October 20, 2019

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October 20, 2019

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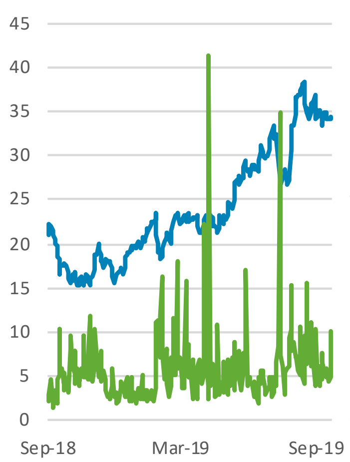
WiseTech (WTC AU, WTCHF US)

Share Price	$ 30.00
Av Volume	**1,002,000 shares**
Market Cap (mln)	$ 9,546
Price/Sales	27.4

WiseTech (WTC AU, WTCHF US) last share price in AUD (blue, left) and volume (green, right, mln shares)



Source: Bloomberg October 18, 2019

WiseTech (WTC AU, WTCHF US)

WiseTech Part II: The Closer You Look the Uglier It Gets

- **Weak response:** WiseTech's response to our first report follows a well-worn playbook by cherry picking immaterial points to refute, remaining silent on major points, and taking a high moral tone about "short sellers." Tellingly, the company failed to provide any information on the abrupt resignation of the head of the Audit Committee, and it confirmed that, indeed, key subsidiaries with the majority of profit are not individually audited.
- **Paying more for less:** Since its public markets debut, WiseTech has spent $400 mln acquiring 34 companies. We do not think the acquisitions have been great logistics software companies that can gain from being part of the WTC network. Instead, WiseTech's acquisition spree looks like a frantic effort to maintain the narrative that this is a fast-growing technology business.
- **Poorly integrated, underperforming acquisitions:** Our interviews with 18 former employees and competitors show that most acquisitions remain standalones two years post acquisition, as WiseTech fails to devote resources to integration. When WiseTech does attempt to integrate these businesses, it usually raises prices on existing customers, and they tend to go elsewhere.

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October 20, 2019

- **Desperate?** WiseTech has been offering virtually free access to the CargoWise platform. In two interviews, we learned that these price cuts are measures to counteract decline in WiseTech's home market, Australia.
- **Faltering:** We believe WiseTech is misleading investors that the customer attrition is less than 1% on its CargoWise One platform. The company fails to mention the huge churn in acquired customers who are not converted to the CargoWise platform. Not only do many of these customers fail to convert, but in many cases, they look for alternative platforms. We commissioned a third-party survey of 13 customers featured on WiseTech's website and found that 25% of them are looking to switch.
- **Cashing out:** Management and directors who have sold $179 mln since listing have no incentive to slow down the pace of acquisition, because the perception of fast growth supports a high share value.
- **Exaggerated claims:** We found that WiseTech has misrepresented its client relationships.They claim 25 of the top 25 freight forwarding companies as "customers," while we found only 7 use CargoWise One. We commissioned a survey of companies WiseTech touts on its website as model clients. Half said WiseTech's service was terrible, and 25% wanted to switch providers.

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Response to WiseTech's Rebuttal

WiseTech's response to our first report follows a well-worn playbook by cherry picking immaterial points to refute, remaining silent on major points, and taking a high moral tone about "short sellers." Tellingly, the company failed to provide any information on the abrupt resignation of the head of the Audit Committee, and it confirmed that, indeed, key subsidiaries with the majority of profit are not individually audited. As for the rest:

- Overstated European revenues: The company said we left out six subsidiaries in our calculation. The maximum revenue impact would have been $6.3 mln, which would change our estimate of revenue overstatement from $41.9 to $35.6—but not alter our estimate of overstated profit of $33 mln in that period. WiseTech claimed we missed more companies in FY 2019, but our analysis did not cover that period.

WiseTech failed to explain the abrupt resignation of the head of the Audit Committee, and it confirmed that, indeed, key subsidiaries are not individually audited.

- WiseTech kicks sand in investors' eyes when it implies that the declining U.K. revenues we pointed to are not actually representative: "Our revenue by geographic location and the Financial Statements clearly state that it is based on our customer's invoicing location, based on billing address. This approach was adopted in FY16 as the billing model for the business was largely centralised in corporate headquarters in Australia, thus regional centres, including the UK, became support centres." Actually, we pointed this out in our report. What WiseTech did not say is that WiseTech Global (UK) Ltd revenue peaked AFTER the change in billing, in FY 2016, at GBP 5.5 mln. There are no hidden revenues—the unit was in decline.

- Overstated profits: WiseTech reiterated that capitalizing software expenses is legitimate. We agree. But expensing and capitalizing the same costs is not. The company was silent on associated issues of unexplained costs.

- "Organic growth": WiseTech doubled down on the bogus metrics that do nothing to help investors analyze the company's progress. The company reported that its "organic" revenues grew by 33% in FY2019, despite the fact that the 2018 and 2019 offered no comparable statistics on organic growth. We stand by our estimate, based on WiseTech's own reports, of 10% organic growth.

- The company said nothing to explain the pre-IPO accounting or the restatement of 2018. In fact, the response was long on indignation, short on facts.

In Part I of our report on WiseTech, we showed that management misled investors on its organic growth and that profits and revenues are most likely overstated. Here we provide support for the view that the company is overstating revenue and profit by showing why the acquisition strategy is not working.

Given that almost no contingency payments were made between 2017 and 2019, it is likely that the acquired companies do not meet targets.

We researched in depth seven of WiseTech's acquisitions, accounting for $130 mln, or 33%, of the $400 mln cash consideration paid for acquisitions since IPO. We chose these companies in China, the U.S., Australia, Singapore, and South Africa because they represent a wide geographic spread and are large enough to be reasonably representative of the whole.

WiseTech has had a presence in South Africa for 14 years and acquired the No. 1 and 2 players in the market. WiseTech has made two acquisitions in China, where we have a primary research team who were able to conduct interviews. Containerchain, based in Singapore, is WiseTech's most expensive acquisition to date. CargoSphere, which automates rate quotes, is based in the key U.S. market. We interviewed 14 former employees from these companies, spoke with several competitors, visited offices, and obtained publicly available financial reports from three subsidiaries. Key findings are:

- Acquisitions have failed in their objective to acquire clients and convert them to the company's core CargoWise One platform. Zsoft was an utter failure in China and Compu-clear in South Africa was a disaster.
- Acquisitions have been ad-hoc and poorly managed. The founder of China Zsoft promptly left the business and moved to Canada after the acquisition. The second acquisition in China, Prolink, is co-branded WiseTech but still appears to be run by a separate company from which WiseTech acquired the Prolink assets.
- WiseTech seems to ignore its acquisitions once the deals are sealed. The companies complain that WiseTech wants higher prices but does not even provide a local-language interface or an integration that would allow a single log-in to both the legacy platform and CargoWise. This type of integration is often delayed by at least two years, causing clients to flee to cheaper competing systems;
- Client churn on acquired platforms is up to 50%. WiseTech pushes acquired clients onto its CargoWise platform by halting development on the legacy platform and hiking prices, such that acquired clients choose to leave for competing platforms and solutions.
- WiseTech overpays for underperforming assets. Containerchain was purchased for $92 mln in cash for a loss-making company with 10-15% revenue growth that is struggling to expand into major markets. Prolink has near useless software, so WiseTech paid $3.7 mln for 350 customers that probably won't stick around. The lack of earn-out payments suggests that acquisitions are not achieving targets set.

