Transcription

Q3 2024 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q3 2024 Earnings Conference Call January 23, 2024 8:00 AM ET

Company Participants

Zak Calisto - Founder, CEO & Director

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 2024 Q3 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 strong business updates and financials.

DISCLAIMER
All investors are advised to read through the disclaimer

COMPANY STRUCTURE
We will be reviewing all three of Karooooo's business units in today's webinar, namely Cartrack, Carzuka and Karooooo Logistics.

SETTING THE PATH FOR TOMORROW
Karooooo remains committed to our mission of being the leading operations cloud. Our focus is to simplify the lives of operators and maximise the scale and efficiency of their operation. Our innovative platform goes far beyond connected vehicles and equipment to centralise and unify an entire operation into one single place. We are helping to pave the benchmark, and future, of efficiency, safety and impact for operational businesses.

KAROOOOO IS A CONSTANT DRIVING FORCE
Fundamentally, every operation wants to achieve safety targets, and compliance targets and wellbeing targets. But historically, these have come at the compromise of the core survival and success targets of a business: productivity and efficiency. Having a tool that solves complex problems in simple ways is no small feat. And this is a constant driver for our strong growth at scale.

Everything is embedded together, the tool that automatically flags potential fuel fraud to save thousands is the same tool that automates carbon emission tracking. The tool that optimises routes to slash mileage and fuel consumption, also makes driver's lives easier and puts them at ease to ensure they get paid for every minute they worked. When burdens like maintenance are well-managed, they become strong differentiators for operators and this is easily done through our automation and integrations.

Karooooo's platform allows operators to prioritise safety and compliance with heightened productivity.

ROBUST AI CAMERAS

Karooooo's AI-powered cameras are redefining the boundaries of visibility. These cameras stand as safety pioneers, revealing hidden risks and enabling proactive responses. From slashing accidents to exonerating innocent drivers, their profound impact transcends industries.

A key factor contributing to the success of our platform is its smooth integration into our customer's various operational workflows. In challenging environments like mines, traditional methods such as sit-down discussions on driving styles may not be feasible. Recognizing the significance of training, our innovative approach involves utilizing our risk management control room tool and 2-way in-cab communication tools for on-the-spot training and immediate action. The generated alerts ensure prompt intervention and risk mitigation such as directing drivers to rest when fatigued. The outcome has been transformative, with a remarkable 59% reduction in fatigued or distracted driving in just 4 months, resulting in an overall decrease in accidents.

In other industries, establishing formal training is feasible and driver incentives are based on safety scores. A leading mass bus company transporting around 1 million passengers daily has revolutionised an industry and made significant impact on community safety with a 41% decrease in fatigue and distracted driving in just three months. Not only has this led to positive branding as commuters see the change and feel safer, but it has also boosted operational efficiencies by reducing accidents and minimising associated downtime.

Accidents involving company vehicles often result in substantial maintenance and insurance expenses, protracted legal disputes and employee disgruntlement. Our cloud-based footage has revolutionized the way companies address accidents, providing a straightforward means to investigate incidents and exonerate their teams. This approach enables companies to establish clear mandates around liabilities, streamlining compliance and boosting employee morale. Workers appreciate a tool that prevents unwarranted blame leading to increased employee retention, whilst businesses benefit by avoiding unwarranted bills that often rack up to tens of thousands of dollars.

In an era where safety is taking centre stage, our cameras are reshaping how we approach risk management, worker well-being, community safety and operational efficiency.

OVER 113,000 COMMERCIAL CUSTOMERS

Our Operations Cloud drives digital transformation for over 113,000 commercial customers with a 95% retention rate across businesses of varying sizes in diverse markets and industries. We continue to empower the day-to-day operations of our customers with our data-enhanced platform, enabling them to make informed decisions with actionable intelligence about their own fleet, as well as others in their industries.

The continuous evolution of our platform ensures ongoing enhancements, driving increased returns for our customers whilst we keep our ARPU stable. The value proposition of our platform is massive, and we have a huge runway for growth.

CARTRACK DNA

Our culture, founded on customer-centricity, transparency, and solution-oriented thinking, sets us apart. We attract top talent that thrives on challenges and values hard work over frills, fostering a team that leads by example. From in-field technicians to decision-makers, our team's curiosity, ingenuity and diverse experience results in a powerhouse of innovation and successful execution. Our unique culture, while not for everyone, cultivates resourceful individuals driven to efficiently solve complex problems.

