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WISE PLC (LSE: WISE)

Wise PLC ("Wise") was founded in 2011 by Kristo Käärmann and Taavet Hinrikus to combat excessive cross-border and international exchange fees. Cross-border transfers are notoriously cumbersome as payment infrastructure typically relies on localized connections and many financial institutions unnecessarily obfuscate the process to extract hidden fees.

Wise's founders envisaged a peer-to-peer platform where cross-border transfers could be simulated through domestic holdings and bank accounts, leveraging quick and inexpensive domestic payment rails. At first, Käärmann and Hinrikus used their Estonian and English bank accounts to access domestic payment rails, the underlying infrastructure that enables bank transfers, allowing for relatively inexpensive conversion and transfers. As their user base grew, manual transfers and peer-to-peer matching became inefficient and the founders began constructing purpose-built infrastructure through connected APIs and local liquidity pools.

Initially, Wise experimented with numerous transfer mechanisms to optimize its platform yet, as size begets regulatory scrutiny, the company doubled down on liquidity pools while discontinuing its cross-border crypto initiatives in 2013 to increase perceived legitimacy. Since, Wise has focused on expanding its reach and user base, entering new markets through agreements with aggressive (and usually smaller) banks before methodically scaling to institutions with a larger network of rails.

As Wise continued facilitating transactions, a rapidly growing user base drove economies of scale through bulk transactions while buttressing local liquidity pools; currency conversion requires local accounts with domestic currency liquidity to ensure minimal exchange rates, and as increasing volume flows through Wise's infrastructure, liquidity increases. In essence, an increasing user base decreases costs while improving speed and transparency, creating a network effect flywheel.

Recently, Wise has begun connecting directly with nations' government-supported domestic payment systems, the backbone of a market's payment infrastructure ("DPS"), obviating the need for bank partnerships. These DPSs are the pinnacle of domestic payment rail integration, offering a near-instantaneous payment platform organized by the country's government or central bank. Being integrated with a DPS allows a firm to circumvent the latticework of domestic payment rails while remaining connected to virtually all domestic bank accounts. However, DPS integration is an arduous process as global payment systems are heterogeneous, and local expertise is required throughout each market.

In July of 2021, Wise listed directly onto the London Stock Exchange at a market cap of $11B (24x rev) yet, following a -75% NTM downturn, WISE would toil until Jan'25 to return to this valuation. Today, the firm continues expanding its user base while incorporating new revenue initiatives such as the "Wise Account," a multi-currency bank account, and by white labeling its infrastructure to banks and businesses. Management hopes that democratizing its infrastructure will allow for further penetration of the small and medium-sized business ("SMB") market, which has been highlighted as the firm's next growth vertical.

Industry Overview

Cross-border currency transfers have historically fallen under the purview of large financial institutions through a correspondent banking transfer model. While domestic transfers are facilitated by payment rails, geographical fragmentation complicates direct connections between international banks. As a result, intermediary banks, referred to as correspondents, are contracted to establish a chain of direct connections, yet each intermediary charges a fee. While international groups have tried creating an international banking network through secure messaging systems like SWIFT, actual transfers must still be orchestrated by banks and centralized clearinghouses.

As each transfer cycles through numerous correspondents, fees compound, and the World Bank has estimated the average remittance cost of ~6.6%. Furthermore, incumbent financial institutions have exploited the lack of cross-border substitutes to charge blanket ~2-4% markups on exchange rates, oftentimes as a façade for hidden fees. In the words of Wise's CEO, "Wise should not even exist. As the market dysfunction, where banks have been hiding their cross-border fees and successfully relying on a captured customer base, this has led to decades of underinvestment in technology and led to uncompetitive products for our retail customers."

Wise circumvents the correspondent-banking model by acting as a multi-location dealer between users; for example, a US-to-France transfer would involve USD being transferred from the originator's bank account into Wise's US account while simultaneously being paid out in EUR from the firm's French account to the recipient's local account, all without currency crossing borders. As previously mentioned, Wise has established liquidity pools (local holdings to facilitate currency conversion) in various markets, greatly reducing the required quantity of payment rails.

Industry papers point to annual cross-border transfer volumes of ~$35T split between Enterprises (~50%), SMBs (~40%), and individual consumers (~10%).

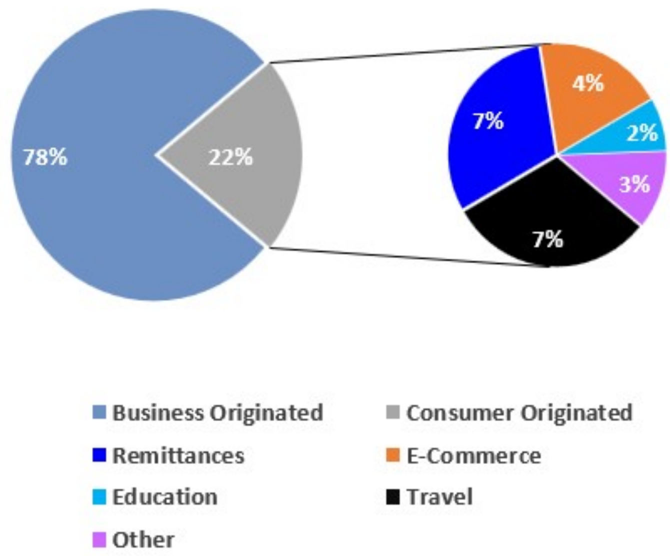
Within SMB, ~80-90% of volumes are estimated to be B2B with the largest use case being trade payments at ~66% of volumes. Within consumer transfers, remittances account for ~1/3rd of payments, with travel, e-commerce, and education encompassing the remaining ~2/3rds.

Cross-border transfers logically tend to originate from larger economies with NAM (35%), APAC (28%), and the UK/EU (22%) encompassing the majority of transfers. However, as of 2022, APAC's cross-border *revenues* (~$20B consumer, ~$80B commercial) eclipse NAM's (~$18B consumer, ~$36B commercial) and EMEA (~$16B consumer, ~$64B commercial).

For Wise specifically, ~70% of transfers occurred between USD/EUR/GBP, with CAD and AUD becoming increasingly relevant. Transfers in Asia have also become more commonplace, and IR pointed to India as the firm's largest market in APAC. Regardless, mainland Asia remains one of Wise's weakest markets, though the firm has recently been pushing into the Philippines and Malaysia.

Cross-Border Remains Dominated by Businesses

Source: Company Filings, McKinsey Payments Report

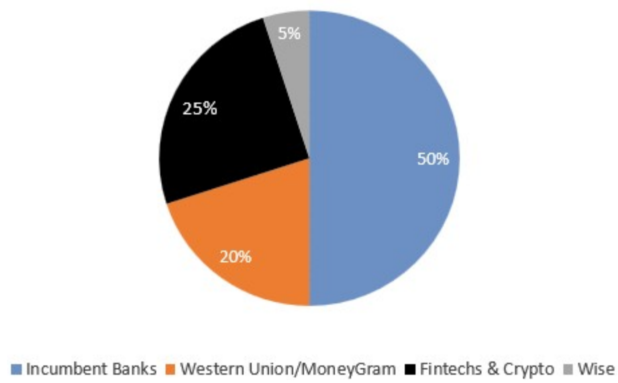


Despite fintech's' disruptions, incumbent banks still dominate market share with ~50% and 94% of the C2C and B2B markets, respectively. C2C is further fragmented between fintech and crypto (~25%), money transfer operators like Western Union and MoneyGram (~20%) and Wise (5%). B2B transfers exhibit further concentration with fintech/crypto/Wise capturing only 6% cumulatively.