All the company piety about short sellers fails to address the core issue: are they being straight with investors?

- Even in its home market of Australia, we believe WiseTech may be in trouble. In two interviews, we learned that one of the top 10 clients at the time of listing, Australia Post, defected to competitor Expedient six months ago. CargoWise is offering deep discounts through systems integration partners, including an "all you can eat" offer to entice customers to convert to CargoWise One. After set-up costs, annual fees are just $24 for two years, or $1 per month. The offer was made in late 2018. Set up costs were around $30,000.

Typical comments come from a former senior executive we interviewed from one large North American company that was acquired more than two years ago by WiseTech. He said that his company and WiseTech "put a strategic partnership in place in late 2015. It had a lot of contract language around it, it had a lot of vision and optimism around it. But WiseTech didn't devote any resources to it after it was signed. It called for building a connection between the two products. . . And so, nothing happened. And I think that probably was happening with other partners of WiseTech also."

Following acquisition, he said that WiseTech claimed integration had occurred, but it had not: "So, this is a weakness of the CargoWise One strategy, that it's not really worked yet. Although, two years is enough time to have it work, you would think. Something has happened where it didn't get connected fully. [The acquired company] had a press release in February [2019] that said it was fully connected, but when I poked around to learn how it's going, I learned it's not [fully connected]."

Paying Up for the "Growth"

CEO Richard White speaks frequently and with conviction about acquisitions, saying that they accelerate growth. "We make small, targeted, valuable acquisitions to accelerate our growth, across geographies and into adjacencies, because entering complex new countries organically is slow costly and risky, we aim to establish market positions, then we integrate the acquired business quickly and drive additional value onto our platform." Earnings call August 23, 2016

In the FY2019 earnings call, White said: "Our acquisitions are strategic, not revenue roll-ups. We are building highly efficient and scalable mini WiseTechs with significant market positions and key customer bases across the world. These positions are secure, but the businesses themselves will be in transition over a number of years. The integrations are progressing well, utilizing our engineered processes and universal architectures."

This is, to be blunt, bollocks. Our interviews suggest that, contrary to WiseTech's public narrative, it is harming the companies it acquires by under-investing and jacking up prices on legacy platforms to force clients to move over to WTC's CargoWise. Because the acquired companies don't produce the desired results, WiseTech has accelerated acquisitions to keep the growth narrative going. We believe that, when WiseTech slows or stops acquisitions, shareholders will realize they own a motley global collection of small, poorly integrated companies with dispirited staff.

The High Cost of Acquisition

WiseTech paid an average of 5.6x annual sales for the companies it acquired in 2019. These are companies that have modest revenue growth and, in many cases, losses. Since there is evidence that the acquired companies' revenue growth slows or declines post acquisition, the purchase multiples make sense only in the context of a management team that needs to acquire growth to excite investors and elevate the share price.

Table 1. Cost of Acquisitions

	FY17	FY18	FY19
Cash Paid on Completion	$24.9	$113.1	$254
Contingent consideration- Potential Earnout	$4.4	$72.6	$131
Total Consideration	$29.3	$185.7	$385.6
Revenue of Acquired Companies in the Year Acquired	3.64	44.9	$72

Source: Company reports

Since when is it management's responsibility to "provide liquidity" to the market by selling shares?

Table 2. Capital Raises and Acquisitions (mln and YoY)

Fiscal years	2017	2018	2019
Cash raised	$86.00	$119.00	$360.00
Cash spent on acquisitions	$24.9	$113.1	$254
Reported top-line revenue growth	50%	44%	57%
Reported organic revenue growth	34%	29%	25%
J Capital's normalized organic revenue growth	26%	19%	10%

Source: Company reports and J Capital estimates. "J Capital's normalized growth" is calculated by matching revenue reported in like periods, while WiseTech compares 18-month with 12-month periods.

In order to continue the acquisition program and demonstrate growth, WiseTech has raised capital in each of the last three years: $86 mln, $119 mln, and $360 mln in 2017, 2018, and 2019, respectively. Richard White, CEO and founder, over the same period has cashed out at least $73 mln—based on the company comments--from share sales. On this issue, the company doth protest too much: WiseTech responded that White sold shares to "provide liquidity." It is news to us that management is responsible for market liquidity.

WiseTech CEO Richard White. | REUTERS / Jason Reed - stock.adobe.com

Strong-Arm

The company says: "...a key component of our integration framework for our foothold acquisitions is to, over the long term, convert the customers to CargoWise One.."[1]

The problem is that the CargoWise One revenue model differs from that of most legacy platforms. CargoWise One collects a fee per transaction, while most of the acquired companies charge a lump-sum subscription regardless of transaction volume. For customers with increasing business activity, shifting to the CargoWise software increases costs.

Evidence from public financial statements and from our interviews indicates that clients aren't moving, because they are reluctant to pay more unless they get something new—and many clients tell us there's no added value. Acquired companies and legacy clients both complain that WiseTech does not put effort into systems integration and upgrades, so when prices rise, clients seek alternatives. Six of the seven acquired companies we have examined saw declining revenue and client attrition after they were acquired by WiseTech, while the seventh (acquired in February 2019) is still not integrated with WiseTech and has continued to operate as a

1 H1 FY 2018 Earnings Call February 20, 2018

standalone. In 14 interviews we conducted with executives of acquired companies, the feedback was consistent: integration has been slow or non-existent, promised features never get added, and WiseTech's vertical management style makes decisions slow and bottlenecks hard to break through.

"I saw it practically when there were certain issues in [XX] that only Richard could deal with. He simply was not interested in dealing with until it was the right time for him to deal with it because he was dealing with things he felt were more important based on his plan." – Former WiseTech International employee

"When a client has a request, the WiseTech coders are all based in Australia, and they always think the request is not reasonable or required. If they approve of the request, from the time of the request being processed, allocating developers until they can start work will take up to two years." – Former WiseTech employee in China

Given that almost no contingency payments were made between 2017 and 2019, it is likely that the acquired companies do not meet targets, which brings into question the high multiples initially committed.