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

Goy Hoeshin

Thank you, Carmen. I will now talk through Karoooo's financial performance for Q3 FY24. Please note that all comparisons are against Q3 FY23 unless otherwise stated.

DECADE-PLUS STRONG TRACK RECORD OF GROWTH AT SCALE

Quarter 3 has proven to be an exciting period for us. Our well-established and profitable (SaaS) business model and robust financial position, provides us with multiple levers for growth and our primary focus remains on growing our subscription revenue.

Our subscription revenue grew 17% to ZAR 904 million and our ARR demonstrated an increase of 20% to ZAR 3,711 million.

Operating profit increased by 31% to ZAR 275 million and our earnings per share grew 35% to ZAR 6.34 despite our prudent provision made in the quarter relating to Carzuka's reduced operations.

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

HIGH CASH CONVERSION AND STRONG FINANCIAL DISCIPLINE

Earnings in this quarter stood at ZAR 199 million and our free cash flow are at ZAR 162 million.

Our free cash flow has remained positive over the last 8 quarters despite our investment in the development of our new South African Central office. Up to this quarter, we had invested ZAR 231 million in this development.

Our high cash conversion is demonstrated through our strong financial discipline as we continue to invest for our future growth.

ROBUST BUSINESS MODEL, STRONG AND CLEAN BALANCE SHEET

Our net cash on hand stood at ZAR 782 million in this quarter.

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

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.

EPS RECONCILIATION AFTER MAKING PROVISIONS FOR CARZUKA

Despite our provisions in the quarter for Carzuka, our earnings per share increased by 35% to ZAR 6.34. The increase is the result of positive revenue growth and improved profitability notwithstanding with our prudent and strategic investment for growth.

Carzuka has negatively impacted our earnings per share by ZAR 0.75 in line with the provisions we made in the quarter as Carzuka's reduced its operations. Based on our estimates, we believe we have made adequate provision and going forward, we do not expect Carzuka to have significant impact on our earnings per share.

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

CARTRACK EXTENDING DECADE-PLUS TRACK RECORD OF EXECUTION EXCELLENCE

Our momentum continued in this quarter as Cartrack's extend its decade plus track record of growth at scale, profitability and cash generation ability.

Overall, subscribers grew at scale by 14% to over 1.9 million.

Subscription revenue grew 17% to ZAR 900 million while operating profit grew to ZAR 295 million.

Cartrack consistently proves its ability to scale in diverse macro-economic conditions, and consistently beaten the rule of 40.

CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD OF EPS GROWTH

In this quarter, Cartrack's saw a 34% growth in earnings per share reaching ZAR 6.96. Our earnings are benefitting from our robust economies of scale.

CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD OF TOP AND BOTTOMLINE GROWTH – REVENUE (TOP LINE)

The expansion of Cartrack's subscriber base by 14% to 1.9 million reflects our highly successful rate of implementation and strong customer retention across various businesses.

The demand from small to large enterprises looking to enhance compliance functions and embark on a digital transformation journey for increased efficiency and competitiveness in their operations remains high.

Cartrack's total subscription revenue grew 17% to ZAR 900 million and represents 98% of total revenue.

Total revenue grew 14% to ZAR 919 million.

Our SaaS ARR grew 20% to ZAR 3,695 million showcasing the strength and growth potential of our SaaS business model.

CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD OF TOP AND BOTTOMLINE GROWTH -- PROFITABILITY (BOTTOM LINE)

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

In this quarter, gross profit grew 19% to ZAR 672 million and gross profit margin grew 3% to 73%.

Despite the investment for growth, Cartrack's operating profit grew 33% to ZAR 295 million and operating profit margin grew 4% to 32%.

Our adjusted EBITDA grew 29% to ZAR 447 million and Adjusted EBITDA margin are at 49%.

CARTRACK'S LEADING 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 75% and commercial customer retention rate of 95%.

With our track record, we are well positioned to continue to increase our market share.

CARTRACK'S STRONG SUBSCRIBER UNIT ECONOMICS CONTINUE

Over the years, Cartrack has maintained a steady ARPU and average upfront cost of acquiring a subscriber. ARPU for the quarter was ZAR 160.

