Hon.________________

David Cartu, Jonathan Cartu, Joshua Cartu, Ryan Masten, Leeav Peretz, Nati Peretz, All Out Marketing Limited, BareIt Media LLC d/b/a SignalPush, Blue Moon Investments Ltd., and Orlando Union Inc.,
Defendants.

COMPLAINT FOR INJUNCTIVE RELIEF, CIVIL MONETARY PENALTIES, AND OTHER EQUITABLE RELIEF

6. In order to facilitate the transfer of funds from customers in the U.S. and elsewhere for illegal, off-exchange binary option transactions, the Cartu Brothers operated Greymountain Management Limited ("Greymountain"), a defunct "payment processor" that maintained its principal place of business in Ireland. During the Relevant Period, the Cartu Brothers and their employees and agents, acting through Greymountain and other related entities, processed over $165 million in credit card payments for binary option transactions offered by the Cartu Brands and other brands operated by third-parties, including processing over $149 million in credit card payments after September1, 2015.

91. According to Greymountain, 60% of the transactions it processed were for individuals located in the United States or Canada, along with 20% for individuals in Africa, 10% for individuals in Europe, 5% for individuals in Australia and Oceania, and 5% for individuals in the Commonwealth of Independent States, consisting of post-Soviet republics in Eurasia.

A1 -Application to incorporate a company

Company Details

Date	01 March 2016
Company Details	
Company Name	3G DIRECT PAY HOLDINGS LIMITED
Company Address	3RD FLOOR, ULYSSES HOUSE FOLEY STEET, DUBLIN 1 IRELAND

Secretary Details

Secretary	
Individual Details	
Surname	GRAINGER
Forename	LIAM

Director (1)

Director	
Resident	Individual Resident within EEA
Surname	RICHMOND
Forename	BOB

Liam Grainger and Bob Richmond, helped incorporate a payments business, Greymountain Management Limited, which was involved in binary option fraud schemes.

Liam Grainger and Bob Richmond also helped incorporate a payments business, 3G Direct Pay Holdings, which is based in Ireland and provides payment services to an African customer base.

Figure 48 Greymountain Management, 3G Direct Pay Holdings and court documents, Source: Company filings, Court documents, ShadowFall

3G Direct Pay / DPO is a roll-up

Ahead of 3G Direct Pay Holdings, an earlier company, 3G Direct Pay Limited was incorporated in October 2012.

As detailed above, the first company 3G Direct Pay acquired was the German based, AconaOnline.

Until 2016, 3G Direct Pay Limited appears to have no other subsidiaries.

3G Direct Pay Holdings was incorporated on 1 March 2016.

Six days later, 3G Direct Pay South Africa was incorporated on 7 March 2016.

In 2016, PayGate is acquired, [reportedly for USD7.3 million].

In 2017, the Group acquires at least four further businesses and incorporates 6 other companies.

In July 2019, the Group made its largest acquisition to date, purchasing PayFast for c. USD17.2 million net of cash.

The Group appears to have almost always paid between 1x to 2.5x revenue for its acquisitions.

All figures in USD

EQUITY TRAIL (HOLDING CO)	Incorporation location	2013	2014	2015	2016	2017	2018	2019
Owned by 3G Direct Pay Holdings Limited								
3G Direct Pay Limited	Ireland	3G Direct Pay Holdings incorporated in March 2016						
3G Direct Pay South Africa Pty Limited	South Africa				8,688,825	8,688,825	8,688,825	8,688,825
PayFast (Pty) Limited	South Africa							27,512,261
PayFast Holdings (Pty) Limited	South Africa							
PayGate (Pty) Limited	South Africa				3,665,077	3,665,077	3,665,077	3,763,730
Paythru SA (Pty) Limited	South Africa					605,200	605,200	621,490
Setcom (Pty) Limited	South Africa					1,712,866	1,712,866	1,758,973
VCS South Africa (Pty) Limited	South Africa					1,391,583	1,391,583	1,429,041
VCS Botswana (Pty) Limited	Bostwana					656,465	656,465	674,136
VCS Namibia (Pty) Limited	Namibia					383,038	383,038	393,349
Goodwill held by 3G Direct Pay Holdings Limited					12,353,902	16,970,930	17,103,054	44,841,805

Denotes goodwill attached | Denotes period company is owned by 3G Direct Pay Holdings Limited