China: Two failed acquisitions, slow growth, and declining profits

Source: WiseTech Global Investor Day materials 4 May 2018

We spoke at length with former employees of the companies WiseTech acquired in China.

In mainland China and Taiwan, WiseTech has made two acquisitions. We view both as failures. Zsoft, acquired in March 2015, failed to convert customers to CargoWise One, and, according to our interviews, they have lost 30% of acquired clients as well as suffered a 20% decline in like-on-like revenue (excluding new businesses that were bolted on by WiseTech post acquisition). Prolink was acquired in August 2017, with WiseTech paying 3x times revenue to acquire a small number of clients. It is too early to tell if they can succeed where WiseTech failed with Zsoft clients, but it is not looking great so far.

After eight years in China and $7.3 mln in acquisitions, WiseTech has fewer than 100 customers using its CargoWise One platform, and the customers they have are mostly subsidiaries of multinational companies that they service in other markets.

We obtained statutory financial reports from China's Finance Bureau. Those numbers show that WiseTech Global (Shanghai) Information Technology, the key China operating entity, had only $7.8 mln in revenue and $0.4 mln in profit in 2018. Revenue grew at 27% in 2018, but, after using a conservative analysis to eliminate the Prolink revenue acquired in August 2017, growth was just 11%. The majority of the 11% "growth" came from customers who never paid—the accounts receivable soared. Actual revenue received grew by a paltry 1.1%. That does not seem to line up with comments from CEO Richard White on the earnings calls:

August 2018:

> We spoke in May about the strong foundation we have built in China with a mix of buy or build to develop our fully embedded native Chinese customs platform. This is quite important. We're not there just to buy and convert customers. We're there to own the marketplace in the long term. You don't become the best vendor or the largest in China by simply turning up and buying a company. That requires strategic action over the long term to harness the opportunity inherent in the 5,500 non-vessel-owning cargo carriers, 41,000 freight forwarders and 700,000 logistics service providers.

February 2019:

> Remember, the long game is to secure the reach and with infrastructure, development competency and capability, content architecture and full localizations, then bring on channel partners. Look at China, you can see the discipline in stages. We are now servicing global 3PLs in China. China CargoWise One users grew by 37% in the last year from global client rollouts

> and CargoWise One revenues that are now 45% of China revenues.
>
> Bloomberg transcripts

Table 3. WiseTech Global (Shanghai) Information Technology Ltd (A$ mln)

WiseTech Global (Shanghai)	2017	2018	Growth
Revenue	6.12	7.8	27%
Profit	1.27	0.4	-67%
Prolink			
Revenue	0.5	1.5	200%
Profit	0.05	0.15	200%
WiseTech Global (China) - Eliminating Prolink Acquisition			
Revenue	5.62	6.26	11%
Profit	1.22	0.27	-78%
Accounts Receivable	0.17	0.73	341%
Total Revenue Increase		1.64	
Adjusted Revenue Increase		0.64	
Accounts Receivable Increase		0.57	

Source: China Finance Bureau, Company Reports, J Cap analysis

Former executives we interviewed named three large Chinese freight forwarders who were Zsoft customers and tried to convert to CargoWise, failed, then switched to competitors.

Baby/bathwater

WiseTech reported that it spent $3.6 mln in 2015 to acquire Zsoft, which had developed a software tool for the local logistics industry. We interviewed four former employees of Zsoft and two competitors to understand how the Zsoft acquisition performed. According to the interviews, three years after acquiring the company, Zsoft has lost more than 30% of its customers, and only a handful of Zsoft's 1,500 clients migrated to CargoWise One. Some of those abandoned the system within a year.

"Before the acquisition, WiseTech planned to buy FMS [the Zsoft system] outright and move all the customers to CargoWise," said a former executive of Zsoft in a phone call.

> "But [WiseTech'] software is a bit more expensive: you don't buy a one-time license but pay on a transaction basis. . . . Because of that, clients spend

> money every month. So basically, no one wanted to transition. On top of that, their software had no Chinese-language edition. They said they'd produce one within a year of acquisition, but it took until the end of 2018 to translate everything. So there were only a few customers who [went to the CargoWise platform]. Plus, CargoWise is expensive, so even these customers eventually left. CargoWise is big and mighty, but for our customers, it's too complicated. What they want is not really the same."

Adding insult to injury, Zsoft is not a cloud-based system, which means it can't easily be used on mobile phones, further alienating Chinese clients, who generally prefer mobile access.

The lack of value creation from Zsoft should trouble investors, because the company had promising assets. Zsoft's original software managed data from the freight forwarder through to the end customer, including handling Customs clearance and invoicing. Zsoft had a monopoly in Shenzhen, China with 70% of freight forwarders using its software. Zsoft had 1,500 customers and roughly 100 large customers. Large customers included Patent International (Huazhen Group), with revenue of $200 mln, which became a customer in 2004. Other large customers with similar revenue included Unitex and Longsail. Many of the smaller customers using the software had been employees in the bigger companies using the system. The system sold itself by word of mouth.

Zsoft software cost ¥10,000 (US$1,412) for a one-time license, with each seat costing an additional ¥1,000 (US$141), and there is an annual licensing fee of 10% of the total price paid. By contrast, CargoWise charges US$2 per order, with orders at a typical freight forwarder ranging from 100 to 1,000 per month. That puts the price for a small company at about ¥17,000 (US$2,400) per year, while the same company could purchase unlimited use for one user of Zsoft for ¥11,000 (US$1,553). We were told by former sales staff that, for larger companies that CargoWise is nearly 10x as expensive as competitor products like CargoGM.

