

## Transcription

### Q1 2025 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:[KARO](#)) Q1 2025 Earnings Conference Call July 19, 2024 8:00 AM ET

#### Company Participants

Zak Calisto – Founder & Group CEO

Carmen Calisto – Group Chief Strategy and Marketing Officer

Goy Hoeshin – Group Chief Financial Officer

#### Conference Call Participants

##### Carmen Calisto

Hello and welcome to Karooooo's Financial Year 2025 Q1 earnings call. On behalf of Karooooo, we would like to thank you for joining us today.

I'm Carmen, the Group's Chief Strategy and Marketing Officer, and together with Hoeshin, our Group Chief Financial Officer, will be taking you through our key business updates and strong financial performance.

##### *DISCLAIMER:*

All investors are advised to read through the disclaimer.

##### *COMPANY STRUCTURE:*

We will be reviewing both Cartrack and Karooooo Logistics in today's webinar.

##### *KAROOOOO SNAPSHOT:*

After a milestone Q1 for net subscribers, we continue to profitably grow at scale and now have over 124,000 businesses choosing to power their operations every single day with our cloud.

Management believes we are on track to achieving our FY25 outlook, and remain excited to continue on our over 10-year track record of strong financial growth and performance.

##### *PHYSICAL OPS POWER:*

Physical operations bring us the food we eat and the infrastructure we rely on to call our families. They build our homes, and they keep our communities healthy and clean.

Whilst often overlooked, these physical operations power everything we do. They're the reason our lives have become easy.

They may not appear glamorous, but their work is admirable. And complex. And challenging.

And still, as they continue on their missions to carry our economies, physical operations are experiencing big changes in their environments. Customers are more demanding, costs are rapidly rising and competition is heightening.

#### *MASSIVE MARKET, TONS OF PROBLEMS TO SOLVE:*

In the day to day of running a physical operation, there are tons of moving parts. Between accidents, resource planning, timeline commitments, worker productivity, compliance and customer expectations there's a lot that can go wrong.

And then there's the extra layer of executing on everything beautifully whilst keeping your costs down and business efficient. This is no small feat.

Now the problem is that these physical operations are mostly paper-based or using 5 separate complex systems that don't speak to each other. The result, is that they either don't have data, get lost in it or are living siloed verticals within the same operation. What this means is that they severely lack visibility and control of their operation, and become crippled by their inability to make decisions. The left hand doesn't talk to the right hand.

#### *SIMPLIFY THE DECISION MAKING OF PHYSICAL OPERATIONS:*

As we continue to look beyond vehicles and equipment, Karooooo brings all aspects of a physical operation into a single, easy-to-use and unified platform that simplifies the decision making of physical operations.

#### *WHERE DO I \_\_\_?*

By empowering simpler decision making, our customers can spend less time, energy and resources wondering about where they should be spending their time, energy and resources.

Instead, they can focus on executing on their own missions and goals. Whether they want to boost safety, increase service-delivery, double profitability or reduce emissions, our cloud platform guides them on a great way to do it.

Through simpler decision making, physical operations become faster, more agile, and exceed on efficiencies.

#### *OUR PLATFORM BRINGS EVERYTHING TOGETHER TO TRANSFORM DECISION MAKING:*

We collect over 170 billion valuable data points monthly through IoT devices and open integrations, contextualise this data with our advanced algorithms and provide customers with a centralized platform that helps them to overcome their challenges.

Everyone talks about data, but the truth is most people aren't great at interpreting it. Given Karooooo's vertical integration and long track record of strong capital allocation, we have a real edge in knowing what data actually matters to physical operations, and how to take that data and transform it into an actionable insight that drives impact.

We apply our own operational learnings to our platform, and constantly innovate to ensure our platform screams of simple decision making. Of fast decision making. Of agile decision making. Of profitable decision making. Our platform is easy to use, and it's pragmatic.

#### *MAKE OUR CUSTOMER'S LIVES EASY:*

Our Operations Cloud drives digital transformation for over 124,000 commercial customers with a 95% retention rate across businesses of varying sizes in diverse markets and industries. Despite varying macro-economic headwinds we continue to grow. The value proposition of our platform is massive, and we have a huge runway for growth.