EQUITY TRAIL (MAIN SUBSIDIARY)	Incorporation location	2013	2014	2015	2016	2017	2018	2019
Owned by 3G Direct Pay Limited	Ireland							
Acona Online GmbH	Germany							
Direct Pay Limited	Kenya							
One Payment Limited	Tanzania							
Direct Pay Uganda Limited	Uganda							
Direct Pay Rwanda Limited	Rwanda							
Pay Now Zambia Limited	Zambia							
One Payment Limited	Nigeria							
Direct Pay Limited	Mauritius	3G Direct Pay Limited incorporated in October 2012						
Direct Pay Limited	Malawi							
Direct Pay Limited	Ghana							
Direct Pay Marketplace	Ireland							
Ethiopia Operations branch	Ethiopia							
Direct Pay (Private) Limited	Zimbabwe							
Direct Pay Online	Cote D'Ivoire							
Direct Pay DRC Sarl	Dem. Rep. of Congo							
Direct Pay Online Limited	Israel							
Direct Pay Online	Senegal							
Investment value of 3G Direct Pay Limited subsidiaries		34,515	34,515	34,515	35,509	220,096	571,483	798,306
Revenue of 3G Direct Pay Limited						1,816,331	2,627,558	3,470,095
Revenue of 3G Direct Pay Holdings Limited						7,217,712	11,510,446	19,493,555

Denotes period company is owned by 3G Direct Pay Limited | Denotes period in which company was listed as dormant

Figure 49 Corporate structure and timeline for 3G Direct Pay Limited and 3G Direct Pay Holdings Limited, Source: Company filings, ShadowFall

WE VIEW THE VALUATION MARK-UP OF DPO AS WIRECARD-ESQUE

Network International buys DPO for 12x revenue

DPO reports FY19 revenue (to 31 Dec) to be USD19.5 million[2]. However, 11 months prior, in August 2019, DPO acquired the PayFast (Pty) business. We calculate PayFast provided DPO with c. USD9.1 million in pro-forma revenue. Further, we calculate that DPO's FY19 pro-forma revenue would be USD24.8 million, implying a 12x revenue multiple is paid.

But… DPO buys businesses for 2.5x revenue or less?

We calculate that DPO acquired PayFast for an Enterprise Value (EV) of USD22.4 million, implying PayFast was acquired on a revenue multiple of 2.5x. PayFast contributes c. 37% to DPO's pro-forma revenues.

We find it somewhat remarkable that Network International was willing to pay 12x revenue for a business, which less than a year prior was buying c. 37% of its ongoing revenue for 2.5x. **We view this scale of valuation increase as Wirecard-esque**[3].

	USD m
PayFast Acquisition	**Fair value**
Acquired **84.19%** equity interest in PayFast (Pty)	
Property, plant & equipment	0.14
Intangible assets	-
Investments in associates	-
Deferred tax	0.09
Trade and other receivables	0.94
Cash and cash equivalents	10.81
Trade and other payables	(11.12)
Current tax payable	(0.33)
Total identifiable net assets	**0.54**
Non-controlling interests	(0.09)
Goodwill	27.52
Total consideration	**27.98**
Implied Enterprise Value	**22.42**
Consideration satisfied by:	
Cash	16.05
Issue of shares	10.51
Contingent consideration arrangement	1.41

		USD m
Contribution to DPO Group from PayFast	**FY18**	**FY19**
DPO Group		
Revenue	11.5	19.5
Profit after tax	(3.3)	(3.2)
PayFast		
Revenue since point of acquisition		3.8
Profit after tax since point of acquisition		0.7
DPO Group ex-PayFast contribution from point of acquisition		
Revenue	11.5	15.7
Profit after tax	(3.3)	(3.9)
PayFast		
Estimated pro-forma revenue		9.1
Estimated pro-forma profit after tax		1.7
DPO Group		
Estimated pro-forma revenue		24.8
Estimated pro-forma profit after tax		(2.3)
Enterprise value paid for PayFast		22.42
Implied revenue multiple paid for PayFast, x		**2.45**
Implied PAT multiple paid for PayFast, x		13.36
PayFast as % of total DPO Group revenue		**36.8%**

Figure 50 Summary of DPO and PayFast acquisition financial figures, Source: Company filings, ShadowFall

[2] This compares to Network International which reports DPO's revenue equated to USD16 million in FY19 when adjusted on a constant currency basis with currencies held constant from FY17.

[3] We're reminded of Wirecard acquisition of GI Retail for EUR340 million. It transpired another party acquired GI Retail for c. EUR37 million a few months prior to Wirecard's acquisition.

