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# Financial analysis and valuation of a Wise PLC

Bachelor's thesis

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I hereby declare that I have compiled the thesis independently
and all works, important standpoints, and data by other authors
have been properly referenced and the same paper
has not been previously presented for grading.
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# ABSTRACT

Wise PLC is a leading player in the remittance market with over 7 million active customers and 410 thousand active business customers all over the world. In the first year since becoming public in July 2021, the company stock lost more than 60% of its value. However, the stock price has recovered substantially by the end of 2022. Such high volatility motivates the research aim of this thesis, specifically, to assess the fair value of Wise PLC by applying discounted cash flow-based method and to conduct an understanding of if the firm is undervalued, valued right or overvalued. Through conducting a peer analysis, it showed that company is profitable and following growing trend set by the market, but it is overvalued compared to its peers. Based on the Discounted Cash Flow method, the intrinsic value of the firm is 4,6867 billion pounds, as the market value as of 22.11.2022 is 6,3873 billion. With a difference of 1,7 billion pounds, the stock is overvalued by 26,6%. The thesis also concludes that such conclusion has more downside than upside risks.

Keywords: Financial analysis, Wise PLC., Peer analysis, DCF valuation method

# INTRODUCTION

By knowing the performance of the company, we can evaluate it. Regardless, if the performance of the company is great or mediocre, it can be translated into a value of equity. To be able to evaluate a company, one has to have a valid understanding of firm's doings. It is necessary not only to examine the business' performances in the past, but to have a forecast that is aligned with enterprise's capabilities, opportunities, and possibilities. This means a thorough analysis of financial statements over past years, construction of peer analysis to evaluate company's performance against its competitors from the same industry and with gathered information, it is possible to conduct trustworthy forecast over the next 5 years to get the valuation of a company.

Driving force behind this thesis is to find out and understand the success that Wise PLC. has had and continues to have, learn more about the business model behind the firm and get a better understanding of evaluation process in general.

The aim of this thesis is to assess the fair value of Wise PLC by applying discounted cash flow-based method to find out if the company is overpriced, under-priced or right where it should be.

It is usual in today's market, that businesses do not want to take loans to get additional capital for the firm. Therefore, they will choose to go public (usually through IPO) with their company and hope to get some additional capital through releasing new shares of the firm to the market while the older stakeholders could liquidate their holdings, meaning that the company will receive more capital assets from that as well. Wise PLC. decided to go with other options and went public through direct listing. While IPOs are great for additional capital, Wise PLC. was not looking for it, the company wanted to offer better liquidity for its older shareholders and the price of the stock to be as transparent as it could be. Through direct listing, company does not sell out new shares, but existing ones, it is also a lower cost option for the firms.

Research tasks are as follows:

- To collect and conduct literature analysis on theoretical aspects of valuation of the company

- To conduct analysis about the company and the market that Wise PLC. operates in
- To conduct financial analysis on the firm's financial performance and future forecasts
- To conduct peer analysis on said company's competitors
- To evaluate the fundamental value of Wise PLC.

I ask in the thesis this: Is Wise PLC. trading at fair value at the market?

To find answer to research question, the thesis takes advantage of academic literature and themed books to guide the analysis methodology. Necessary financial data for the thesis can be found in public financial statements, regarding the company that are published, on the internet. The necessary calculations, including regression analysis necessary to find company stock Beta, are performed in Excel.

This Bachelor Thesis consists of introduction, three main chapters and a conclusion. The purpose of the first chapter is to give an overview of theoretical background of company valuation, touches subjects of why company valuation is necessary and discusses certain valuation methods. Second chapter focuses on introduction of the company and the history of the company. In addition to that, this thesis gives a brief overview on the market that Wise PLC. operates in. The final main chapter covers financial and peer analysis of the company, to get wholesome understanding about firm's capabilities to formulate true future forecasts. This chapter ends with a DCF valuation calculation and results from it, followed by a discussion about the results.

# 1. Theoretical background

Business valuation is a set of procedures, analyses and assessments leading to the estimation of the company's value in monetary units for the specific moment

In life (Fazzini, 2019) people continuously make valuations. When they go shopping, for example, people make sure that the proposed price reflects quality; when a group book a room, people make sure that the rate is in line with the hotel features and the services it offers; when people choose a school for their kids, people assess the quality of the programs and the teachers' standing; when people buy a house, people make sure that then value is in line with that of other houses in the neighbourhood. To sum it up, valuations are enormous part of human being's life, but people tend to not know that.

Generally (Fazzini, 2019), valuation in ordinary life consist of two components: an objective one, which regards the intrinsic value, and a subjective one, linked to the valuer's perception of the object to be valued. The same applies for business valuation, there is an objective component of value, based on valuation methods, and a subjective on, based on the valuer's experience, situation and ability to capture reality. This means that two equally knowledgeable persons, with similar sensitivity, will hardly get the same result, although they start from the same assumptions and quantitative inputs. To make a comparison, think of two chefs who are given the same ingredients to prepare a certain dish. The result may appear similar, but the different combination of timing, cooking processes, doses, creativity, experience, and dish presentation will lead to different outcomes.

## 1.1. Theoretical views on business valuation

According to Corporate Finance Institute (2022), business valuation is a process that involves defining the fair market value (MV) of an entity. Fair market value is a business term that refers to a price where both transacting bodies (seller and buyer), with reasonable knowledge of talked about property, firm or asset, without being pressured from somebody outside the deal. Most managements see valuation as a central basis for proper decision-making for organisations, both in the present and in the future. Evaluation is a critical financial analysis that may be required in many situations, including business reorganisations, employee stock or share option plans, expropriations, mergers and acquisitions etc. Valuation's end purpose is not just to find out the value of the company, but to offer a clear understanding of business' situation, possibilities in the future and even depending on the results, improving the company.

According to AKGVG & Associates (2021), common mistake among the businesses is the fact that financial analysis and valuation are thought to be necessary only prior to selling the company or buying one. The fact that assessment of a company is extremely unviewed topic is a result of businesses getting less than what they desire in terms of results. In addition to loss in desired results, companies are missing out on vital information of where the company is lacking and in which department the firm could put more focus on to make the whole company stronger and more valuable.

By the words of Miciuła et al (2020), the objective of business valuation is almost always to facilitate strategic and thought-through decision-making in terms of organisations, shares and future investments. Valuation enables the selection of both ownership and financial options in assets and liabilities. It is the opinion of the value prepared by specialized experts, analysts and valuators based on the collected and properly utilized information about the company considered and the environment of its operations.

There could be variety of reasons why businesses or their assets are valued. As there are numerous reasons, some of the more common purposes for valuation are:

- Finding the value of firm's securities, shares, shares of its capital
- Creation of business plan
- Buying back shares from shareholders
- Finding out the creditworthiness of the company and the value of the collateral when lending
- Finding out the tax base of the company
- Justification for a certain investment plan
- Determining the tax base for the firm

Having multiple reasons why a company needs or wants a valuation, will lead to the fact that there is not a universal way of valuating a firm. Different valuation methods are being used because each company has its complications and ways of operating. Therefore, different valuation methods suit different enterprises. According to Sjöqvist & Stepanovych (2008), Business valuation is no precise science. There is no universal legal framework which dictates how the evaluation should be done, by which, there is no right way to estimate a company's value. To counter that fact, there is a lot of literature information to help to facilitate the valuation procedure and minimise the risk of negative outcome

As of the theory the evaluation of business consists of multiple phases to understand the looked at company and its capabilities. These phases are business analysis, accounting and financial analysis, forecasting the future financial numbers of the business and with all that information, it is finally possible to conduct valuation calculations. The financial statements like income statement, balance sheet and cash flow statements are the beginning point for business valuation because most of the relevant information about the company are shown there.

To assess the value of a firm, a little more than just financial statements are needed to conduct complete valuation of a company. It is important to be up to date with history and ethics of the company, the fields of view and principles that said enterprise follows. All non-numerical information is just as important as the data in the financial statements are. To conduct a valuation of a company, it is necessary that no information is left out.

### Constraints of business valuation

According to Kruschwitz & Löffler (2007), every theory of business valuation is based on a model. Such a model possesses characteristics, that could be similar to each other in some ways but have enough differences to change the outcome compared to one or another. There are many hurdles to overcome on the journey of evaluating a business as it is quite complex exercise for various of reasons. To start with, to calculate the value of a business, as mentioned before, one has to be well-educated and up to date with firm's doings in the past, present and the future. The point is that numerical values on financial statements are not enough to evaluate company's worth, there is additional information that needs to be considered as well. Although, it does not seem too much, considering every single detail of company's doings, the amount of necessary information could become overbearing, and while being overbearing, important information could get lost between all the data that would be processed.

Even if all the information about the company has been considered and used, another problem arises. There are number of different valuation methods and valuation is done by different appraisers. One appraiser will prefer one method to another as the person might think that certain method offers better reflection of company's worth than some other method, another appraiser on the other hand would think differently. The difference might could be the fact of appraiser's personal character; everyone has different ideas about the input values which make the basis of the valuation models. Therefore, two different evaluators could assess the value of the same company, but the result will still be different, even though they both used the same data available.

According to Soffer and Soffer (2003), input values and consequently the final value is can be affected by the availability of the information. Because the rivalry on the market, the internal information about the company is very limited. In financial reports, which are communicated to external parties, the information in them could be influenced, as the company wants to show only its best sides and if possible, avoid showing any negative aspects and weaknesses about it. Therefore, the full package of information might only be known for the business management and the external parties that check, read or use company's financial statements could not really rely on the information that they have been served. For outsiders, proper due diligence is needed.