Cartrack's average lifetime revenue per subscriber in this quarter stood at ZAR 9,629.

The average up front cost of adding a subscriber to our cloud in this quarter was ZAR 2,160. 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 ZAR 7,469 per subscriber.

From the ZAR 7,469, we incur the cost to service a subscriber over the contract life cycle of 60 months.

The cost to service a subscriber decreased as we grew 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 12% despite the challenging trading conditions. Given that we continuously pass on additional benefits to our customers and have a rich data pool, we believe we will continue to see strong customer demand in this region.

In Asia, the Middle East and USA, subscribers grew by 26% as the traction in South East Asia has been encouraging. South East Asia remain as the second largest contributor to the group's revenue presenting the most compelling growth opportunity and deliver increasing and sustainable income to the group in medium to long term.

Europe saw a healthy growth of 15% and remains a region we are focusing our resources on. With our recent partnership with leading OEMs, we are poised to leverage our extensive offerings to further develop the connected-vehicle ecosystem and expect these partnerships to contribute to our results in medium term. In addition, we are experiencing encouraging demand for our proprietary compliance technology in the region.

Africa-others maintained its growth with 8% increase in subscribers.

At the end of quarter 3, our ARR increased 20% to ZAR 3,695 million.

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

CARTRACK OPERATING METRICS
Cartrack continues to have robust operating margins and our trends are in line with the long-term financial goals set out upon our listing in 2021.

Our subscription revenue gross profit margin stood at 72% which is consistent with our expectation.

Research and development expenses as a % of subscription revenue are 6% as we focused on driving substantial benefit from our R&D capital allocation. Our planned investment in improving, enriching and expanding our Operations Cloud and internal management systems is to enhance our value proposition to our customers.

Sales & marketing expenses as a % of subscription revenue increase to 14%.

We believe the strategic investment for customer acquisition positions us well for continued growth and we expect to see future benefits from this investment.

General and admin expenses as a % of subscription revenue is at 21%. The expenses have been relatively stable to reflects our commitment to build a strong support infrastructure to meet our future growth plan yet being pragmatic in our spending.

Operating profit as a % of subscription revenue are 30% and adjusted EBITDA as a % of subscription revenue is at 48%.

CARTRACK'S OUTLOOK FOR 2024

As we continue with our momentum in Q3, we are pleased with our progress so far. Our outlook for Cartrack remains, and we maintained our guidance:
With number of subscribers - between 1.9 to 2.1 million,
Cartrack's subscription revenue - between ZAR 3.4 to 3.6 million, and
Cartrack's Operating Profit Margin - between 28 to 31%.

KAROOOOO LOGISTICS CONTINUES TO GAIN TRACTION
Karooooo Logistics delivered significant growth generating ZAR 91 million in revenue and a commendable operating profit of ZAR 7 million in this quarter.

Its focus on delivery-as-a-service ("DaaS") through selected third-party crowd sourced drivers and logistics companies has been highly scalable and is delivering substantial growth. While it continued to integrate into Cartrack's platform to expand its customers based, the Karooooo Logistic stack is expected to deliver a long-term revenue stream to the Group.

We believe, the benefits of our strategic investment in this segment are starting to manifest.

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.

<u>Question-and-Answer Session</u>

Zak Calisto

Thank you very much for joining the presentation.

Question: Myles Fourie

What does Karooooo plan to do with Carzuka's IP?

A – Zak Calisto

We do use Carzuka's IP as part of the broader spectrum of Cartrack's business, so we intend to continue using Carzuka's IP although we are very aware that we could sell part of it if we wanted to. We're not certain at this point in time if we sold it that it wouldn't just create another competitor that would upset the OEM's and dealerships. So, we must tread carefully and if we do decide to sell it, it would be outside of South Africa.

Question: Myles Fourie

On a scale of 1 to 10 how is Cartrack performing in SEA and Europe relative to your expectations at the start of the financial year?

A – Zak Calisto

We are on target with our budgets. Clearly, what we would like to do is start growing faster and that's exactly what we plan to do.

Question: Myles Fourie

Do you see growth in SEA and Europe scaling faster in FY25 than in the current FY?