For a roll-up, it's almost all Goodwill. However, we find the Goodwill allocation odd and may have been double counted

In FY19, goodwill accounted for 120% of DPO's net assets (FY18: 86%). As we discuss, DPO acquired PayFast in FY19, which added an additional USD 27.5 million to goodwill, bringing it to USD 44.8 million from USD 17.1 million in FY18. Excluding goodwill and other intangible assets, **DPO retained net tangible liabilities of USD 8.9 million in FY19** (FY18: Net tangible assets of USD 1.6 million). Assuming DPO's net tangible liabilities remained at c. USD 8.9 million, then this would imply that **Network International will have to attach c. USD 297 million in goodwill and other intangibles to DPO**. Another way of looking at this is since all the DPO businesses had been acquired over the past three to four years, **Network International has marked up DPO's goodwill by 6.4x** or c. USD 251 million.

It appears to us that DPO may have double counted 38% of its goodwill

We note that 3G Direct Pay South Africa was incorporated on 7 March 2016. This is six days after 3G Direct Pay Holdings was incorporated. While 3G Direct Pay Holdings is the ultimate holding company for the group, we believe that 3G Direct Pay South Africa (which sits under 3G Direct Pay Holdings) is the local holding company for the acquired businesses in Africa.

In April 2016, Matteo Stefanel and Udayan Goyal, who manage Apis Partners, were appointed as directors to 3G Direct Pay Holdings / DPO. Then five months later, in September 2016, Apis Partners invested a reported USD7.3 million into DPO. A few weeks later, in September 2016, DPO appears to have acquired a South African payments provider, PayGate for USD7.3 million.

For the first two years of filing its accounts, 3G Direct Pay Holdings did not disclose the goodwill which was allocated to its subsidiaries. In the 2016 and 2017 filings it simply details USD18.0 million in investments. Presumably, this was principally attributable to 3G Direct Pay Limited, which reported net assets of USD10.5 million and USD8.5 million in FY16 and FY17 respectively. In the FY18 accounts, 3G Direct Pay Holdings reports USD17.0 million in goodwill for FY17 and USD17.1 million for FY18. In the FY19 accounts, we discover that USD3.7 million in goodwill is allocated to PayGate and USD8.7 million is allocated to 3G Direct Pay South Africa.

We understand that goodwill at the holding company is likely to be the sum of goodwill at the subsidiaries. However, we note that when we add up the individual subsidiary level goodwill, it equates to almost exactly what the holding company reflects. The ultimate parent company then seems to reflect twice this level of goodwill. I.e. it appears to us that the goodwill may have been double counted as allocated to both the holding company and the subsidiaries within the ultimate parent company when instead it should be one or the other.

We highlight out observations on this in figures 51 to 52.

3G DIRECT PAY HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Goodwill is allocated to the following cash generating units (CGUs):

	2019 $	2018 $
3G Direct Pay South Africa (Pty) Limited	8,688,825	8,688,825
Paygate (Pty) Limited	3,763,730	3,665,077
Paythru (Pty) Limited	621,490	605,200
VCS Botswana (Pty) Limited	674,136	656,465
VCS Namibia (Pty) Limited	393,349	383,038
VCS South Africa (Pty) Limited	1,429,041	1,391,583
Sectom (Pty) Limited	1,758,973	1,712,866
Payfast (Pty) Limited (refer to Acquistions note)	27,512,261	-
	44,841,805	17,103,054

Figure 51 Goodwill allocation for 3G Direct Pay Holdings, 2019, Source: Company filings, ShadowFall

THE REGISTRAR OF COMPANIES
THE COMPANIES REGISTRATION OFFICE
PARNELL HOUSE
14 PARNELL SQUARE
DUBLIN 1
Date: 01 March 2016

Re: INCORPORATION OF 3G DIRECT PAY HOLDINGS LIMITED

1. 3G Direct Pay Holdings incorporated, 1 March 2016

Enterprise Details

Enterprise Number	K2016096758
Enterprise Name	3G DIRECT PAY SOUTH AFRICA
Enterprise Type	Private Company
Enterprise Status	In Business
Compliance Notice Status	NONE
Registration Date	2016-03-07

PHYSICAL ADDRESS:
CARE OF PAYGATE PTY LTD
GREAT WESTERFORD 240 MAIN ROAD
RONDEBOSCH
WESTERN CAPE
7700

2. SIX days later, 3G Direct Pay South Africa incorporated.

Kenya's Direct Pay Online Group acquires South Africa's payments provider PayGate for $7.3m

by Sam Wakoba — 4 years ago in Startups 6 min read

With fresh funding from PE firm Apis Partners LLP, Kenya's payments processor Direct Pay Online Group, formerly 3G Direct Pay has acquired a majority stake in South Africa's online payments processor PayGate (Pty) Ltd for $7.3m in its pan-African expansion drive.

