

Our Ref: GTG
Your Ref:



10 November 2017

Private & Confidential

By Email: n.fabrio@[REDACTED]com.au
Original forwarded by Post

Mr Nicholas Fabio
[REDACTED]
[REDACTED]

Dear Mr Fabio

GetSTIFFED

We act for GetSwift Ltd. (ASX: GSW).

Our client has been alerted to posts that you have been making on HotCopper and Twitter. Of major concern to our client firstly is a post wherein you state that you are shorting GSW. That post was made on 26 October 2017 and was in connection with other posts, including one where you criticised the company in a report entitled "GetSTIFFED". A copy of your report, GetSTIFFED, is **attached** to this letter.

This letter is to demand that you desist immediately from making any further comment in any manner about our client.

Following the publication of your "*bear piece*" (as you called it) you also posted that you had shorted shares in GSW. This clearly identifies an ulterior motive for the negative comments on GSW.

To be clear, the "*GetSTIFFED*" piece suffers from a number of false and misleading statements.

Firstly the attempt to compare GetSwift with Menulog, Foodora, UberEATS and Deliveroo is not correct. The software at the heart of GetSwift's business does not make GetSwift anything like the companies named by you.

The suggestion that management has pumped up delivery numbers is completely incorrect and cannot be derived from the information that you complain about. In fact, even the table of figures you present in your own report does not support your claim of any artificially pumped up delivery numbers.

The description of NA Williams as the White Knight is misleading and deceptive in that NA Williams is just one of a suite of clients signed up by GetSwift and GetSwift's description of NA Williams is completely correct. See the many other announcements GetSwift has provided to the market. The description of NA Williams and the relevant relationship description has been carefully written to ensure that it complies with the law and cannot be described as "*pure spin*".

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and marketing genius". On the contrary It has been properly qualified to ensure that the market is not misled. Your suppositions are designed to have the complete opposite effect.

Your suggestion that the four executives named in your report oversee the remuneration committee as well as all other corporate government issues and have been responsible for setting their own remuneration is false. Remuneration is set against a market for companies of similar sizes to GetSwift. There is a significant performance component to remuneration which is of benefit to the company and has been properly approved by the shareholders.

In respect to the issue of options to directors, all options issued have been approved by shareholders at the shareholder meeting held on 9 August 2017. Your discussion about a previous option issue proposal is completely irrelevant and designed to suggest improper behaviour when there has been none and all option issues have been fully disclosed and are voted upon by shareholders.

Your suggestion that management is not concerned about revenue is again completely misconceived and redolent with misleading statements.

The entire tenor of the GetSTIFFED report is misleading and clearly designed to give the impression of a company being improperly managed for the benefit of its directors. Given your shorting of the stock it can only be inferred that you had the ulterior motive of inducing persons to dispose of shares in the company and drive the share price down.

In our opinion your GetSTIFFED piece and other communication postings represent a Financial Service as defined in the *Corporations Act 2001 (Cth) (Act)*. We are of the opinion that it is rightly characterised as Financial Product Advice. See section 766B of the Act. Further, in our opinion we believe that you have purported to carry on a Financial Services Business because of the Financial Product Advice you gave in the GetSTIFFED piece and other communication postings and as such you should have held an Australian Financial Services Licence when giving the advice.

We consider that you are in breach of section 911A of the Act and sections 1041E through to 1041H of the Act by virtue of the false and misleading public statements in the GetSTIFFED piece and that you induced other people to deal in financial products for your own benefit.

Please advise us by return that you will make no further comment and will comply with our demand that you desist immediately from any further comment in any manner concerning GSW.

In the meantime we are instructed to bring our client's concerns about your actions to the Australian Securities and Investments Commission, a dialogue that has now commenced.

Yours faithfully
Piper Alderman

Per: 

Gordon Grieve
Partner

GetSTIFFED (GSW:ASX) – A Bear Piece

@longhorncapital

Market Capitalisation Justified?

