

## Transcription

### Q3 2023 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:[KARO](#)) Q3 2023 Earnings Conference Call January 20, 2023 8:00 AM ET

#### Company Participants

Zak Calisto - Founder, CEO & Director

Richard Schubert – Group Chief Operating Officer

Carmen Calisto – Group Chief Strategy and Marketing Officer

#### Conference Call Participants

##### Richard Schubert

Welcome to the Karooooo 2023 results webinar, I am Richard the Group COO and we are pleased to present the Q3 results to our shareholders and investors. We are excited to share our performance, growth and future plans. Our team, led by our CEO and Founder, Zak, is committed to delivering on our strategic goals and creating long-term value for all of our stakeholders. With Hoe Shin, our Chief Financial Officer, and the rest of the team, we are confident in our ability to continue driving growth and innovation in the future.

All shareholders and Investors are advised to read this Disclaimer.

Today we will review the 3 entities within Karooooo, namely Cartrack, Carzuka and Karooooo Logistics.

At Karooooo, we understand that mobility is core to all on-the-ground operations. We are not only thinking about connected vehicles and equipment, but also how to improve the overall mobility ecosystem. We are constantly exploring new ways to use data to optimize operations and make them more efficient.

We are establishing the leading connected cloud platform, enabling customers to develop effective controls and workflows, while digitizing their daily operations in one easy to use and implement enterprise grade platform.

Our cloud platform seamlessly embeds into the day-to-day activities of our customers and offers unprecedented visibility of varying aspects of their operations, covering driver, vehicle, cargo, worksite and more. Our platform contextualises these data points to offer actionable insights for their challenges.

This helps customers understand, and ultimately streamline, their operations - enabling them to deliver on their service offering to a higher level and remain competitive within their industries.

We are committed to providing our customers with the best possible service and support, and are constantly looking for new ways to improve our platform and our service offering.

Karoo's Cloud Platform is well positioned to successfully service customers across diverse industries. We support over 100,000 small to large businesses in optimising their on-the-ground operations, including global multinationals such as Coca-Cola and Cargill. This is a 15% increase compared to the previous quarter.

Our success across our diverse customer base continues ensuring our low customer and industry concentration risk.

#### *Highlights of the Karoo Investment*

Innovating through an entrepreneurial approach that prioritizes customer needs, utilizing hands-on experience and skills, and being adaptable in both planning and execution.

Offering a strong value proposition, proven track record of delivering value-enhancing solutions and passing on cost savings to customers through successful execution while maintaining prudent capital allocation.

Having a strong financial foundation, the ability to control prices and maintain high operating profit margins, solid unit economics, and a history of sustained growth at scale.

Our strong management, entrepreneurial culture and vertically integrated business model put us at a significant advantage by inspiring ownership and practically creative thinking throughout the business. This has been a leading contributor to our proven track record of growth and profitability in varying macro-economic headwinds across multiple regions.

Karoo is using data to improve operations, and we are at an early stage of a large growing opportunity. With over 40% of global GDP based on on-the-ground operations, mobility is the key to solving customer challenges, and Karoo is leading the way in this area. The platform is well positioned to leverage this opportunity as it continues to grow. In South Africa over 10% of all vehicles are connected to the Karoo Platform.

Karoo has a large untapped network effect generated from its platform, with over 120 billion valuable data points generated monthly. Customer are benefitting by personalising their experiences and provided with tools to improve decision making and increase their efficiencies. Predictive analytics of historical data are not only leading to improved customer loyalty but allow us to develop new Products and Services.

I will now hand over to Carmen to present the Karoo Financial results for Q3.

#### **Carmen Calisto**

Thank you, Richard. I will now talk through Karoo's financial performance for Q3 FY23. Please note that all comparisons are against Q3 FY22 unless otherwise stated.

As expected, after substantial investment for future growth in all segments, earnings per share for the period was ZAR 4.70. Year-to-date earnings per share increased 20% to ZAR 14.59.

Our cash generation continues to bolster our quality balance sheet. Free cash flow increased by 27% in this quarter and by 42% to ZAR 434 million on a year-to-date basis.

These robust earnings were achieved despite the group's strategic investment for expansion, brand building and customer acquisition - a testament to our resilient business model that is highly cash generative.

*Consistently strong organic growth with prudent capital allocation discipline*

Supported by a high customer retention rate, Karoooo continues to grow at scale with a 14% growth in subscribers to 1,678,606 and 29% growth in revenue to ZAR 930 million.

Our growth remains organic and we continue to be prudent with capital allocation, focusing on deploying capital in key opportunities that will drive short- and long-term value.

Karoooo's success is largely attributable to our innovative and customer-centric culture which has led us to become an operational technology partner that offers high customer return on investment through our end-to-end all-inclusive IoT operations cloud. Even with our large scale, our vertically integrated business model empowers us to remain agile and adaptable with full control over infrastructure, advanced internal systems and our expanding distribution network. We have a proven ability to execute and achieve strong growth at scale.

Our profitable SaaS business model continues to bolster our cash flow generation, with net cash on hand up by 2% at the end of November 2022 at ZAR 819 million, despite paying a cash dividend of USD 18.6 million in the period.