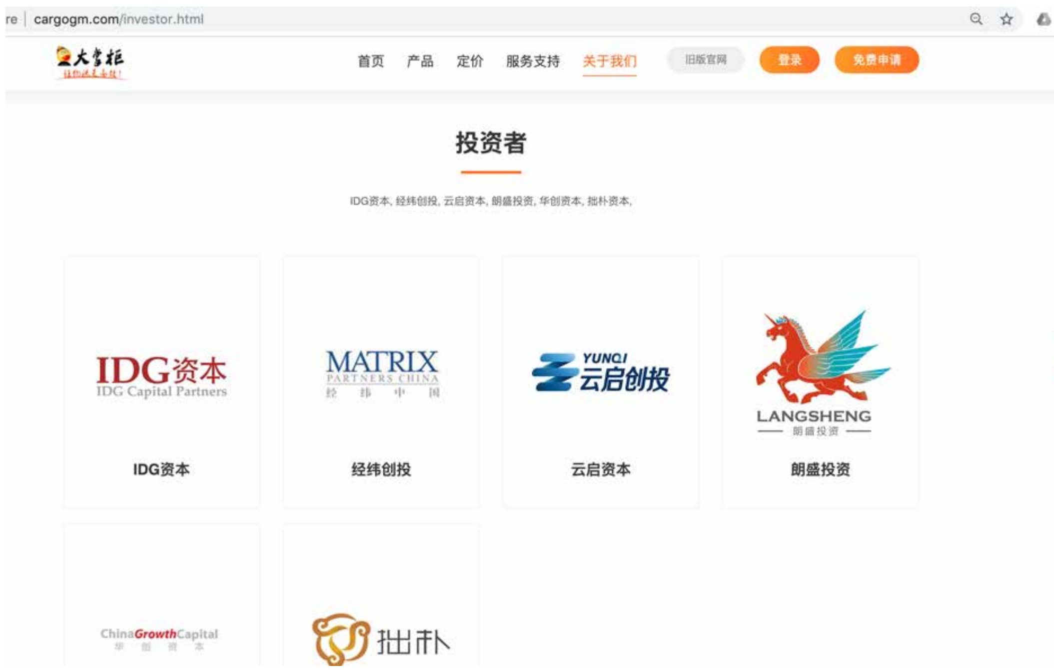
WiseTech also missed a trick by failing to bundle in the training with the purchase of CargoWise. Wise Tech charges ¥3,000 ($423) per training day, while competitors include training in the price of the software. There is an accounting module that can be used instead of an accounting package like Kingsoft, at a cost of ¥15,000 ($2,119). WiseTech does not have a local development team: all software development requests go to Australia and are very slow. Patent International, one of Zsoft's largest clients, converted to CargoWise and found it too expensive and unnecessarily complicated to use. Patent abandoned CargoWise within a year and moved to UFMS, a competitor started by disaffected Zsoft staff who left WiseTech after the acquisition.

CargoWise now has fewer than 20 customers in Shenzhen, while Zsoft had about 700. From our interviews, we believe that, likewise, few if any of Zsoft's 500 customers in the city of Guangzhou converted to CargoWise. According to a former executive, sales of both Zsoft and CargoWise in South China are poor now. An executive told us that almost none of the top private freight forwarders in China use WiseTech, and no SOEs use their system. These companies use competing software products like Huayuan, Nova, Shanghai ZB, and Little Ant.

Most Zsoft customers choose to stay on the legacy systems. Some Zsoft staff left WiseTech and started up their own rival system with a similar name (Zsoft's product is referred to as FMS and the rival is UFMS) and are capturing clients that are leaving WiseTech. UFMS now claims to have a 20% market share in the Pearl River Delta area, and Zsoft market share has fallen from 70% to 50%.

A screenshot of UFMS, the product with a similar name to Zsoft product FMS www.houdai.ren

After acquiring the only big competitor in China, Zsoft, WiseTech now has two major competitors there. Besides UFMS, another competitor, CargoGM (http://www.cargogm.com/), has a product called General Manager One and has raised more than US$20 mln to develop software and compete with CargoWise.



Screenshot from CargoGM showing that it raised US$20 mln from key China venture capital funds.

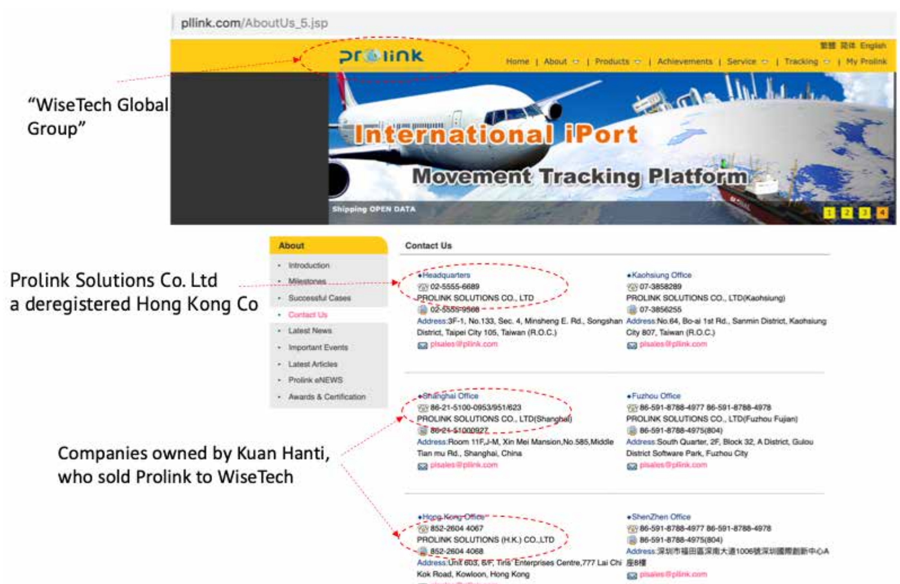
If at first you don't succeed . . .

WiseTech recently purchased assets from Prolink in Taiwan and China in a second attempt to build a domestic customer base in China. WiseTech disclosed that it paid $3.7 mln for a business with revenue of $3 mln and profit of $0.3 mln, with 350 customers. WiseTech then registered a company in Taiwan called WiseTech Global (Taiwan) Ltd. and injected $5.3 mln into the company.

No one we spoke to in China said Prolink was a significant company. Several industry sources told us that Prolink offers basic billing and Customs clearance, with a poor interface and an old-style server-client system. Prolink has a small customer base of Taiwanese companies working in China. One competitor said "Prolink sold out because they were doing very badly." We were told the Prolink system is inferior, and WiseTech only bought it to acquire the customers.

The [Prolink](http://www.pllink.com) website mentions that it is part of the WiseTech Global but otherwise seems to mix the business of WiseTech with that of the former owner, who sold the Prolink asset to WiseTech but still operates an identical business. That owner's Prolink Solutions Co. Ltd, a Hong Kong company, was dissolved in 2003, although it continued to be listed on the Prolink/WiseTech Global website (http://www.pllink.com/AboutUs_5.jsp). A similarly named Hong Kong company, Prolink Solutions (HK) Ltd is registered to the office location listed on the website as the Hong Kong Office and is owned by Kuan Hanti, who sold Prolink to WiseTech. In other words, the same owner seems to be running the same legacy business in the same location for the benefit of a separate company not owned by WiseTech. WiseTech did not buy a company but purchased assets, which makes that strategy legitimate, if dubious.

The Prolink/WiseTech corporate website lists a company that WiseTech does not control and that has been deregistered and changed names. This suggests at the very least poor coordination between the M&A team and the rest of the operation.



Screenshot from CargoGM showing that it raised US$20 mln from key China venture capital funds.