#### *DECLUTTERED DECISION MAKING: DELIVERY:*

On-screen, getting a parcel from A to B seems relatively easy- you click add to cart and it just shows up. But behind the scenes of a paper-based logistics company is a lot of manual mapping, distance calculating, capacity, restraint and time matching, clustering, sequencing, shuffling, tabling, assigning and reassigning. As you can imagine, not only is this a massive waste of time, energy and resources, but it also leads to massive costs and inevitable wrong orders, which in turn leads to the inability to compete and a less than ideal customer experience.

But with Cartrack's delivery solutions, a business simply uploads their jobs and details, selects which drivers are available and our AI delivers them with an optimized schedule that ticks all the boxes. They simply review it and say yes.

By digitalizing a leading medical lab's logistics infrastructure, they have gained full visibility and control of their operation. They have seen massive results in productivity, allowing them to differentiate themselves through a 20 minute SLA and scale their business, all while halving their admin costs.

When decision making is decluttered, it becomes simple. And when it's simple, companies can achieve great things.

#### *IDLING:*

In other instances, operations lack the visibility to understand where their problems come from. With advanced fuel solutions, we were able to help our customer understand that idling was costing them tens of thousands each year, and through the simple decision of implementing a proactive buzzer and gamifying driver behaviour they could slash this quickly. Through our in-cabin idling buzzer and proprietary gamified driver scorecards, a leading F&B operation reduced their idling time by over 42,000 hours, equating to over 300,000 USD in fuel costs, over 1 year.

#### *AI-CHARGED DECISION MAKING:*

When drivers spend hours on the road every single day, they begin to make mistakes that have huge consequences. They do this without realizing it.

In these cases, decisions need to be made instantly to have the largest impact. Whilst a manager can coach after the fact on safe driving, nothing beats alerting drivers in real time whilst they still have the chance to correct their behaviour and avoid the high-risk incident from occurring in the first place.

You can't have a paranoid passenger keeping drivers safe in every vehicle, but you can use Cartrack's AI-powered camera doing the same thing. Our cameras detect for high risk driving behaviour, alert drivers in real-time and upload footage for managers to review.

Managers simply review the infractions alongside trend insights to quickly know what course of action to take next using our powerful coaching tools.

Through AI decision making and practical tools, managers take simple steps towards maximizing their fleet's safety with impressive results in only months.

#### *FACTUAL DECISION MAKING:*

Not only do our vision solutions help customers make instant improvements to safety. They also offer operations a way to make factual decisions about events. Rather than leaving things to guess work and draining he said she saids, businesses can remotely request footage from our cloud to gain the evidence they need to simply investigate an event and exonerate their innocent drivers.

One customer saved over 60,000 USD in 5 months on proving their drivers were not at fault in accidents alone. Not only is this a massive cost efficiency, but the simplicity of decision-making eliminated manager-worker tensions from lengthy and often inconclusive investigations which has a large impact on driver retention and morale.

#### *TRACK RECORD OF BIG BETS:*

After years of strong execution, we believe we are only getting started. Our strong track record of innovation and successful execution with sustained capital allocation discipline puts us in a strong position for growth.

We continue to believe South East Asia will be a large driver for growth, and continue to invest in continuous platform innovation- both in solutions that will simplify the decision making of businesses today and tomorrow.

We continue to leverage our large data scale to add value to our customers operations with enhanced analytics and comparative benchmarks. Our data scale remains largely untapped and has a massive opportunity.

This quarter, we look forward to moving into our new office in Johannesburg that will allow us to further unleash our potential as we move into an environment that is more conducive to our working culture.

#### *WHY KAROOOOO:*

A key differentiator for Karooooo is our culture, largely driven by our founder-led approach to business. Our culture is not for everyone, it is highly entrepreneurial, practical, agile, fast, demanding, transparent, and customer centric.

Our culture is at the core of our ability to achieve strong growth at scale with compelling financials and a robust balance sheet.

Our culture keeps us innovative, ensuring we continue to deliver an easy-to-use platform that drives strong value through simplified decision making for our customers.

We are vertically integrated. We own the systems and tools that empower us to deliver world class service to our customers. More importantly, we continue to invest in these proprietary tools to ensure we remain agile and resilient against headwinds.

We understand the importance of successful implementation, and how to ensure our customers achieve it.

We believe in strong monitoring and strategic and disciplined capital allocation.

We have a robust business model and are geared for growth with a massive opportunity ahead of us.

