Transcription

Q2 2025 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q2 2025 Earnings Conference Call October 15, 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 Q2 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 Hoe Shin, our Group Chief Financial Officer, we'll discuss our Q2 results and key business highlights.

Our Group CEO and Founder, Zak Calisto, will be available for Q&A following our presentation.

DISCLAIMER:

All investors are advised to read the disclaimer.

During the call, we will review both of Karooooo's, operating units, Cartrack and Karooooo Logistics.

For those new to Karooooo, Cartrack is our operations management SaaS platform focused in Asia, Africa and Europe. Cartrack operates at scale and has a very attractive financial profile.

As of August 2024, Cartrack's annual recurring revenue was ZAR 3,990 million or USD 224 million, and Cartrack's Q2 operating profit margin was 29%. Historically, Cartrack's operating momentum has driven Karooooo's growth and strong financial performance.

Karooooo Logistics is our rapidly growing delivery as a service business that empowers large enterprises to scale their e-commerce operations and capabilities. Karooooo Logistics is a structurally lower margin business than Cartrack, and it is growing rapidly.

As of August 2024, Karooooo Logistic's annualized B2B Delivery as a Service revenue was ZAR 418 million or USD 24 million.

Given Karooooo Logistics' robust revenue growth, we are very excited about the long-term growth opportunity for the business.

We are also proud that Karooooo Logistics is profitable at its current scale.

KAROOOOO SNAPSHOT:

In Q2, Karooooo delivered another strong quarter with total revenue of ZAR 1,107 million, an increase of 16% year-on-year, subscription revenue of ZAR 986 million, an increase of 15% year-on-year and adjusted earnings per share of ZAR 7.35, an increase of 31% year-on-year.

Q2 continued our track record of delivering profitable growth at scale. In Q2, we were a rule of 60 company when adding our Q2 subscription revenue growth of 15% year-on-year and our Q2 Cartrack adjusted EBITDA margin of 45%.

For the benefit of investors in the U.S., we believe our quality of earnings is high as there is no stock-based compensation in our adjusted EBITDA reconciliation unlike many U.S.-based technology companies.

We ended Q2 with over 2.1 million subscribers, an increase of 17% year-on-year, and more than 125,000 businesses across all industries trust us to power their daily operations.

We continue to build upon our strong data pool, and our platform now generates over 180 billion valuable data points monthly, strengthening our position to capitalize on our strong network effects and continue driving enhanced insights for our customers.

Q2 FY25 BUSINESS AND OPERATIONAL HIGHLIGHTS:

In Q2, we started to move to our newly built central office in South Africa, which positions us to support higher organic growth in South Africa. Not only does this office ensure that we can continue to grow our headcount, but it also provides a layout that ensures we continue to foster the Cartrack DNA and our strong culture as we scale. We completed the move in September, and are already seeing the positive improvement.

We also increased our sales and marketing investment in Southeast Asia, beginning in August, to capitalize on the attractive and sizable opportunity in the region.

We continue to see Southeast Asia as the most compelling growth opportunity for the group over the medium to long term.

Finally, Cartrack delivered record net subscriber additions in Q2, whilst maintaining strong unit economics with an LTV to CAC ratio greater than 9.

Our commercial customer retention rate remains at 95%, and we continue to grow the business at scale with strong discipline.

Q2 FINANCIAL HIGHLIGHTS:

Our Q2 financial highlights included: Cartrack subscription revenue increased 15% year-on-year to ZAR 983 million. Cartrack's gross margin improved approximately 300 basis points year-on-year to 74%. Cartrack subscribers increased 17% year-on-year to 2.14 million. Karooooo's adjusted earnings per share increased 31% year-on-year to ZAR 7.35.

Our balance sheet remains strong and unleveraged, and we ended the quarter with net cash and cash equivalents of ZAR 674 million.

Additionally, given our strong Q2 financial performance and operating momentum, we are increasing the midpoint of our guidance ranges for our FY '25 outlook for subscribers and Cartrack subscription revenue.