Company Profile

Unified Business No.	52889317 Subscribe
Company Status	approved(核准設立) 「To check the latest business status, please go to eTax Portal, Ministry of Finance.」
Equity Status	僑外資
Company Name	台灣慧諾環球股份有限公司 Google Search (Import Export Vendor English Name：WiseTech Global (Taiwan) Limited) 「Query Bureau of Foreign Trade Manufacturers English Name(Limited to import/export business or sales business)」
Foreign Company Name as specified in the Charter	WiseTech Global(Taiwan)Limited
Amount of Capital(NT$)	500,000,000
Total Paid-in Capital(NT$)	113,050,000
Name of Representative	柯安卓(Andrew Cartledge)
Location of Company	臺北市松山區民生東路4段133號3樓 View Map

Source: Department of Commerce, Taiwan https://findbiz.nat.gov.tw/fts/query/QueryCmpyDetail/queryCmpyDetail.do

Building where Prolink's website claims to have a Hong Kong office. It doesn't have an office there. Source: J Capital August 2019

South African acquisitions: Revenues decline 20% and customers fall by 50%

In South Africa, WiseTech had the same problem as in China: it hiked prices without providing value for the cost, and customers left in droves. This contrasts with what the company says about its strategy. Asked about how acquisitions have contributed to revenue from the top customer, Richard White said:

"Without really much in the way of sales effort, customers come onto the platform, they increase their transactions because they're more efficient and they gain more market share." FY2018 earnings call, Bloomberg transcript

Trial and error in South Africa

WiseTech set up operations in South Africa in July 2005, when it established EDI-Enterprise (Pty) Ltd. The company subsequently formed a joint venture company and then acquired the partner's equity and made a second acquisition. But WiseTech has failed to generate profits in South Africa after 14 years and more than $30.5 mln in investment. From interviews, we know that sales have declined by 20% from their peak in 2015 and that 50% of customers have left the company. Less than 30% of the revenue in South Africa comes from CargoWise One. That means that, four years after acquisition, 70% of revenue in South Africa still comes from the legacy platform.

WiseTech has a long history in South Africa, having first attempted to go it alone and compete with Compu-Clear, a leading, listed Customs-clearing software and services company. But WiseTech found Customs clearance harder than expected and withdrew from South Africa in 2010. WiseTech customers, however, remained and asked Compu-clear to offer the software. Consequently, WiseTech formed a 50:50 joint venture with Compu-Clear the next year to sell CargoWise software in South Africa. This cooperation was moderately successful, growing revenue to $380,000, with a profit of $150,000 reported by Compu-Clear, according to reported accounts in South Africa.

WiseTech then acquired Compu-clear and Compu-clear's main competitor, Core Freight Systems (Pty) Ltd, which had 20% of the market, in 2015 for $24.9 mln.

In 2015, Compu-clear and Core Freight Systems had 400 and 150 customers, respectively, and revenue of $6.7 and $2.1 million, according to our interviews and company reports. When WiseTech acquired Compu-Clear's share of the joint venture, CargoWise One customers represented about 6-7% of the company total revenue.

Former executives told us that progress went backwards from the time the acquisition was complete. There was no integration of CargoWise One with Compu-clear's Customs-clearance software, and it took WiseTech another 18 months to build a Customs-clearing module for CargoWise One. During that period, Compu-Clear and CargoWise One sold software as two separate systems. After WiseTech built the new module, around 55%, or 200 customers, converted to CargoWise One. Other customers drifted away, as Compu-clear was not further developed and became expensive relative to competing software.

Contrast that performance with what the company said on its earnings call for FY2018 in August 2018:

> Let's talk about what we did in 2014 with South Africa. That is now returning very, very big results. We've got sort of 51 customers live, we've got very good localized products. We've got lots of other people on the ground.
>
> CFO Andrew Cartledge, Bloomberg transcript

U.S. CargoSphere: Expensive and Slow

CargoSphere, A U.S. company, helps freight forwarders to manage ocean shipping buy rates. WiseTech acquired CargoSphere on September 29, 2017 for $11.5 mln and an earnout we estimate at $5.6 mln based on the average earnouts WiseTech offers.

We spoke to one former senior executive. At the time of acquisition, the company had around 100 clients and annual revenue of around $4 mil. The company was breakeven at best at acquisition.

Post-acquisition, CargoSphere was maintained and sold as a separate system. It was targeted to be integrated via an API into the CargoWise platform by no later than June 2018. From interviews with former employees and competitors, we ascertained that WiseTech finally launched an integration in February 2019, 18 months after acquisition and nine months after its own deadline. We understand the integration is still not fully completed, and, to use all of the CargoSphere functionality, users still need to be logged onto the CargoSphere platform. The integration is apparently an API interface inside CargoWise One and not a full data transfer across systems that enables quoting from within CargoWise One.

A former salesperson at Freightos, a much larger competitor of CargoSphere, said that a number of CargoWise customers did not use CargoSphere, as they did not think the integration worked well enough. Instead, they purchased Freightos. Freightos' annual revenue is around $150 mln, roughly 30 times larger the size of CargoSphere. CargoSphere was estimated to be growing at 10-15% per year, and Freightos is growing at 20-25%.

SmartFreight Australia: declining revenue and profit

WiseTech acquired an Australian parcel-management software company called SmartFreight in November 2018. SmartFreight serves B2C and B2B companies by integrating their ERP or warehouse management systems (WMS) with delivery companies and helping them determine the optimal delivery company for a package. The system prints labels and provides a tracking service. It can also invoice customers and reconcile invoices with revenue. The company has been operating for 20 years.

WiseTech paid $20 mln cash on acquiring the company, with a $35 mln earnout offered to this company that had 3,300 clients, $7.9 mln in revenue, and $1 mln in profit according to the press release WiseTech issued at the time of acquisition.

SmartFreight had five staff in the United Kingdom at the time of purchase and contributed minimal revenue. After acquisition, WiseTech rapidly increased the number of employees in the UK to 20 but saw no accompanying increase in sales. After dismissing the head of the UK operation, the founder of SmartFreight, Ken Aitken, had to go to the company to sort out the problems. The key problem, according to our interviews, was that the system was not modified to fit the requirements of the industry in the UK. Key issues like package size were not compatible with the UK market. From interviews, we know that revenue declined.

SmartFreight had very low organic growth and only 2,000 customers before it acquired Comdata, an Australian competitor, the struggling No. 2 player in the space, in November 2017 for $2.6 mln. SmartFreight, like CargoWise One, charges not just for software and maintenance but also per transaction. The company charges $0.06 per label, $0.025 for tracking data, $0.025 for integration with WMS, and $0.05 for dispatch notification. Comdata was more traditional and just charged once-off use rights and annual maintenance fees. After acquiring Comdata, SmartFreight forced clients to switch to the more expensive system or be discontinued on Comdata. The conversion rate is 30%, and they have lost about 50% of customers so far, we were told. Smaller and cheaper competitors like Moveitnet have been picking up the clients they have lost.