According to Fazzini (2019), while doing a valuation on a company, it has to be reminded that characteristics of the business change quickly. Through time, different aspects, that affect the value of a firm, might change. For example, reduction or rise in a profit, higher investments, new debts and/or different revenues show that value is neither constant nor immutable. Therefore, before using certain information or referring to previous valuations, one has to mention specific dates and/or situations while doing so. Great comparison is that an appraiser is like a photographer who has to take a picture of a moving object. To capture a clear image, one needs the right equipment, setup and certain knowledge with experience for this type of shot. Likewise, valuers must be able to choose the best fit model that better interprets the value and to apply it correctly.

Although evaluating company's worth has a lot of complications and difficulties, valuation is subjective. According to Nason & Nordqvist (2020), those valuing a company will have different perspectives on what the value should be, for example, the seller of a business will likely have a different estimate for the future cash flows, firm's growth rate, as well as underlying riskiness of the cash flows compared to the buyer's. Meaning, that complications mentioned before still exist, but firms are aware of them, and they accept the fact that valuation is subjective, but they try to assess their value as fair as possible.

## 1.2. Methods of business valuation

In general, according to Corelli (2017) and Sontchi (2012), there is no consensus about the right valuation of a firm. In most cases different economic agents come with different valuations, and in the case of acquisition or mergers, it is very typical that the buyer and seller come with different numbers. At the same time, value should not be confused with price, which is the quantity agreed between the seller and the buyer in the sale of a company. This do not mean that either of those people are in the wrong with their calculations about the certain firm but shows that there are multiple possibilities on how to value a business. It all depends on the people doing the valuation and on the company that the valuation is being done on. In contrast to that, Finnerty and Emery (2004) states that an accurate valuation of a firm is arguably the most important application of valuation theory in corporate finance.

The fundamental problem, according to Helicopter view (2017), with the methods is that some are based solely on the balance sheet, some are based on the income statement, but none of them consider anything but historic data. For example, there could be two companies with identical balance sheets and income statements but different prospects: one with high sales, earnings and margin potential, and the other in a stabilized situation with fierce competition. Majority of people would all concur in giving a higher value to the former company than to the latter, in spite of their historic balance sheets and income statements being equal. The most suitable method for valuing a company is to discount the expected future cash flows, as the value of a company's equity — assuming it continues to operate — arises from the company's capacity to generate cash (flows) for the equity's owners.

Traditionally, according to Carter & Ejara (2008), when valuing a company, information mainly comes from three different sources. The first is the latest financial statements of the firm to determine the how profitable a firm's investments are or have been, how much it reinvest to keep growing and generating future growth, and all the necessary information for any given valuation method. Next source of information is history of the firm and its financial statements, in terms of company's earnings and market prices. These attributes indicate how cyclical a firm's business has been and how much growth it has shown. Third source of information is its peers. Company's competitors are a valid point of comparison as how spectated firm is doing against its competitors and to estimate key inputs on risk, growth and cash flows.

Although there is no consensus about the right valuation method for a firm, there are certain ones that are more used than others. The usage of different valuation methods depends on the type of valuation that needs to be done. In addition, certain types of businesses can only use limited number of methods. According to Hayes (2022), several methods that are more common are:

- Market Capitalisation
- Times Revenue Method
- Earning Multiplier
- Book Value
- Liquidation Value
- Discounted Cash Flow Method (DCF Method)

According to Groww, Market Capitalisation is one of the most effective ways of evaluating the value of a company. This valuation method is based on the company's stock and the number of outstanding shares of a firm. This puts a limitation on the fact that this evaluation method could be used only with companies that are publicly traded. Market Capitalisation method gives investors a good understanding where to invest and if the investment is worth it. While judging companies by their Market cap, it is crucial to understand that previously mentioned method shows the stage of development of a company while evaluating them to build their investment portfolio

Formula to calculate the Market Capitalisation is following:
Market Capitalisation = Number of outstanding * closing price of each share of certain period

Times Revenue Method is a valuation method that is popular among individuals with smaller businesses. According to Gordon (2022), this method is calculated as a stream of revenues generated over a certain period of time is applied to a multiplier which depends on the industry that company operates in. This method helps businesses to calculate the floor (the lowest) and the ceiling (the highest) price, where the floor price refers to liquidation value of assets a business owns, and ceiling is the amount that an individual is likely to pay for the business (multiple of current revenues). This helps from there one could decide the price of the firm and what is the bargaining room.

Earning Multiplier may be used instead of Times Revenue Method, as it gives more accurate and realistic picture of the real value of a company, according to Hayes (2022). The earning multiplier adjusts future profits against cash flow that could be invested at the current interest rate over the same period of time. This valuation method helps investors to understand the relationship between company's share price and its earning per share, for example, how expensive the share price is relative to its earnings per share. Earnings Multiplier could be divided into two groups: Forward

Earnings Multiplier and Trailing Earnings Multiplier. The first one is used to compare the present earnings with future ones, which provides a clear picture of the company's earnings in the future, assuming that no major changes or adjustments. Trailing Earnings Multiplier is commonly more used than Forward Earning Multiplier as it is based on past performances. One good indicator is that if forward earnings multiplier is lower than trailing, it implies that the analysts are predicting an increase in company's earnings.

Book value, according to Corporate Finance Institute (2020) is a company's equity value as reported in its financial statements. In terms of valuation, book value is considered tremendously important because it represents a fair and accurate picture of a company's value, as the value is calculated through historical company data, not with subjective figures. Book value is a great indicator for investors, as it indicates if the stock is worth investing in or it is overpriced. While all the indications might be good, it is important that traders and investors pay close attention, to the nature of the company and other assets that may not be well represented in the book value.

Book value formula:

$$\textit{Book Value} = \textit{Total Assets} - \textit{Total Liabilities} \tag{1}$$

According to Hayes (2022), liquidation valuation is one of the simplest methods, as it is net value of company's physical assets if the firm went out of the business and the assets are sold. In other words, liquidation value is the floor value of the firm, the lowest value that the firm will be sold.

Discounted Cash Flow Method (DCF Method) is the most used business valuation method, since it can be applied to almost all companies regardless their type of business, says Soffer and Soffer, (2003). Moreover, Fernández (2007) states that DCF method seek to determine the company's value by estimating the cash flow it will generate in the future and then discounting them at a discount rate matched to the flows' risk. This method is simply a forecast of a company's unlevered free cash flow discounted back to today's value. Although, it is the most commonly used valuation method, it is one of the most difficult ones. There are a lot of forecasts that has to be done with great knowledge about analysed company, that means information about the data, company's future plans, capabilities, possibilities and ethics. After that, one has to make sure that all the calculations to evaluate the company's worth, has to be done so that all the information is considered. Some weaknesses of DCF method are that the calculated results by this method could be easily manipulated, as mentioned before, this method is very sensitive to small errors in key input variables. According to Soffer and Soffer (2003), the forecasting of the future income flows and the selection of a discount rate are often highly speculative and subjective. It is partly because the companies' future development is rather uncertain and there is no beta for non-listed companies. According to Fernandez and Fernandez (2002), discounted cash flow method is becoming more popular as it is the most "correct" way of approaching a company valuation. As said before, these methods view a company as a cash flow generator and, therefore, assessable as a financial asset.

Hayes also addresses that this list is by no means exhaustive list of business valuation methods in use. There are many more, but these are the ones that offer the most relevance in terms of this bachelor thesis.

# 2. Company review

This chapter begins with company analysis of Wise PLC, overviewing the company structure, its biggest milestones from the start until to the present, looking at the market in which the company operates in. To finish this chapter, there is an overview of aspects that Wise has over its competitors.

## 2.1. Company introduction

Wise PLC (TransferWise before) is a FinTech company that provides cross-border money transfer service for personal and business customers in Europe, the UK, North America and internationally. The company's payments infrastructure comprises various products, including Wise Transfer to send money abroad; Wise Account to meet multi-currency banking needs for people; Wise Business, an account that provides business customers with international banking features; and Wise Platform that allows banks, including credit unions and financial institutions, and enterprise partners to integrate its payments network into their own mobile applications or online banking. It also offers online currency exchange services (Yahoo, 2022). Company was founded by two Estonians, Taavet Hinrikus and Kristo Käärman in 2011 when they came to realisation that banks were taking too much money out of their pockets.

Hinrikus and Käärman say themselves (Wise, 2022) that the idea rose when Taavet was the first employee in Skype and got paid in euros but during this time, he lived in London and used pounds for his transactions. On the other hand, Kristo worked for Deloitte and lived in London, got paid in pounds but had a mortgage back in Estonia that needed to be paid in euros. After moving their earned money abroad through national banks every month, they realised that it was time-wasting and costing them reasonable amount of money.
To tackle this problem, they came to realisation. Taavet transferred his euros into Kristo's Estonian bank account, and Kristo topped up Taavet's United Kingdom bank account using his pounds. They realised the simpleness of this process and saw an opportunity, an opening in the market, to start something special and fill that void.

In their words (Wise, 2022), Wise PLC's mission is to make money without boarders the new normal.

### 2.1.1. Company overview

Wise Plc operates in Banking sector, financial services industry. As of the beginning of April 2022, Wise's headquarter is in London, the United Kingdom. Firm currently has over 3000 full time employees all over the world. As of 6th of May Wise's stock price is at 362,2 GBX or 3,62 GBP

Key Executives:

- Kristo Käärmann – Chief Executive Officer & Director
- Kemish Kingsley– Chief Financial Officer & Financial Director
- Alastair Rampell – Non-Executive Director
- Harsh Sinha – Chief Technology Officer
- Rahel Tänavsuu – Global Head-Operations
- Matthew John Briers – Director

In the first year of operation, TNW reported (Bryant, 2012), P2P (peer-to-peer) currency exchange start-up had transaction through Wise worth to 10 million euros. Company itself estimates that it was roughly 500 000 euros in saved fees for its users. While the total amount transferred was impressive, the number of transactions was reasonable low, around 5500. During this time, Wise PLC moved into its first office in Clerkenwell, London.