INVESTMENT HIGHLIGHTS:

We believe that we are very well positioned to drive profitable and durable growth given our efficient unit economics, and have a proven track record and culture of operating with financial and capital allocation discipline. We offer an easy-to-use and differentiated enterprise SaaS platform that leverages our vast and proprietary data assets.

We have a strong track record of compelling financials and our rule of 60 company with a strong and unlevered balance sheet.

Finally, we are founder-led with a unique winning culture, and operate in a very large TAM with a massive runway ahead of us.

SIMPLIFYING DECISION-MAKING:

Karooooo simplifies the lives of operators to help them maximize the scale and efficiency of their operations.

Our innovative platform goes far beyond connected vehicles and equipment. We simplify the decision-making of physical operations.

UNIFYING DATA AND INFORMATION:

Our platform transforms decision-making by unifying and contextualizing the data and information we collect from OEM devices, proprietary devices as well as open APIs. It centralizes the operations of businesses across diverse industries into a single place, and helps customers conquer complex challenges around safety, compliance, productivity, service delivery, cost management, fuel, maintenance, routing, resource allocation, driver and worker retention and more.

Our platform leverages our large data scale, AI and data analytics to offer customers pragmatic and impactful insights that are easy to execute on.

Given Karooooo's vertical integration and long track record of strong capital allocation and efficiencies, we have a real edge in knowing what data actually matters to physical operations and how to provide that data in a way that is easy to implement and will drive real impact. We constantly innovate to ensure our platform keeps decision-making simple, fast and agile.

Our platform is easy to use and it's pragmatic. From start to finish, our entire solution focuses on simplifying complex decisions to ensure huge ROI for our customers.

WHY 125,0000 CUSTOMERS+ CHOOSE OUR PLATFORM:

Our customers choose us because we deliver ROI by reducing costs, increasing productivity and improving safety, with a user-friendly platform supported by a best-in-class service team. The value proposition of our platform is massive.

If you think about your day-to-day, the toughest part really is around decision-making.

Let's say, for example, your business is suffering from high fuel costs. Well, firstly, we'll benchmark you to others in your industry, so you can understand how much of a problem this really is. Then there are 3 key things that could cause this - You're paying for fuel your vehicles aren't using, spending too much fuel per mile traveled or traveling more miles than you need to, to achieve the same result.

Our platform takes customers through each of these, highlighting where the drainages are and more importantly, offering solutions for each.

By simplifying these decisions, we empower our customers to spend their time, energy and resources, overcoming their challenges and improving their businesses.

We have some businesses saving over 300,000 USD purely on idling a year, and we have others who have managed to scale their business 12 fold as a result of the control, visibility and digitalisation our platform provides.

AI-POWERED DECISION-MAKING SAVES LIVES:

We remain committed to investing in product innovation that leverages AI to deliver ROI to our customers. From fatigue driving to unscheduled stopping and detecting fuel fraud to end user risk profiles, our platform harnesses AI to deliver insights around areas that negatively impact operational performance. In doing so, we believe we are using AI to help our customers mitigate risk, improve their service delivery, save money and likely, save lives.

For example, our AI-powered cameras, alongside our fully digitalized coaching platform and actionable analytics, helped the South African customer reduce fatigue driving by 32% and mobile phone usage by 13%, whilst improving their seat belt compliance, all of which are key contributors to eliminating fatalities on the road.

During Q2, momentum for our camera business was strong, and we are excited about customer interest in our vision solutions.

KAROOOOO LOGISTICS:

As businesses look to increase their e-commerce offerings, many are also looking to move away from online marketplaces as they see a risk in losing control of the customer. This has been a continued driver for Karooooo Logistics, which continues to gain adoption by our large enterprise customers seeking to scale their e-commerce capabilities under their own terms.

During Q2, Karooooo Logistics delivered revenue of ZAR 101 million, an increase of 40% Y/Y, and operating profit of ZAR 9 million.

We see a large opportunity for Karooooo Logistics, and continue to maintain a positive outlook on this business unit.