Incumbent fintech like Visa and Mastercard are attempting to leverage their expansive networks and preexisting relationships to facilitate bank transfers, yet an important distinction needs to be made between account-to-account ("A2A"), Wise's focus, and card-to-card ("C2C"), Visa's focus. A2A transfers funds directly into a user's account and the bank receives cash settlement simultaneously. These payments make use of typical payment rails and require more KYC and safety checks yet subsequently allow for larger transfer sums. C2C payments leverage a provider's card network, showing instant transfer reception as the receiving bank "floats" the money until receiving sporadic bulk payments While C2C allows for quicker end-customer transfers, financial institutions, particularly smaller banks, remain reluctant to float free capital to their users as the strain on working capital can become burdensome. Furthermore, C2C providers do not incorporate currency conversion as they lack liquidity pools, and forcing banks to float capital would introduce currency risk.

Fintech are Stealing Share from Incumbent Banks

Source: Company Filings, Hayden Research



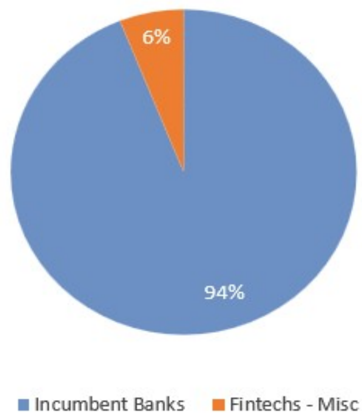
Within A2A, Wise has no competitors offering comparable rates and speed across the same geographical breadth, yet there are burgeoning players in both local and adjacent markets. The cross-border payment landscape is littered with competitors with specific use cases or narrow geographical focus (Remitly with remittances to India/Mexico, dLocal with mass collections, Airwallex in APAC, Western Union with cash transfers), yet few have focused on integration with numerous DPSs. Since these competitors lack Wise's payment rails and network density, venturing into new markets places them at an immediate disadvantage, making network expansion difficult. That being said, international breadth does little to differentiate Wise for users who transfer exclusively to only one location (i.e. remittance). We believe that taking market share from certain scaled and geographically narrow competitors will be difficult as their customer bases do not value international breadth, but for customers who transfer to more than one location, Wise remains the preeminent competitor.

Lastly, a subset of new entrants, namely Ripple and Circle, have sought to disrupt traditional transfers through stablecoins (cryptocurrencies pegged to a fiat currency), allowing capital to flow entirely on the blockchain, obviating traditional international payment rails. However, account-to account transfers are value chains with numerous links, and we believe that Wise's liquidity pools replicate stablecoins' localized advantage. Moreover, while crypto transfers are inexpensive and nearly instantaneous, conversion back to fiat and transfer to personal bank accounts remains relatively laborious.

The A2A transfer value chain incorporates transfer from bank account to transfer provider, KYC/fraud checks, international transfer, currency conversion, and transfer from provider to bank account. While crypto is superior to traditional transfers which often use international payment rails, Wise's liquidity pools allow currency to remain in-country as APIs essentially recreate the blockchain's intangible nature. Additionally, Wise's domestic payment rails expedite transfer from Wise's accounts to customers' accounts, expediting the transfer process.

Banks Have Proved Difficult to Dislodge for Business Transfers

Source: Company Filings, Hayden Research



We attempted to transfer internationally via Coinbase yet were quickly delayed by a lack of liquidity and lengthy deposits and withdrawals. Anecdotally, to convert USD to EUR through Coinbase, we had to deposit USD (1.5 days), convert into USDC (1 day before being able to trade it), convert USDC into SOL (2.59% take rate), and we struggled in converting SOL into EUR, which Coinbase indicated to be the only way to exchange USDC for EUR. Since SOL is not a stablecoin, we were charged a take rate on the exchange. Lastly, in withdrawing our deposits, we were faced with additional ~2-day ACH transfers. Coinbase's domestic transfers are facilitated through Automatic Clearing Houses ("ACHs") which are free in the US and EU but are lengthy, expensive, and occasionally impossible in less-developed or less-crypto-friendly nations. What's more, stablecoins' low fees are enabled by interest on customer holdings – A2A transfers spend very little time in exchanges' books and are likely unprofitable at very low fees.

Integration into domestic rails is a key pillar of Wise's competitive advantage and will be difficult for crypto to replicate; Wise's largest hurdles when integrating are financial institutions' fear of inadequate KYC/fraud checks, as allowing a fintech to use a bank's payment rails makes the bank liable for any possible issues. As a recent Tegus interview mentioned, "Crypto is a KYC nightmare" and we believe it will take many years for banks to become comfortable with providing crypto exchanges with full access to their payment rails.

While we believe Wise's moat will guard against crypto-entrants, card-to-card transfer providers who do not leverage domestic rails are likely to be inordinately impacted as Wise's immediate settlement advantage, which is facilitated by domestic rails, is not required.

As an aside, Wise does seem open to replacing their APIs with blockchain if doing so becomes financially optimal as the firm has previously experimented with crypto and the CEO has floated the idea of incorporating the technology once it becomes clearly superior. Additionally, Wise's culture is built upon disrupting traditional finance, and employees we spoke to seemed open to new approaches as opposed to digging their heels into old-school processes.

Business Model

Underlying revenues, *which exclude excess interest income* (to be explained shortly), are segmented into cross-border transfers (63% of revenues) and other revenue (37% of revenue), which is largely comprised of interest and Wise Account income.

Cross-Border Transfers:

Wise allows its customers to transfer money internationally at the mid-market rate, charging a fluctuating yet gradually decreasing take-rate to cover payment rail rates and currency conversion fees. In fact, liquidity pools are the crux of Wise's advantage as they allow currency conversion to circumvent FX markups while positioning capital closer to end customers. Take-rates are influenced by the size of the transfer and frequency of the payment channel, with EUR to GBP transfers of >£1M hosting the lowest rates at 23bps. The >£100B in annual transactions processed by Wise also drive their AI-backed liquidity forecasts, allowing for strategic liquidity pool allocations in anticipation of upcoming demand.

As of Apr,'25, Wise is integrated with six DPSs (UK, Hungary, Eurozone, Philippines, Singapore, and Australia), and gained access to both Brazil's and Japan's in FY'24, both of which require multi-year integration timelines.

Wise has positioned itself as an integration vanguard, becoming the first non-bank to gain direct access to the UK's DPS in 2018, and the second (by <1 month) to gain access to Japan's DPS while simultaneously receiving its Type 1 Funds Transfer Service Provider license, removing limits on transfers. No competitor has the same breadth of DPS integration.

