WiseTech GLOBAL

ASX Announcement: 2019/54

23 October 2019

WTC responds to misinformation in market report

WiseTech Global (ASX:WTC), requested a trading halt to ensure that trading did not take place in an uninformed market after the release of a second short-seller report by J Capital Research Limited (the Report) during the first hour of trading on 21 Oct 2019. The Report contains many claims that are wrong.

WiseTech rejects the claims of financial impropriety and irregularity contained in the Report. The Report was published without prior inquiry to WiseTech. The publisher of the Report discloses that it may realise significant gains from a decline in WiseTech's share price.[1]

WiseTech Global Founder & CEO, Richard White, said "We are very concerned that claims in this Report may mislead and manipulate the market to the detriment of WiseTech's business and our shareholders.

We are resolute in our vision to be the operating system for global logistics. We continue to stand strongly by our strategy, our technology and our business model, all of which together fuel significant growth and global expansion. We confirm our guidance for FY20 of revenue of $440m - $460m, with revenue growth of 26% -32% and EBITDA of $145m - $153m with EBITDA growth of 34% - 42%[2]."

Response to key claims

While there are many wrong and misleading statements throughout the Report, below are WiseTech Global's responses to key claims in the Report, all of which are refuted.

Global reach and low customer attrition

We provide our solutions to over 12,000 logistics organisations across 150 countries. All 25 of the top 25 global freight forwarders[3] are customers, as are 43 of the top 50 global third-party logistics providers[4], however, we are still in early penetration of both new and existing customers. Of these, 22 of the 25 global freight forwarders are using CargoWise One specifically (not 6 as claimed in the Report). The data in Table 4 is wrong.

CargoWise is an integrated global platform that enables global rollouts for the world's largest logistics providers, and it can also be used as a component of an inhouse or legacy system by using specific elements or in specific regions. Currently 10 of the world's largest logistics providers are in full global freight forwarding rollout or in the process of rolling out on CargoWise One – including the largest, DHL Global Forwarding, DSV, Toll, Bollore Logistics, Yusen and GEODIS[5].

[1] Terms of Service state: "J Capital Research USA LLC may benefit from short positions a client has in all stocks and bonds covered herein, and therefore stands to realise significant gains in the event that the price of either declines."
[2] Our revenue is invoiced in a range of currencies, reflecting the global nature of our customer base and as a result is impacted by movements in foreign exchange rates. Our FY20 guidance is based on rates provided within the Investor briefing materials released to the ASX on 21 August 2019.
[3] Armstrong & Associates: Top 25 Global Freight Forwarders List, ranked by 2017 logistics gross revenue/turnover and freight forwarding volumes.
[4] Armstrong & Associates: Top 50 Global Third-Party Logistics Providers List, ranked by 2017 logistics gross revenue/turnover.
[5] Page 28, FY19 Investor Briefing Materials

Despite the Report's claims to the contrary, there has been significant growth in major customers' usage of CargoWise One in the past 4 years. All global rollout customers grew revenue in FY19 as did every CargoWise customer cohort of the past 10 years[6]

The Report's claims about our customer attrition rate are wrong.

CargoWise One has less than 1% pa customer attrition on our CargoWise platform in FY19, as it has been for the last 7 years. Attrition rate and method of calculation is disclosed and relates only to the CargoWise One application suite (excluding any customers on acquired legacy platforms).

The Report's survey of customers is not a representative sample (selecting just 13 smaller customers of the thousands of logistics and many global providers using our solutions). The increases in usage of our solutions, transactions and revenue, along with new customers joining the platform, and our low annual customer attrition rate, are more relevant in speaking to the quality of our products and customer relationships.

Organic growth is strong

The Report's estimates of organic revenue growth and more recent publication of 'normalised organic growth rates' are wrong. Our organic growth for FY19 was 33% and for FY18, 37%.

WiseTech disclosures provide the split of revenue between organic and acquired for FY17 to FY19. We have articulated the many drivers for organic revenue growth and indicated our average organic growth is in the range of 20%-30% per annum[7]. Information on integration and explanation of the transition of acquired revenue to organic revenue is also provided in FY19 Investor Briefing Materials, results Webcast and 2019 Annual Report.

The Report's claim, following our earlier correction, about UK revenue peaking after a billing change is wrong.

Our commercial model drives transaction and revenue growth

The CargoWise licensing model provides software on-demand, and as a service, which customers access as needed and pay for usage monthly. Software businesses that we acquire, frequently have different licensing models that we will evolve over time as part of integration[8].