GROWING PHYSICAL OPERATIONS MARKET OPPORTUNITY:

Our commitment to product innovation and a disciplined approach to profitable growth positions us to capitalize on the large and growing market opportunity. We believe we have ample runway for growth as businesses across industries seek to leverage technology to optimize their physical operations.

OUR GROWTH STRATEGY:

As we continue to execute and scale, we believe we are only getting started. We believe there is ample opportunity for growth. We plan to:

- Increase subscription sales to existing customers;
- Expand our customer base;
- Expand the scope of our operations in newer geographies; and
- Expand our operations platform and services

We will continue to invest in all geographies to expand our sales and support infrastructures to achieve growth and maintain our customer centricity, and expect Southeast Asia will be our largest driver of growth over the medium to long term.

Our balance sheet and strong cash generation put us in a good position to accelerate our customer acquisition strategy while remaining highly profitable.

KEY DIFFERENTIATORS:

Our founder-led culture and vertically integrated business model has created an entrepreneurial environment with high customer centricity. This, alongside our open APIs, innovative platform that is easy to use, and continuous investment in proprietary internal systems ensures we offer customers an unparalleled offering and is why we win.

CARTRACK'S LEADING UNIT ECONOMICS:

In Q2, we maintained our leading unit economics with a LTV to CAC ratio of over 9. Our strong discipline in capital allocation, high platform ROI, customer centricity and tight efficiencies at scale lead to our low cost of acquiring a customer, high customer lifetime value and retention rate as well as strong benefits from economies of scale.

Our Q2 gross profit margin was 75%, and our Q2 commercial customer retention rate was 95%.

We are excited about our massive TAM, and remain committed to profitable growth as we pursue the expansive growth opportunity ahead of us.

I will now hand it over to Hoeshin who will discuss our 2Q financial performance.

Goy Hoeshin

Thank you, Carmen. I will now discuss Karooooo's financial performance for quarter 2 FY '25. Please note that all comparisons are against quarter 2 FY '24, unless otherwise stated.

CARTRACK EXTENDS DECADE-PLUS TRACK RECORD OF EXECUTION EXCELLENCE:

Our proven and profitable SaaS business model continued to deliver strong results in quarter 2. Karooooo's total subscription revenue increased 15% to ZAR 986 million, operating profit increased 22% to ZAR 302 million and adjusted earnings per share increased 31% to ZAR 7.35.

In this quarter, Cartrack experienced strong customer acquisition and quarter 2 subscribers increased 17% to 2,136,000 subscribers. Subscription revenue increased 15% to ZAR 983 million and operating profit was ZAR 293 million.

Cartrack continues to prove its ability to scale in varying macroeconomic conditions, and was the rule of 60 companies when adding our second quarter subscription revenue growth of 15% and our second quarter adjusted EBITDA margins of 45%.

CARTRACK DELIVERED RECORD NET SUBSCRIBER ADDITIONS:

Our solid start in quarter 1 continued as we gained momentum in quarter 2, with a record net subscriber addition of over 89,000 in this quarter, an increase of 18% year-over-year. We operate in a massive addressable market. In August this year, we accelerated our capital allocation to sales and marketing, and we are comfortable that we can continue to grow our subscriber base profitably at scale.

REVENUE AND SUBSCRIBER MIX:

Cartrack continues to grow its subscriber base across geographies. In quarter 2, South African subscribers increased 16%, representing 76% of total subscribers. We believe the economic environment in South Africa continues to improve, and we are confident that our move to our newly built central office in September 2024 position us to support strong organic growth, as it will allow us to expand our customer base and increase subscription sales to existing customers.

Asia, the Middle East and U.S.A. subscribers increased 21%, with strong momentum in Southeast Asia. This region made up 12% of our total subscribers.

Southeast Asia remains the second largest contributor to the group's revenue, representing the most compelling growth opportunity over the medium to long term.

As such, in September, we started to prudently invest in sales and marketing in Southeast Asia to drive incremental growth.

Europe subscribers increased 17% and comprised 8% of total subscribers. We remain focused on increasing our presence in the region, especially through OEM partnership with our proprietary compliance technology.

