ASX Announcement: 2019/52

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WTC responds to misinformation in the market

WiseTech Global (ASX:WTC), learned yesterday, of allegations contained in a short-sellers report. WiseTech requested a trading halt to ensure that trading did not take place in an uninformed or false market. The Report, purports to be the first in a series and was issued by J Capital Research Limited (JCAP).

The Report contains many claims and allegations that are untrue.

WiseTech rejects entirely the allegations of financial impropriety and irregularity contained in the document. The Report was published without prior inquiry to WiseTech. The author of the Report, JCAP, discloses that it may realise significant gains from a decline in WiseTech share price.[1]

Founder & CEO, Richard White, said "We are very concerned that the allegations in the document may mislead and manipulate the market to the detriment of WiseTech's business and its shareholders, large and small. Our financials, our revenue, our profit, our growth rates and our product have all been verified comprehensively and form part of the external independent audits conducted annually."

We support investigations by Australian regulators of attempts by overseas domiciled short sellers to target ASX companies and in prosecuting unconscionable conduct. We are and will remain focused on correcting material misleading information and protecting our shareholders from such conduct."

Below are WiseTech Global's responses to the key allegations in the document, all of which are refuted.

No overstatement of profit, growth or revenue: accounts accurate and not inflated through acquisition accounting.

JCAP estimates for organic revenue growth of 10% in FY19 are incorrect. WTC organic revenue growth in FY19 was 33%. The JCAP commentary appears to suggest the information on organic growth and acquisition revenues is unclear, in fact WTC disclosures provide the split of revenue between organic and acquired for FY17 to FY19 and articulate the drivers for organic revenue growth which support our indicated average organic growth range of 20%-30% pa, see p47 and 48 of the FY19 Investor Briefing Materials. Information on integration and the transition of acquired revenue to organic is also provided in FY19 Investor Briefing Materials, Results Webcast and 2019 Annual Report.

Our organic revenues are primarily on-demand licencing where customers are billed monthly for their use of the platform and for executing transactions. CargoWise revenues are 99% recurring and are recognised as they are invoiced monthly. Over the last three years our businesses have delivered operating cashflow of $271m, well above our EBITDA of $240m. Over the same period, our free cash

[1] JCAP Terms of Service states: "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."

flow, which includes our capitalised development investment, totaled $155m. Refer to public disclosures in FY19 and FY18 Investor Briefing Materials.

JCAP's claim of overstated profit is predicated on what they label 'the payment for intangible assets (capitalised costs)' on Table 5 (p13), representing that capitalising the costs of software asset development is an inflation of assets and therefore an exaggeration of profit and revenue.

We are a technology company, the assets we build are software. WiseTech has consistently applied the requirements of the applicable Australian Accounting Standard (AASB 138), and in compliance with International Financial Reporting Standards (IFRS), which requires the capitalisation of eligible costs. As required under IFRS we capitalise our investment in internally developed new software components which can be commercialised. We also appropriately expense much of our software effort including maintenance, bug fixes and software investments not likely to be commercialised. The independent auditor's report (p110, WTC 2019 Annual Report) describes the audit procedures undertaken to form an opinion on the financial report, including the capitalisation of software development costs. The inputs are based on detailed digital data recorded real-time across hundreds of product developers, which is checked and verified as part of audit each year.

JCAP's claim of overstated profit is supposedly supported by "three more checks". There are numerous and significant errors contained in these checks.

No overstatement of European/EMEA revenues.

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. Internal revenues are eliminated in the group consolidation, as is required by accounting standards.

JCAP's analysis in Table 10 (p20) is flawed and understates EMEA revenue because:

- Revenue (and revenue growth) from some of our largest global customers (e.g. DHL, DSV, Geodis, Bollore, Rohlig, and many others) are included in EMEA revenue as they are headquartered in EMEA.
- In the table analysis JCAP excluded six of the 11 EMEA acquisitions completed up to the end of FY18. This has a significant impact. In total we have had 18 acquisitions in EMEA in the five years to FY19.

Pre-IPO accounting not unusual.

JCAP's claim focuses on our strong performance. We are a high growth company and profits have increased significantly since IPO along with revenues. Where JCAP published their own alternative estimates of our actual growth rates, we believe JCAP's estimates may mislead;

- JCAP appear (p6) to have compared Operating Profit in FY16 with NPAT in FY19.
- On a pro forma basis, NPAT has increased from $14.2m in FY16 to $54.1m in FY19, an increase of 3.8x and not the 12x claimed by JCAP. Their selection of FY16 statutory results as a comparative is potentially misleading as FY16 statutory financials included the significant one-off costs of IPO. To allow investors to understand the true operating performance of the business at that time and remove this distortion, WTC provided investor materials on a pro forma basis excluding one-off IPO costs as well as in the statutory form reported in the financials. WTC's approach is consistent with other businesses that IPO.