Less than 2 years' operating, Wise PLC is handling over 1 million pounds (1191600 €) worth of transactions a day. Company felt that it was time to go mobile, Wise PLC launch its first iOS app and Android app was launch a little after. It allowed them to be more used as people were on the go. (Wise, 2022)

2014 was a significant year for Wise PLC. In April, company informed the world that they had transferred its first 1 billion pounds worth of transactions. In addition to that, just months later after this milestone, Wise PLC got Sir Richard Branson joining their team with an investment worth 25 million dollars. On top of that, company moved into their new office in London on City Road and by the end of the year, company hit 240 employees in total. (Wise et al., 2015)

In 2015, Wise revealed (Wise, 2016) that they are proud to announce accomplishing to move £500 million a month, globally, whilst saving its customers over £22 million in bank and transfer fees. Additionally, company was launched in the United States and Australia, meaning that Wise serves parts of every continent except Antarctica.

Wise (Wise, 2022) proved everybody that they are sustainable business in 2017, as it was the first year when they turned profitable. It took the company just 6 years to do so. In comparison with 2015, Wise offered deals on 40 currencies and moved over £1 billion every month for more than a million customers (Ainger, 2017).

Following the success in 2017, Wise took it one step further in 2018. For the fiscal year ending March 2018, company reported an annual post-tax net profit of £6.2 million, with annual revenue nearly doubled to £117 million during the period compared to £66 million the previous year. In addition to that, in September 2018, Wise doubled its customers compared to the year before, bringing the total number to 4 million global users

Early spring of 2019 brought even better news to the firm, London-based company stated that (Browne, 2019) its net profit after tax climbed to 10.3 million pounds in the fiscal year ending in March 2019, that was close to 66% growth compared to previous fiscal year. In addition to that, company's revenues rose about 53% to 179 million pounds. Wise to be profitable for third year straight, while begin valued at 3.5 billion dollars. With 6 million global customers, the company was processing 4 billion pounds in transaction each month.

For fiscal year ending in March 2020, Wise PLC stated (Browne, 2020) that its net profit after tax more than doubled compared to the last one, to 21.3 million pounds. In addition to that, annual revenues rose almost 70% from March 2019 to 302.6 million pounds. This means that company has been profitable continuously since 2017, rather impressive accomplishment as the money transfer industry is flooded with new fintech start-ups that most of the time go bankrupt. In 2020, there were first notices of company thinking about going public but had no real reason of doing that.

Perhaps the biggest year for Wise PLC, 2021. On the 22nd of February, company announced that it's changing its name from TransferWise to Wise, mainly because previous name suggested that business is working only in the money transfer market. As the company had grown bigger, the firm have come up with different business possibilities to make business more versatile and attractive to the customer. Wise did not want to let the name of the company to restrict their business opportunities.

In March 2021, Wise stated (Browne, 2021) on their fiscal year report that the company was continuing to be profitable, made a 30.9 million pounds of profit on revenues of 421 million pounds in its 2021 fiscal year. Profits more than doubled from 15 million pounds in the previous year, while revenues climbed 39% from 302.6 million pounds. On the 7th of July 2021, Wise became a publicly listed company on London Exchange stock market. Interestingly, not through traditional IPO method but using the direct listing to ensure cheaper, fairer and more transparent way for the company to broaden their ownership. By the end of 2021, Wise has over 3000 full time employees over the world.

Although, it seems that the company has achieved remarkable number of goals, Wise has a strong standpoint that humongous amount of work is still ahead until anyone, anywhere, can send, spend and receive money wherever they are, whatever they're doing. (Wise, 2022)

### 2.1.2. How Wise works

Typically (Zaleski & Netguru, 2021), companies are using wire transfer method, where funds are sent via the Society for Worldwide Interbank Financial Telecommunications system (SWIFT).

Therefore, money is wired electronically from one bank to another, and banks deduct a certain fee depending on the size of the money that needs to be transferred for facilitating the transfer.

On the other hand, Wise is a peer-to-peer (P2P) currency exchange platform that does things differently. Rather than merely facilitating transfers and taking a remarkable cut, the company itself maintains pooled bank accounts in countries around the world. Firm's users then pay a small fee by debit or credit card to use Wise's account to wire funds from those pooled accounts to the intended recipient. (Zaleski & Netguru, 2021)

This means (Zaleski & Netguru, 2021) that funds never actually cross international borders, eliminating the need to rely on the SWIFT system, making sure that company does not need to take remarkable cuts from the transfer, and this allows Wise to keep the costs as low as possible.

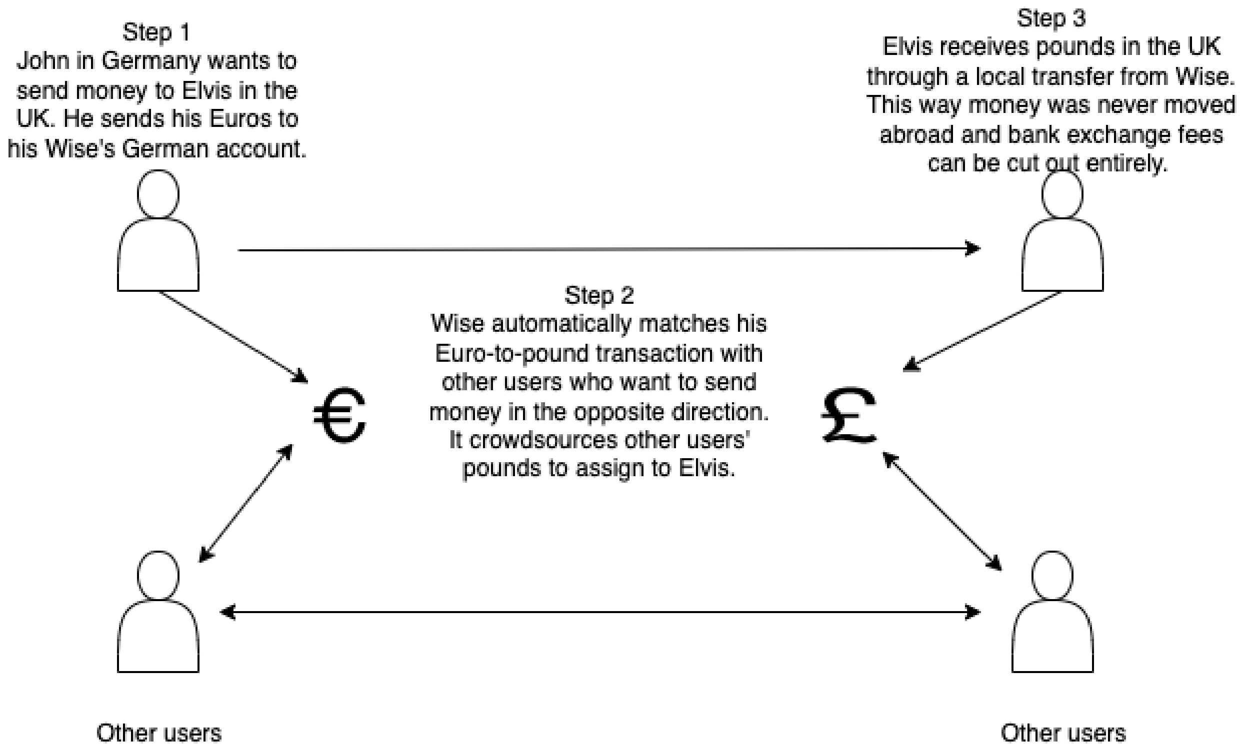


Figure 1. Wise PLC's business model
Source: author's graph

## 2.2. Market overview

Remittances are monetary lifelines that allow certain overseas individuals to send money to their near and dear ones who live in their native country. Cross-border remittances flows are crucial to many families as well as countries. (Patel, 2020)

The market of international money transfer ("remittances") has been growing considerably at a CAGR of 10.4% since 2000. The global remittance market size (Borasi et al., 2022) was valued at $701.93 billion in 2020, and is projected to reach $1,227.22 billion by 2030, registering a CAGR of 5.7% from 2021 to 2030. Having a market that big means the competition is tight and it is tremendously hard to reach to the top as the industry is quite heavily crowded.

In contrast, Research and Markets (2022) have predicted that the global digital remittance market is expected to reach 60.05 billion dollars by 2030 from 19.65 billion dollars in 2022. It is expected to expand at a Compound annual growth rate (CAGR) of 15% from 2022 to 2030. Such growth could be explained by rapid developments in the digital space. Digitisation offers the clients improved efficiency, convenience, better and easier access, reduced transfer prices and transparency.

Money transferring market is constantly changing and moving into more digital future, the fintech industry has seen remarkable growth since the turn of the century. The rise of internet usage and digitization of money are two major opportunities that are broadly changing the way people manage and move their money. International remittances have been transforming towards the digital world for several years and firms have an opportunity to provide customized money transfer solutions to their customers. Digital and mobile money remittance are an essential form of capital flow (Gundaniya, 2022). Majority of remittance services providers are focusing on digital remittance to enhance their business, stand out compared to their competitors and provide customer with easier and quicker transferring services. Numerous benefits of using digital channels such as high speed, availability of digital channels 24 hours a day, transparency, ease of use, high security, and others, for sending money create numerous opportunities for the remittance market. (Borasi et al., 2022)

It can be said that digitisation is the reason why money transferring is becoming more and more cheaper. As it is cheaper to be focused on one market, for example digital remittance, firm’s assets and effort is more directed in one outcome, to be the best option on money transfer market. So, if other banks and financial institutions wants to have a piece of the market, they have to stand out some way. The results of such “standing out” has led to significant price reduction, businesses trying to be more transparent about different fees,

According to Patel (2020), one remarkable growing area of remittance market is cross-border digital money transfer software among low-wage migrant workers, small businesses as well as big enterprises. Previously mentioned people use the money transfer service to send earned money at overseas to family or to clients. Previously one had to go to money exchange stands or in bank to change currency, now it is easy, effortless and all could be done with just few clicks.