These integrations require multi-year license and authorization processes, stringent operating and technical standards, and thorough domestic connections, yet provide both cheaper and quicker payments, reinforcing Wise's competitive moat. As of 1H'25, 46% of Wise's transfers are direct through DPSs. The remaining 54% are facilitated through partnerships with >90 correspondent banks, many of them global.

Take Rate Decreases Fuel Volume Growth

Source: Company Filings

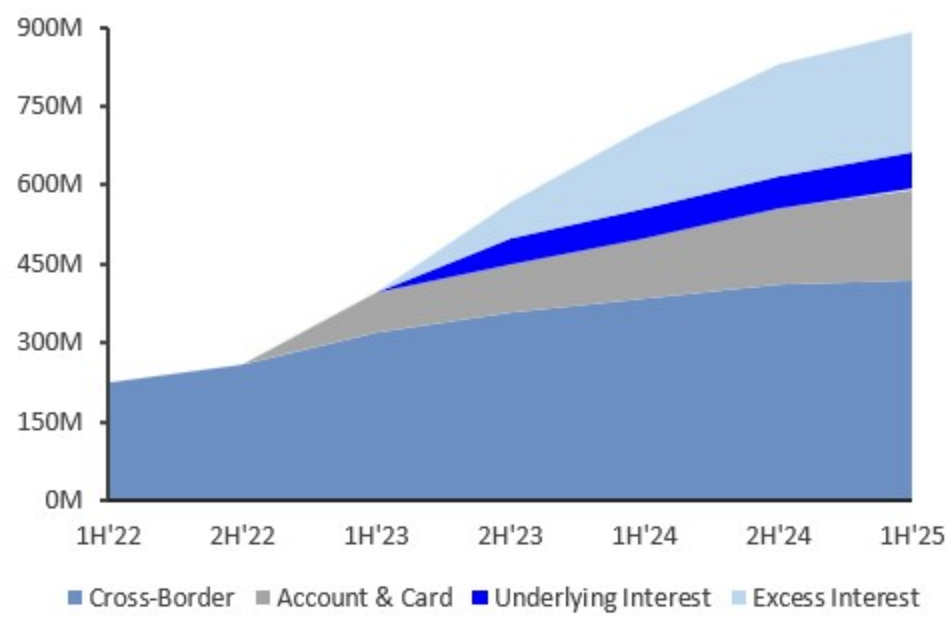
Wise's DPS depth is complemented through continuous take-rate decreases as savings from economies of scale in banking and liquidity-related fees are passed along to users. Overall rates have decreased 10bps to 55bps in the past three years, and the founders previously championed their "Mission Zero" goal of achieving 0bps cross-border take rates in the long term. Wise has also guided LT underlying profit before tax ("PBT") margins of 13-16%, down from 21% in FY'24, as the firm reinvests into product development and geographic expansion. This incessant customer focus, seemingly at the expense of profit, has created what the CEO has dubbed 'evangelical customers' who spur product growth through word-of-mouth referrals, allowing Wise to spend would-be CAC expenses on product improvement. As of Apr,'25, ~70% of new customers stem from word-of-mouth marketing.

As cross-border volumes increase, Wise's liquidity pools become more robust, volumes-per-backend-reallocation become larger despite relatively fixed fees, and management can negotiate better terms with quicker banking customers. Active customer growth creates a flywheel effect and the density of transactions (i.e. liquidity pools) is Wise's key competitive advantage.

Transfers are filtered through numerous fraud and KYC checks before being authorized, and as of Apr'25, >65% of transactions are settled within 60 seconds, and 95% within 24 hours. New users can transfer internationally simply by connecting their bank accounts, Wise Account creation is common but not required.

Wise has Diversified its Revenue Streams

Source: Company Filings



<u>The customer base is segmented into Personal and Business users:</u>

Personal (95% of user base, 80% of segment revenues):

Personal transfers primarily cater to expats, and use cases are evenly split between paying international bills and remittances. As of FY'24, the average annual volume per customer ("VPC") stands at ~£7.1K, with roughly 70% of active users transferring money every quarter.

These figures roughly corroborate industry interviews which point to average transfer sizes of ~£1K. Despite smaller average transfer volumes, personal customers tend to be extremely price sensitive.

Industry total personal cross-border volumes stand at £1.4-1.8T, implying TAM of ~£1B at the current 62bps take rate and Wise penetration of ~8.5%. However, TAM will decrease in line with take rates, and thus end-game TAM is likely lower.

Wise reported 12.2M active personal customers in FY'24 and has grown at a three-year CAGR of 27% (21% in the LTM) as of 4Q'25. It is worth noting that recently, Wise had to pause onboarding in India due to excess demand and onboarding capacity constraints.

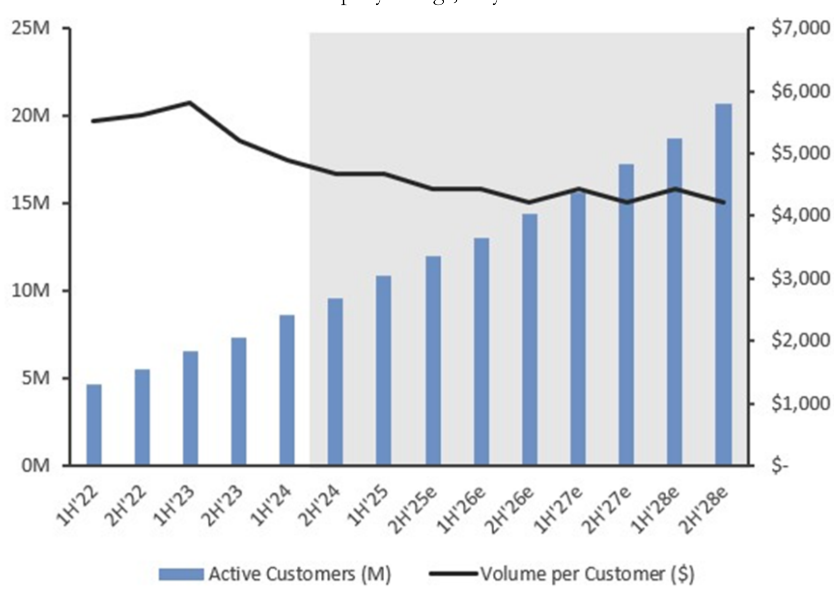
Business (5% of user base, 20% of segment revenues):

Wise caters its business offerings to SMBs with international suppliers and has begun integrating its infrastructure into payroll SaaS providers. Moreover, many SMB users either began as personal customers or have founders with separate personal accounts: ~77% of SMB customers are acquired through personal-marketing campaigns. As of FY'24, the average VPC stands at ~£50K, with roughly 75% of active users transferring money every quarter. SMBs tend to be less price-sensitive, emphasizing speed, reliability, and trustworthiness.

Compared to Personal counterparts, SMB customers have proven more difficult to capture as they are often reluctant to migrate away from trusted financial institutions. It is estimated that ~95% of SMB cross-border volume is captured by incumbent banks, despite their higher rates.