3. Acquired PayGate in September 2016, reportedly for USD7.3 million.

3G Direct Pay Holdings Limited
For the period ended 31st December 2016
Notes to the Abridged Financial Statements

3. Investments

	2016 $
Investments	17,995,321

Name of undertaking and country of incorporation or residence		Nature of business	Class of shareholding	% Held Direct	Indirect
3G Direct Pay Limited	Ireland	e-Commerce & online payments services	Ordinary	90.92	
3G Direct Pay South Africa Proprietary Limited	South Africa	Holding Company	Ordinary	90.92	
Pay Gate (Pty)	South Africa	e-Commerce & online payments services	Ordinary		90.92

4. PayGate appears to sit under 3G Direct Pay South Africa (Direct vs Indirect).

3G DIRECT PAY HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Goodwill is allocated to the following cash generating units (CGUs):

	2019 $	2018 $
3G Direct Pay South Africa (Pty) Limited	8,688,825	8,688,825
Paygate (Pty) Limited	3,763,730	3,665,077
Paythru (Pty) Limited	621,490	605,200
VCS Botswana (Pty) Limited	674,136	656,465
VCS Namibia (Pty) Limited	393,349	383,038
VCS South Africa (Pty) Limited	1,429,041	1,391,583
Sectom (Pty) Limited	1,758,973	1,712,866
Payfast (Pty) Limited (refer to Acquistions note)	27,512,261	-
	44,841,805	17,103,054

5. By 2018, USD8.7 million in goodwill allocated to 3G Direct Pay South Africa, despite it being acquired either immediately or latest six months after incorporation.

+

USD3.7 million in goodwill allocated to PayGate. I.e. USD12.4 million goodwill in total.
But also looks like the other companies sit under 3G Direct Pay South Africa

Figure 52 Details of 3G Direct Pay Holdings corporate structure and transactions, Source: Company filings, Press clippings, ShadowFall

Acquisitions, such as VCS South Africa, are listed with Goodwill attached, however, it is not listed as a subsidiary

We also find that for the VCS South Africa entity, which was acquired by Direct Pay in August 2017, 3G Direct Pay Holdings highlights this company as having USD1.4 million in goodwill allocated to it. However, in the list of subsidiaries, there is no mention of VCS South Africa in either 2018 or 2019.

3G DIRECT PAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 Intangible fixed assets

Goodwill is allocated to the following cash generating units (CGUs):

	2019 $	2018 $
3G Direct Pay South Africa (Pty) Limited	8,688,825	8,688,825
Paygate (Pty) Limited	3,763,730	3,665,077
Paythru (Pty) Limited	621,490	605,200
VCS Botswana (Pty) Limited	674,136	656,465
VCS Namibia (Pty) Limited	393,349	383,038
VCS South Africa (Pty) Limited	1,429,041	1,391,583
Sectom (Pty) Limited	1,758,973	1,712,866
Payfast (Pty) Limited (refer to Acquistions note)	27,512,261	-
	44,841,805	17,103,054

3G DIRECT PAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

17 Subsidiaries **(Continued)**

Name of undertaking	Capital and Reserves $	Profit/(Loss) $
3G Direct Pay Limited	15,981,742	(3,086,719)
3G direct Pay Marketplace Limited	(2,100)	(2,206)
3G Direct Pay South Africa Pty Limited	13,901,015	21,850
Acona Online Gmbh	(5,810)	14,638
Direct Pay DRC Sarl	(8,881)	(28,960)
Direct Pay Limited	(88,010)	(39,672)
Direct Pay Limited	(158,021)	(103,611)
Direct Pay Online	(64,488)	(72,772)
Direct Pay Online	6,046	(10,864)
Direct Pay (Private) Limited	(91,578)	(59,942)
Direct Pay Limited	(49,643)	(8,398)
Direct Pay Limited	75,625	(50,677)
Direct Pay Limited	96,209	308,543
Direct Pay Online Limited	(185)	(290)
Direct Pay Limited	36,454	(47,162)
One Payment Limited	226,856	(115,405)
One Payment Limited	(80,392)	16,798
Pay Now Zambia	(67,019)	(88,015)
PayFast (Pty) Limited	1,305,626	699,217
PayFast Holdings (Pty) Limited	(292,822)	(280,586)
PayGat (Pty) Limited	(495,130)	(195,379)
Paythru SA (Pty) Limited	233,209	(7,475)
Setcom (Pty) Limited	231,828	40,034
VCS Botswana (Pty) Limited	56,453	4,722
VCS Namibia (Pty) Limited	90,933	56,706

???? WHERE IS THIS ENTITY ????