In 2020, according to Borasi et al. (2022), Asia-Pacific region was the dominator on the market and future forecasts shows that it continues that way, owing that to the growing number of immigrants and increasing adoption of digital remittance owing to rapidly advancing technologies, evolving customer expectations, and a changing regulatory landscape, which are driving the automation of cross-border and remittance services. Although money transferring market is moving relentlessly towards digitalisation, according to Borasi et al. (2022), majority stake of the remittance market is still in the hands of different banks, but considering the

In remittance market, there are multiple possibilities how to make money. Different businesses have adapted different business models, most suitable for themselves. Most common revenue stream of remittance’s market is revenue from transaction fees. Similar occasion with Wise, its main goal is to reduce the cost of making money transfer and afterwards to pass those savings to the customers. What really makes the difference, is the fact that Wise has managed to set up bank accounts in numerous countries around the world. Therefore, cross-border transfers, transferring money from one country to another, becomes in-country transferring. This technique allows Wise to reduce transfer fees, subsequently lowering the price for its customers. Although cutting down on transfer fees compared to their competitors, lower transfer fees with no hidden costs are Wise’s main revenue stream.

According to (RemitONE, *what is a money transfer business?*), in money transferring market, there are multiple ways for the businesses to make profit. One common option is that MTO (Money transfer operators) will offer higher exchange rate to the delivery person than they would get from the remitter. Another option would be if MTO is charging extra fee or a commission for the service depending on the size of the transfer.

Remittance market is quite heavily crowded with constant joining start-up FinTech firms who are trying to have their shot on success. Biggest competitors for Wise PLC are Western Union, PayPal, Revolut, MoneyGram and WorldRemit. As of 2017 (Mauro F. Romaldini, 2017) Western Union had more than double the market share compared to its nearest competitor UAE Exchange. Despite payments and remittances receiving attention from new fintech start-ups, within the top five providers by volume there was only one recent newcomer, Wise PLC.

### 2.2.1. Wise's advantages over the competitors

Wise has had quite a success in a short period of time, having the 5$^{th}$ largest market share in remittance in 2017. This are the results of great business model, good strategies behind the operation and being in the right place on the right time.

Using a peer-to-peer currency exchange model (Zaleski & Netguru, 2021), Wise does not cross any international boarders during their money transferring. This saves customers a huge cut that normally other banks or firms would take. That keeps the cost remarkably low and makes the company very attractive on the market. Previously mentioned model helped to speed up the process of money transfer, even to just a few seconds. In addition, recipients do not need to register to become a member or make an account to receive transferred funds, only a bank account into which transferred funds can be deposited. This makes the user experience more enjoyable and minimises the friction that an account could make.

Fast transfers and low rates are not the only competitive differentiators that Wise has leveraged to great effect. Wise has stated from the beginning (Zaleski & Netguru, 2021), that the company has committed to a culture of transparency as a way of tempting users away from the SWIFT transfers offered by retail banks. The company has made raising awareness of hidden bank charging fees and enormous cuts that other businesses have claimed to not take but yet are still doing it. Wise's initial growth was driven almost entirely by word-of-mouth, but thanks to company's smart positioning as an alternative to the high-cost model of others, firm's high-profile social campaigns were the reason of strong growth onwards.

When other retail banks and companies take remarkable cuts and apply hidden fees on money transfers, Wise chose different route. In the beginning of its operating years, Wise charged just 1 euro for transfers up to 300 euros and slightly more for bigger amounts. Although, these rates have risen over time, between 2017 and 2018, Wise lowered its transfer rates over 27 times. This way company makes sure that they could offer its customers the cheapest, most transparent, and reliable way of handling and transferring their money.

Although Wise could have made more money on each transfer by matching other competitors' rates and charging more money per transfer, the company has borrowed a strategy employed by high-frequency traders. Rather than charging higher fees on fewer transactions, Wise has opted to charge lower fees on a higher volume of transactions. This creates a virtuous cycle in which lower fees attract more customers, which means greater transfer volume, which translates into more revenue for Wise. That is a competitive advantage that mainstream banks have yet to match and this keeps Wise relevant on the market. (Zaleski & Netguru, 2021)

To survive on remittance markets, it is essential to be able to have the availability of various global currencies and the ease with which those currencies can be transferred around the world (Zaleski & Netguru, 2021). Great example of that is Wise, with its gradual expansion to more and more countries worldwide has been as crucial to the company's continued success as its low fees and commitment to 100% transparency. Wise has been able to successfully scale and attract new customers by constantly expanding into new geographic regions and making the service available in different countries. It is challenging to pursue the entry into foreign markets, but Wise managed to do it by partnering with challenger banks to gain footholds in new markets, such as N26 in Germany and Bunq in the Netherlands among others. To take the efforts one step further, in 2018 Wise partnered up with Mastercard to offer its customers "borderless Mastercard debit card".

Wise has smartly capitalised on an enormous potential market in the financial market by offering client-friendly rates and being as transparent as possible. Therefore, Wise has been able to move that portion of the market that major banks could not have done before. Although now it might be possible, but Wise have already gained its reputation and seems that the company is not waiting on others to catch up but constantly doing everything to show other companies and banks that Wise is here to stay.

In addition to transfer fees, Wise also offers accounts for businesses, individual consumers, a debit, or credit card for consumer. All these are additional revenue streams for the business.

On its accounts, one could hold up to 55 different currencies on their bank accounts and use their bank account, no matter the country one is in.

Although, Wise have been successful in its business model, it is worth mentioning that while being profitable, company has considerable business expense and low margins on their transfers. Therefore, to maximize the revenue, company must increase their transfer volume as much as possible.

# 3. Valuation and discussion

This chapter takes a look on the evaluation of Wise PLC., using financial analysis to provide a forecast of the future financial performance of the firm. To get a better understanding of the firm's performance and possibilities in the future, peer, horizontal and vertical analysis are conducted. The chapter begins with financial statement analysis of the Wise PLC., Peer analysis and then followed with DCF (Discounted Cash Flow) forecast for the next 5 years.

## 3.1. Financial and peer analysis

### 3.1.1. Financial statement analysis

All the financial statements of Wise PLC. are found in the Appendix 1. Income statement, balance sheet and cash flow statement were considered and analysed in this bachelor thesis.

Horizontal analysis of the main lines of the income statement is shown in the Appendix 2, table 1. It is evident that all aspects of income statement have been continuously growing since company went public in 2019. Dominant fashion is that the biggest growth can be seen during 2020, when almost all of the analysed aspects have shown greater growth than in 2021, apart from EBIT, with a growth rate of 149,11% in 2021 compared to 88,24% in 2020. In addition to EBIT, similar pattern could be seen with net income, where in 2021 growth rate was 106% compared to only 45,63% in 2020. The most evenly growing aspect was pre-tax income that had difference in growth between 2020 and 2021 only 0,41%.

In vertical analysis of the income statement, that is shown in appendix 2, table 2, that the biggest portion of sales is SGA, which made 52,39% of sales in 2019 but have since been shrinking to 45,56% in 2021. By the size, next biggest portion of sales is Cost of Goods Sold (COGS). In a bigger picture, COGS has had a minor growth over 3 years, but if it is looked at in year-to-year view, COGS had roughly 2,7% bigger growth between 2019 and 2020 from 40,92% to 43,62% but between 2020 and 2021, continued to grow but reduced ~2,5% compared to the last year. Although, the change is infant, it could be a mark that the business has found a way to reduce the cost. This could be done for example by eliminating costly waste or greater communication with new partners. From vertical analysis, it's shown that EBIT has been rising since 2019 all the way through 2021, from 6,7% to 13,3%. This shows that Wise's profitability has also been rising since 2019. The continuous growth for EBIT is possible because SGA has been growing seducingly from 2019 to 2021.

In Appendix 2, Table 3, there are similar trends that was seen in table 1, horizontal analysis of the income statement. In the bigger picture, all of the assets have grown from 2019 to 2021 except accounts receivable and additional paid-in capital/capital surplus. Decrease in accounts receivable is a great indicator unless the sales and profit of the firm is also decreasing. In that case, company just loses money due the receivable going to bad debt expense as it is not paid back to a firm. Fortunately, that is not the case for Wise PLC., because while accounts receivable account is decreasing, sales and profits are increasing, meaning that company managed to collect its money from customers before it went bad and increase its cash flow. Similarly, to income statement, horizontal analysis of balance sheet shows that assets and liabilities had a bigger growth rate in 2020 compared to 2021. Although accounts receivable was decreasing, the firm increased the accounts payable amount, meaning that they bought goods or services more than they paid for, took credit for unpaid products. Including increasing number of accounts payable, Wise took remarkable amount of long-term debt in 2020, ~270% more than they took in 2021, meaning that the firm has reasonable amounts of debt in the future that needs to be paid.

Vertical analysis of the balance sheet for Wise PLC., that is available in appendix 2 table 4, that the biggest portion of total assets are cash and Short-Term Investments with total amount of

~86,8% in 2019 and 95,21% in 2021. It is very company specific as there was no recording in the financial statements about inventories, but on the other hand, Wise has humongous amount of cash and cash equivalents in their hand, partially because they are operating in currency exchange (remittance) market. As said previously, although in horizontal analysis, accounts payable account seemed to have a mentionable growth during 2021 and more so in 2020, then in the vertical analysis, it turns out that Accounts payable is only 0,07% to 0,09% of total assets. Unlike in the horizontal analysis, there is no decreasing assets nor liabilities in the vertical analysis of balance sheet.