We Forecast Personal Active Customers to Continue Strong Upwards Momentum

Source: Company Filings, Hayden Forecasts



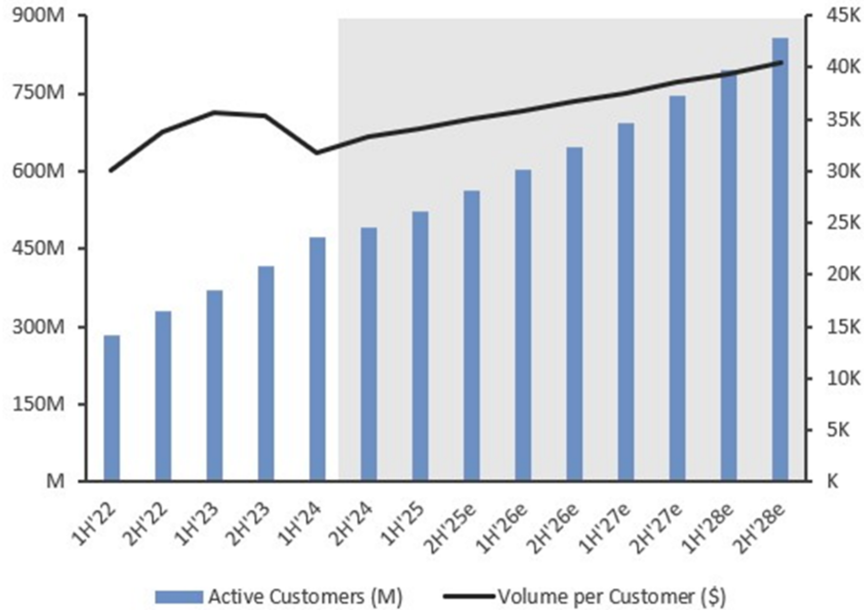
Notably, onboarding business customers is a lengthy process requiring human attention: average onboarding labor hours stood at 2 hours at the beginning of FY'25, down from 13 hours a year earlier. As onboarding delays became unmanageable, Wise paused business onboarding in the EU and UK for roughly six months, ending in 4Q'24. Today, onboarding and identity verification are typically completed within ten business days. Wise is striving to expedite its onboarding process and the firm increased servicing headcount by 31% in FY'24.

Industry total business cross-border volumes stand at £14T, implying TAM of ~£60B at the current 42bps take rate and Wise penetration of ~1%. Similarly to Personal, TAM will decrease in line with take rates, and thus end-game TAM is likely lower.

Wise reported 6.3K active business customers in FY'24 and has grown at a CAGR of 19% (11% in the LTM) as of 4Q'25.

We Forecast Business VPCs to Increase as Wise Captures Larger Businesses and Integrates more Features

Source: Company Filings, Hayden Forecasts



Wise Account:

Wise leverages its existing user base by providing the "Wise Account," a multi-currency bank account geared towards users who travel frequently, use multiple currencies, or receive international salaries through domestic payment providers. The Account also provides a cross-currency debit card for a $50 fee and its users can create local bank details in up to nine major currencies.

The Account's most popular feature is its treasury solution which allows users to hold different currencies in foreign bank accounts; typically, opening a foreign bank account requires stringent identity verification and often involves a physical visit to the bank, yet Wise circumvents these procedures through its relationships with trusted local banks. The treasury solution allows its users to decrease currency risk and expedite transfers and currently holds >£17B in deposits.

We calculate FY'24 Account ARPU of £40 and £200 for personal and SMB customers, respectively. As of today, Wise's Business Accounts primarily cover the payment aspect of the workflow, but as they begin integrating with a greater proportion of the workflow and different enterprise SaaS, management believes ARPU will continue its growth.

We believe that Wise's push to lower take-rates is driven by their desire to increase Account users; while cross-border revenue growth might slow, both Account revenue and balances will grow, allowing total revenues to maintain their upward trajectory.

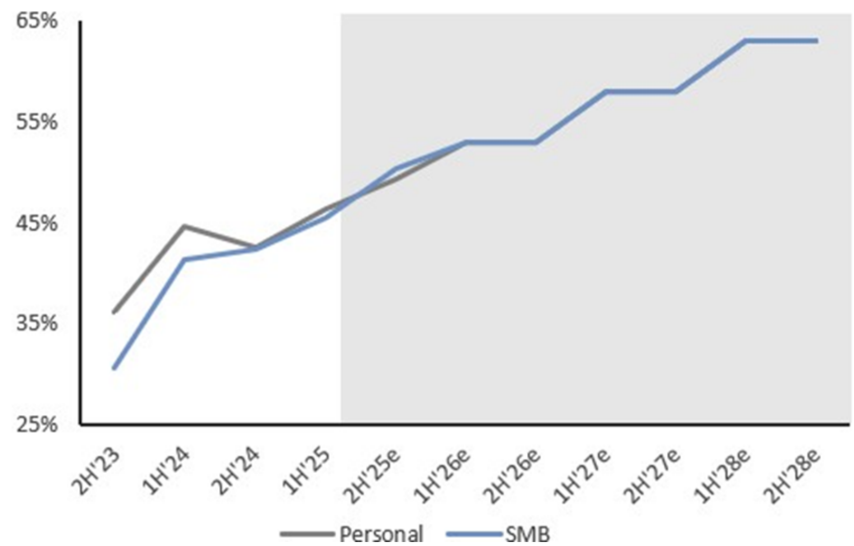
As of 1H'25, 53% and 60% of personal and business cross-border users have adopted the Wise Account.

Interest:

Wise's £17B in deposits generates interest income (~£290M in 2H'25) through money market funds and treasuries. Management's 'interest income framework' lays out intentions to retain all income under the 1% yield (classified as "underlying interest"), as well as 20% of interest income above the yield ("excess interest"), with the rest being paid to customers.

Excess Interest Disbursements Will Likely Increase as Wise Gains Customers' Trust

Source: Company Filings, Hayden Forecasts



Thus far, Wise's regulatory status as a non-financial institution has impeded its ability to disburse interest in certain geographies. In the UK, the firm operates under an Electronic Money Institution ("EMI") license, which relieves it of much regulatory oversight, but also prevents interest on its deposits as regulators have prioritized protecting consumers from non-insured institutions. In the UK and the US, Account users must opt-in to receive 'deposit returns' while in the EU, Wise is able to distribute returns automatically. As of 2H'25, only 44% of disbursable interest is being returned to users, up from 43% in 2H'24 (sell-side estimates 81% disbursement by FY'29).

We believe excess interest to be Wise's most misunderstood segment as analysts are expecting full excess interest disbursement by FY'29, yet we believe customers' inertia will impede such rapid rate increases. While management bases guidance around underlying PBT, we believe "exPBT," which we define as underlying PBT + retainable excess interest (20% of excess interest), to be more indicative of Wise's sustainable earnings power. Money market returns will likely decrease from FY'24's highs, yet as Account deposits grow, so will retainable interest. We expand upon our views on pages 17-18.

Wise is trying to bypass UK regulation by offering money market fund return-based 'interest,' but users must be made aware that opting-in to these products effectively un-insures their deposits.

While adoption rates might increase as deposit balances and user trust increase, the fact remains that Wise Accounts are primarily used for cross-currency treasury, with interest often being a tangential benefit. From our conversations with SMB customers, we remain convinced that interest adoption rates remain hindered by users' lack of education about Wise's safety, and inertia to maintain the status quo.