Audit is comprehensive and 'deed of cross guarantee' irrelevant

The document correctly states that under a Deed of Cross Guarantee relevant subsidiaries are not required to lodge separate audit financial statements with the Australian Securities and Investments Commission. Generally, other countries provide similar mechanisms for Group consolidated reporting. The Deed of Cross Guarantee is simply a feature of the Australian mechanism in accordance with the *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* and *ASIC Instrument 18-0722*. While the JCAP document discussion appears to suggest otherwise, the materiality levels quoted in ASX disclosures in relation to acquisitions are market materialities and are not relevant to audit procedures. Auditing materiality levels are set by our auditors and are typically based on a percentage of profit before tax for the entity.

It should be noted that all WiseTech subsidiaries are required to maintain detailed accounting transaction records to support Group audit procedures and local statutory audits, and those audits occur with their own separate materiality thresholds at the subsidiary level.

Audit partner movement not unusual

KPMG, an audit firm engaged by many ASX-listed organisations and leading corporations, have audited WiseTech accounts since FY14, well before our listing in 2016. Prior to that Grant Thornton was the audit provider. In FY17 our audit partner necessarily changed to accommodate her maternity leave and the reviewing partner took on the role, a transition we supported.

Company reporting is not designed to facilitate insider 'cash in'

Our founders and directors are aligned with shareholder interest.

WiseTech co-founders, Richard White and Maree Isaacs, currently own 154.1million shares with a total value of over $4.6billion. In the period since listing, for the purpose of assisting market liquidity as WTC entered the ASX 200 index (disclosed to ASX on 23 Nov and 14 Dec 2017), Richard sold only 5.8m shares for a total value of $73m. Maree has sold no shares.

In the period since listing, long-term Directors and shareholders, Charles Gibbon and Mike Gregg have sold a combined 5.7m shares, which they have held since 2006, for a total value of $106m. The same two Directors continue to hold 31.2million shares with a total value of $936million.

Conclusion

WiseTech rejects entirely the unfounded allegations of financial impropriety and irregularity contained in the document. In addition to the initial responses provided on allegations above, it is the Board's opinion that the JCAP document erroneously either misunderstands, selectively presents or misrepresents the company's performance, product quality and customer satisfaction.

The JCAP report declares an intention to publish further similar materials in the near future.

WiseTech Founder and CEO, Richard White, said "We acknowledge the right to differing opinions, but we are deeply concerned about the extensive value destruction that can be wrought from short-seller reports that potentially damage our shareholders large and small and the integrity of investment markets. All shareholders should be aware that unconscionable attempts to manipulate the market exist and may continue. We thank our shareholders for their support and patience while we correct these erroneous reports."

"We would ask the relevant regulators and government, not just for ourselves but for the many listed Australian corporations regularly subjected to similar attacks, to consider the complex issues raised and damage caused by reports of this type issued by a US or overseas short seller."

In this instance, the JCAP document is clearly marked not for use by Australian Residents, and notes that it 'does not constitute or contain any financial product advice', however, the dissemination of the document and its contents in deliberate, wide and rapid distribution through many Australian conventional and social media outlets, investor advice portals and investor platforms, has the real and immediate impact of disrupting the orderly and efficient operation of the market. These types of actions have the potential to damage shareholders large and small, including many ordinary Australians and their retirement plans, and hurting and distracting many high-quality Australian listed and owned companies in ways that are impossible to entirely circumvent in advance."

"Whilst we, and other Australian listed corporations, are subject to stringent external audit, validation and verification, no such standard applies to these types of actors. Many of these attacks may largely be beyond the reach of our market regulators and operate in ways that are clearly at odds with our system of laws, our market, culture and society. We support investigations by regulators of attempts by short sellers to target ASX companies and in prosecuting unconscionable conduct."

WiseTech released its fully audited 2019 Annual Report and Financial Statements on 25 Sept 2019, for which KPMG issued an unqualified independent auditor's report, as they have for each year since becoming WiseTech's auditor.

Extensive information about WiseTech operations, technology, strategy and performance is available from the investor centre at wisetechglobal.com including ASX announcements and disclosures.

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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[2]. Our flagship platform, CargoWise One, forms an integral link in the global supply chain and executes over 51 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

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[2] 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.