### 3.1.2. Peer analysis

According to (Phuriphanvichal, 2020), peer analysis is one of the most common methods of financial analysis used by analysts to compare stocks among competitors in the same industry. Peer analysis takes into consideration statistics from balance sheet, income statement, cash flow statements, valuation, and profitability metrics etc.

From these analysis, one could determine if and where chosen company could be lacking compared to its competitors and how the company ranks among others.

PROFITABILITY

| | ROE | ROA | GROSS PROFIT MARGIN | OPERATING MARGIN | ASSET TURNOVER |
|---|---|---|---|---|---|
| Wise PLC | 9,47% | 0,07% | 66,82% | 11,81% | 0,09 |
| Peer median | 18,29% | 0,07% | 42,72% | 11,10% | 0,73 |
| Peer average | 19,61% | 0,08% | 48,29% | 14,83% | 0,68 |

| | ROE | ROA | GROSS PROFIT MARGIN | OPERATING MARGIN | ASSET TURNOVER |
|---|---|---|---|---|---|
| WISE PLC | 9,47% | 0,07% | 66,82% | 11,81% | 0,09 |
| Genpact | 19,13% | 0,08% | 35,27% | 12,37% | 0,9 |
| Concentrix | 17,45% | 0,05% | 35,50% | 9,83% | 1,05 |
| Dlocal Limited | 34,79% | 0,17% | 49,94% | 33,11% | 0,55 |
| WEX inc. | 7,07% | 0,03% | 72,43% | 4,00% | 0,21 |

Figure 2. Peer analysis on profitability ratios
Source: Author's calculations

As it can be seen from the above Figure 2, Wise's ROE (return on equity) is remarkably smaller than its competitors, meaning that Wise may not turn its capital into profit as efficiently compared to other firms. The same scenario occurs for WEX Inc. Out of these five examples, Dlocal Limited is excelling in terms of return on equity with a leading 34,79%.

Although, Wise's ROE is not that impressive, its gross profit margin is in a healthy range, in this case, it exceeds the peer average. This shows what Wise made after paying for the direct costs of doing business and indicates that its business is viable. Compared to its peers, only WEX Inc has a better gross profit margin than Wise, rest of the firms have a thing or two to learn.

Operating margin indicates how much profit company makes on a dollar of sales after paying for variable costs of production or transactions. From the table above it can be seen that peer average lies around 14,8% while Wise's margin is 11,81%. But as mentioned before in this thesis, Wise's margins are very slim as it does not have major charging fees and no hidden transaction costs compared to its peers in the industry.

Overall, Wise is not the most profitable firm out of its peers as seen from the table, but as mentioned before, Wise is trying to build a cult following to be the chosen firm in the future. This is achieved with being transparent and open about the costs and fees.

VALUATION

| | TRAILING P/E | PRICE/SALES | EV/EBITDA | PRICE/CASH FLOW | PRICE/BOOK |
|---|---|---|---|---|---|
| Wise PLC | 183,35 | 11,41 | 49,11 | 1,80 | 15,59 |
| Peer median | 42,36 | 2,52 | 12,46 | 14,59 | 4,40 |
| Peer average | 41,52 | 5,72 | 20,98 | 17,92 | 6,88 |

| | TRAILING P/E | PRICE/SALES | EV/EBITDA | PRICE/CASH FLOW | PRICE/BOOK |
|---|---|---|---|---|---|
| Wise PLC | 183,35 | 11,41 | 49,11 | 1,80 | 15,59 |
| Genpact | 24,88 | 1,96 | 14,60 | 18,39 | 4,67 |
| Concentrix | 13,37 | 0,97 | 9,69 | 10,76 | 2,22 |
| Dlocal Limited | 59,84 | 16,89 | 49,31 | 31,72 | 16,48 |
| WEX Inc. | 67,99 | 3,07 | 10,32 | 10,79 | 4,13 |

Figure 3. Peer analysis on valuation ratios
Source: Author's calculations

P/E ratio helps investors to have a better understanding of what the market is willing to pay for the company's current earnings. From Figure 3, we can see that Wise's P/E ratio is remarkably bigger than its competitors. It indicates that Wise's stock is expensive, might not be appealing for investors and indicates an overvaluation. Company with the most appealing P/E is Concentrix. Genpact has a relatively low ratio, meaning that stock is undervalued, and the company is doing well profits- and growth-wise.

Price-to-Sales ratio (P/S) gives people understanding of how much the market values every dollar of the company's sales, in other words, shows how efficiently company uses investor funds to drive revenue. Wise has a P/S ratio of 11,41. While it is not the highest in the comparable group, it is not close to the peer average, 5,72. Similar to P/E, the lower the ratio is, the more attractive the stock is for an investor. Out of the peer group, similarly to P/E, Concentrix has the lowest ratio, making it the most appealing stock out of comparables.

EV/EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization) is widely used as a valuation tool. This ratio compares firm's value, including debt and liabilities to true cash earnings, making it easy for people to analysis companies in the same industry. From the figure above, Wise PLC and Dlocal Limited have higher ratios compared to rest of the peers, meaning that these two companies are overpriced relative to others.

To know if the stock is overpriced, it is convenient to calculate Price-to-Book (P/B) ratio. Generally, P/B of 3 is set as a benchmark of a reasonably priced stock, as everything that seems to be over that can be regarded as overpriced. From the figure 3, peer average rests roughly at 6,8 and Wise at 15,59. Main outliers of the peers seem to be Dlocal and Wise.

Overall, from valuation ratios, it can be concluded that out of chosen peer group, Wise PLC and Dlocal Limited might be overvalued as most of the ratios different remarkably from the peer group.

BALANCE SHEET RATIOS

| | DEBT/EQUITY | NET DEBT/EBITDA | CURRENT RATIO | QUICK RATIO | COVERED RATIO |
|---|---|---|---|---|---|
| Wise PLC | 23,39% | -3,97 | 1,05 | 1,05 | 5,75 |
| Peer median | 107% | 1,57 | 1,63 | 1,43 | 28,56 |
| Peer average | 100,95% | 0,57 | 1,54 | 1,39 | 28,84 |

| | DEBT/EQUITY | NET DEBT/EBITDA | CURRENT RATIO | QUICK RATIO | COVERED RATIO |
|---|---|---|---|---|---|
| Wise PLC | 23,39% | -3,97 | 1,05 | 1,05 | 5,75 |
| Genpact | 104,29% | 2,03 | 1,58 | 1,36 | 9,34 |
| Concentrix | 109,96% | 3,02 | 1,67 | 1,49 | 13,21 |
| Dlocal Limited | 5,41% | -3,86 | 1,80 | 1,74 | 48,89 |
| WEX Inc. | 184,13% | 1,10 | 1,12 | 0,96 | 43,90 |

Figure 4. Peer analysis on balance sheet ratios
Source: Author's calculations

Debt-to-Equity (D/E) ratio indicates how well business can cover its debt and how well one could leverage it. From the Figure 4, this peer group average is roughly 101%. Wise PLC on the other hand has a D/E ratio of 23,39%, showing that company is relatively safe and therefore appeals to the shareholders. Compared to Peer average, majority of the companies have quite a large ratio.

Current ratio indicates company's abilities of paying short-term liabilities, such as short-term debts and payables. Common understanding is that current ratio above 1,2 is good and bare minimum acceptable ratio would be 1. Peer group average is 1,54 showing that companies are liquid enough to manage their short-term liabilities, although, Wise's current ratio might be uncomfortably close to the bare minimum. If current ratio exceeds 2, it might indicate that firm is not investing its short-term assets efficiently enough.

Quick ratio shows how well a company can pay its short-term debts using only the most liquid assets, such as accounts receivables, cash, and cash equivalents. Similarly, to the current ratio, the minimum acceptable rate should be 1 or higher than 1, as it will show that company has enough liquid assets to meet its short-term liabilities. While 1,39 is the peer average, Wise has a quick ratio of 1,05. Wex INC. could be brought out as one of the peers whose quick ratios is less than 1.

Covered ratio is a metric to measure a company's ability to pay its debt and meet financial obligations, i.e., interest payments and dividends. Company is viable if the ratio is over 1. The higher the ratio, the easier it is for the company to make interest on its debts and/or pay dividends out. Peer average covered ratio is 28,84, while all the ratios are over 1, indicating that none of the peers have complications to meet their payments. The lowest from the group is Wise PLC with 5,75 and the highest ratio is Dlocal Limited, 48,89.

In conclusion, it can be said that overall state of the firms' balance sheets are good enough, so the firms are viable. Although, Wise had a few ratios that were close to being unacceptable, overall performance of the Fintech firm is impressive.

GROWTH

| | EBITDA GROWTH YOY | EPS GROWTH YOY | EPS GROWTH FWD | REVENUE GROWTH YOY | REVENUE GROWTH FWD |
|---|---|---|---|---|---|
| Wise PLC | 8,00% | 13,04% | - | 21,00% | 28,10% |
| Peer median | 36,65% | 30,83% | 31,87% | 20,39% | 12,94% |
| Peer average | 41,66% | 34,76% | 28,76% | 38,60% | 12,43% |

| | EBITDA GROWTH YOY | EPS GROWTH YOY | EPS GROWTH FWD | REVENUE GROWTH YOY | REVENUE GROWTH FWD |
|---|---|---|---|---|---|
| Wise PLC | 8,00% | 13,04% | - | 21,00% | 28,10% |
| Genpact | -1,73% | -1,55% | 12,94% | 11,13% | 8,67% |
| Concentrix | 8,47% | 30,83% | 41,46% | 13,45% | 12,94% |
| Dlocal Limited | 95,06% | 75,00% | - | 102,49% | - |
| WEX Inc. | 64,83% | NM | 31,87% | 27,32% | 15,68% |

Figure 5. Peer analysis on growth ratios
Source: author's calculations

Although, there are no good EBITDA growth YoY margin, it all depends on the comparison to its peers. From the Figure 5, peer group's average growth compared to same month last year was 41,66% growth with only one of the peers being in a negative growth trajectory, i.e., Genpact. Dlocal Limited had the highest growth compared to last fiscal year, growing its EBITDA a little over 95%. On the other hand, Wise PLC had a moderate growth in its EBITDA, only 8%.