Management's efforts to lobby in favor of interest disbursement (first mentioned in Nov'23) have thus far had little success, and regulatory updates in Oct'24 increased compliance requirements and oversight amongst EMIs are English authorities remain focused on consumer safety. Additionally, Wise has rebuffed questions about becoming a financial institution, stating it is counter to their ethos.

While Wise Account interest products are currently only available in the UK, EU, and USA, APAC regulations place similar restrictions as the United Kingdom's. Wise does not disaggregate its Wise Account deposits by geography.

Platform:

Wise began white-labeling its cross-border infrastructure in 2018 to digital banks (Monzo,NuBank), online platforms (Interactive Brokers, Ramp), and major financial institutions (Morgan Stanley, Standard Chartered). Integrations with these customers range from simple cross-border transfers behind banks' proprietary interfaces, to API connections, to full-fledged integration with Wise's payment rails with the customer's own KYC checks. Platform customers also have the option to include Wise Account's treasury solutions. Unfortunately, Wise provides limited disclosure about its Platform segment, and its depth of integration with each customer is unknown. Our conversation with IR indicated that NuBank is the only large Platform partner offering Wise Account in addition to cross-border, yet the recent Itaú Unibanco contract is also slated to include Account capabilities. Additionally, Wise Platform has thus far primarily captured banks serving Personal end-clients, though 2H'24's Morgan Stanley partnership is the first focus specifically on businesses.

Platform contracts have the advantage of acquiring customers without having to expense CAC, allowing Wise to provide Platform customers a lower-than-typical take rate. This advantage is magnified when the customers opt to integrate via API and handle their own onboarding. Many financial institutions lack reliable and affordable cross-border transfer solutions, and a recent study conducted by SWIFT signaled that 2/3rds of customers would switch banks if they suffered ≥2 failed payments; providing Wise's product allows banks to provide an affordable option of their own, likely reducing churn and increasing volumes. Oddly, Wise has stated that it does not intend to account for platform customers within its active customer counts, though IR hinted at increased Platform disclosure in the following years.

Platform volumes currently stand at 4% of the total, with management expecting this figure to rise to 10% in the medium term. Since FY'22, platform customers have increased from 40 to 85, with large wins in Standard Chartered and Morgan Stanley in 2H'24. We only found one instance of Platform customer figure disclosure from Bank Mandiri, the largest bank in Indonesia in a 2023 case study and the results were frankly disappointing; in the year beginning in Mar'23, 20K (~.6% user penetration) of the bank's customers used Wise Platform for a total of $93M in total volume, resulting in annual VPC of ~£3.4K, roughly half of a typical customers. These figures are likely skewed downwards by lack of customer experience, with Wise having partnered with

Mandiri in Mar'23, selection bias as cross-border heavy customers had likely already migrated to an alternative, and the fact that Indonesia is a net receiver of remittance.

The Platform segment was the de facto focus of the April investor day and the head of Platform announced plans to double the team in the NTM. Of the 14 NAM Platform employees we found on LinkedIn, 7 have been hired since Aug'24, with four job postings in the past three months.

Management seems to believe that Platform will drive Wise's growth in the long-term as >90% of cross-border volumes remain captured by banks, whose customers remain either unaware or unwilling to trust a fintech.

Competitive Advantages:

Depth Advantage – Network Effects:

Wise's self-stated greatest advantage is not only the size of its network, but its depth. While competitors could match Wise's payment rails through years of determination and focus, Wise's ability to offer mid-market exchange rates is directly related to its large liquidity pools in numerous currencies, which are only sustainable for a platform with frequent transactions. To rehash a previous example, a UK-to-Japan transfer would involve GBP being transferred from the originator's bank account into Wise's UK account while simultaneously being paid out in JPY from the firm's Japanese account to the recipient's local account, all without any currency crossing borders. This is only possible if Wise has local holdings (liquidity pools), which are facilitated by large amounts of transactions and users. Additionally, banks partnered with Wise Platform become independent nodes in Wise's infrastructure, and transfer between these banks becomes instantaneous. In essence, the more users and partners in Wise's ecosystem, the cheaper and quicker its transfers will be. Lastly, many banking, onboarding, and rail integration fees are fixed, allowing for economies of scale; for context, WISE's 22% FY'24 underlying EBIT margins have gravitated annually towards the firm's ~50% incremental EBIT margins despite continued reinvestment.

Breadth Advantage – Rail Integration:

Wise is the largest independent cross-border firm, and management has spent over a decade integrating into DPSs. Thorough integration decreases reliance on intermediary payment rails, thus expediting transfers while decreasing costs. Central banks are often reluctant to allow fintechs into their payment schemes, fearing fintechs' looser regulation will introduce vulnerabilities. As a result, these overseers require extremely stringent fraud and KYC procedures. Integration within a DPS is also often a multi-year process, with the technical aspect (industry interviews point to ~6 months) compounded by the need for collaboration from banks, who are rarely expeditious. It has taken WISE ~10 years to integrate into certain key markets, and no competitor has the same breadth.

Volume Advantage – Bargaining Power:

Wise's most crucial suppliers are its partner banks that provide integration into their payment rails. Partnering with a fintech introduces significant regulatory risk for a bank as trusting an external party to conduct sufficient KYC checks and onboarding leaves many potential partners uneasy. As regulatory scrutiny increases, so does the reluctance to partner with fintechs, and Wise is often forced to enter geographical markets through risk-seeking banking partners who are necessarily smaller and with oftentimes limited payment rails. However, Wise's strong reputation and transfer volumes allow it to balance its increased risk with the prospect of greater revenue, a tradeoff that has allowed it to consistently climb to the top of the payment rail partnership ladder.

What We Need to See

The following items are a mix of our current opinions, questions that remain currently unanswerable, or developments that we would like to track over time. These are the factors, other than price, that we need to see to buy into Wise's trajectory. These are ranked in importance. The following paragraphs are organized into three sections: why this topic matters, what we currently believe, and what we need to see.

Can SMB Customer Growth Inflect Upwards?

Wise is leveraging its dense infrastructure supported by its dominant Personal user base to propel itself into the larger and more lucrative SMB user space, hoping that these higher volume customers will continue driving revenues forward. There is still a large runway for Personal user growth, which currently stands at +18% Y/Y as of 4Q'25, yet we forecast continued decreases in segment volume per customer ("VPC") (-5% Y/Y in 1H'25) as incremental customers are less lucrative than early adopters. Personal Wise Account ARPUs exhibit similar downward trends (3% in 1H'25, and -16% in FY'24) and continued mid-high teen active customer growth will likely have a diminishing impact on revenue growth. Reassuringly, Wise's SMB user base has shown opposite trends as low penetration rates (1% for SMB vs ~9% for Personal) and +MSD and high teen growth rates in VPC and ARPU, respectively, point towards incremental customers ripe with opportunity. However, SMBs have proven reluctant to switch from the convenience and security of pre-existing bank transfers and consistent +HSD Q/Q active customer growth slowed in 2Q'24 as new SMB demand became too large to onboard. Wise paused new SMB onboarding from 2Q'24-4Q'24 and saw Q/Q growth slow to 1-2%. SMB onboarding is a necessarily arduous process requiring real human involvement to complete background checks, identity verification, and businesses licenses, and throughout FY'24, Wise reduced required manhours from 13hrs to 2hrs per new customer. Additionally, servicing employee headcount grew +31% in FY'24 (compared to +16% for the rest of the firm) and we believe that Wise has increased its efforts on remediating onboarding struggles. Since the onboarding resumption, Q/Q growth has peaked at 4% with 4Q'24 Y/Y figures creeping back up to the low end of revenue guidance at 15%. We originally theorized that SMB growth declines were tied to lingering onboarding bottlenecks, yet IR dispelled these theories and stated that SMB growth reflects true organic demand.