Debtor's turnover days improved to 31 days.

We have strong unit economics, robust operating margins, a quality balance sheet and strong cash position, and have consistently beaten the rule of 40.

*Performance by business segment Q3 and YTD Q3*

We report performance by our three key business segments: Cartrack, Carzuka and Karoooo Logistics.

Karoooo's total revenue increased by 29% to ZAR 930 million at the end of Q3 and ZAR 2.6 billion on a year-to-date basis.

Cartrack grew its revenue by 19% to ZAR 804 million and operating profit by 7% to ZAR 222 million in the quarter. Cartrack's adjusted EBITDA was comparably unaltered in this quarter.

Cartrack's year-to-date Operating Profit grew by 19%, EBITDA grew by 17% and EBITDA margin is at 48%. This is in line with Karoooo's planned investment for future growth and management's guidance for 2023.

Carzuka's steady expansion justifies our belief in the sustainability of its agile, data-enhanced and highly scalable business model. Carzuka's revenue grew to ZAR 72 million from ZAR 24 million in the prior year.

We continue to invest in infrastructure, brand building and improving our processes'. Similarly, we are mindful of the losses and are being pragmatic in our spending to ensure a good return on investment.

Karooooo Logistics delivered strong growth generating ZAR 54 million in revenue and an encouraging operating profit of ZAR 2 million in this quarter. Its focus on delivery-as-a-service ("DaaS") continues to gain momentum.

We will now focus on Cartrack, the largest underlying asset of Karooooo.

*Cartrack unit economics:*

Cartrack's low cost of acquiring a customer, high customer retention rate, strong cost benefits derived from economies of scale and healthy ARPU result in attractive unit economics and a high customer lifetime value. Our LTV to CAC is over 9; our gross profit margin on subscription revenue is a healthy 72% and our operating profit margin is 28%. Whilst we will remain prudent with our capital allocation, we are well positioned to materially increase investment for growth.

*Cartrack net subscriber additions:*

We saw record net subscriber additions of over 78,000 this quarter as compared to any other historical quarter. This was largely supported by demand from small to large enterprises, reflecting the demand for customers to digitalise their businesses as to become more efficient, compliant and competitive.

*Cartrack revenue visibility:*

Cartrack continues to have great visibility of future revenue, with SaaS subscription revenue up 16% to ZAR 771 million and total revenue up 19% to ZAR 804 million in the quarter.

On a year-to-date basis, total subscription revenue represents 97% of total revenue.

*Cartrack track record of execution:*

Our track record of execution extends over a decade and we have a proven ability to scale in varying market conditions. Total subscribers grew by 14% to 1,678,606 and our operating profit grew 6% to ZAR 222 million despite significant investment for growth.

Cartrack continues to grow subscribers base with positive traction in SEA

Cartrack continued to expand in all geographies. In South Africa, despite adverse economic factors, subscribers still grew by 13%.

In Asia, the Middle East and USA, subscribers grew by 27% as the pace of Cartrack's expansion into Southeast Asia moves ahead. South East Asia presents the greatest opportunity in the medium-to long-term as we continue to focus to grow the region.

Europe saw a healthy growth of 14%. We aim to allocate more resources to the region in FY24.

Africa-Other is gaining some traction and increased subscribers by 9%.

In this quarter, Cartrack's ARPU was ZAR157. We are focused on offering a strong value proposition to our customers while retaining pricing power.

*Cartrack robust operating metrics:*

Cartrack has robust operating margins and our current trends are in line with the long-term financial goals set out upon our listing on Nasdaq in 2021. Research and development as a % of subscription revenue remains at 6%, in line with our long-term targets of 4-6%. We expect to increase capital allocation into sales and marketing to drive growth, whereby we expect sales & marketing as a % of subscription revenue to increase from the current 14% to be within our long-term target of 17-19%. Despite our continued investment in G&A, we expect that as a % of subscription revenue, G&A will drop to 12-16% in the long-term.

As expected, our adjusted EBITDA as a % of subscription revenue was at 45% in the quarter. Our targets for the long term are 50-55%.

*Cartrack outlook:*

We are content with the progress we have made year-to-date and we will retain Cartrack's outlook for FY23 - number of subscribers, between 1.7 and 1.9 million; Cartrack's subscription revenue, between ZAR 2.95 and ZAR 3.1 billion and Cartrack's adjusted EBITDA margin between 45 and 50%.

*Carzuka & Karo0000 Logistics continue to gain traction*

Carzuka and Karo0000 Logistics continue to scale and positively impact Karo0000's revenue growth. Both segments showed good progress with strong quarter on quarter growth of 11% and 32% respectively.

In combination with its intuitive e-commerce platform, in this quarter, Carzuka has made significant progress by expanding into its second physical showroom and continuing to grow the brand presence. We will continue to steadily add strategic hubs across South Africa and build Carzuka's brand.

Karo0000 Logistics continues to integrate into Cartrack's platform to support Cartrack customers.