VCS South Africa not listed as a subsidiary in either the 2018 or the 2019 accounts. In our view, this seems somewhat odd, especially in the light of the fact that the goodwill allocated to it was increased in 2019.

Figure 53 Details of 3G Direct Pay Holdings corporate structure, Source: Company filings, ShadowFall

DPO GROUP: A USD 288 MILLION ACQUISITION WHERE THE NUMBERS DON'T SEEM TO ADD UP

Network International announced the acquisition of DPO Group on 28 July 2020 for USD288 million. To fund this, the group placed 50 million shares at 410 pence per share (£205 million gross proceeds), USD50 million in Vendor Consideration shares issued to Apis Growth Fund I, managed by Apis Partners, USD13 million in Co-Founders Consideration shares issued to the DPO co-founders (two-year lock-in), and the remaining c. USD20 million funded by existing debt facilities. Completion of the transaction is anticipated in Q420. DPO is described as "the leading, high-growth online commerce platform in Africa". DPO appears to be a roll-up.

HOW MANY MERCHANTS? NUMBERS WHICH DON'T ADD UP

We view several of the metrics provided by Network International regarding DPO as meaningless. This is due to the numbers provided as either not adding up or they are contradictory to historical reporting. For example, Network International's CFO, Rohit Malhotra, claims that DPO services 47,000 merchants. However, a year prior, DPO suggested that (following its acquisition of PayFast) it would be servicing over 100,000 merchants. Perhaps DPO experienced a reduction of 53,000 merchants in the year past? Alternatively, maybe Network International's CFO is confused? Or could it be that Network International is underplaying the number of merchants to be in a position to portray rapid merchant growth in any future business updates? Further, in the acquisition slide presentation, Network International claims that DPO had 16,300 Merchant sign-ups in 2020 YTD. However, if DPO serviced 35,000 Merchants at 2019-year end, then surely it should now be servicing 51,300 Merchants instead of 47,000? One explanation for this discrepancy could be 12% Merchant attrition in the period. **In the light of these significant inconsistencies and simple accounting errors we have little confidence that Network International's management understands what they have bought.**

"DPO has grown the number of merchants from 35,000 at 2019 end to the current 47,000 with a record number of 4,400 sign-ups in June alone."

Rohit Malhotra, Network International CFO
DPO Group Conference Call, 29 July 2020

"Following the transaction [DPO Group acquiring PayFast], DPO Group will be providing services to over 100,000 merchants across 18 African markets."