Stocks that have an EPS growth rate of at least 25% compared with its last fiscal year can indicate that its services are in strong demand. From the Figure 5, it can be seen similarly to the EBITDA growth, almost all the peers had a positive growth except Genpact. While the peer average was 34,76%, Wise PLC had a growth of 13,04%

As seen from the Figure 5, all the peers have a positive growth in their revenue compared to their last fiscal year, bringing the peer average to 38,60%. As a peer median, this peer group has a 20,39% of increase in revenue growth YoY. The leading increase belongs to Dlocal Limited with 102,49%.

## 3.2. DCF method

After analysing the financial statements, acquired knowledge with the help of Wise's financial statements were used to calculate and conduct forecast for DCF model.

For forecasting, I first decided to predict the next 5 years revenue on the historical data. Meaning that I analysed every revenue source and with knowledge about the company I conducted a horizontal analysis on each of the sources, which by adding all the data together gave me revenue forecast for the next 5 years. From there, I conducted vertical analysis from where I received all necessary data to be able to do a forecast for the next 5 years on all of the aspects.

As of 22.11.2022, the share price of Wise PLC. was 6,234 pounds, the number of shares outstanding is 1,02459 billion. Therefore, it can be calculated that the market cap of Wise PLC. was 6,387 billion pounds.

For calculations of book value of debt, the average of latest two-year average short-term & Capital Lease Obligation and long-term debt & capital lease obligations added together was used. Given the data on Wise's financial statements, total book value of debt is 97 200 000 pounds.

From there the calculations can be made:

a) **Weight of Equity**= E / (E+D) = 6 387 294 060 / (6 387 294 060 +97 200 000) = **0,9850= 98,5%**
b) **Weight of Debt** = D / (E + D) = 97 200 000 / (6 387 294 060+ 97 200 000) = **0.0149= 1.5%**

For the calculation of CAPM model to receive the required rate of return, the following data was used:

Cost of Equity = Risk-Free Rate of Return + Beta of Asset * (Expected Return of the Market - Risk-Free Rate of Return)

- Risk-free rate was assumed to be the same as 5-year UK government long-term bond rate, 3,1%
- Through calculations from stocks monthly volatility, it was calculated that BETA is 1,41
- Market return for Wise as a UK based business is 4,84%

With this information above, it is possible to calucalte the Cost of Equity.

**Cost of Equity** = 3,1% + 1*4,84**= 9,97%**

With that data, Weighted average cost of capital (WACC) can be calculated, whereas the fomula for WACC is: Cost of Equity * % Equity + Cost of Debt * %Debt * (1 – Tax Rate)

**WACC =** 9,97%* 98,5% + 8,198%* 1,5% * (1-25%) = **9,91%**

All the numbers in the figures below are in thousands.

| *Period* | *0* | *1* | *2* | *3* | *4* | *5* |
|---|---|---|---|---|---|---|
| | | | | | | |
| *Free Cash Flow (FCF)* | | | | | | |
| EBIT | | 110 860 | 144 118 | 183 030 | 228 788 | 279 121 |
| Tax | | (27 715) | (36 030) | (45 758) | (57 197) | (69 780) |
| D&A | | 38 094 | 49 523 | 62 894 | 78 617 | 95 913 |
| CapEx | | (23 200) | (23 200) | (23 200) | (23 200) | (23 200) |
| | | | | | | |
| Change in Working Capital (inc) / dec | | (2 904) | (3 775) | (4 795) | (5 993) | (7 312) |
| | | | | | | |
| **FCF** | | **95 136** | **130 636** | **172 172** | **221 015** | **274 742** |

Figure 6. Free cash flow calculations
Source: Author's calculations

With 5-year forecast, Free Cash Flow (FCF) for every forecasted year can be calculated. From the figure above, it can be seen that FCF for the forecasted 5 years are respectively following: 95136, 130 636, 172 172, 221 015, 274 742.

As calculation of WACC, or Weighted Average Cost of Capital, is shown above, perpetuity growth can be calculated for a Terminal Value (TV) of the firm. Perpetuity growth is a situation where a stream of cash flows is indefinitely with a certain growth rate. It is used as after 5 forecasted years, it can be assumed that the firm will continue to grow on a certain rate practically forever.

Perpetuity growth's formula is following:

**Perpetuity growth** = ((last forecasted year *(1+tax rate)) / (WACC-growth rate)

| ***Terminal Value*** | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Perpetuity Growth | | | | | | **5 836 982** |
| | | | | | | |
| | | | | | | |
| ***Discounted Cash flow*** | | 1 | 2 | 3 | 4 | 5 |
| Discount Factor | | 0,91 | 0,83 | 0,75 | 0,68 | 0,62 |
| PV of FCF | | 86 532 | 108 077 | 129 559 | 151 274 | 171 042 |
| PV of TV | | | | | | 3 633 832 |
| **Enterprise Value** | **4 280 316** | | | | | |

Figure 7. Terminal value and Enterprise Value calculations
Source: Author's calculations

After calculating the Terminal Value, all the results must be converted to today's value. From the figure above, it can be seen that Present Value (PV) of cash flows and Terminal Value is calculated to get the final Enterprise Value. From the Enterprise Value it is possible to find the Equity Value of the company, by adding corporate cash and cash equivalents and subtracting company's short- and long-term debt from the results.

From the calculations that are shown in the Appendix 3, it was found that intrinsic value of Wise PLC. is 4,686 billion, meaning the difference between the market cap is (1,7 billion) making it 26,62% overvalued compared to current value of the firm.

### 3.2.1. Sensitivity analysis

| Sensitivity Table | | | | | | |
|---|---|---|---|---|---|---|
| | | Growth rate | | | | |
| | 4,57 | 4,00% | 4,50% | 5,00% | 5,50% | 6,00% |
| WACC | 8,91% | 4,73 | 5,18 | 5,75 | 6,48 | 7,47 |
| | 9,41% | 4,29 | 4,65 | 5,10 | 5,65 | 6,37 |
| | 9,91% | 3,93 | 4,22 | 4,57 | 5,10 | 5,56 |
| | 10,41% | 3,62 | 3,87 | 4,15 | 4,50 | 4,93 |
| | 10,91% | 3,36 | 3,56 | 3,80 | 4,09 | 4,43 |

Figure 8. Sensitivity table
Source: Author's calculations

Sensitivity analysis gives a better understanding of the sensitivity of the main key variables of the company, how could these affect the valuation outcome. Sensitivity table above was conducted with 0,5% steps each side of used measure.

Above analysis helps to understand what the deliverable results for the company would be, if the firm could reduce its WACC or increase its growth rate. The same applies vice versa, what will be the results, if growth rate will reduce for 1% from its position new and the WACC remains the same. From the analysis above, if Wise could increase their growth rate from 5% to 6% while the WACC remains the same, it will result in increase in equity value of 1,014 billion pounds.

In contrast, if there will be situation where Wise's growth slows down for 0,5% and interest rates will increase, resulting in increasing WACC for 1%. This will result in reduction in stock price from 4,57 to 3,56 resulting in reduction in equity value of 1,0348 billion pounds.

Sensitivity analysis will give a great overview of company's share price span depending on main variables deviations.

## 3.3. Discussion

As market value only takes outstanding shares and share price into consideration, the intrinsic value is described as true value of the business. It takes into consideration company's cash, total debt and discounted cash flows for the future. While market value of Wise PLC. is 6 387 294 060 pounds as the current share price is 6,234 and intrinsic value is 4 686 727 000 pounds with a calculated share price of 4,574, the company is 26,62% overvaluated.

In addition to intrinsic value indicating it being overvalued, similarly advises the peer analysis where, although the firm is profitable, valuation analysis showed that Wise PLC. is overvalued compared to its peers and to the market. For example, taking trailing P/E ratio as a valuation multiple, we can conclude that Wise stock price is overvalues at least 4 times relative to its peer group. Additionally, from the peer analysis, compared to its peers, Wise PLC. is not the most profitable firm.

In contrast to that, Wise have stated themselves that they are operating on low return on revenue ratio, basically meaning that their margins are low because they are not charging their clients remarkable transferring fees and fixed costs. This way company tries to build almost like a cult following for its users to grow their client base as big as possible. Wise's average Return on Revenue for the last 5 years was only 5,85%. Therefore, it seems that this strategy does not lead to high rate of revenue growth.

Share price development could have been affected by the fact that since 19th of September 2021, company's stock has been on decline until it hit all time low around midsummer of that year. This decrease in stock's price was caused by different actions. One of those was the fact that some of the major shareholders started to sell their shares just after the Direct listing to the London Stock Exchange market. This caused uncertainty in investors, and this affected the share price. In addition to that, company's CEO and co-founder Kristo Käärman had personal taxation related problems that affected firm's image negatively. Following previously mentioned issues, stock price was low and that might have appealed to some investors' eyes and with a cult-like following, the buying of the company's shares has driven up the stock price since then.

On the other side, it must be taken into consideration that remittance market forecasts could be over the top, leading into the fact that all the forecasts and valuation done on the basis of the market could just be highly overvalued, as remittance market and especially digital remittance market does not have a long history. -Meaning that, possibility of overvaluation in the market affects directly this thesis and opposes significant risk. If a more conservative forecast for the future would have been taken, the intrinsic value would have been lower.