Africa, excluding South Africa subscribers, increased 15% and comprised 4% of total subscribers.

With the strong tractions, we believe we are well positioned for geographical expansion.

KAROOOOO CONTINUES TO DELIVER STRONG EARNINGS PER SHARE GROWTH:

Karooooo's quarter 2 adjusted earnings per share increased 31% to ZAR 7.35, mainly driven by higher subscription revenue and expanding gross margins. Cartrack's earnings per share increased 22% to ZAR 7.17, and Karooooo Logistics earnings per share increased 29% to ZAR 0.18.

As Karooooo continues to scale, grow and increase its earnings per share, we are confident in our FY '25 earnings per share outlook.

KAROOOOO HAS A DECADE-PLUS TRACK RECORD OF HIGH CASH CONVERSION:

In quarter 2, we continue to demonstrate high cash conversions as our earnings increase. Free cash flow was ZAR 166 million. We invested ZAR 49 million in the development of our South African Central office, bringing the total investment in our new office to ZAR 316 million. We believe our strong track record of disciplined capital allocation, earnings and free cash flow will continue to bolster our balance sheet.

KAROOOOO HAS A ROBUST BUSINESS MODEL BACKED BY A STRONG AND CLEAN BALANCE SHEET:

Our consistent results extend our track record of growth at scale, profitability and cash generation ability. In this quarter, our net cash on hand plus cash in bank fixed deposits stood at ZAR 674 million, debtor’s turnover days was 27 days, which includes prudent provisioning given strong economic headwinds in some of the markets we are operating.

In August, we paid a cash dividend of USD 1.08 per share, a total of USD 33.4 million to our shareholders, an increase of 27% per share year-over-year.

We have strong unit economics, robust operating margin and unleveraged balance sheet and strong cash conversion.

Our robust business model is geared for growth, with massive opportunities ahead of us. This was backed by a strong and clean balance sheet, and we remain confident that our track record of success, especially our ability to generate healthy cash flow, is sustainable.

RAISING FY25 OUTLOOK FOR SUBSCRIBERS AND CARTRACK SUBSCRIPTION REVENUE AT MIDPOINT:

Given our strong quarter 2 results and operating momentum, we are raising our outlook FY '25 subscriber and Cartrack subscription revenue at the midpoint.

We are now expecting Cartrack subscribers to be between 2.3 - to 2.4 million compared to 2.2 - to 2.4 million previously. Cartrack subscription revenue to be between ZAR 3.95 billion to ZAR 4.15 billion as compared to ZAR 3.9 billion to ZAR 4.15 billion previously. Cartrack operating profit margin outlook of between 27% to 31% and Karooooo's earnings per share outlook of between ZAR 27.50 to ZAR 31.00 remains unchanged.

In closing, we are excited about the operating momentum in the business and our strong first half results highlighted by our improved outlook for FY '25.

Looking forward, we believe our attractive SaaS business model, strong cash generation and strong balance sheet positions us to capitalize on the expensive growth opportunity in front of us.

I would like to thank everybody for joining us today, and we 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, Hoe Shin.

Question: Adi Al Owaifeer

Karooooo Logistics reported revenue of 101 million ZAR for Q2 FY25, which, while demonstrating a strong 40% YoY growth, shows muted QoQ growth, as it matches the Q1 FY25 revenue. This appears to be the first time we've seen muted QoQ growth for Karooooo Logistics. Could you comment on the factors contributing to this stagnation? Additionally, do you anticipate that Karooooo Logistics will achieve double-digit annual revenue growth over the next few years, and if so, what are the key drivers expected to support this growth?

A – Zak Calisto

So in Q1, we really stagnated quite a lot because we needed to basically increase our driver capacity, and we needed to onboard more drivers to be able to deal with the increased demand. Further, we also needed to increase our operational capabilities, so we did stagnate intentionally.

In Q3, you will already see a much better performance compared to Q2. And we certainly believe that we can continue delivering double-digit growth.