I will now hand over to Hoeshin who will take us through our financial performance for the quarter.

### **Goy Hoeshin**

Thank you, Carmen. I will now talk through Karoooo's financial performance for Q1 FY25. Please note that all comparisons are against Q1 FY24 unless otherwise stated.

#### *KAROOOO DELIVER STRONG TRACK RECORD:*

Our proven and profitable SaaS business model continued and delivered a solid start for the financial year.

In this quarter, Karoooo experienced strong customer acquisition. Karoooo's total subscription revenue up 15% to ZAR964 million. And as expected, after substantial investment for future growth in all segments, operating profit up 34% to ZAR300 million and Earnings per share up 41% to ZAR7.17.

All segments continue to see strong traction with the benefits of our strategic investments beginning to show.

#### *DECADE PLUS TRACK RECORD OF HIGH CASH CONVERSION:*

As our earnings improved with high cash conversions, free cash flow in this quarter stood at ZAR83 million. The free cash flow generated is keeping with our planned capital allocation for future growth.

In this quarter, ZAR37 million are invested in the development of the South African Central Office and a total of ZAR304 million were invested to-date.

Capital expenditure incurred relates to telematics devices installed as a result of increase in new subscribers.

Our strong track record of discipline capital allocation, earnings and free cash flow will continue to bolster our balance sheet.

#### *ACCELERATES EARNINGS PER SHARE:*

Karoooo's earnings per share was up by 41% to ZAR7.17 in this quarter. The increase is driven by higher subscription revenue and expanded margins. The negative impact from Carzuka on earnings are now resolved with Carzuka fully integrated to support Cartrack's operations.

*EPS RECONCILIATION:*

Cartrack's earning per share was up 29% to ZAR6.94 and Karooooo Logistic earnings per share up 188% to ZAR0.23.

Karooooo continues to scale, grow and increase its earnings to meet our outlook.

*ROBUST BUSINESS MODEL AND STRONG BALANCE SHEET:*

Our consistent results extend our track record of growth at scale, profitability and cash generation ability.

Our net cash on hand plus cash in bank fixed deposits stood at ZAR950 million.

Debtor's turnover days stood at 30 days alongside with prudent provisioning to weather off strong economic headwinds in some of the markets we are operating.

The healthy cash generation continues and we are pleased to announce a cash dividend of USD33.4 million to our shareholders and the dividend will be paid in August 2024.

We have strong unit economics, robust operating margins, unleveraged balance sheet and a strong cash conversion. We remain confident that our track record of success, especially our ability to generate healthy cash flows, is sustainable.

We will now focus on Cartrack, the underlying asset to Karooooo's success:

*CARTRACK EXTENDING DECADE-PLUS TRACK RECORD OF EXECUTION EXCELLENCE:*

Cartrack continues to prove its ability to scale in varying macro-economic conditions and consistently beaten the rule of 60.

Overall, subscribers grew at scale by 14% to 2,047,442. And in this quarter, subscription revenue grew 18% to ZAR960 million; and operating profit stood at ZAR287 million.

*RECORD Q1 NET SUBSCRIBER ADDITIONS:*

Cartrack experienced strong customer acquisition with net subscribers addition up 88% in this quarter. We operate in a huge addressable market and are comfortable we will continue to grow at scale with the opportunities in front of us.

*CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD OF STRONG SAAS REVENUE GROWTH:*

As Cartrack continues with strong SaaS revenue growth, Cartrack's total revenue and subscription revenue was up 15% to ZAR981 million and ZAR960 million in this quarter.

Cartrack's total subscription revenue represents 98% of total revenue, which is in line with our SaaS business model.

*DECADE PLUS TRACK RECORD OF CARTRACK EPS GROWTH:*

Cartrack earnings per share up 29% to ZAR6.94. Our earnings will continue to benefit from strong economies of scale.

*CARTRACK IMPROVES OPERATING PROFIT DESPITE STRONG INVESTMENT FOR GROWTH:*

As Cartrack continues to have strong visibility of its future SaaS revenue, our realisation of economies of scale continue to demonstrate our ability to drive earnings.

Gross profit in this quarter was up 19% to ZAR713 million. Gross profit margin improved to 73%.

Despite the investment for growth, our operating profit was up 24% to ZAR287 million. Operating profit margin improved to 29%.