In select circumstances, we may offer transitional pricing arrangements and may pilot test alternative licence arrangements, including those for onboarding or legacy conversion, as part of the iteration of our commercial model. The Report's reference to a legacy conversion offer taken up by ~20 small regional customers is a select example of one such pilot and does not reflect our broader global approach to pricing. The claim that we offer discounts through systems integration partners is wrong.

We invest significantly in our technology and product development

The Report's claim that we do not invest in our technology, including those of our acquired strategic assets, is wrong. In FY19, we invested over $113m, in maintaining and adding new developments to our products and technology pipeline for both CargoWise One and our adjacency and geographic acquisitions. We continue to invest in maintenance and compliance requirements for those products while we simultaneously invest in new product or platform components.

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6 Page 27, FY19 Investor Briefing Materials.
7 Pages 47-48, FY19 Investor Briefing Materials.
8 Page 57, FY19 Investor Briefing Materials.

We buy strategically valuable assets and invest in these businesses

Our acquisitions of small, targeted, predominantly founder-led, software businesses are strategic – not revenue rollups, nor for the primary purpose of acquiring customers. We bring these assets into the WiseTech group to amplify knowledge, resources and access to new key markets, or accelerate the convergence of technologies. Contrary to claims in the Report, the frequency and volume of our transactions reflect our need to move swiftly to secure these assets to support the resourcing and speed of development necessary to deliver on our global customs strategy and expand our total addressable market.

Since listing in 2016 we have acquired 33 software companies for a total upfront consideration of ~$400m. Acquisition values reflect the strategic nature of the assets, predominantly founder-led businesses identified for key attributes relevant to our needs.

The multiples derived from Table 1 of the Report are misleading as they are based on the historical reported revenue numbers, but include in addition to upfront consideration, future potential earn-outs, which may or may not be paid. Future milestone based earn-outs include:

- Realisation of valuable strategic initiatives (eg: product and conversion milestones); and/or
- Multi-year financial revenue growth and/or profit targets

Analysis of our FY19 acquisitions (including Containerchain) calculated based on upfront consideration is 3.3x historical revenue.

The Report overstates our capital raising history. The total capital raised in FY17-FY19 was $436m (not $565m) being: FY18 placement of $100m and FY19 institutional placement and share purchase plan for shareholders of $336m.

Despite claims in the Report to the contrary:

- we have high retention of founders, key staff and customers across acquired businesses,
- we invest in the businesses during integration and transition,
- reduction in revenue during integration is often the result of deliberate actions we take to evolve the commercial model and redevelop software;
- prices are generally stable or reflect CPI increases, or transitional arrangements (except where the cost of maintaining a legacy platform over time becomes disproportionate to the few remaining users)

Our integration approach is well established, integrations are on track to deliver value

The integration process is well established and articulated in our disclosures and communication with the market[9]. As part of integration we develop new products and, over time, reshape each asset from their one-time licence model with consulting services to a higher growth, scalable business with higher recurring revenue. We invest in and develop the companies we acquire. The case study of Pierbridge provided at the FY19 results is a strong example of the improvements we bring to a business.

[9] Page 18, FY19 Investor Briefing Materials.

The claims in the Report that acquisitions do not meet targets is wrong. Our integrations are on track to deliver value and relevant earnout payments were made each year from FY17-FY19. Refer to Note 26 of the FY18 and FY19 Annual Report.

- **Executing on our Greater China strategy**

The claim in the Report of failed acquisitions and slow growth is wrong.

We continue to build out our foundation in the Greater China region, to support 3PLs and freight forwarders entering China, Taiwan and HK and to enable large Chinese logistic companies that require a localised system that is also internationally capable. In Greater China we have over 175 of our own staff across 5 locations. Originally entering organically in 2008, in 2013 we opened our Nanjing development centre and in 2015 added to our footprint with Zsoft, a Chinese software vendor focused on freight forwarding. In the time since, we built out CargoWise One in traditional and simplified Chinese, completed our localised content architecture, completed China customs and built the direct port interfaces (on which DHL Global Forwarding is live).

Now, as expected, in Greater China the largest revenue growth component is coming from global logistics companies using CargoWise. Revenue from local and global customers in China grew substantially in FY16-FY19 while legacy revenue in Zsoft declined ~5% pa. However, total revenue growth from all China users, including a number of our global customers who are billed from other regions, is greater than 50% pa. The acquisition of the local subsidiary and their efforts on translation and localisation of the platform allowed CargoWise One usage to commence and grow substantially in China.

In FY18 we acquired Prolink, a leading Taiwanese software provider. The Report wrongly claims that Prolink's business and revenues are primarily in China, not Taiwan. Integration with CargoWise One is complete and full localisation is underway. Claims made about the former owner of Prolink are wrong.