*EPS reconciliation*

Karo0000's year-to-date earnings per share grew 20% to ZAR 14.59, despite being impacted negatively by Carzuka. We remain focused on managing Carzuka's losses while pragmatically investing in this segment. We are content with the results so far.

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 Zak.

**Question-and-Answer Session**

**Zak Calisto**

Thank you very much.

**Question: Parker Lane, Stifel**

What are your long-term gross margin and Adj. EBITDA margin targets for Carzuka and KARO Logistics, and what is the timeline for achieving these targets?

**A – Zak Calisto**

We're looking at a gross profit margin for Carzuka in the region of 10-12% but we're not quite there yet. We have a few processes we need to iron out, expecting over the long term that we'll get probably in the region of 5-8% EBITDA or operating profit margins. There will be very little depreciation in Carzuka.

On Karooooo Logistics, we expect the gross profit margins to be in the region of about 25%. We expect operating profits which would be similar to EBITDA, with very little depreciation, in the region of 7%. We're already close to 5% at this time.

**Question: Alex Sklar, Raymond James**

D&A was noticeably down q/q, but operating income was down as well. Can you elaborate on what OpEx line items saw a higher degree of cash investments and if it's recurring?

**A – Zak Calisto:**

There was quite a lot of OpEx that we've expensed during this year and one of it was foreign exchange losses. We don't see this as recurring, but clearly it could happen. Substantial amount of that was increasing headcount in South East Asia given the growth we want to drive and in existing, more mature markets like South Africa as we continue to drive growth into the future. We are looking at containing this spend as we grow sales.

**Question: Alex Sklar, Raymond James**

FCF conversion was very strong, should we think about the working capital improvements and lower capital intensity as recurring or more so timing related?

**A – Zak Calisto:**

More timing related as we see stronger growth, in other words we only had a 14% subscriber growth, and clearly when the subscriber growth is lower than it has been in the last two or three years then obviously free cash flow becomes stronger. If we start growing faster than the 20%, 25% and 30% rates, then free cash flow will be less.

**Question: Alex Sklar, Raymond James**

Within the record subscriber growth - are you seeing any change in gross retention/churn? What is the right long term gross retention outlook?

**A – Zak Calisto:**

I think our retention is quite solid, we did see especially in Q3 a better retention rate than we had seen in the first two quarters. I believe first two quarters were still suffering from the impact of Covid, so we certainly saw a better retention rate – meaning less customers churning. I expect it to plateau at these levels.

**Question: Matthew Mfau, William Blair**

Did the subscriber momentum from the third quarter continue into December and January?

**A – Zak Calisto:**

Traditionally our fourth quarter is quite a weak quarter because if you take our biggest geography in the segment, which is South Africa, I would say that for half of January the business activity is very low.

This causes traditionally for the fourth quarter to be weaker than the third quarter. But if we factor that into it, we continue to see the same strength into the fourth quarter.

**Question: Matthew Mfau, William Blair**

Which areas in Europe do you plan on investing in?

**A – Zak Calisto:**

We're currently in Poland, Spain and Portugal. We certainly believe there is a long way to go in the current three countries we're in but we're starting with expansion and would like to go into France. Fundamentally, we have a lot of work to do to get real momentum in the countries we're currently operating in.

**Question: Karl Gernetzky, Business Day**

Can Karooooo make any comment on the degree to which load shedding is affecting demand, either positively or negatively? In addition, any effect on traffic patterns generally that you are able to share, either in terms of accidents or increased transit times?

**A – Zak Calisto:**

We are not an island, yet our business in South Africa continues to be very strong. Clearly the loadshedding is affecting us on our cost structure, and it has become more expensive to run the business.

It's also affected our efficiency at times, but fundamentally it's affected our customers more. We see a very negative impact in the economy, and we are very lucky that our business is always in demand irrespective of whether there's a negative or positive economic environment. We believe we will continue to see momentum in growth.

Loadshedding hasn't affected traffic patterns, except obviously when traffic lights are out it affects longer congestion. I'll have to have a closer look at it but in terms of kilometres driven, it is more or less the same. Our customers are using more fuel considering how many traffic lights are out during loadshedding for long periods during the day.

**Question: Roy Campbell, Morgan Stanley**

Can you talk through what you are seeing in terms of inflation through the regions. Also, can you update us on your access to inventory given recent supply chain challenges.

**A – Zak Calisto**

We clearly are seeing inflation throughout all of the regions. Europe is the region we are seeing highest inflation, but also in Asia, South Africa and Africa.

We keep quite a large portion of inventory as part of our PPE, and we've increased our inventory and been doing so for a while. Given the shortage of components, we have increased our inventory even more. We haven't seen any shortages, our developers have redesigned our devices to be able to deal with parts that were short in the market. We do have inventory to be able to acquire more customers, and we're not out of inventory.

**Question: Khotso Mophosho, Coronation**

Have you experienced any direct or indirect impact from the recent loadshedding?

**A – Zak Calisto:**

Have answered that.

**END**

Thank you for joining us today. Please email us with any further questions at [ir@karooooo.com](mailto:ir@karooooo.com).