GetSwift has a fully diluted market cap (excluding in the money options) of \$406m as of 30th October 2017, with cash balance of approximately \$28m, giving an Enterprise Value of circa \$379m.

| | No. of Shares | Share Price (30/10/2017) |
|-------------------------------------------|---------------|--------------------------|
| O/B July 1 2016 | 87,896,346 | 2.44 |
| Shares Issued | 37,500,000 | |
| C/B June 30 2017 | 125,396,346 | |
| Shares Issued July 4 (\$0.80) | 13,808,932 | |
| Shares Issued August 9 (\$0.80) | 16,281,608 | |
| Total from \$0.80 Cap Raise | 30,090,540 | |
| Class A+B Performance Rights (30/10/2017) | 10,975,612 | Mkt Cap |
| Fully Paid Ordinary Shares on Issue | 165,462,498 | \$ 406,168,495 |
| **Total in the Money Options | 23,750,000 | |

GSW has total trading revenues of \$320,402 in the last financial year (16/17) which means they are trading on approximately 1,183x Rev./EV. Naturally, the bulls will point toward the significant "contracts" that have been achieved by GetSwift in the last few months to justify this ludicrous valuation, including arguably their 'major' agreement with NA Williams. Let's take a quick look at these contracts and other GetSwift clients.

GetSwift - Getting Your Lunch Eaten

As you can see below GetSwift have a primary client base consisting of retail food and beverage groups, and this is precisely where they are generating their current delivery numbers since inception. Surely you would assume that with all the established brokers/players in this space, GSW would be massively behind the eight-ball in this market from a promotional perspective (e.g. Menulog, Foodora, UberEats, Deliveroo). With the exception of the NA Williams contract, GetSwift has exclusively signed with food and beverage groups since its annual report has been released (most recently Bareburger and Johnny Rockets)

Review of operations (continued)

The Group expects income and transactions to continue growing as the lag in client onboarding and scale is managed. Additional global client onboarding is underway to utilise GetSwift's SaaS solution to optimise delivery logistics. Notable clients signed for the year were Commonwealth Bank, FRF Couriers, Philip Morris International, Hungry Harvest, CITO Transport, Fresh Ventures (fruit at work), TuckerFox, Pizza Hut, Lone Star Texas, Mobil2Go, Crosstown Doughnuts, Little Caesars Pizza, Vietnammm (Takeaway.com group) among others continuing the strong yearly performance.

2017 Audited Annual Report

Interestingly, all GetSwift commercial agreement announcements are heinously light on detail, rarely offering more than a half page of information from the same template as the announcement before it. The typical GetSwift Announcement Template:

1. Blurb about GSW, and how pleased they are to announce a partnership.
2. Say something about markets 'globally'.
3. Who the new partnership is with and how 'global' they are in their reach.
4. Highlight how many countries/cities/suburbs and verticals GSW is now a part of.

Surely you would expect a little more detail regarding these announcements, such as exactly what these exclusive commercial agreements mean, how much they are worth on a per delivery basis, how long they are for etc. Instead, we can assume they onboard these clients on a pay-per-use basis/possibly even on a free trial basis to pump up their monthly delivery numbers. Why would management pump delivery numbers might you ask? Well, the earliest and easiest management performance rights are derived more so off delivery numbers than revenue (to be outlined later).

Over 1 Billion Transactions per annum, holy moly! This sounds fantastic, and look at the revenue this would generate as well!! \$138,000,000 per year!! Who exactly is NA Williams? Well it seems they are a private (family-owned) sales and marketing solutions company. Researching the company and their own revenues and size is difficult, given limited 3rd party information on them. Most google searches of NA Williams produced the GetSwift announcement and not much else. Their website looks flashy though!

GetSwift Partners with N.A. Williams in 1bn+ Transaction Per Annum Opportunity in the Automotive Sector

GetSwift Limited (ASX: GSW) ('GetSwift' or the 'Company'), the software-as-a-service ('SaaS') solution company that optimises delivery logistics worldwide, is pleased to announce that it has signed an exclusive commercial 5 year agreement with N.A. Williams (nawilliams.com) the leading representative group for the North American Automotive Sector.

The signing the 5 year agreement is expected to significantly increase the company's recurring revenues by more than \$138,000,000 per year once fully captured.

N.A. Williams is a leading manufacturers' representative firm that provides merchandising services, research, training, marketing, consulting, call center, and sales to the North American auto care and commercial vehicle industry. The firm serves manufacturers, retailers, and distributors of automotive and heavy duty replacement parts, chemicals, accessories, tools, equipment and services. Founded in 1934, N.A. Williams is headquartered in Atlanta, GA, with six satellite offices and over 120 associates.