WiseTech admits that it's not a gangbuster acquisition but uses language on calls that suggests there are somehow "synergies" that will float all boats. From the FY2019 earnings call:

> The foundation progress with Pierbridge is similarly playing out across our specialist TMS adjacencies, SmartFreight, Trinium and SaaS Trans, and we have commenced integration between these adjacencies to expand the retail omnichannel strategy and also direct integration with CargoWise and international e-commerce.
>
> Richard White, Bloomberg transcript

At the time of the acquisition, WiseTech claimed that SmartFreight had 650 delivery companies in Australia, New Zealand, the United Kingdom, Ireland, and South Africa on its platform. Our research shows 150 clients, with almost all of the business in Australia. Four of the 12 modules were not operational at the time of purchase. SmartFreight charged delivery partners for some services, which angered key partners like Australia Post and DirectFreight.

Containerchain: Singapore Lemon?

In February 2019, WiseTech purchased Containerchain, which provides information systems to operators of port depots, for $92 mln, a 6x sales multiple for a company that was growing at maximum 15%. The company had revenues of $14.4 mln and "no EBITDA contribution," according to WiseTech reports. There was no contingent consideration; the $92 million was paid in cash up front. At this price, it is the most expensive acquisition by WiseTech, and for a loss-making company.

Champ Private Equity, based in Singapore, had paid $130 mln for a 50% stake in

Containerchain 2.5 years earlier, in September 2016.[2] Champ took a 65% haircut on the deal and lost $84 mln. Why was Champ so keen to exit? Our interviews show that Containerchain had low growth of 10-15% in the year before purchase and continued to be loss-making.

Exaggerated Customer Claims

WiseTech has disclosed the names of 104 customers who use its software. We have found that seven of the top 26 named customers (27%) actually have their own proprietary system or use a competitor's software. Those seven customers may use some minor legacy software system they acquired, but they are not using the core CargoWise One software.

Of the Top 10 customers disclosed at the time of listing, we believe two were using their own propriety systems or a competitor's software and not CargoWise One. WiseTech claims that they have 19 of the Top 3PL companies as clients. We believe five of them use their own system or that of a competitor. Of the 104 disclosed customers, 66 were disclosed at or before listing and 38 since. None of the 38 disclosed since listing are large clients. Two, Sanku and Transplace, were described as new clients after listing but were clients as early as 2014.[3] We conclude that there has been very little growth in major clients since listing.

Customers like Manfreight, K&N, and Allport have proprietary systems. Allport has a system, Ajumo, that competes with WiseTech. Australia Post, CEVA, DHL and Palpolina use WiseTech competitor Expedient.

Table 4. Top 25 Freight Forwarders

Status	Customer Since at least	Customer Name
Does not use CW1	2015	Agility
Does not use CW1	2015	CEVA Logistics
Does not use CW1	2017	Dacher Intelligent Logistics
Does not use CW1	2015	Damco

2 https://www.inhousecommunity.com/deal/deals-october-19-2016/

https://www.indianlegalbusiness.com/deals/southeast-asia-deals-week-october-10/73322

https://www.crunchbase.com/acquisition/champ-private-equity-acquires-containerchain--22b0857a#section-recent-news

3 Wisetech 2014 Customer List https://paperzz.com/doc/1894913/sample-customer-list---wisetech-global

Status	Customer Since at least	Customer Name
Does not use CW1	2015	DB Schenker Logistics
Does not use CW1	2015	Expeditors International
Does not use CW1	2014	GEODIS
Does not use CW1	2015	Hellmann Worldwide Logistics
Does not use CW1	2015	Hitachi
Does not use CW1	2015	Kerry Logistics
Does not use CW1	2015	Kintetsu World Express
Does not use CW1	2018	Logwin
Does not use CW1	2015	Nippon Express
Does not use CW1	2017	NNR
Does not use CW1	2015	Panalpina
Does not use CW1	2015	UPS
Has own system	2015	Kuehne + Nagel
Has own system, Navisphere	2015	C.H. Robinson
Verified	2017	Bollore Logistics
Verified	2015	DHL
Verified	2015	DSV
Verified	2015	Toll
Verified	2015	XPO
verified	2015	Yusen Logistics

Source: Company reports and press releases

WiseTech claims that 25 of the top 25 global freight forwarding companies are clients of the company. While that is true, our research show that only seven use WiseTech's core CargoWise One platform. The rest either use one of the software services the company acquired, one of the modules, or have a subsidiary (usually acquired) that uses CargoWise One.

We verified only six of the top 25 freight forwarders claimed as customers, by asking competitors, people in the industry, and checking with the companies themselves as well as reviewing job ads. Job ads for companies like Ceva and Palapina clearly require staff that use Expedient in the Asia pacific region and not Cargo-

Wise One.[4] To WiseTech for those customers we could not verify, we extend the benefit of the doubt.

"Model" Customer Survey: Half are Dissatisfied, 25% Ready to Change

Through a third-party survey company, we interviewed CTOs and executive users of CargoWise from 13 customer companies that are featured promotionally by WiseTech on its website. Seven of the customers, or just over half, said the service was terrible. Four considered the software to be too expensive. Three said they are looking to switch when they find better software. Four said their expenditure on CargoWise is not growing, while nine said expenditures are growing by between 5-10%. Five said they were satisfied with the system.

4 https://nz.jobnos.com/jobs/9256/import-oceanfreight-operator-at-ceva-logistics

https://www.linkedin.com/jobs/view/customer-service-supervisor-ocean-and-air-import-at-panalpina-asia-pacific-management-pte-ltd-987245057/?originalSubdomain=nz

Table 5. Existing Customer Survey

Number	Rev US mln	Years	Expenditure on CargoWise per month	Other systems	Growth	Competitors	Impression
1	$1	10	$500	0	Flat	Reviewing	Too complex and poor service
2	$40	10	$40,000	1	Growing	Will change to a cheaper software	Good but expensive
3	$20	9	$16,000	0	Growing	Nothing as good	Terrible service
4	$10	10	$40,000	0	Growing	Other good systems but too hard to change	Very expensive compared to other options
5	$1	1	$5,000	0	Growing	Would change to competitor with better support	Support is terrible
6	$15	8	$45,000	1	Growing 5-8%/Y	No one as complete, like the Chinese functionality	No support
7	$20	12	$3,000	3	Flat	Not looking	Generally satisfied, recently a lot of downtime
8	$10	2	$30,000	3	Growing	None better, will switch for a cheaper system	No support

Number	Rev US mln	Years	Expenditure on CargoWise per month	Other systems	Growth	Competitors	Impression
9	N/A	2	$10,000	0	Flat	Replaced in house, there are others that are nearly as good	Generally happy
10	N/A	7	$4,000	0	Growing	Not reviewing	Very happy
11	$4,000	7	$35,000	1	Growing	Not reviewing	Mixed, weekly customs problem, slow to fix problems
12	$1	3	$700	2	Growing	Not as good as CW1	Very satisfied
13	$9	3	$4,500	1	Flat	None as good	Robust but poor user interface

Source: J Capital

What Competitors Told Us

We spoke with four competitors who had dealt with WiseTech customers.