# CONCLUSION

World, where everything is turning into digital world and are being digitalized, Wise PLC is a flagship amongst few who are leading the remittance market. With excess of 7 million active customers and 410 thousand active business customers, company's services and products are used in Europe, North America, Asia and all over the world. Just after 6 years of operating in 2017, Wise PLC. turned profitable for the first time and have managed to do the same since. It is a remarkable accomplishment for a FinTech firm as there are thousands of start-ups looking to do the same, meaning the competition is fierce. In 2021 Wise PLC. became a publicly traded company through direct listing process on London Stock Exchange (LSE).

The research question of this thesis was: Is Wise PLC. trading at fair value at the market?

Based on the discounted cash flow valuation with additional information from financial and peer analysis, it can be concluded that Wise PLC is overvalued as its intrinsic value is 4 686 727 000 pounds or a stock price of 4,57, whereas its market capitalization is 6 387 294 060 pounds or a stock price of 6,23. Meaning that the difference between these is (1 700 566 709) making it 26,62% overvalued compared to current value of the firm. In addition to DCF method, it became evident that Wise is overvalued based on peer valuation. As per figure 3. it can be seen that Wise's P/E ratio is ~183 and the peer average is roughly 42. This means that either Wise is 4,36 times overvalued or the market thinks that Wise will grow 4,36 times faster than its peers. Maybe market expects a faster growth from wise, but not 4 times faster. Therefore, peer valuation also says that Wise is overvalued.

The results of intrinsic valuation are based on the assumption that in the future company holds similar growing line as it has done in the past, as the remittance market is projected to keep on growing and expanding. With assumption that all the data in the income statement is continuing its growth similarly to last 5 years and all the data on balance sheet are forecasted based on the assumption that all the measures stay constant relative to the revenue. This assumption is on the side of being optimistic because, it is assumed that the company retains the rate of growth that is characteristic of a young start-up style company. Therefore, if anything, there are more downside risks to the target price obtained in this analysis, that upside risks.

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# APPENDICES

## Appendix 1. Financial statements of Wise PLC.

Table 1. Balance sheet (Source: WSJ Markets, 2022)

| Assets | | | | |
|---|---|---|---|---|
| Fiscal year is April-March. All values GBP Millions. | 2022 | 2021 | 2020 | 2019 |
| Cash & Short-Term Investments | 7,249 | 4,096 | 2,192 | 966 |
| Cash Only | 6,056 | 3,359 | 2,078 | 856 |
| Short-Term Investments | 1,193 | 738 | 114 | 110 |
| Cash & Short-Term Investments Growth | 76.97% | 86.89% | 126.93% | 0.00% |
| Cash & ST Investments / Total Assets | 95,83% | 95.22% | 92.23% | 86.80% |
| Total Accounts Receivable | 137 | 76 | 98 | 103 |
| Accounts Receivables, Net | 70 | 44 | 52 | 88 |
| Accounts Receivables, Gross | 89 | 59 | 58 | 89 |
| Bad Debt/Doubtful Accounts | -20 | -14 | -6 | -1 |
| Other Receivables | 67 | 32 | 46 | 15 |
| Accounts Receivable Growth | 78.80% | -22.28% | -4.75% | 0.00% |
| Accounts Receivable Turnover | 4.1 | 5.51 | 3.08 | 1.72 |
| Other Current Assets | 8 | 6 | 6 | 5 |
| Prepaid Expenses | 8 | 6 | 6 | 5 |
| Total Current Assets | 7,394 | 4,179 | 2,296 | 1,074 |
| Net Property, Plant & Equipment | 23 | 24 | 19 | 5 |
| Property, Plant & Equipment - Gross | 41 | 38 | 29 | 8 |
| Construction in Progress | 0 | 0 | 0 | 1 |
| Leases | 26 | 26 | 18 | - |
| Other Property, Plant & Equipment | 15 | 12 | 11 | 6 |
| Accumulated Depreciation | 19 | 14 | 10 | 3 |
| Other Property, Plant & Equipment | 7 | 7 | 6 | 3 |
| Long-Term Note Receivable | 14 | 14 | 6 | 4 |
| Intangible Assets | 20 | 28 | 21 | 20 |
| Net Other Intangibles | 20 | 28 | 21 | 20 |
| Other Assets | 1 | 1 | 2 | 2 |

| | | | | |
|---|---|---|---|---|
| Tangible Other Assets | 1 | 2 | 2 | 2 |
| Total Assets | 7,564 | 4,302 | 2,376 | 1,113 |
| Assets - Total - Growth | 75.84% | 81.02% | 113.57% | 0.00% |

| Liabilities & Shareholders' equity | | | | |
|---|---|---|---|---|
| All values GBP Millions. | 2022 | 2021 | 2020 | 2019 |
| ST Debt & Current Portion LT Debt | 6,789 | 3,716 | 1,972 | 833 |
| Current Portion of Long-Term Debt | 6 | 4 | 4 | - |
| Accounts Payable | 10 | 3 | 6 | 3 |
| Accounts Payable Growth | 234.48% | 88.35% | 136.94% | 0.00% |
| Income Tax Payable | 5 | 2 | 1 | 0 |
| Other Current Liabilities | 242 | 175 | 135 | 134 |
| Miscellaneous Current Liabilities | 242 | 175 | 135 | 134 |
| Total Current Liabilities | 7,047 | 3,897 | 2,113 | 967 |
| Current Ratio | 1.05 | 1,07 | 1,09 | 1,11 |
| Quick Ratio | 1.05 | 1,07 | 1,09 | 1,11 |
| Cash Ratio | 1.03 | 1,07 | 1,04 | 1,00 |
| Long-Term Debt | 90 | 95 | 60 | 14 |
| Long-Term Debt excl. Capitalized Leases | 79 | 79 | 49 | 14 |
| Non-Convertible Debt | 79 | 79 | 49 | 14 |
| Deferred Taxes | -113 | -55 | -32 | -8 |
| Deferred Taxes - Credit | 1 | 2 | - | 0 |
| Deferred Taxes - Debit | 114 | 57 | 32 | 8 |
| Other Liabilities | 16 | 23 | 7 | 5 |
| Other Liabilities (excl. Deferred Income) | 16 | 23 | 7 | 5 |
| Total Liabilities | 7,155 | 4,017 | 2,18 | 986 |
| Total Liabilities / Total Assets | 94.59% | 93.37% | 91.72% | 88.64 % |
| Common Equity (Total) | 409 | 285 | 197 | 126 |
| Additional Paid-In Capital/Capital Surplus | - | 1 | 121 | 120 |
| Retained Earnings | 217 | 163 | 9 | -8 |

| | | | | |
|---|---|---|---|---|
| Cumulative Translation Adjustment/Unrealized For. Exch. Gain | 0 | -3 | 1 | 1 |
| Other Appropriated Reserves | 200 | 125 | 64 | 12 |
| Unappropriated Reserves | -18 | -1 | 2 | 1 |
| Common Equity / Total Assets | 5.41% | 6.63% | 8.28% | 11.36% |
| Total Shareholders' Equity | 409 | 285 | 197 | 126 |
| Total Shareholders' Equity / Total Assets | 5.41% | 6.63% | 8.28% | 11.36% |
| Total Equity | 409 | 285 | 197 | 126 |

Table 2. Income statement (Source: WSJ Markets 2022)

| Fiscal year is April-March. All values GBP Thousands. | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Sales/Revenue | 559,900.0 | 421,000.0 | 302,600.0 | 177,900.0 |
| Sales Growth | 32.99% | 39.13% | 70.10% | 0.00% |
| Cost of Goods Sold (COGS) incl. D&A | 208,700,0 | 173,400.0 | 132,000.0 | 72,800.0 |
| COGS excluding D&A | 185,800.0 | 151,700.0 | 111,400.0 | 66,500.0 |
| Depreciation & Amortization Expense | 22,900.0 | 21,700.0 | 20,600.0 | 6,300.0 |
| Depreciation | 7,700.0 | 7,000.0 | 6,500.0 | 1,300.0 |
| Amortization of Intangibles | 15,200.0 | 14,700.0 | 14,100.0 | 5,000.0 |
| COGS Growth | 20,36% | 31.36% | 81.32% | 0.00% |
| Gross Income | 351,200.0 | 247,600.0 | 170,600.0 | 105,100.0 |
| Gross Income Growth | 41.84% | 45.13% | 62.32% | 0.00% |
| Gross Profit Margin | 62.73% | 58.81% | - | - |
| SG&A Expense | 298,500.0 | 191,800.0 | 148,200.0 | 93,200.0 |
| Other SG&A | 298,500.0 | 191,800.0 | 148,200.0 | 93,200.0 |
| SGA Growth | 55.63% | 29.42% | 59.01% | 0.00% |
| EBIT | 52,700.0 | 55,800.0 | 22,400.0 | 11,900.0 |
| Unusual Expense | 2,200 | 12,800.0 | 3,100.0 | 1,000.0 |
| Non-Operating Income/Expense | 1,000.0 | 3,800.0 | 200.0 | 400.0 |
| Non-Operating Interest Income | 3,900.0 | 1,900.0 | 5,400.0 | 900.0 |
| Interest Expense | 11,500.0 | 7,600.0 | 4,500.0 | 2,100.0 |