The Company and N.A. Williams expect to transform the delivery services across the automotive sector targeting the established national representation under management: AutoZone, NAPA, Advance Auto Parts, Pep Boys, Truckpro, FleetPride, O'Reilly Auto Parts, and Traction Heavy Duty among others. N.A. Williams and The Company estimate that this structure will potentially yield in excess of 1.15 Billion (1,150,000,000) transactions a year when fully implemented. The Company estimates the fulfillment of this vertical will take at least 15-19 months due to the project scope, size and complexity of the channel partners.

In my opinion this announcement is nothing but pure spin and marketing genius. Let's take a look at the language and key words that are used:

- The agreement is expected to increase revenues by more that \$138m p.a. once fully captured – this seems to make the assumption/imply that they will fully capture the entire North American automotive market in order to generate these revenues on a recurring basis, which is pure fantasy.
- The estimations of transactions a year have been made by GSW and NA Williams, not an independent third party – an estimate that could POTENTIALLY (i.e. there is a chance, however small) yield 1.15B transactions. More likely this is back of the envelope type estimations based on how many total deliveries are done in the North American auto market (also assuming GSW fully capture this).
- This agreement will take significant time to implement, and is complex – so may you could assume that POTENTIALLY they won't be able to actually complete the project? Especially considering they have no staff which I will delve into next.

Where there's a will there's a wage!

GetSwift remuneration schedule is outlined below, and clearly the 4 executives are paid handsomely for their services in annual salary. The reason for this is they oversee the remuneration committee as well as all other corporate governance issues! How convenient!

Remuneration for the year ended 30 June 2017:

| 2017 | Short-term employee benefits | | Post-employment benefits | Long-term benefits | Performance rights | Total | Proportion of remuneration performance related % |
|--------------------------------|------------------------------|--------------|--------------------------|--------------------|--------------------|------------------|--------------------------------------------------|
| | Cash salary and fees | Annual leave | Super-annuation | Long service leave | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Non-executive directors | | | | | | | |
| Ms Jamila Gordon | 100,020 | 3,285 | 7,980 | 94 | 29,869 | 141,248 | 21.8 |
| Mr Brett Eagle | 21,720 | - | - | - | 28,869 | 51,589 | 55.4 |
| Executive directors | | | | | | | |
| Mr Bane Hunter | 240,000 | - | - | - | 288,820 | 508,820 | 52.8 |
| Mr Joel Macdonald | 250,000 | - | - | - | 288,820 | 518,820 | 51.8 |
| Total KMP compensation | 611,740 | 3,285 | 7,980 | 94 | 597,378 | 1,220,477 | |

The fact that 4 people are in charge of all corporate governance issues is not the most interesting thing despite the huge conflict of interest. More interesting is the fact that this company is supposed to be delivering billions of transactions within 15-19 months, yet it appears they are drastically understaffed outside of the 4 amigos (directors)!

4 Staff expenses

| | Consolidated entity | |
|--------------------|---------------------|------------------|
| | 2017 | 2016 |
| | \$ | \$ |
| Wages and salaries | (798,212) | (236,841) |
| Other | (156,914) | (63,636) |
| | <u>(955,126)</u> | <u>(300,477)</u> |

2017 Audited Report

I question how many other employees GSW has, if their wages and salaries (staff expenses) adds to \$798k, and executive remuneration is \$612k, this leaves just \$186k for their development team plus \$157k worth of "other" (whatever that means)? I would expect that a development team responsible for such a large and complex job like the NA Williams contract would be getting paid more. I guess it sucks for these 2 university graduates getting paid peanuts while (left and right) sitting next to these high flying executives:



From Startup Daily

Furthermore, if you look at the jobs available at GetSwift (courtesy of Angel.co) – it seems they are still trying to hire development staff as recently as July 19 according to GSW and Joel Macdonald's (CEO) twitter account. Wouldn't you expect a company worth \$400 million to at least have some established tech team in place? Surely Joel, the 11 year AFL veteran, isn't doing all the programming himself? Maybe he initially outsourced app development to India?