1. They consistently said CargoWise prices are high and non-transparent.

A common client complaint is that they expected to pay much less than what they actually pay. Many features come at an additional cost. In the margin-driven world of freight forwarding, those additional costs make WiseTech vulnerable to a competitor willing to sell at a lower price with good client service.

One person said the high price will not cause people to stop using the system, but it will be a barrier to recruiting new customers, as companies are very margin-conscious. A lot of CargoWise growth will come from getting more revenue out of existing clients.

2. Customers complained of a long implementation process

Clients say that WiseTech claims it will take six weeks to onboard them, while it typically takes up to six months.

3. Poor service: Horror Stories

One salesperson said that about 90% of CargoWise One clients have horror stories about service. Around 50% of those complaints are severe. The salesperson quoted a client as saying the following:

"We asked for this enhancement. They told us we would get it. We signed a contract for it. Three months later, they hadn't started work on it. When they did, they put a junior programmer who didn't know what he was doing, and the first release we got from them was full of bugs. So a year later, we still didn't have it."

The salesperson added a comment from another client:

"Yeah, we had this bug, it's a pain. It means we have to do twice as much work to book a particular shipment. We've reported it, they have said their help desk has logged a ticket, and three months later we haven't gotten any kind of a response or action."

4. Some consider it a legacy platform

A WiseTech partner told us: “I think growth is very slow for CargoWise, simply because they are considered to be a legacy platform that hasn't gotten a lot of additional enhancement or investment recently. And a lot of people perceive them as a less forward-looking offering. And also, a lot of them have heard horror stories from CargoWise customers.”

Everyone had examples of companies that stopped using CW1 and switched to Descartes, Magaya, and Mercury Gate, despite painful transition costs.

On the positive side, WiseTech is considered very good at marketing.

The Market: No Monopoly Play Available

Looking at the competitive landscape in logistics software, we disagree with WiseTech’s contention that it can gain a commanding share of the market and raise prices. This is WiseTech’s constant contention. In its FY2019 Interim report, the company said:

> We buy into leading market positions that would take years to build, integrate swiftly and drive value across the platform. We are acquiring leading software vendors across G20+20 -targeting 90% of world’s manufactured trade flows.

Evidence indicates, however, that well-funded competitors in trade logistics are multiplying. A 2016 report on global logistics by Pricewaterhouse Coopers made this observation:

“An increasingly competitive environment is another big factor in the mix. Some of the sector’s own customers are starting up logistics operations of their own, and new entrants to the industry are finding ways to carve out the more lucrative elements of the value chain by exploiting digital technology or new ‘sharing’ business models, and they don't have asset-heavy balance sheets or cumbersome existing systems weighing them down."[5]

Competitor Descartes cautions investors in its May 2019 6K:

> We may not remain competitive. Increased competition could seriously harm our business. The market for supply chain technology is highly competitive and subject to rapid technological change. We expect that competition will increase in the future. To maintain and improve our competitive position, we must continue to develop and introduce in a timely and cost-effective manner new products, product features and services to keep pace with our competitors. We currently face competition from a large number of specific market entrants, some of which are focused on specific industries, geographic regions or other components of markets we operate in. Page 28

We estimate the global shipping logistics market at around $2 billion. Market research companies estimate market growth at 8-10%.[6] We think WiseTech is the No. 2 player after Descartes, with both having around 25% global market share. The next four players, Blujay, Expedient, Magaya, and Soloplan would together have about 25% market share, and there are hundreds of companies and in-house systems that would make up the other 50% market share. Many competitors, like Magaya and Fourkites, are well-funded and fast-growing.

We view WiseTech as significantly more leveraged to a global trade downturn than are its competitors, because WiseTech's revenue model depends on the number of transactions. Competitors are mainly charging fixed fees per user or per year. That means that, as trade volumes decline, so will WiseTech's revenue, while revenue for competitors will be more stable.

When push comes to shove, we think clients will be more likely to drop WiseTech's CargoWise than its competitors' systems. Most competitors charge significantly less than CargoWise One does, and clients, based on our survey and online reviews, find the service better elsewhere. Customers have an increasing range of choice at lower prices.

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5 PWC: "Shifting Patterns: The Future of the Logistics Industry," https://www.pwc.com/sg/en/publications/assets/future-of-the-logistics-industry.pdf

6 https://www.adroitmarketresearch.com/industry-reports/shipping-software-market

https://www.marketresearchfuture.com/reports/logistic-software-market-4420

https://www.technavio.com/report/global-logistics-services-software-market-analysis-share-2018?utm_source=t9&utm_medium=bw_wk34&utm_campaign=businesswire

Table 6. WiseTech Competitors

Company	Outline	Funding US MLN	Strength	Weakness	Other
Descartes	Competitor	Listed	Very good Import and Export Management, strong in US		Acquiring companies at similar rate to WTC
BlueJay	Competitor	Strong profits	Strong road transport	Poor sales force, not as good as CW1	Acquiring slowly
Expedient	Competitor	Strong profits	Strong in Australia and NZ, Cheaper than CW1, easier to use, great service	Functionality not as complete	Stand-alone, low investment
Magaya	Competitor	Acquired for $390	North and South American focus, 20% cheaper than CW1		
Soloplan	Competitor	Strong profits	30% cheaper than CW1, strong road transport	Functionality cannot match CW1	Europe focused
EV Cargo	Competes with some functionality	Venture funded	Good purchase order system	Hybrid model	
Gravity	Competes in some areas like Shipment tracking, purchase order management	$14.50	End to end detailed visibility to an SKU level, great UI		
Fourkites	Venture funded	$101	Good at raising funds		
Flexport	Hybrid freight forwarder/ Software company	$1,300	Well-funded disruptor		

Source: J Capital

We believe investors, too, have a wide range of choices at lower prices. We are short WiseTech.