SMB growth struggles are curtailing revenue growth and raising doubts about Wise's ability to transition into its second act. We originally theorized that SMB growth declines were tied to lingering onboarding bottlenecks, yet IR dispelled these theories and stated that SMB growth reflects true organic demand. As of now, we have no reason to believe SMB customer growth will reach its >20% Y/Y highs and thus remain on the sidelines, yet if this *were* to inflect, we would likely be buyers. We believe SMBs to be the mid-long-term revenue drivers for Wise and we need to see consistent growth to validate this thesis.

Key indicators of stronger than implied demand would obviously include accelerating customer growth and Platform wins geared towards SMBs and enterprises. Additionally, conversations with existing SMB customers should paint a clearer picture of current onboarding, and we will keep an eye on servicing headcount growth.

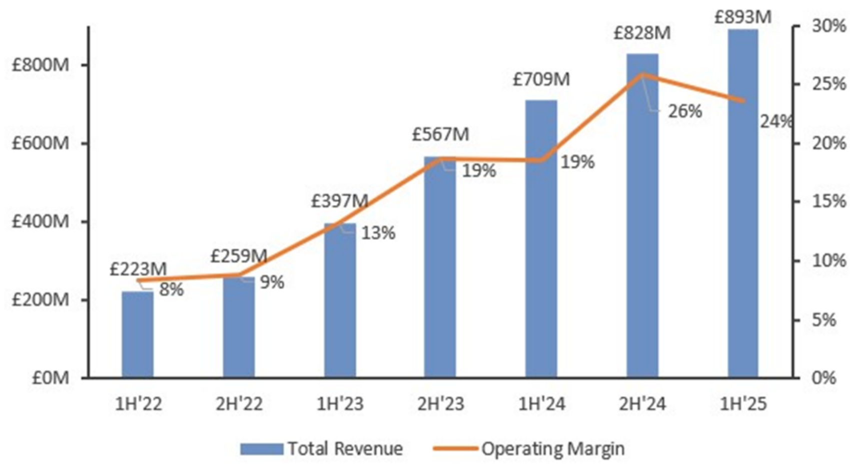
Where and When will Underlying Operating Margins Stabilize?

Management has guided to long-term PBT margins of 13-16%, down from 1H'25's 20% as management reinvests into expansion and new initiatives. This reinvestment hamstrings operating income growth and will potentially depress the firm's multiple in the future as investors begin to doubt the firm's strong underlying margins. Other investors seem to rely on increasing profitability as operating income becomes too large to continue reinvesting and as a dominant end-game allows management to scale down new initiatives.

Wise has been unable to reinvest quickly enough to outweigh positive operating leverage, and PBT margins remain above the guided 13-16% (we estimate ~18% for 2H'25). Moreover, as growth remains strong, this tailwind will simply increase in nominal terms, and we see guided margins as too aggressive and nearly unattainable. Nevertheless, suppressed margins will likely suppress returns for the following few years.

Significant Operating Leverage Has Outpaced Reinvestment

Source: Company Filings



Ideally, we would like to see Wise's continued reinvestments outweighed by operating leverage, resulting in stable, or increasing, margins. If we become convinced that ~20-22% margins are the floor, we will be more confident in Wise's returns as PBT would increase in line with top-line growth. Margin stabilization would hint at a breakeven between leverage and reinvestment, implying upcoming inflection as reinvestment becomes dwarfed by growth. Additionally, we would like management to signal intentions to allow for increasing margins once a stable state is reached as this would signal a focus on value and profitability which we have thus far had to uneasily assume. This is perhaps unfair to management's strong track record, but continued reinvestment in the face of slowing growth could decrease margins without the prospect of future profit, thus aimlessly destroying value.

Will Retained Excess Interest Remain near 50%?

As Account deposits have grown from £7B to £11B since FY'22, interest income has inordinately driven both the top and bottom lines. The firm's interest income framework lays out intentions to retain all income under the 1% yield, as well as 20% of interest income above the yield, with the rest being paid to customers. However, only 46% of disbursable excess interest is being passed to customers as of 1H'25, up from 43% in 1H'24. Sell-side estimates point to expected 81% disbursement (equal to 101% of our "disbursable excess interest" figure) by FY'29 and gradual increases thereafter. These forecasts signal a misunderstanding of the company as management has stated intentions to retain 20% of excess income. Since 1H'24, retained excess interest income has totaled ~50% of total operating profit and while this number is sure to drop as Wise pushes to return this interest and as money-market returns drop, the rate at which it drops could heavily sway Wise's valuation.

Lag in Excess Interest Disbursement Could Fuel Returns

Source: Hayden Forecasts

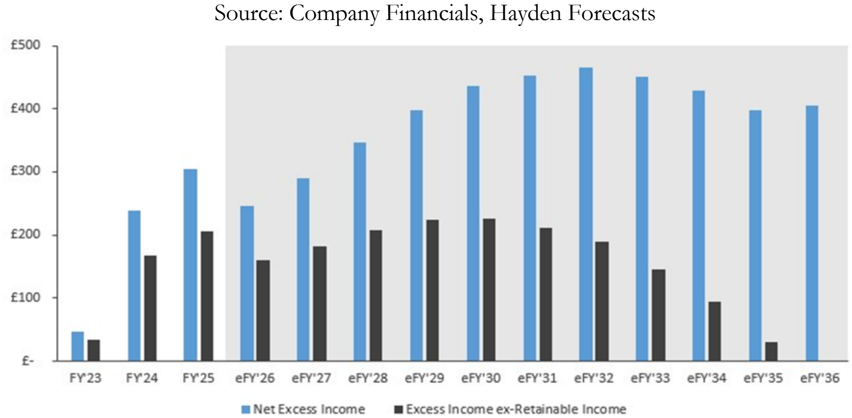
Excess Interest Return \ Disbursed Excess Interest	40%	50%	60%	70%	80%
0%	21.9x	21.9x	21.9x	21.9x	21.9x
1%	14.2x	14.8x	15.4x	16.2x	17.0x
2%	10.5x	11.1x	11.9x	12.8x	13.9x
3%	8.3x	8.9x	9.7x	10.6x	11.7x
4%	6.9x	7.5x	8.2x	9.1x	10.1x

User opt-in rates are the driving factor for excess interest disbursement and despite steady increases of ~800bps per year, FY'25 has shown slowing adoption to the tune of ~450bps. We believe these rates will continue their upward trajectory, particularly as deposit balances and user trust increase, yet Wise Accounts are primarily used for cross-currency treasury, with interest often being a tangential benefit. We forecast a +500bps annual disbursement rate increase, with 100% being achieved by FY'36. Additionally, we expect total money-market-returns to trend down to 3% annually, in line with LT historical averages; admittedly, both disbursement rates and MMF returns are difficult to forecast, yet we remain more bullish than the sell-side and we expect ~£900M in accumulated excess interest between FY'26-28. While further retained excess interest will trend towards £0, we anticipate a pre-tax PV of ~£1B from FY'29 onwards (essentially an annuity).