- **South Africa revenue is growing**

The Report's claim that the South African acquisitions have failed and attrition is high, is wrong. As expected, during integration revenue from legacy platforms declined (~10% pa FY16 to FY19) while CargoWise One revenue from local and global customers in South Africa grew substantially. Total revenue growth from all South African users, including a number of our global customers who are billed from other regions, is approximately 10% pa. The acquisition of the local subsidiary and their efforts on localisation of the platform allowed CargoWise One usage to grow substantially in South Africa.

- **SmartFreight growing and fit for purpose**

The Report's claims about SmartFreight's product completeness and usage are wrong. SmartFreight is suitable for customers in the UK and Ireland with over 250 clients using their services. SmartFreight retained the significant majority of Compdata volume focusing on more profitable larger volume shippers and has over 750 carriers in FY19. SmartFreight's modules are operational in the UK and Ireland and pricing structures are well established.

- **CargoSphere development ongoing**

The Report wrongly claims that global rates management solution provider, CargoSphere, is not delivering on integration milestones. Development is an iterative process and following live customer beta trials, both CargoSphere and CargoWise web service interfaces have been significantly enhanced to allow faster inter application access, better single sign on and deeper rate integration with CargoWise One.

Maersk, Hapag Lloyd, CMA/CGM, ANL, APL and other shipping lines and co-loaders Shipco, CaroTrans, ECU Worldwide, Vanguard Logistics are providing digital rate distribution to CargoSphere customers. DHL, Kuehne & Nagel, Dachser, Sinotrans, Evergreen, NNR, Delmar, SEKO Global Logistics and many other NVOCCs are CargoSphere customers.

- **TradeFox**

The Report's 'appears fake' allegation is wrong. TradeFox was a smaller owner-managed business in Australia, of which we acquired the assets, staff and small customer base.

Conclusion

WiseTech reaffirms its previous statements rejecting entirely the unfounded allegations of financial impropriety and irregularity contained in both this and the previous Report. In addition to the initial responses provided on allegations above, it is the Board's opinion that this Report erroneously either misunderstands, selectively presents or misrepresents the company's performance, acquisitions, product quality and customer relationships.

WiseTech Global Founder & CEO, Richard White said "Regardless of the noise and market disruption of these short-seller, self-serving and misleading claims, we will continue to strive to ensure our shareholders are informed about the fundamental performance of our business.

Ultimately, the best way to protect the integrity and value of our business is to rise to the challenge and continue to deliver on what we have set out to do. Our people, in all our teams across the world, are aligned in our determination to execute our growth strategy to deliver long-term value for our shareholders, our communities and the logistics industry."

Auditor KPMG confirms unqualified audit opinion of the Group and its controlled entities

KPMG has confirmed that, on 24 September 2019, it issued an independent auditor's report to the shareholders of WiseTech Global Limited in relation to the consolidated group for the year ended 30 June 2019. The Key Audit Matters referred to in the independent auditor's report were recognition of revenue, acquisition accounting and capitalisation of software development costs. The independent auditor's report sets out how KPMG addressed the Key Audit Matters during the audit. This audit opinion was unqualified.

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Investor Briefing We will be hosting a call to discuss our responses to the short-seller reports this morning, 23 October 2019, at 9:15am Sydney time. Investors can listen to the call via the link below: http://webcast.openbriefing.com/5601

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About WiseTech Global

WiseTech Global is a leading developer and provider of software solutions to the logistics execution industry globally. Our customers include over 12,000 of the world's logistics companies across 150+ countries, including 43 of the top 50 global third-party logistics providers and 25 of the 25 largest global freight forwarders worldwide[10]. Our flagship platform, CargoWise One, forms an integral link in the global supply chain and executes over 50 billion data transactions annually. At WiseTech, we are relentless about innovation, adding ~3,500 product enhancements to our global platform in the past five years while bringing meaningful continual improvement to the world's supply chains.

The WiseTech Global group includes CargoWise One, ABM Data Systems, ACO Informatica, BorderWise, Bysoft, Cargoguide, CargoIT, CargoSphere, CMS Transport Systems, Containerchain, CustomsMatters, DataFreight, Depot Systems, EasyLog, Fenix, Forward, Intris, LSP Solutions, Microlistics, Multi Consult, Pierbridge, Prolink, SaaS Transportation, SmartFreight, Softcargo, Softship, Systema, Taric, Trinium Technologies, Ulukom, Xware, zsoft and znet Group.

For more information about WiseTech Global or CargoWise One, please visit wisetechglobal.com

[10] Armstrong & Associates: Top 50 Global Third Party Logistics Providers List, ranked by 2017 logistics gross revenue/turnover. Armstrong & Associates: Top 25 Global Freight Forwarders List, ranked by 2017 logistics gross revenue/turnover and freight forwarding volumes.