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Appendix

Acquisitions Table

Table 7. Individual Acquisition Disclosures

Legal Name	Business acquired	Country	Date of acquisition	Paid on Completion	Contingent Consideration	Revenue	Profit
1H FY19				**141.8**	**117.3**	**49.9**	**7.7**
Ulukom Bilgisayar Yazılım Donanım Danışmanlık ve Ticaret Anonim Şirketi	("Ulukom")	Turkey	2-Jul-18	2.9	4.6	1.9	0.5
SaaS Transportation	("SaaS Transportation")1	USA	2 Jul 2018	2.1	1.7	1.8	0.5
Fenix Data Systems Inc.	("Fenix")	Canada	2-Jul-18	2.5	0.8	0.9	0.1
Pierbridge Holdings, Inc. (Pierbridge Inc. Pierbridge Ltd Pierbridge Finland Oy)	("Pierbridge")	USA	2-Jul-18	37	22.4	9.3	0.1
Multi Consult (assets not company)		Italy	19-Sep-18	4		4	
Trinium (assets not company)		USA, Canada	1 Oct 2018	40.9	27.7	11.4	3.6
Taric, S.A.U. (Taric Trans, S.L. Taric Canarias, S.A.)	("Taric")	Spain	2 Oct 2018	25	21.9	8.9	1.2
Tankstream Systems Pty Ltd (ComplianceNet Pty Ltd)	("Tankstream")	Australia	8-Oct-18	0	0	0	0
CargoIT Holding i Skandinavien AB	("CargoIT")	Sweden	1-Nov-18	1.8	1.8	2	0.3
IFS Global Holdings Pty Ltd (Interactive Freight Systems Pty Ltd, IFS NZ Pty Ltd, IFS Global Pty Ltd, Compdata Technologies Pty Ltd, Compdata Technologies Pty Ltd)	("SmartFreight")	Australia	1-Nov-18	20	35	7.9	1
LSI-Sigma Software Limited	("DataFreight")	UK	1-Nov-18	3.6	1.4	1.8	0.4
Softship	Softship	Germany		2			
2H FY19				**112.6**	**13.9**	**18.6**	**-0.2**
Systema AS	Systema	Norway	1-Feb-19	3	2.7	2.5	0.3
Candent Singapore Pte Ltd (Candent Australia Pty Ltd, Container Chain Pty Ltd, Containerchain Australia Pty Ltd, Containerchain Australia Holdings Pty Ltd, Containerchain Unit Trust, Maximas Pty Ltd, Containerchain Germany GmbH, Containerchain Hong Kong Ltd, Containerchain Malaysia Sdn Bhd, Maxframe Technologies Sdn Bhd, Containerchain Netherlands B.V., Containerchain New Zealand Ltd, Containerchain Global Holdings Pte Ltd, Containerchain (Singapore) Pte Ltd, Containerchain (Thailand) Pte Ltd, Containerchain USA Inc.)	Containerchain	Singapore	1-Apr-19	97.6	0	16.1	-0.5
X Ware Aktiebolag	Xware	Sweden	1-May-19	12	11.2	3.5	1.4

Legal Name	Business acquired	Country	Date of acquisition	Paid on Completion	Contingent Consideration	Revenue	Profit
1H FY18				**50.8**	**23.0**	**17.0**	**1.0**
This does not appear like it ever existed there is no company and the website owner is in the US. Appears fake.	TradeFox	Australia	26-Jul-17				
Bysoft Solucoes em Sistemas Para Comercio Exterior Ltda	Bysoft	Brazil	31-Jul-17	13.1	1.0	3.4	0.0
OzDocs International Pty Ltd (assets purchased not company)	Digerati1	Australia	9-Aug-17	6.0	0.0	0.7	0.5
PROLINK SOLUTIONS CO., LTD.	Prolink1	Taiwan	31-Aug-17	3.7	9.0	3.0	0.3
CMS Transport Systems Pty Ltd	CMS	Australia	31-Aug-17	5.0	4.0	3.9	0.2
Cargoguide International B.V.	Cargoguide	Netherlands	12-Sep-17	18.4	9.0	6.0	0.0
Planet Traders Inc.	CargoSphere	USA	29-Sep-17				
Softship	Softship	Germany		4.6			
2H FY18				**62.3**	**49.6**	**27.9**	**4.9**
ABM Data Systems Ltd	ABM Data Systems	Ireland	31-Jan-18	12.3	4.9	4.1	0.8
Cargo Community Systems Ltd.	CustomsMatters	Ireland	31-Jan-18	1.4	1.4		
Microlistics International Pty Ltd, Microlistics Pty Ltd	Microlistics	Australia	1-Feb-18	20.0	20.0	6.8	1.7
Intris N.V.	Intris	Belgium	28-Feb-18	11.9	5.5	7.1	1.1
LSP Solutions B.V.	LSP Solutions	Netherlands	31-Mar-18	5.1	2.9	3.2	0.5
Posbeyikian Buchter y Asociados S.R.L.	Forward	Argentina	1-May-18	10.1	14.9	6.7	0.8
Eyalir S.A., Ilun S.A. , Softcargo Chile SpA	Softcargo	Uraguay	1-May-18				
EasyLog SAS	EasyLog	France	1-May-18				
Softship	Softship	Germany		1.5			
1H FY 17				**7**	**0**		
Softship AG				7			
2H FY 17				**17.9**	**4.38**	**3.64**	**0.168**
znet group GmbH	Znet	Germany	31-Jan-17	4.8	3.7	2.8	0.14

Legal Name	Business acquired	Country	Date of acquisition	Paid on Completion	Contingent Consideration	Revenue	Profit
ACO Informatica S.r.l.	ACO	Italy	9-Feb-17	1	0.68	0.84	0.028
Softship AG	Softship	Germany		12.1			
1H FY 16				**19.3**	**0**	**6.7**	**0.412**
Compu-Clearing Outsourcing Limited (Compu-Clearing (Pty) Ltd, EDIEnterprise (Pty) Ltd, Three DX Property and Investments (Pty) Ltd, Compu-Clearing Drome Property (Pty) Ltd, Drome Road Share Block (Pty) Ltd)	CCL	South Africa	Jul-Sept 2015	19.3		6.7	0.412
Softship	Softship	Germany		0.2			
2H FY 16				**3.4**	**1.54**	**1.3**	**0.24**
Cargo Community Network Pty Limited	CCN	New Zealand	30-Apr-16	3.4	1.54	1.3	0.24
2H FY 15				**13.6**	**7.5**	**2.3**	**0.295**
Core Freight Systems (Proprietary) Ltd	CFS	South Africa	1 June 2015,	5.6	1	2.1	0.475
Shenzhen Zsoft Software Development Co. Ltd	Zsoft	China	16-Mar-15	2.4	6.5	0.2	-0.18
Softship	Softship	Germany		2.2			
Compu-Clearing Outsourcing Limited	CCL	South Africa	1-Jun-15	5.6			

Source: Company Reports and press releases

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