Joel Macdonald Retweeted

GetSwift @getswift_ · Jul 19

Now hiring frontend, backend and full stack devs to join the @getswift_ in Melb and NYC to fuel global expansion -

Jobs at GetSwift

GetSwift is hiring - See 4 GetSwift Jobs. GetSwift is an early stage, fast growing, complex online logistics/delivery tracking and management software t...
angel.co

13 11

Jobs at GetSwift

- Software Engineer - Full Stack - 2 positions available (+Bonus)
 New York City - Full Time - \$80K - \$150K - No Equity
- AWS Infrastructure Engineer (+Bonus)
 New York City - Full Time - \$100K - \$150K - No Equity
- Frontend developer (+Bonus)
 New York - Contract - \$80K - \$100K - No Equity
- Software Engineer (Backend for API Integrations) (+Bonus)
 New York City - Contract - \$75K - \$120K - No Equity

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I suspect they have had significant trouble trying to hire talent for the company, no developers worth their weight would join an early stage company with no equity. So much so that they decided on April 28th to create an Employee Share Option Pool of 11m unlisted options to attract talent! Although, only 3m were to be issued to prospective staff "from time to time" at the discretion of the board - the remaining 8 million were going to be issued to the 4 amigos for all the brilliant work they have done! As you may observe, GSW was trading at \$0.69 at the time of proposing to issue options with strike prices between \$0.20 - \$0.26 – almost 3 times in the money!!

Proposed ESOP Pool and Issue of Options to Directors

GetSwift Limited (ASX: GSW) ('GetSwift' or the 'Company'), the SaaS solution company that optimises delivery logistics world-wide, is pleased to announce that the board has resolved to make available a total collective pool of up to 11,000,000 unlisted options, subject to shareholder approval.

An ESOP pool of up to 3M unlisted options will be made available for allocation to staff from time to time as the board may determine. The terms of issue of these options and the rules governing the ESOP pool will be proposed by the board and presented to the shareholders for approval.

In addition, 8M options are to be issued to senior staff and directors in recognition of the exceptional, additional services which senior staff and directors have performed and as a retention incentive to ensure the continued involvement of such personnel with the Company.

Bane Hunter, Executive Chairman, will receive a total of 5M options with an exercise price of \$0.26 per share. Joel Macdonald, Managing Director, will receive a total of 1M options with an exercise price of \$0.26 per share. Brett Eagle, Non-Executive Director, will receive a total of 1M options with an exercise price of \$0.26 per share. Jamila Gordon, Director and Global Chief Information Officer will receive a total of 1M options with an exercise price of \$0.20 per share.

Unfortunately for the "Fab Four" they decided later that day that maybe this idea was a little ostentatious, and they withdrew the ESOP Pool due to the negative perception this caused (no sh!t Sherlock). For those of you who are worried about the well being of the poor executives, let me allay your fears! 3 months later, they got their 8 million options at a higher strike of \$1.00 per share (while the share price was trading at \$0.99). It's a tough life managing an ASX listed company, let me tell you!

The Group has also issued 8,000,000 options to directors as approved by shareholders at the shareholder meeting held on 9 August 2017. These options have been granted as follows:

- 5,000,000 options have been granted to Mr Bane Hunter, Executive Chairman, for no consideration;
- 1,000,000 options have been granted to Mr Joel Macdonald, Managing Director, for no consideration;
- 1,000,000 of options have been granted to Ms Jamila Gordon, Non-Executive Director, for no consideration;
- 1,000,000 of options have been granted to Mr Brett Eagle, Non-Executive Director, for no consideration.

These options have been issued in three tranches and will vest equally over 36 months. The options are exercisable at an average exercise price of \$1 per option and will expire in four years after the grant date.