While we agree with the general sentiment that disbursed excess interest will increase, we believe the market is overestimating the rate of adoption, and we would be encouraged by sustained lag in adoption rates.

We Forecast Non-Retainable Excess Income to Gradually Diminish from FY'29 to FY'36 as Slowing Growth is Overshadowed by Increased Disbursement Rates

Source: Company Financials, Hayden Forecasts



Will Platform have a Material Effect on Volumes?

Customer growth through Wise Platform is a fundamental pillar of Wise's strategy and >50% of volumes are expected to stem from Platform in the long-term. Recent customer wins and strong segment headcount growth have hinted at strong segment growth and portray Platform as a key focus for Wise. Moreover, as most cross-border transfer volumes remain captured by incumbent banks, integration would allow Wise to tap into customers who are reluctant to trust a fintech, creating near-ubiquity.

Recent customer wins and strategic focus seem to underscore continued Platform success and while we are bullish on Wise's ability to win new Platform partners, we remain slightly bearish on the magnitude of these wins. Specifically, Wise has been careful to avoid disclosure surrounding Platform volumes per bank and the CEO oddly remarked that they would avoid accounting

Platform customers as their own active customers. We found figures for the first 12 months of Bank Mandiri's (the largest bank in Indonesia) Platform partnership, beginning in Mar'23; 20K users (0.6% of Bank Mandiri's total combined for $93M cross-border revenues, implying VPCs 2/3rds of normal; we found these figures are disappointing. Moreover, the depth of Platform integration varies across customers, and conversations with IR and former employees have led us to believe that integration beyond cross-border is uncommon. We remain cautiously bearish on Platform's ability to capture SMBs and higher-value revenue streams and would like to see evidence of its potential impact.

The impact of recent Platform wins should be easily observed through increasing total volumes as initial integration periods end; specifically, if Wise indeed excludes Platform end customers from active customer figures, VPCs should theoretically inflect upwards. Continued customer wins are encouraging, but we must see these wins translate into financial prosperity before we can become bullish.

Will Wise Continue Strengthening its Moat, and Will it Protect Against New Entrants?

Wise's growth trajectory relies on its ability to continue active customer growth to someday become the ubiquitous global B2B cross-border provider. By continuously reinvesting into its infrastructure and decreasing take rates, management has delayed gratification in efforts of becoming impenetrable, and the market is somewhat buying into this narrative, pricing the business at 27x ExPBT. However, with this deferment of profits, we must remain convinced that Wise will either continue its impressive growth for a very long time or eventually reach a terminal state where management will allow margins to increase; either possibility requires continued strengthening of its competitive advantages to guarantee long-term superiority. Investors who own and have written about Wise focus on its *ability to win* as the stock's primary thesis and they are differentiated in their expected competitive advantage period.

We do believe in Wise's superiority as the infrastructure they have created will take *many years* for any competitor to reproduce yet, Wise's expensive valuation forces us to take a *many-year* investment horizon. To remain preeminent, the company will have to continue improving its product. The competitors we most fear are the credit card networks, namely Visa and MasterCard, as their existing user base and network of bank partnerships could allow for an expedited entry into the market. Visa and MasterCard have thus far failed to enter the A2A market, and Visa's efforts, through acquisitions of Currencycloud, Yellowpepper, and Earthport have remained unproductive. Currencycloud, the largest acquisition, has suffered exits from its founder and key sales executives, has been described as a disorganized and directionless mess by both Visa and Currencycloud employees, and has had very little promotion and disclosure from Visa since acquisition; in short, while Visa is the biggest competitor, it remains far behind. Local competitors also pose a threat of scaling internationally yet Wise's network density allows for superiority across adjacent markets, and local providers have failed to achieve significant expansion; key competitors we are keeping an eye on are Airwallex in Asia and Revolut in Europe.

Key metrics and developments we are monitoring are listed below

- Continued DPS integrations and increased proportion of instant transfers as a proxy for infrastructure improvement

- Continued cross-border volume increases in both Personal and Business segments

- Stable VPCs to ensure that customers still use Wise as their main provider

- Very low banking partner/platform churn as losing these partners damages infrastructure

We have listed Wise's competitive advantages on pages 14-15 and we believe that these strengths will prevail, yet we will keep an eye out for impending threats.

Financial Projections

We forecast Wise to grow its revenue and underlying PBT by ~70% (22% CAGR) and ~60% (19% CAGR), respectively, by FY'28 as continued reinvestment spurs customer growth at the expense of margins.

Furthermore, we expect revenue growth to be disproportionately driven by SMB (31% CAGR compared to Personal's 18% CAGR) despite Personal's greater user growth (20% Y/Y for Personal, 15% Y/Y for SMB) as SMB's superior transfer VPC and Account ARPU provide for superior unit economics.

Our relatively muted SMB customer growth forecasts are driven by our understanding of slowing organic demand; we have confirmed that onboarding bottlenecks have been remedied, and Platform partnerships have thus far been geared towards banks with Personal end-customers, and we believe increasing partnerships will have little effect on SMB customers.

Conversations with IR have also led us to believe that recent take-rate decreases were largely due to the rebalancing of fixed and variable rates, and we thus expect slowed decreases in the following years: we forecast only one cut of 2bps in FY'26 as adjustments linger into next fiscal year.

