

June 30, 2020

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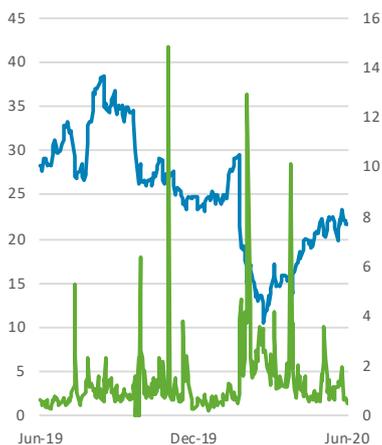
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WiseTech (WTC AU, WTCHF US)

Share Price in AUD	\$21.64
Market Cap in AUD (mln)	\$6,968
P/E	74.88x

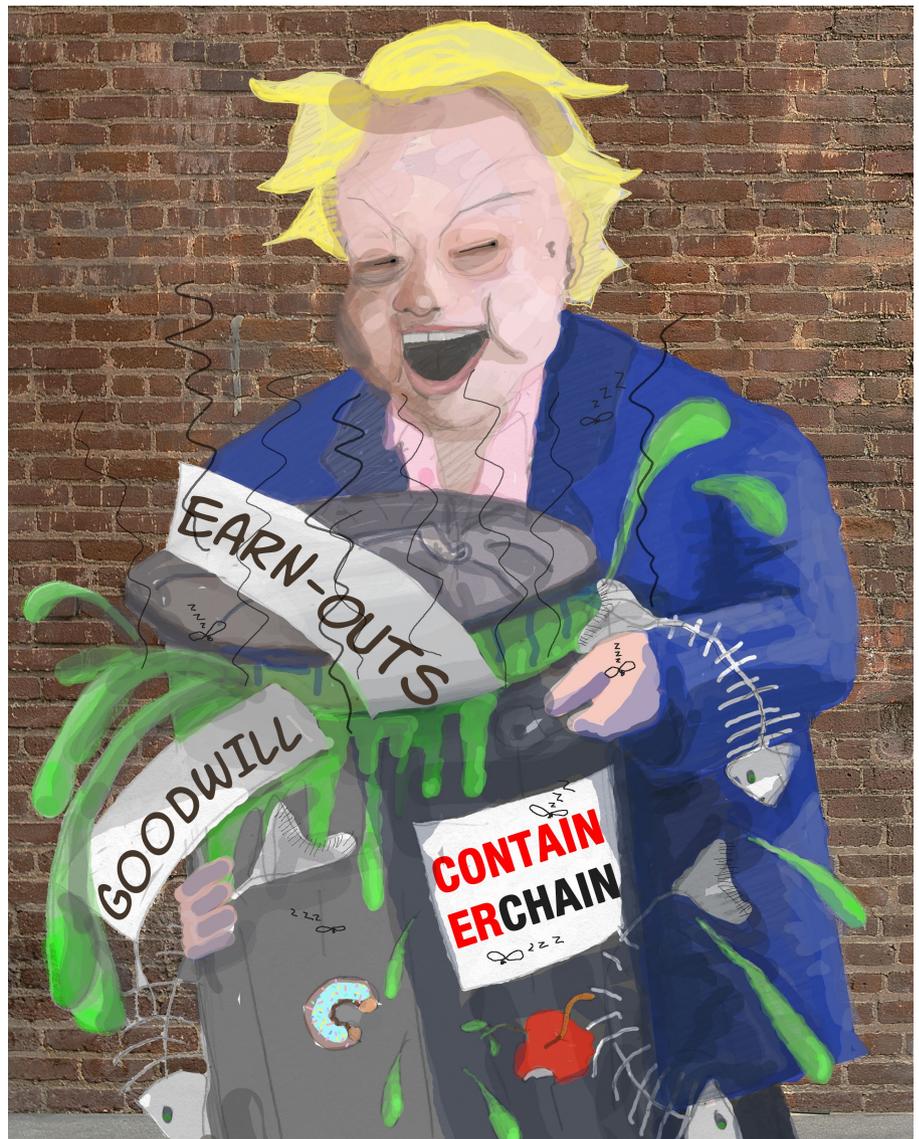
WiseTech (WTC AU, WTCHF US) last share price in AUD (blue, left) and volume (green, right, mln shares)



Source: S&P Global June 26, 2020

WiseTech (WTC AU, WTCHF US)

Taking out the Trash



WiseTech Global Limited (WTCHF, WTC AX) has been trying to sweep its failed acquisition strategy under the carpet by writ-

ing down earn-outs without writing off the equivalent item—goodwill. Sadly, the garbage keeps accumulating, and we expect investors will have an unpleasant surprise when the company reports annual results for FY2020 in August. Look for goodwill write-downs of around \$200 - \$300 mln.