DPO Group Acquisition announcement
20 July 2019

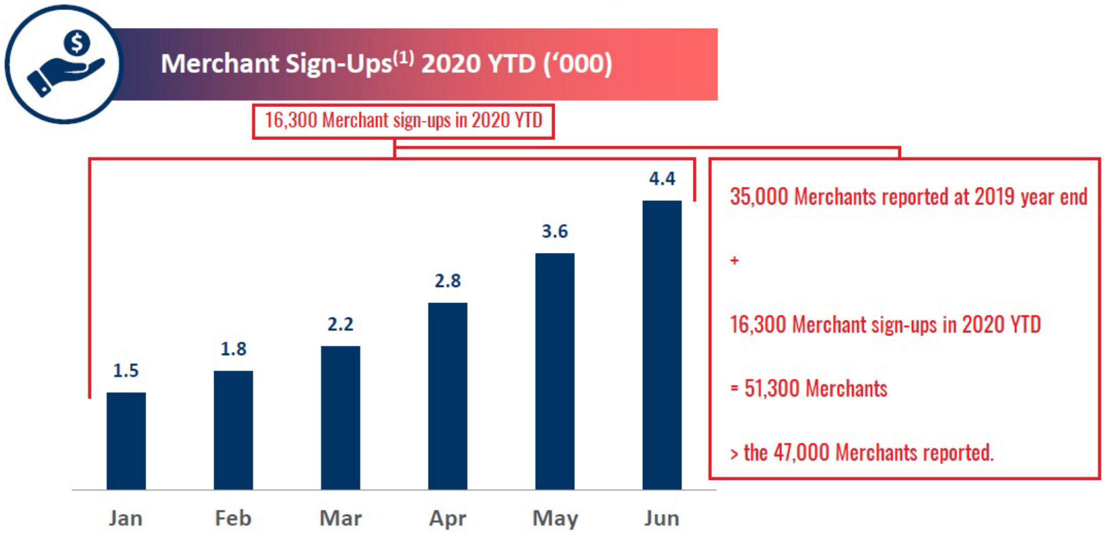

Figure 54 Merchant sign-ups as presented in Network International's DPO Acquisition presentation, Source: Company presentation

Projections which, in our view, make little sense

On the conference call regarding the DPO acquisition, Network International's management responded to several questions. Among these was a very sensible question from Josh Levin from Autonomous Research.

Mr Levin asked:

> Thank you and good morning. I wonder if we could just go over some rough maths and what it implies about expected synergies. So you're guiding to let's say roughly a 10% return on capital over the next three to four years, which based on a purchase price of $288 million would imply roughly $30 million of EBIT and you're also guiding to 30% EBITDA margin over that period, which would mean DPO would need about $100 million in revenues to get roughly $30 million in EBIT. So in 2019 DPO's revenues were $16 million, so let's say you grow that at 35% per year for the next three to four years. You can get somewhere between $50 million and $70 million in revenues depending on the year, which would mean you need between $30 million and $50 million of revenue synergies on top of that to get to the $100 million in revenues. Is that generally the right way to think about the expected revenue synergies?

Mr Malhotra responded (our bold for emphasis):

> I would say broadly they were not completely, right. So let me lay it out again just for the benefit of everyone on the call. So roughly at about $288 million Josh as I rightly say capital employed **we're looking at, a NOPAT operating profit after tax of $30 million not EBIT** and that's how we have defined to return in this case. So effectively, what we're trying to back solve for is $30 million of operating profit after tax. In terms of -- I said, it's got four building blocks. Let's look at the core business then let's talk about the EBITDA margin. Then let's talk about synergies and Number 4 the other items in the bridge.
>
> So if you look at the core business. **We expect the revenue trajectory to broadly continue and may be slightly slower, then what DPO has done in the past. So 35% to 36% is a fair assumption, which is still conservative given the market or the online payments market during this time is expected to grow 7x from a $1 billion to let's say about $7 billion during this time. So 35%, 36% organic standalone top-line growth rate is pretty doable.** If you then look at EBITDA margins as we have said, the business has got high degree of operating leverage. They have done most of the investments in the business already. And therefore over time as the revenue growth accelerates these or as revenue grows you would expect the jaws to widen and therefore it's -- **we expecting the EBITDA margins to get to at least about 30% in three to four years time.**
>
> If then on top of that overlaid synergies, which we've said we expect them to be broadly revenue synergies from offering DPO's merchant solution capabilities to our existing clientele of 140 issuing banks in Africa. And we've been again very prudent, and we've said **let's assume we sign about a couple of banks every year. And each of those banks bring about 500 merchants to the DPO fold with <u>revenues of about 2,000, 2,500 per merchant</u>.** So as we then look at that and maybe and then a couple of other areas of synergies, we will expect to add roughly about give or take mid-single digit of synergy -- of revenue synergies every year. **So if you then extrapolate that in the next three to four years to get to about $24 million to $25 million of revenue synergies.**
>
> At a relatively high flow through to contribution, so 75% to 80% because the incremental cost of sales associated with delivering those revenue synergies should be -- would be -- we expect it to be lower. And then to cover other items on the bridge, we expect in these markets. **The tax rates to be broadly 10% to 15% on a consolidated basis and about $4million to $5 million of DNA charge. So when you start putting all of that together, you get to about roughly $29 million to $30 million of operating profit after tax, which implies 10% capital employed.** But what's more important is that the revenue trajectory would still continue after that is when operating leverage and would still play out. And therefore you would expect the return to capital to relate to still continue to significantly expand after those three to four years as well.

It's difficult to know where to start with Mr Malhotra's answer to Mr Levin's question. However, regarding the revenue growth assumptions we have the following observations:

1. Mr Malhotra suggests that investors should be looking at a NOPAT of USD 30 million, not EBIT. He then suggests that average tax would be 12.5% and that D&A would be USD 4.5 million. We calculate that to suggest that DPO should be achieving EBITDA of c. USD 38.8 million within four years.