Question: Alex Sklar, Raymond James

Zak - Can you talk about the mix of the record subscriber adds this quarter? Any change in commercial mix or larger enterprise net adds?

A – Zak Calisto

It was very much a situation where most of our driver growth was still SME business. Clearly, we did get some large enterprise customers. We've got 1 or 2 customers with more than 2,000 trucks. But fundamentally, it was driven by SMEs still being the biggest contributor to our growth.

Question: Alex Sklar, Raymond James

Zak or Hoe Shin - implied Cartrack Gross margin (ex-logistics) looks like a new record this quarter, can you talk about the drivers there? How sustainable is this higher gross margin level?

A – Zak Calisto

A lot of it comes from operational efficiencies. But as you've seen over the past years, our margins tend to go up and down in a very tight band.

So we did see a very good increase in gross profit.

Our business model is not to try and keep it at 74%. But frankly, if it goes down to 72%, it's still great margins. And we look at the full margins of the business. I do not believe that we can get much better margins if we still want growth.

While we're growing, I think these margins will fluctuate, but in a very narrow band.

Question: Jack SUN @ Gelonghui Research

Thanks for taking my question, I'm Jack from Gelonghui Research. What is the major driving force for ARPU this quarter? Could you give some colour on the ARPU for next a few quarters?

A – Zak Calisto

Given our new products, I believe that our ARPU will have a tendency to increase.

Although in Asia, as Singapore becomes a smaller part of the business, the ARPU in Asia will probably decrease because the ARPUs we experience in most Asian countries are very much in keeping with the South African ARPU.

So our drive in revenue is really just customer acquisition. And it's been our model since day 1, which is 20 years ago, we've continuously driven subscription revenue through customer acquisition.

Question: Roy Campbell, Morgan Stanley

Has the company participated in further share buy back over the last quarter?

A – Zak Calisto

Roy, what we've experienced in our ability to buy shares, is that it's quite difficult. The SEC rules make it very difficult in the way we can buy shares. And at the moment, we are picking up liquidity. And I think we need to support the growth in our liquidity.

We've also brought on Paul Bieber as Head of Investor Relations.

So we will be doing a lot more activity on the investor side to build up liquidity. And I don't believe a share buyback, considering that we're now starting to gain momentum, will send the right message.

Question: Seki Mutukwa, Ashmore

How is subs growth in Asia Pacific, ME faring vs. mgmt.'s base case and what would constitute a good outcome in terms of numbers of subs in, say, 3yrs vs. the current 250k?

A – Zak Calisto

We've started in September, a huge drive to get our sales head count to a level that we really wanted.

I think we've sorted out a lot of our ability to recruit and to build the team. And I believe that we would certainly like to start growing at over 30% year-on-year and I believe we can do that starting in FY '26.

Question: Gokul Raj

Could you update on the secondary public offering of your shareholding and also what should be the long-term float in the stock that we should expect?

A – Zak Calisto

In July this year, we basically did a secondary offering to the market, where it was me selling down secondary shares, my shares. And I've made it public that over time, I will sell about 6 million of my shares over the next 5 or 6 years. I'll do it in a responsible way.

So this is public knowledge, there's documentation out there.

The first book build that we did, we wanted to sell USD 75 million of shares. We were well oversubscribed already in the first day. And then for reasons that I don't really understand, our share price dropped from USD 35 to USD 28.80. And then if I remember correctly, we had the book build of over USD 150 million for the USD 75 million offering, but I wasn't willing to sell at USD 28.80. And for that matter, we terminated the secondary offering.

So over time, we do expect, as I sell into the market or if we happen to do M&A, we will expect higher liquidity, and we're certainly working towards that.

Question: Myles Fourie

If Karooooo doesn't make transformational acquisitions, why isn't the balance sheet leveraged?

A – Zak Calisto

I don't think that's really our DNA. I mean one can get into very clever financial engineering, but I don't believe we need to do that. And I'm quite prudent. We've been a public company as Cartrack before on the JSE. We've always run a very clean balance sheet. I believe you only get debt if it's absolutely necessary.