WiseTech frantically rid itself of 40% of the earn-outs from 17 poor-performing acquisitions in May. In a series of scathing interviews with former executives, customers, and competitors of the company’s largest acquisition to date, Containerchain, we have learned that more bad news is about to come out. Containerchain is bleeding accounts, and most of the \$87 mln in associated goodwill will have to be written off. This is the first major “auditing” event, for KPMG since serious questions have been raised about WiseTech’s acquisitions performance. We expect the auditors to test goodwill for impairment. It is time for WiseTech to come clean with investors.

Over the past week, Richard White has sold \$46 mln in shares, while Co-Founder and Director Maree Isaacs has sold \$4 mln in shares.. Richard White told the AFR last year “Growing a technology company as rapidly as WiseTech Global, most insiders and founders have very limited opportunity to sell as they are almost always in possession of material non-public inside information”.¹ Well if there is a write down in goodwill we would ask ASIC to review these share sales.

Panicky price hike

Containerchain is a loss-making business that could now potentially collapse. The total of \$97.6 mln in cash that WiseTech paid in early 2019 was clearly too rich for this company, whose revenue we now expect to halve in next financial year while losses increase as customers abandon the platform.² A previous investor, CHAMP Private Equity, provided \$20 mln in working capital to Containerchain in 2016. By June 2018, there was only \$6.4 mln left. That is a burn rate of around \$6 mln per year. We expect that cash has now all been used up and WiseTech will need to make cash injections to keep the business going in FY2021.

Table 1. Containerchain Revenue and Profit (AUD mln)

	2017	2018	2019
Revenue	10.98	14.4	16.1
Profit (Loss)	-6.78	1.8	-0.5

Source: [Accounting and Corporate Regulatory Authority](#) for 2017 and 2018, 2019 WiseTech Annual Report 2019

1 <https://www.afr.com/companies/financial-services/end-smoke-signals-to-attract-more-tech-founders-to-asx-20190501-p51ixs>

2 Values are in Australian dollars unless otherwise indicated.

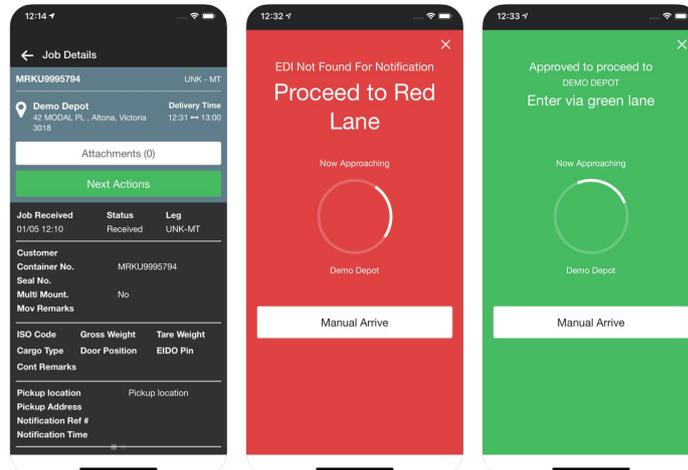
[Containerchain](#) is a “land side” logistics software solution. Land side means after the ship has arrived at port and the container is dropped onto the wharf, picked up by a truck, and taken to a warehouse/customer. Containers are managed by a depot. Freight forwarders arrange for a trucking company to go pick up full containers from the depot and return empty containers. Idling time while trucks wait for their container can be expensive, and so Containerchain developed software to manage the process. Given the efficiency gain, that warranted a \$5 booking fee.