2. Mr Malhotra suggests that within four years, the EBITDA margin should be 30%. If EBITDA is USD 38.8 million within four years, then this would imply revenue of c. USD 129.3 million. Revenue of USD 129.3 million within four years would suggest that DPO will grow its revenue at a CAGR of 60.5%.

3. DPO grew its revenue by 69.4% YoY in FY19, however this was assisted by the acquisition of PayFast. Excluding PayFast, DPO's revenue grew by 36.3% YoY. In the FY19 filings, DPO's management guided towards FY20 revenue growth of 9.6% YoY (presumably this includes the additional 7 months of PayFast revenue which didn't fall into FY19 since it was acquired in August 2019).

4. DPO grew its revenue by 59.5% in FY18, although this was from a relatively low base of USD 7.0 million in FY17 's revenue and included some currency gain. Further, DPO appears to have made three acquisitions or incorporated three additional companies in FY18 (based in DRC, Cote D'Ivoire, Israel).

The prospect of DPO growing its revenue by 60.5% on a CAGR basis over the next four years is, in our view, low. Mr Malhotra himself suggests 35%-36% is achievable. The additional c. 25% CAGR must therefore either stem from additional acquisitions, which would no doubt mean the return on capital for these would have to be factored in on those capital outlays, or from synergies.

Mr Malhotra also suggests that a couple of banks per year could provide 500 Merchants to DPO with revenue of USD 2,000 to USD2,500 per merchant; USD 2,250 mid-point. Regarding this we have the following observations:

1. If DPO serviced 35,000 Merchants by 2019-year end and achieved USD19.5 million in revenue, then this suggests that revenue per Merchant averages USD 557; i.e. 75% less than the USD 2,250 per Merchant Mr Malhotra anticipates.

2. If DPO gains 500 additional Merchants per year over the next four years from a couple of banks each year (1,000 Merchants per year), then assuming revenue per Merchant is in line with the average for the group (USD557), this would lead to an additional USD 2.2 million in revenue. It is therefore unclear to us where the extra USD 22 million in revenue is likely to stem from.

3. In the accompanying presentation to the conference call (slide 7), Network International indicates that in FY19, DPO achieved USD 16 million in revenue and was accountable for USD 2 billion in Total Processed Volumes (TPV). This would suggest that DPO achieved an 80bps take rate on TPV (we assume this is a net take rate).

4. If DPO is to achieve c. USD 130 million in revenue within c. 4 years' time, at an 80bps average take rate, this would imply TPV of USD 16.25 billion in TPV. To put this into context, the total addressable African Online Payments Market is estimated by Network International to rise to USD 6.9 billion by 2025.

Another way of viewing Mr Malhotra's comments is assuming that the number of Merchants remains at 47,000, then an average of USD 2,250 per Merchant implies USD 105.8 million in revenue and USD 13.2 billion in annual TPV which should be occurring as of now. Clearly this is miles away. **Based on this we have little faith that Network International's management has a strong understanding of its target market.**

Cancellation of capex with a six-year payback to buy a business with at best a seven-year+ payback?

Master Transitional Services Agreement (MTSA)

In FY19 Network International also entered into a Master Transitional Services Agreement (MTSA) with Emirates NBD. Emirates NBD provides certain IT and operational services to Network International and the MTSA was set out to last for a three-year period, commencing on 1 January 2019. Under the MTSA Network International would pay Emirates NBD AED 15.6 million (USD 4.3 million) per year for IT services and AED 2.1 million (USD 0.6 million) per year for operational services; USD 4.8 million per year in total.

In FY19, Network International announced that it would embark on an up to USD 30 million investment programme, to separate out the shared services from Emirates NBD, presumably to save the USD 4.8 million per year it was scheduled to pay Emirates NBD for these services. The annual savings from this programme would at worst provide an undiscounted payback period of approximately 6 years.

In 1H20, Network International announced that it was pausing this investment, three weeks after Network International raised GBP 205 million (c. USD 270 million) to acquire DPO Group for USD 288 million. DPO Group reported an EBIT Loss of c. USD 3 million in FY19. It appears to us that the DPO acquisition has had an influence on Network International's decision to pursue or not pursue the investment programme.

In FY19, Network International entered an agreement with Emirates NBD, which would see it pay up to AED 17.7 million (USD 4.8 million) to Emirates NBD for "shared services".

In its FY19 annual report, Network International advised that it was embarking on a USD 20 million investment to separate the shared services from Emirates NBD, presumably to save up to USD 4.8 million per year.