And we might have a few rainy days and we want to be well positioned. When COVID came, we continued growing. We weren't worried about the balance sheet.

So we never know what's around the corner. And we don't want to be where, when the banks knock at our door, then we start panicking. We're very comfortable to remain in a net cash position as opposed to in a debt position.

However, we're not scared of debt, if it makes absolute sense. But I don't think we need to do it just to leverage our balance sheet so that we can engineer our balance sheet.

Question: Prashant Premkumar, Buffalo Thorn Capital

Is there LTV to CAC much higher in Southeast Asia versus company average of 9? Has this metric for Southeast Asia changed much in the past few years?

A – Zak Calisto

I don't have the LTV to CAC for each geography. And then LTV to CAC of 9 is for the whole of Cartrack. But fundamentally, we've got very high LTV to CAC in all our geographies.

And we are now going to go into quite a substantial increase in headcount, and we normally find these headcounts don't normally deliver results in the first 6 months, that could obviously have a negative impact on our LTV to CAC. But we believe that we should still be able to keep it over 9. And if it drops below 9, it's also fine.

LTV to CAC of 9 is very high. If it goes to 8, if it goes to 7, and we believe we're going to get the results, and if we believe the way we're allocating capital, we are on the right path. We don't mind dropping the LTV to CAC of 7 for that matter.

Question: Prashant Premkumar, Buffalo Thorn Capital

Thank you for showcasing the AI capabilities of the company. Approximately what % of subscribers use Cartrack for AI-based benefits as opposed to just vehicle tracking? How fast is this base of AI-usage customers growing?

A – Zak Calisto

AI, in my opinion, it's just the latest fashionable word.

So for me to answer that, I would just like to give a bit of color of what I believe AI is. And AI is really just ability in our case, is to have a substantial amount of data, the ability to process the data, the ability of algorithms and ability to give instant information to our customers to better improve their businesses. And that's really AI.

Then the terminology is a new terminology and it's loosely used. But we've been doing this for many years. Over time, obviously, we get better with our predictions, our data, the amount of data we've got, our algorithms get better, but we've been doing it.

So I would say that all our business customers have got some form of AI in real time and access to it. It just depends what exactly are we talking about.

So when it comes to the video, that's very much something that we've introduced in the last year. But I mean when it comes to the business intelligence reports, the live alerts, all of that is part and parcel of a broader definition of AI.

Question: Faith Brunner, William Blair

Can you provide some colour on the S&M investments across each region as growth seems to be broad-based. How are you thinking about sustaining efficiency across these investments?

A – Zak Calisto

So we've got a capital allocation team that is run by Hong Yap. And in this capital allocation team, they actually look at each country. And not at each country, they also look at each go-to-market strategy within each country.

And on that basis, we're always continuously measuring our return on investment.

So it's something that we do as a full-time job, and we don't do it just across the company. We do it quite granular. And we've been doing this for many years, and we do it, in my opinion, really well.

I think perhaps we have been too prudent in the way we allocate capital.

So we definitely are going to see less yield in the short term as we grow our sales force. But over time, we will go back to very high returns on our sales force.

Question: Seki Mutukwa, Ashmore

Any guidance about sales and marketing as a percentage of subs revenue at Cartrack going forward?

A – Zak Calisto

That is currently increasing at this point in time.

We will obviously do this in keeping with our track record, which is in a very disciplined way. But the intention is definitely to increase that as a percentage of subscription revenue, to increase the spend on sales and marketing.

Question: Alex Sklar, Raymond James

Zak - can you elaborate on your headcount growth targets over the next 12 months? How much are you planning to grow sales and marketing headcount the next 12 months?

A – Zak Calisto

Alex, we're actually busy at the moment with these budgets for the next year. And my gut feel is at this point in time, we're probably going to grow the sales head count.

In terms of Asia, that will be substantial. But in South Africa, probably about 25%. And in Europe, it will be about 25%. In Asia, we're expecting we'd be able to do about a 70% increase in headcount.

That's all the questions for today. Thank you very much for joining me. Thank you. Goodbye.