In the early days in Australia and New Zealand, Containerchain shared the booking fee 50-50 with the depot operator, providing an incentive to the operators.³ Containerchain had set a fixed fee that was 50% of the revenue. Later depot operators saw an opportunity to increase revenue and increased the fee and did not share the increase with Containerchain. Containerchain was able to get some small increases but depots kept most of the increase. Containerchain had to wait for clients to roll off long term contracts late last year to get a bigger slice of the booking fee.

Table 2. Depot Booking Fees compared with Shipping Cost (USD/ Container)

Ocean Shipping Cost	\$650
Depot Booking Fees (Out and return) A\$60	\$41
Booking Fee as % of shipping fees	6.3%

Source: J Capital



Containerchain iPhone app: depot booking service

³ Under Australia’s regulatory system, Containerchain can not charge the trucking companies directly and has to settle for providing software and acting as the collection agent for the depot. See Australian Consumer and Competition Commission (ACCC) findings on Containerchain here:

<https://www.accc.gov.au/system/files/public-registers/documents/D11%2B2297910.pdf> and <https://www.accc.gov.au/system/files/public-registers/documents/D13%2B113187.pdf>

Since WiseTech took over Containerchain, the booking fee has risen to \$30, going from around 1% to over 6% of the ocean freight charges for a container.⁴ We spoke with freight forwarders who are frustrated with the 300% rise in fees over the last 12 months and are planning to take action with the Australian Consumer and Competition Commission (ACCC). Industry associations also believe the charges are unreasonable and do not reflect the service rendered but were reluctant to comment on their sponsor, Wisetech, when we contacted them about the issue.

Table 3. Inflation of Depot Booking Fees and Containerchain Share (AUD/container/depot trip)

	2010	2018	2020
Depot Booking Fee	\$5.0	\$12.0	\$30.0
Depot Share	\$2.5	\$9.0	\$21.0
Containerchain Share	\$2.5	\$3.0	\$9.0

Source: J Capital and company announcements⁴

In Singapore, Containerchain works with the [Container Depot Association of Singapore](#), which keeps 50% of the fee. Depot operators get nothing. We interviewed [Cargomove](#), a Malaysian software company with similar functionality, which confirmed market rumors that depot operators in Singapore are abandoning Containerchain. Cargomove said that [Eng Kong Container Agencies](#), the second-largest depot operator in Singapore, stopped using Containerchain in January, and [Allied Containers](#) followed in February and now uses Cargomove. We estimate these two depots would have provided revenue to Containerchain of each around A\$300,000 to A\$400,000 per year based on the 50% share of the booking fee of US\$2 per container on annual container movements.

Cargomove confirmed to us that six of Containerchain’s 12 customers in Malaysia had now moved over to their system.

4 <https://www.fullyloaded.com.au/industry-news/1907/container-logistics-interface-costs-rise-this-month> and <https://www.ftalliance.com.au/newsdetails/16635>

5 <http://ctaction.com.au/wp-content/uploads/2019/08/0830-QUBE-MCS-Notice-re-Cooks-River-Sydney-Peak-Season-Notification-Fee.pdf>, <http://ctaction.com.au/wp-content/uploads/2019/09/0816-Sydney-MT-Link-VBS-Charges-from-16-September-2019.pdf>, <https://ctaction.com.au/wp-content/uploads/2019/08/0830-QUBE-Logistics-Notice-re-Brisbane-Empty-Park-Peak-Season-Notification-Fee.pdf>, <https://ctaction.us9.list-manage.com/track/click?u=a891ed6f8edd241d6a1b06ecd&id=8899f8b9da&e=29c0db41da>, <https://ctaction.us9.list-manage.com/track/click?u=a891ed6f8edd241d6a1b06ecd&id=edb42f7884&e=29c0db41da>

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How the strategy fails

When WiseTech acquired Containerchain, Europe was held out as the great hope for expansion. Two years later, the company has only one client in Europe, according to a former senior salesperson at Containerchain.⁶ What’s more, this client, Progeco, is already a client in Australia through its CAN/ANL subsidiary. Revenue from Progeco is mysteriously low in Europe, according to our interviews. That may be because depots in Europe have built their own solutions that industry sources say are “good enough.”