| | | | | |
|---|---|---|---|---|
| Interest Expense Growth | 51.32% | 68.89% | 114.29% | 0.00% |
| Gross Interest Expense | 11,500.0 | 7,600.0 | 4,500.0 | 2,100.0 |
| Pretax Income | 43,900.0 | 41,100.0 | 20,400.0 | 10,100.0 |
| Pretax Income Growth | 6.81% | 101.47% | 101.98% | 0.00% |
| Pre-tax Margin | 7.84% | 9.76% | - | - |
| Income Tax | 11,000.0 | 10,200.0 | 5,400.0 | (200.0) |
| Income Tax - Current Domestic | 14,600.0 | 4,900.0 | 5,100.0 | 100.0 |
| Income Tax - Current Foreign | 6,600.0 | 4,900.0 | 1,800.0 | 2,000.0 |
| Income Tax - Deferred Domestic | (10,200.0) | 400.0 | (1,500.0) | (2,300.0) |
| Consolidated Net Income | 32,900.0 | 30,900.0 | 15,000.0 | 10,300.0 |
| Net Income | 32,900.0 | 30,900.0 | 15,000.0 | 10,300.0 |
| Net Income Growth | 6,47% | 106.00% | 45.63% | 0.00% |
| Net Margin | 5,88% | 7.34% | - | - |
| Net Income After Extraordinaries | 32,900.0 | 30,900.0 | 15,000.0 | 10,300.0 |
| Net Income Available to Common | 32,900.0 | 30,900.0 | 15,000.0 | 10,300.0 |
| EPS (Basic) | 0.03 | 0.03 | 0.02 | 0.01 |
| EPS (Basic) Growth | 9.32% | 105.96% | 45.19% | 0.00% |
| Basic Shares Outstanding | 967,200.0 | 994,589.9 | 994,589.9 | 994,589.9 |
| EPS (Diluted) | 0.03 | 0.03 | 0.02 | 0.01 |
| EPS (Diluted) Growth | 2.41% | 106.00% | 45.63% | 0.00% |
| Diluted Shares Outstanding | 1,034,000.0 | 994,589.9 | 994,589.9 | 994,589.9 |
| EBITDA | 75600 | 77,500.0 | 43,000.0 | 18,200.0 |
| EBITDA Growth | (2.45%) | 80.23% | 136.26% | 0.00% |
| EBITDA Margin | 13.50% | 18.41% | - | - |
| EBIT | 52,700.0 | 55,800.0 | 22,400.0 | 11,900.0 |

## Appendix 2. Horizontal and vertical analysis of financial statements

Table 3. Horizontal analysis of income statement of Wise PLC., (%)

| Fiscal year is April-March | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Sales Growth | 32,99% | 39,13% | 70.1% | 0,00% |

| | | | | |
|---|---|---|---|---|
| COGS Growth | 17,13% | 31,36% | 81,32% | 0,00% |
| Gross Income Growth | 42,76% | 45,13% | 62,32% | 0,00% |
| SGA Growth | 50% | 29,42% | 59,01% | 0,00% |
| EBIT Growth | 13,76% | 149,11% | 88,24% | 0,00% |
| Interest Expense Growth | 33,3% | 68,89% | 114,29% | 0,00% |
| Pretax Income | 43900 | 41100 | 20400 | 10100 |
| Pretax Income Growth | 6,81% | 101,47% | 101,98% | 0,00% |
| Net Income | 32900 | 30900 | 15000 | 10300 |
| Net Income Growth | 6,47% | 106,00% | 45,63% | 0,00% |

Source: Author’s calculations from WSJ markets, 2022 data

Table 4. Vertical analysis of Income Statement of Wise PLC., (%)

| Fiscal year is April-March | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Sales | 100,00% | 100,00% | 100,00% | 100,00% |
| COGS | 33,58% | 41,19% | 43,62% | 40,92% |
| Gross income | 66,42% | 58,81% | 56,38% | 59,08% |
| SGA | 57,22% | 45,56% | 48,98% | 52,39% |
| EBIT | 13,98% | 13,25% | 7,40% | 6,69% |
| Interest expense | 1,36% | 1,81% | 1,49% | 1,18% |
| Pretax Income | 7,84% | 9,76% | 6,74% | 5,68% |
| Net Income | 5,88% | 7,34% | 4,96% | 5,79% |

Source: Author’s calculations from WSJ markets, 2022 data

Table 5. Horizontal analysis of Balance Sheet of Wise PLC., (%)

| Fiscal year is April-March, All values GBP Millions, | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Cash & Short-Term Investments Growth | 76,97% | 86,89% | 126,93% | 0,00% |
| Accounts Receivable Growth | 78,80% | -22,28% | -4,75% | 0,00% |
| Total current assets growth | 76,93% | 82,01% | 113,78% | 0,00% |
| Net Property Plant & Equipment growth | -4,17% | 26,32% | 280,00% | 0,00% |
| Intangible assets growth | -28,57% | 33,33% | 5,00% | 0,00% |
| **Assets - Total - Growth** | **75,84%** | **81,02%** | **113,57%** | **0,00%** |
| Accounts Payable Growth | 234,38% | 88.35% | 136.94% | 0.00% |

| | | | | |
|---|---|---|---|---|
| Total Current Liabilities Growth | 80,83% | 84,43% | 118,51% | 0,00% |
| Long-Term Debt Growth | -5,26% | 58,33% | 328,57% | 0,00% |
| Total Liabilities Growth | 78,12% | 84,27% | 121,10% | 0,00% |
| Common Equity Growth | 43,51% | 44,67% | 56,35% | 0,00% |
| Additional paid-in Capital/Capital surplus Growth | - | -99,17% | 0,83% | 0,00% |
| Liabilities & Shareholders' equity Growth | 75,83% | 81,06% | 113,48% | 100,00% |

Source: Author's calculations from WSJ markets, 2022 data

Table 6. Vertical analysis of Balance sheet of Wise PLC., (%)

| Fiscal year is April-March, All values GBP Millions, | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Cash & Short-Term Investments | 80,06% | 95,21% | 92,26% | 86,79% |
| Accounts Receivable | 1,82% | 1,77% | 4,12% | 9,25% |
| Total current assets | 97,74% | 97,14% | 96,63% | 96,50% |
| Net Property Plant & Equipment | 0,30% | 0,56% | 0,80% | 0,45% |
| Intangible assets | 0,27% | 0,65% | 0,88% | 1,80% |
| **Assets – Total -** | 100,00% | 100,00% | 100,00% | 100,00% |
| Accounts Payable | 93,01% | 0,09% | 0,08% | 0,07% |
| Total Current Liabilities | 93,15% | 90,59% | 88,93% | 86,88% |
| Long-Term Debt | 1,19% | 2,21% | 2,53% | 1,26% |
| Total Liabilities | 94,59% | 93,38% | 91,75% | 88,59% |
| Common Equity | 5,41% | 6,62% | 8,29% | 11,32% |
| Additional paid-in Capital/Capital surplus | - | 0,02% | 5,09% | 10,78% |

Source: Author's calculations from WSJ markets, 2022 data

# Appendix 3. DCF calculation

**Discounted cash flow ( DCF) model**

| | | | | | | |
|---|---|---|---|---|---|---|
| Data | | | | | | |
| Growth rate | 5,0% | | Beta | 1,4 | | |
| EV/EBITDA Multiple | 53,48x | | Market Return | 5% | | |
| Cost of Debt | 8,19849% | | | | | |
| Tax Rate | 25% | | | | | |
| 5y UK long term treasury | 3,1% | | | | | |
| *Period* | *0* | *1* | *2* | *3* | *4* | *5* |
| *Free Cash Flow (FCF)* | | | | | | |
| EBIT | | 110 860 | 144 118 | 183 030 | 228 788 | 279 121 |
| Tax | | (27 715) | (36 030) | (45 758) | (57 197) | (69 780) |
| D&A | | 38 094 | 49 523 | 62 894 | 78 617 | 95 913 |
| CapEx | | (20 000) | (18 300) | (10 400) | (18 200) | (16 200) |
| Change in Working Capital (inc) / dec | | (2 904) | (3 775) | (4 795) | (5 993) | (7 312) |
| **FCF** | | **98 336** | **135 536** | **184 972** | **226 015** | **281 742** |
| ***WACC*** | | | | | | |
| Cost of Equity | 10% | | | | | |
| D/D+E | 1,5% | | | | | |
| E/D+E | 98,5% | | | | | |
| **WACC** | **9,91%** | | | | | |
| ***Terminal Value*** | | 1 | 2 | 3 | 4 | 5 |
| Perpetuity Growth | | | | | | **6 020 799** |
| ***Discounted Cash flow*** | | 1 | 2 | 3 | 4 | 5 |
| Discount Factor | | 0,91 | 0,83 | 0,75 | 0,69 | 0,62 |
| PV of FCF | | 89 466 | 112 190 | 139 301 | 154 858 | 175 630 |
| PV of TV | | | | | | 3 753 182 |
| **Enterprise Value** | | | | | | **4 424 627** |
| ***Enterprise Value to Equity Value*** | | | | | | |
| Cash | 357 800 | | | | | |
| Short term Debt | 5 500 | | | | | |
| Long term Debt | 90 200 | | | | | |
| **Equity Value** | **4 686 727,351** | | | | | |
| Shares Outstanding | 1 024 590 | | | | | |
| **Share Price** | **4,574** | | | | | |

Figure 9. Discounted cash flow method calculations
Source: Author's calculations

## Appendix 4. Sensitivity analysis

| | Sensitivity Table | | | | | |
|---|---|---|---|---|---|---|
| | | | | Growth rate | | |
| | 4,43 | 4,00% | 4,50% | 5,00% | 5,50% | 6,00% |
| WACC | 8,98% | 4,55 | 4,98 | 5,51 | 6,19 | 7,11 |
| | 9,48% | 4,13 | 4,47 | 4,89 | 5,42 | 6,09 |
| | 9,98% | 3,78 | 4,06 | 4,43 | 4,81 | 5,32 |
| | 10,48% | 3,49 | 3,72 | 4,00 | 4,33 | 4,73 |
| | 10,98% | 3,24 | 3,44 | 3,66 | 3,93 | 4,26 |

Figure 10. Sensitivity analysis table
Source: Author's calculations

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