Our Adjusted EBITDA up by 16% to ZAR392 million and Adjusted EBITDA margin remained consistent at 46%.

*CARTRACK'S CUSTOMER ACQUISITION AND UNIT ECONOMICS:*

Cartrack's low cost of acquiring a customer, high customer lifetime value and retention rate as well as strong benefits from economies of scale result in our leading unit economics.

Our LTV to CAC is over 9.

We have strong profit margins with our gross profit margin on subscription revenue at 74% and commercial customer retention rate of 95%.

We are well positioned to continue scaling while we remain prudent and disciplined with our capital allocation. We will continue to invest in territorial expansion and growth of the business.

*CARTRACK'S STRONG SUBSCRIBER UNIT ECONOMICS:*

Over the years, Cartrack has maintained a steady ARPU and average upfront cost of acquiring a subscriber. ARPU for the quarter was ZAR159.

In this quarter, Cartrack's average lifetime revenue per subscriber was ZAR9,551.

The average up front cost of adding a subscriber to our cloud was ZAR2,370. These costs mainly relates to sales commission and telematic devices which are capitalized and sales and marketing expenses that are expensed off.

The headroom, derived from the average lifetime revenue per subscriber, after subtracting the average upfront cost of adding a subscriber was, ZAR7,181 per subscriber.

From the ZAR7,181, we incur the cost to service a subscriber over the contract life cycle of 60 months.

The cost to service a subscriber will decrease as we grow our subscriber base.

Our unit economics have remained steady allowing us strong operating profits.

*CARTRACK CONTINUES TO GROW SUBSCRIBERS BASE & ARR WITH ENCOURAGING TRACTION IN SEA:*

Cartrack continues to grow its subscribers base and ARR to expand in all geographies.

Our subscribers in South Africa grew by 16%. The prospect of improved economic conditions in South Africa, gives us confidence that we can continue to extend our long-standing track record of profitable growth at scale and robust cash generations.

Our move to our newly built central office in coming September 2024 will continue to support strong organic growth in this region.

In Asia, the Middle East and USA, subscribers grew by 23% with solid traction in South East Asia. South East Asia remain as the second largest contributor to the group's revenue, presenting the most compelling growth opportunity to the Group in medium to long term.

Europe saw a healthy growth of 17% and remains a region we are focusing our resources on. Leading OEMs have partnered with us to give their customers access to our platform. We expect these partnerships to contribute to our results in the medium term. In addition, we are experiencing encouraging demand for our proprietary compliance technology in this region.

Africa other maintained its growth with 14% increase in subscribers.

At the end of quarter 1, our ARR was up 14% to ZAR3, 864 million.

This is at a good trending as we continue to see the momentum of growth in our subscribers and ARR.

#### *CARTRACK'S CONSISTENT OPERATING METRICS:*

In this quarter, our subscription revenue gross profit margin grew to 74% which is consistent with our expectations.

As we continue to invest in territorial expansion and growth in the region we are operating in, our:

- Research and development expenses as a % of subscription revenue is 6%.
- Sales & marketing expenses as a % of subscription revenue increased to 15%. This strategic investment in customer acquisition will position us well for continue growth.
- General and admin expenses as a % of subscription revenue is at 21%. As we are investing in building strong infrastructure to support our growth, we are also demonstrating our ability to contain costs.
- Operating profit as at % of subscription revenue is 30% and our adjusted EBITDA as a % of subscription revenue is at 47%.

Cartrack continues to have consistent operating metrics with our strong track record of performance.

#### *KARO0000 LOGISTICS CONTINUES TO GAIN ADOPTION:*

Karooooo Logistics continues to gain adoption by our large enterprise customers seeking to scale their e-commerce capabilities.

In this quarter, Karooooo Logistics delivered significant growth generating ZAR101 million in revenue and an operating profit of ZAR13 million.

We see large opportunity for Karooooo Logistics and we believe we have the correct strategy to win as we are customer centric and we will help our large enterprise customers to be customer centric as well.



## *KAROOOOO'S OUTLOOK FOR 2025:*

We have had a solid start to our financial year 2025 and we are on track to meet our outlook.