The core problem for Containerchain is a failed and incompetent management team that turned to gouging customers when they find themselves unable to expand into new markets. Wisetech, under pressure to meet guidance and no longer able to rely on acquisitions for revenue growth is squeezing clients to get growth. Containerchain management demanded a tripling of price to Australian customers in the second half of last year to maintain revenue, as many Australian clients were rolling off long-term contracts. A client that would have been paying \$500,000 per year is now being asked to pay \$1,500,000 per year, according to a former manager. He said that clients are migrating to rival Australian company [1-Stop](#).

1-Stop is owned by Patricks and DV World two of the three competing port operators. Patricks teamed up with 1-Soft to develop the Vehicle Booking Software (VBS) and 1-Stop Modal to develop a product that could compete with Containerchain and to be used in their own empty container depot. Domain experts left Containerchain and joined 1-Stop to develop this product. In July last year 1-Stop and Patricks successful launched the product⁷. On Monday 22 June 2020 1-Stop announced that [Intermodal Container Services](#) (ICS), a container depot in Western Australia, is dropping Containerchain and moving to it’s VBS system.⁸ ICS is not large, but it is part owned by [Cube](#), one of the largest logistics and container depot operators in Australia. We believe it is the pilot for Cube switching over to 1-Stop. A freight forwarder told us another depot operator, [ACFS](#) (formerly owned by Patricks) the largest private container logistics company in Australia, is preparing to leave Containerchain and use 1-Stop. Should Cube and ACFS leave Containerchain that would eliminate about half their revenue. Australia is 85% of Containerchain’s business. We believe [Specialised Container Services \(SCS\)](#), that operates 10 depots in New Zealand will announce it is moving to 1-Stop this week. SCS is probably Containerchain’s largest customer in New Zealand.

⁶ <https://progecoholland.nl/progeco-rotterdam-will-implement-containerchain/?lang=en>

⁷ https://www.1-stop.biz/1-stop-modal-cargolink-fisherman-island/?fbclid=IwAR028nZKQen3qIGtVPs2YZtqOgLJOWJIsTKt_mipwUCRZ65aO5F5FB9f0ME

⁸ <https://www.1-stop.biz/1-stops-vbs-will-be-going-live-at-ics-on-monday-29th-june-2020/>

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It took just over 12 months for WiseTech to smoke the \$97.6 mln it had paid for Containerchain. WiseTech needs to admit failure and write down the \$87 mln goodwill it recorded for this acquisition.

Acquisition of Containerchain

Containerchain is considered a significant acquisition during FY19. All other acquisitions completed during the period are not considered individually significant and key information on these acquisitions has been presented on an aggregated basis.

Provisional details of the fair value of identifiable assets acquired, liabilities assumed, and goodwill determined are set out in the following tables. These values are provisional and amendments may be made to these figures up to 12 months following the date of acquisition if new information is obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

	Containerchain \$000	Other acquisitions \$000	Total \$000
Cash and cash equivalents	5,660	11,490	17,150
Trade receivables	4,765	5,862	10,627
Other current assets	1,867	3,342	5,209
Intangible assets	6,626	23,410	30,036
Property, plant and equipment	682	1,448	2,130
Trade and other payables	(7,067)	(4,957)	(12,024)
Deferred revenue	(155)	(5,473)	(5,628)
Current tax liabilities	(3)	(4,740)	(4,743)
Employee benefits	(867)	(1,322)	(2,189)
Other current liabilities	(1,034)	(870)	(1,904)
Borrowings	(61)	(170)	(231)
Deferred tax asset/(liabilities)	225	(4,481)	(4,256)
Other non-current liabilities	-	(32)	(32)
Fair value of net identifiable assets acquired (100%)	10,638	23,507	34,145
Acquisition related costs	1,419	3,267	4,686
Total consideration paid and payable	97,594	291,812	389,406
Less: Fair value of net identifiable assets acquired	(10,638)	(23,507)	(34,145)
Goodwill	86,956	268,305	355,261