By 1H20, Network International announced it had paused this investment. This pause was 3 weeks after it had raised GBP 205 million to fund a USD 288 million acquisition of a business, DPO Group, which incurred a c. USD 3 million FY19 EBITDA LOSS.

As we detail further below in this note, we have significant concerns regarding DPO Group.

IPO Prospectus

(d) Charges for the Services are as set out in each SOW and comprise the following: AED 15.6 million a year for the IT Services and approximately AED 2.1 million a year for the Operational Services. Each undisputed invoice submitted by Emirates NBD for the Services is payable by Network International LLC within 30 days of receipt; however, Network International LLC is not liable to pay invoices received more than three months after the date of the provision of the Services to which the invoice relates.

FY19 annual filing

ii. Up to USD 20 million to enable the separation of shared services from Emirates NBD, a programme which has been brought forward, as previously highlighted. This includes the separation of a shared data centre in the UAE, independent employee visa services and financial systems, in order to improve our operational flexibility and create a platform for long term growth. This project is expected to complete by the end of 2021 with a total capital spend of up to USD 30 million.

1H20 interim filing

In regard to capital expenditure; we have paused the project to separate shared services with Emirates NBD, which was anticipated to cost USD 20 million during 2020.

Figure 55 Network International commentary on planned Capex programme, Source: Company filings, ShadowFall

As outlined on page 50, Mr Malhotra, CFO of Network International indicates that DPO Group could provide USD 29-30 million in operating profit after tax (NOPAT) within three to four years. He also indicates that this would be a double-digit post tax ROCE and that further gains could be made due to the operating leverage present in the business. Putting aside our reservations over these calculations and giving them the most generous assumptions in this range, namely three years to USD 30 million NOPAT and then a linearly increasing ROCE post year three, we estimate that the undiscounted payback period is at least 7 years. Not to mention that this project required inorganic financing through an equity raise!

USDm	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Capital outlay	288.0										
NOPAT	(3.0)	8.0	19.0	30.0	41.0	52.0	63.0	74.0	85.0	96.0	107.0
ROCE	-1.0%	2.8%	6.6%	10.4%	14.2%	18.1%	21.9%	25.7%	29.5%	33.3%	37.2%
Cumulative NOPAT		8.0	27.0	57.0	98.0	150.0	213.0	287.0	372.0	468.0	575.0

Figure 56 Payback period calculation for DPO acquisition using management provided estimates, Source: Company filings, ShadowFall calculations

Furthermore, when looking at Network International's annual impairment test, we were surprised to find that management tests goodwill using a multiple of forecast EBITDA. Network International has goodwill assigned to two cash generating units: Jordan and Africa. We are also able to calculate the revenues for Middle East ex. UAE and Africa, as well as the contribution[4] for Africa and an estimate for the contribution of the Middle East ex. UAE.

From this we can solve for the management forecast EBITDA. In 2018 generously assuming that costs of sale are 5% of the consideration we calculate that Management's 2019 forecast EBITDA was USD 67.5 million, 17% lower than the estimates contribution from these same assets in 2018. For 2020 it appears that management are forecasting EBITDA of USD 91.6 million, again lower than the FY19 estimated contribution of USD 95.9 million.

Furthermore, when looking at the implied revenue multiple used in the impairment test it is 11.4x 2019 revenues. When contrasting to the DPO acquisition, we observe a material valuation gap. DPO had FY19 revenues of USD 19.5 million, and we calculate pro-forma revenue of USD 24.8 million. Network International paid a consideration of USD 288 million, implying a 12x 2019 pro-forma revenue multiple. If the same methodology were used for DPO solely it would appear that the acquisition may fail the impairment test… No pressure on execution then.

USDm	2018	2019
Stated recoverable amount	961.6	1,531.8
Assumed 5% cost to sell	50.6	80.6
Stated EBITDA multiple	15.0x	17.6x
Forecast EBITDA	67.5	91.6
Middle East ex. UAE & Africa Revenue	91.5	134.0
SF estimated Jordan & Africa contribution	81.0	95.9
Forecast EBITDA % of current contribution	83%	96%
Implied Revenue multiple	10.5x	11.4x

Figure 57 Network International Goodwill impairment test summary, Source: Company filings, ShadowFall

[4] Network International defines contribution as segment revenue less operating costs that can be directly attributed to or controlled by the segments. We view it therefore as akin to division EBITDA excluding central costs.


SHADOWFALL