We Forecast 21% and 19% Revenue and Underlying PBT CAGR by FY'28

Source: Company Financials, Hayden Forecasts

	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25e	FY'26e	FY'27e	FY'28e
	3/30/20	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25	3/31/26	3/31/27	3/31/28
Income Statement									
Cross-Border				680	795	822	868	1,043	1,253
Card & Other Revenue				167	257	331	411	549	749
Underlying Interest Income				72	121	165	213	271	349
Underlying Revenue	**303**	**421**	**557**	**964**	**1,173**	**1,318**	**1,492**	**1,863**	**2,352**
Personal				695	884	1,007	1,114	1,363	1,679
Business				223	288	311	377	501	672
Total Revenue Y/Y		*39%*	*32%*	*73%*	*22%*	*12%*	*13%*	*25%*	*26%*
Banking & Customer Related Fees	84	118	146	226	253	259	278	334	401
Net FX Movements & Other Costs	27	34	39	83	55	74	115	143	180
Net Credit Losses on Financial Assets	3	9	2	18	13	11	11	11	11
Underlying Cost of Sales	**115**	**161**	**188**	**326**	**320**	**343**	**404**	**488**	**592**
Underlying Gross Profit	**188**	**261**	**369**	**638**	**853**	**974**	**1,088**	**1,375**	**1,760**
Gross Margin	*62%*	*62%*	*66%*	*66%*	*73%*	*74%*	*73%*	*74%*	*75%*
Administrative Expenses	169	218	321	495	616	729	850	1,081	1,340
Net Interest Expense from Corporate Investments (Income)	(4)	2	1	(3)	(20)	(20)	(20)	(20)	(20)
Other Operating Expense (Income)	(0)	(4)	(1)	(11)	(6)	(2)			
Underlying Total OpEx	**165**	**216**	**321**	**481**	**591**	**707**	**831**	**1,061**	**1,321**
Underlying Operating Profit	**24**	**45**	**48**	**157**	**262**	**268**	**258**	**315**	**439**
Operating Profit Margin	*8%*	*11%*	*9%*	*16%*	*22%*	*20%*	*17%*	*17%*	*19%*
Finance Expense	3	4	5	11	21	12	5	5	5
Underlying EBT	**20**	**41**	**43**	**147**	**246**	**256**	**252**	**309**	**434**
Underlying EBT Y/Y			*5%*	*241%*	*68%*	*4%*	*-1%*	*23%*	*40%*
Underlying EBT Margin	*7%*	*10%*	*8%*	*15%*	*21%*	*19%*	*17%*	*17%*	*18%*
Interest Income Above the First 1% Yield				68	365	495	426	542	699
Retainable Interest Income Above the First 1% Yield				14	73	99	85	108	140
Benefits Paid Relating to Customer Balances				(21)	(125)	(190)	(181)	(252)	(352)
Excess Interest Income				47	240	305	245	291	347
EBT	**20**	**41**	**43**	**194**	**486**	**560**	**498**	**600**	**780**
EBT Assuming all Excess Interest is Repaid				160	319	355	338	418	574
Income Tax Expense	5	10	11	33	127	145	128	154	201
Effective Tax Rate	*26%*	*25%*	*26%*	*17%*	*26%*	*26%*	*26%*	*26%*	*26%*
Total Net Income	**15**	**31**	**32**	**161**	**359**	**416**	**370**	**446**	**580**
Net Income Margin	*5%*	*7%*	*6%*	*17%*	*31%*	*32%*	*25%*	*24%*	*25%*

Account adoption rates have gradually plateaued around 50% and 60% for Personal and SMB, respectively, and we assume increasing breadth of offerings to compound existing momentum to inch adoption rates higher to 55% and 68% by FY'28. We aligned our underlying interest rates with management's 1% guidance (similar to FY'24 figures) while we forecast excess interest to fall from 3% to 2% as money-market fund returns revert to their 3% Y/Y average (underlying rate + excess rate = 3% average rate). Lastly, we forecast disbursed excess interest to further increase to 58% (up from 44%) as Wise pushes consumers to opt-into return-bearing products.

Gross margins will decrease from their 1H'25 highs as volume increases are matched with take rate decreases yet administrative expenses are expected to climb to 58% (up from 55% in 1H'25) as Wise seeks to reinvest their operating leverage. Underlying PBT margins of 17-19% are forecasted towards the upper end of management's 13-16% guidance as we remain skeptical of the firm's ability to fully reinvest capital, as they have failed to do so in the past few years.

If we're right about these drivers, FY'28 will post £434 in underlying PBT and £374 in excess interest, of which at least £140 is retainable, implying £574 exPBT. A 20x EV/exPBT multiple, down from today's 28x, would assume an EV of ~£11.5B. We remain bearish on Wise's multiple valuation as we believe slowing organic growth, diminishing excess interest, and decreasing margin headwinds will outweigh competitive strengthening tailwinds, especially as investors still seem to have doubts surrounding management's focus on profitability.

Additionally, excess interest will slowly decline as disbursement rates increase, and we estimate ~£900M in additional cash by FY'28 and a PV of post-FY'28 non-disbursed excess interest of ~£1.1B. All-inclusive, Wise will hold ~£1.9B in accumulated cash (including current net cash of ~£1B), resulting in a blended equity value target of £14.4B, implying ~32% upside by FY'28, or a lackluster 10% three-year IRR.

Wise's Expensive Valuation Leaves Us Hesitant, yet we Will Continue Closely Monitoring the Situation

Source: Company Financials, Hayden Forecasts

	Current Figures	FY'28e Figures
exPBT	£ 355	£ 574
EV/exPBT multiple	28x	20x
Net Cash	1,009	1,009
Accumulated Cash	-	883
PV of Remaining Excess Interest	-	1,081
EV	9,970	13,434
EqV	10,979	14,443
EqV Upside		***32%***
3yr EqV IRR		***10%***

Risks

Widespread Stablecoin Adoption:

While we doubt stablecoin's ability to fully replace Wise's business model, if financial institutions were to ubiquitously integrate stablecoin exchanges, the need for domestic payment rails and liquidity pools would be eliminated. As previously mentioned, transfer into the end account is a significant barrier for crypto transfers as DPS and preeminent payment rails tend to be very riskaverse, rendering partnerships with crypto exchanges difficult and unlikely. As of today, Crypto exchanges typically leverage ACHs for customer withdrawals, a process that requires 2-3 business days.

However, as businesses begin leveraging blockchain technology, crypto exchanges' reputation and standing with regulators will only improve. Additionally, if crypto cross-border providers mirror Wise's liquidity pools, their geographical reach would quickly proliferate. Lastly, if stablecoins become easily spendable, essentially creating a worldwide uniform currency, the need for liquidity pools and foreign exchange would be eliminated.

These possibilities remain remote, yet crypto presents the biggest disruption risk to Wise, especially in established and developed markets.

Poor Capital Allocation:

Wise has repeatedly communicated its intentions to reinvest into the company at the expense of margins, yet we have doubts as to the returns on these reinvestments. Wise has inherently strong operating leverage and we believe its underlying PBT margins could easily increase to 30-40%. However, the firm was founded in hopes of creating a world free of cross-border friction and the culture remains extremely customer-focused. Normally, this would increase our interest in a business, but Wise's organic growth has slowed, particularly with SMB customers. Furthermore, when we asked IR about their most lucrative reinvestment opportunities, they pointed us to increased marketing, which they admitted has yet to deliver tangible results. Slowing growth and decreasing margins will compound investors' worries and we believe reinvestment is driven by ideology as opposed to financial reasoning, and we have doubts surrounding management's shareholder emphasis.

<u>Regulatory Pressures:</u>

Wise's breadth and speed are predicated upon partnerships with large financial institutions and government-operated domestic payment systems: regulatory scrutiny could harm Wise's reputation, severing these existing relationships. Additionally, Wise's reliance on licenses introduces vulnerability as regulators could impose additional restrictions at their discretion. Lastly, regulatory scrutiny would slow Wise Platform's momentum as risk-averse banks tend to avoid unnecessary risk.

Thus far, Wise has excelled in regulatory compliance, self-imposes stringent KYC/fraud standards, and has been successful in collaborating with regulators. Losing payment rail partners has been extremely uncommon, with no notable loss as of the past five years. Additionally, payment rail redundancy decreases Wise's reliance on any single rail partner and the firm's dominant position (i.e. 10% in India, 12% in the Philippines) has created significant bargaining power in certain key markets.