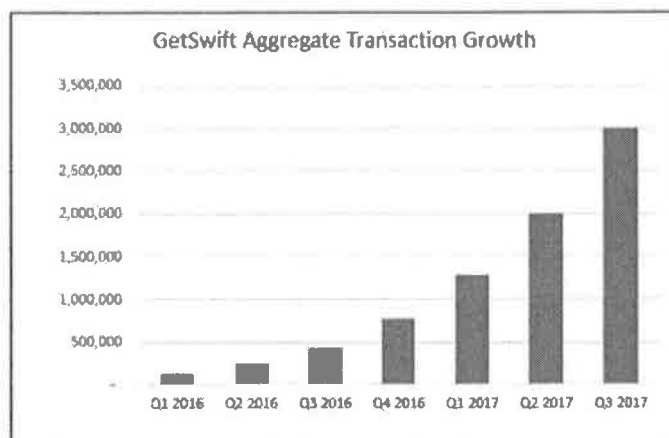
From 2017 Audited Annual Report

A Deeper Dive into the Numbers

The excel sheet below summarises the reported deliveries and revenues for the last 12 months with some forward estimates/assumptions that should be revealed in the near future (next 24 hours).

| | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
|----------------------|-----------|-----------|------------|------------|------------|
| Deliveries | 187,390 | 342,923 | 499,325 | 729,626 | 1,000,000 |
| Revenue | \$ 51,098 | \$ 62,850 | \$ 117,138 | \$ 152,682 | \$ 224,953 |
| Revenue Per Delivery | \$ 0.2727 | \$ 0.1833 | \$ 0.2346 | \$ 0.2093 | \$ 0.2250 |

As you can see, deliveries appear to be increasing quarter on quarter at a nice rate, however the revenue per delivery is largely declining. This is an issue because to me it suggests that management is focused purely on increasing delivery numbers at the cost of their margins. I have made assumptions for Q3 2017 deliveries based on the graph below which is from the ASX announcement on Oct 4th "GetSwift Surpasses 3m Deliveries". I have estimated the revenue per delivery based on the average of the previous 4 quarters, which give us revenue of circa \$225k. It will be interesting as to whether GSW actually achieves a decent \$/delivery this quarter, or if the trend continues to decline. Further evidence of the potential decline is highlighted when analysing the NA Williams contract. They claim that 1.15B transactions will translate to circa \$138m in revenue. Simple math highlights that this means they are averaging just \$0.12 per delivery on this contract.



One hypothesis as to why management are so focused on increasing their deliveries and not so concerned about revenue is due to their performance rights, of which they already have 33% of total available:

- Performance rights are convertible into shares based on achievement of certain metrics over a period of 48 months. The performance rights vest as follows:
 - Class A: Achievement of 250,000 deliveries in a calendar month. *Achieved in July 2017.*
 - Class B: Achievement of 375,000 deliveries in a calendar month.
 - Class C: Achievement of 750,000 deliveries in a calendar month.
 - Class D: Achievement of company revenue of \$5 million in a full financial year or \$1.25 million in any 3-month period ending on 31 March, 30 June, 31 October, or 31 December.
 - Class E: Achievement of company revenue of \$10 million in a full financial year or \$2.5 million in any 3-month period ending on 31 March, 30 June, 31 October, or 31 December.
 - Class F: Achievement of company revenue of \$15 million in a full financial year or \$3.75 million in any 3-month period ending on 31 March, 30 June, 31 October, or 31 December.

Clearly, management (specifically Joel Macdonald and Bane Hunter) are heavily focused and incentivized on scooping up the easiest of their performance rights which will see them collect 50% of total performance rights on issue once they manage to push out 750,000 deliveries in one month (after completing 375,000 deliveries in October). If the revenue per delivery continues to fall, a sceptical person could theorise that management may be finding ways to give free deliveries on a trial basis or some other way to boost monthly delivery numbers without actually generating any revenue which would ultimately benefit long term shareholders.

Other topics of relevance....

Briefly, a few other topics I find interesting that can be explored in more depth at a later date:

1. Why did GetSwift decide to raise \$24m when their costs on a quarterly basis as per the last quarterly were less than \$500k, and they already had \$4.5m in the bank (which would give them roughly 9 quarters until they completely ran out of cash).
2. For a company of this size (\$400M) with such ambitious growth targets to only have a quarterly advertising and marketing budget of just \$26,000 seems odd. Does this mean the 4 amigos and a few other staff are just cold calling for all this business?
3. The experience of the CEO and his ability to execute this business plan must surely be questioned. The business has pivoted into a SaaS company from an alcohol delivery business then immediately went public with essentially 2 people involved (Macdonald & Hunter).

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