Source: WiseTech Annual Report 2019

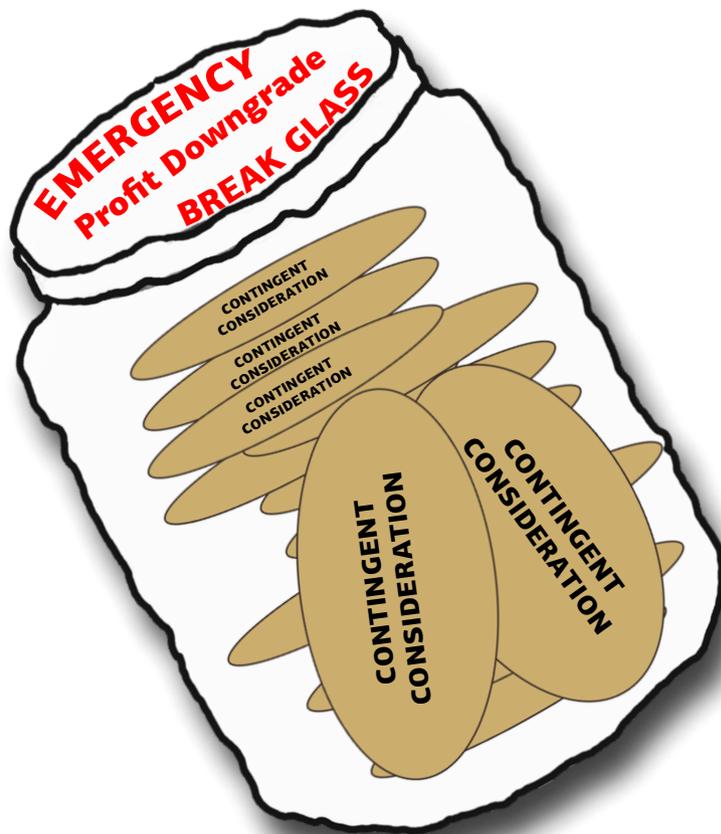
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Fingers in the dyke

The Containerchain problem is only the latest evidence of the failed acquisition strategy. On May 28, 2020, WiseTech announced it was shaving \$151.5 mln off \$215 mln of contingent consideration for 17 acquired companies. WiseTech will turn cash consideration into awards of new shares, while reducing payments overall, meaning that shareholders get diluted because these acquisitions are not generating enough cash to meet the liabilities.

WiseTech announced that the reversals will be booked as a “profit” of \$69.5 mln. Richard White patted himself on the back for a good job well done, saying, “Today’s actions further strengthen our balance sheet and align our global resources.” What he didn’t mention is that not one cent of our estimated \$342 mln in goodwill associated with these entities was considered impaired. We’re betting that the auditors set that right at the time of the annual report. We expect at least 40%, or \$136 mln, of this \$342 mln in goodwill should be written down.

Contingent Liability Cookie Jar Has Been Raided



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Table 4. Reversed Earnouts

Business acquired	Date of acquisition	Paid on Completion	Contingent Consideration	Total Consideration	Goodwill est.	
Cargoguide	12-Sep-17	6.9	3.4	10.3	9.8	
CargoSphere	29-Sep-17	11.5	5.6	17.1	16.2	
ABM Data Systems	31-Jan-18	12.3	4.9	17.2	16.3	Includes Customs Matters
Custom Matters	31-Jan-18	1.4	1.4		0.0	
Microlistics	1-Feb-18	20.0	20.0	40.0	38.0	
Forward	1-May-18	10.1	14.9	25.0	23.8	Includes Softcargo
Softcargo	1-May-18			0.0		
Pierbridge	2-Jul-18	37	22.4	59.4	52.9	
SaaS Transportation	2-Jul-18	2.1	1.7	3.8	3.4	
Trinium	1-Oct-18	40.9	27.7	68.6	61.1	
CargoIT	1-Nov-18	1.8	1.8	3.6	3.2	
SmartFreight	1-Nov-18	20	35	55.0	49.0	
DataFreight	1-Nov-18	3.6	1.4	5.0	4.5	
Xware	1-May-19	12	11.2	23.2	20.6	
Cypress	16-Sep-19					
Depot Systems	1-Oct-19	8.4	14.7	23.1	21.1	Includes Cypress
SISA	8-Jan-20	15.5	8.9	24.4	22.3	
Total		203.5	175.0	375.7	342.1	
WiseTech equity issuance for earnouts					81.5	
Write down in contingent liabilities					69.5	
Write-down vs total contingent liabilities (69.5/175)					40%	

Source: WiseTech reports and J Cap estimates of goodwill based on the average percentage goodwill allocated to acquisitions as reported in the year of the acquisition.

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