Our guidance for our outlook remains unchanged with:

- Cartrack's number of subscribers - between 2.2 to 2.4 million,
- Cartrack's Subscription Revenue - between ZAR3.9 - to ZAR4.15 million;
- Cartrack's Operating Profit Margin - between 27 to 31%; and
- Karooooo's Earnings Per Share – between ZAR27.50 - to ZAR31.

Our mission is to be a leading operations cloud service provider.

I would like to thank everybody for joining us today and will now open the floor to Q&A with our Group CEO and founder Mr. Zak Calisto.

### **Question-and-Answer Session**

#### **Zak Calisto**

Thank you very much for joining the presentation.

#### **Question: Dylan Becker, William Blair**

Talked about improving environment in South Africa, most mature market but still seeing nice growth. How should we think about runway here, how much larger can these customers be if they were to adopt more of the platform?

#### **A – Zak Calisto**

We saw growth this year in South Africa of 16%. We believe we will continue this momentum and as Hoeshin said, we will be moving to our new office in Johannesburg in September and that will definitely give us the opportunity to grow our headcount. At the moment, one of our bottlenecks is we haven't got space to house more people.

In terms of the platform, not all our customers use as much of the platform as they should be using. We are embarking on efforts to get more customers to use parts of the platform that they should be using.

#### **Question: Roy Campbell, Morgan Stanley**

What is your estimated market share in South Africa? What do you estimate the penetration rate is? Can you describe the competitive environment?

#### **A – Zak Calisto**

I think South Africa has an extremely competitive environment, all our competitors have been in the market for approximately 10 years more than us. We came to the market in 2004, they've been around from 1994 until about 1996.

They are all very strong. And I think its one of the geographies that we certainly see strong competition in. We estimate our market share in South Africa to be approximately 40% of the installed base. That's based on some internal calculations that we've done, but it might not be fully accurate.

We estimate the penetration to be between 3.5 to 4 million vehicles, and the total vehicle park is 12 million. We believe that eventually this will go up where the whole market will be penetrated.

**Question: Roy Campbell, Morgan Stanley**

Your 16% growth in SA, is that in the traditional track and trace, or are you gaining market share in fleet telematics?

**A – Zak Calisto**

We grew our business in South Africa with 40% of our growth coming from consumer and 60% that came from commercial customers.

**Question: Alex Sklar, Raymond James**

Can you talk more about the improved macro you referenced in South Africa? What did you see in June growth relative to prior months?

**A – Zak Calisto**

What we're seeing in South Africa, the country has just had elections and most South Africans are confident these election results will lead to a better South Africa. And what we are seeing as a business is in terms of customer defaults, that's starting to decrease. That's probably started to decrease about 3-4 months ago, and I think just generally speaking, also the whole economic environment is starting to look quite positive compared to what it was a year ago.

**Question: Alex Sklar, Raymond James**

Could you provide some more color on the launch of NextGen Vision - what % of your commercial customers take your Vision solution?

**A – Zak Calisto**

We only really started launching it a month ago, it's not yet fully launched. And we finding a very positive uptake, and we're very excited about that.

**Question: Alex Sklar, Raymond James**

What are the ARPU uplifts and what features are in the NextGen product that might increase adoption relative to your prior version?

**A – Zak Calisto**

This version has got more AI than our previous version firstly, and second of all, there is also improvement on the AI that we had on our previous versions.

Also the way it integrates into our platform, it's the improvements there that I think are quite big. We're actually only rolling out all the improvements within the next 2 months. So I believe by the time we get to about October, we would've rolled out our new AI capabilities on the video cameras.

**Question: Jack Sun, Gelonghui Research**

Geographically, Asia-Pacific, Middle East & USA got the highest rate for subscribers and subscription revenue. We got low base and compelling regional growth in this area. Could you give some color on growth rate for the region in financial year of 2025?

**A – Zak Calisto**

We certainly believe that we can keep the current growth rates and increase those growth rates. In actual fact, we had a relatively weak quarter in Asia but we're already seeing a much better quarter now in Q2.

**Question: James**

Has your investment in hardware related to AI capabilities grown dramatically lately or is it in line with previous trends?

**A – Zak Calisto**

Our R&D is at about 6% of subscription revenue, and we are seeing quite a big increase in R&D compared to last year but I believe by the end of Q4 that we'll have that under control. And we are obviously getting good talent in the R&D department, so overall, I think we are getting a lot of value in R&D but despite that R&D is going up.

That's all the questions, thank you for attending.