A – Zak Calisto

In the results of the next quarter, we certainly will give the outlook and there we will be firmer in what we believe we can deliver.

Question: Matthew Pfau, William Blair

Can you update us on your progress with OEMs?

A – Zak Calisto

The progress has been slow but we certainly believe once that progress starts, it will be a kicker for attracting business and customer acquisition. We remain very hopeful that our integrations with the OEMs and current collaboration is going to yield good results.

Question: Matthew Pfau, William Blair

How is Asia performing relative to your expectations? What needs to happen to see more momentum in this geography?

A – Zak Calisto

In accordance with our forecast and budgets for the year, we certainly are doing a lot in the background to really increase our activity. Like I said earlier, within the next three months or so we will be giving better guidance for FY25.

Question: Sandile Magagula, Umthombo Wealth

Can you maintain Debtors Days at 30 going into FY25?

A – Zak Calisto

I certainly believe that whether you've got your debtors at 30 or 35 it is not much of a difference and I think whether we will maintain it at 29/31 it is all very healthy. Historically, we have always had a very healthy debtors' book.

Question: Sandile Magagula, Umthombo Wealth

You said FCF continue to benefits from prior investment efforts, can we expect this trend to continue from this point?

A – Zak Calisto

If you look at slide 11, our conversion over the last 24 months earnings have practically equalled our free cash flow. Obviously, that is if you consider, we are deploying capital into building the SA head office in Rosebank which is a very important investment. Once that building is built, and we growing at this pace, earnings and free cash flow will be equal. However, if we start growing much faster than free cash flow will start coming down simply because of our investment in customer acquisition. Similarly, if our growth slows down further then our free cash flow will be higher than our earnings.

Question: Sandile Magagula, Umthombo Wealth

Can you provide guidance for Carzuka Q4 loss?

A – Zak Calisto

That is all already been provided for, and we believe given our estimates, that we have now fully provided for the Carzuka losses and we expect Q4 not to have any losses in Carzuka. And if there are, it will be minimal and insignificant and we expect really our earnings to be Karooooo Logistics and Cartrack's – the addition of those two.

Question: Alexander Sklar, Raymond James

Was there anything one-time benefitting the strong 73% Gross margin result?

A – Zak Calisto

There was a little bit of a credit note on certain costs that came through in Q3, but they're not significant and we're quite used to historically seeing these type of gross profit margins so there is nothing untoward it.

Question: Alexander Sklar, Raymond James

What is a good gross margin target for Cartrack going forward?

A – Zak Calisto

A good gross margin target is 72-73%. That region is where we feel very comfortable and at this point in time, if you look at year to date we're at 72%. So, I think that's very healthy and very much in accordance with our estimates.

Question: Alexander Sklar, Raymond James

Sales and marketing were down slightly q/q, can you talk about the capacity for gross adds you have in the current seller base? How are you thinking about sales hiring plans for the next 12 months?

A – Zak Calisto

Wea re very busy with the recruitment process to hire for the next 24 months. We will invest quite a lot in that whole process and I believe we will get the benefits out of that going forward.

Question: Matthew Hodgkinson, Confluence Impact Fund

Good subscriber for Cartrack growth in Asia. Please could give details on the split of subscribers and growth by country. What is the outlook for future growth?

A – Zak Calisto

I don't have the subscriber by country and we don't really give that but obviously our strong countries in the region are Singapore, Thailand, Philippines and Indonesia.

Question: Rudi Van Niekerk, Desert Lion Capital

Karooooo Logistics growing strongly. What is the scope for growth, i.e. how meaningful could operating profit contribution be in the medium term?

A – Zak Calisto

Operating profit in the medium term will be relatively insignificant to the Group however it's really what we're building on the Cartrack platform that can be very meaningful to the Group. We will over the next 12 months get better visibility how that will increase our ARPU's in Cartrack.

Question: Chris Logan, Opportune Investments

Given the underpenetrated market and scale in SE Asia and possibly Europe, would it not make sense for consolidation to occur in the slow growing and mature South Africa market?

A – Zak Calisto

My personal view is that South Africa still has a lot of room for greenfield opportunities and it also has room to take market share from competitors. Clearly, we are very focused now on greenfield opportunities. Consolidation could be tricky, quite frankly I am not certain it would be healthy for consolidation now but maybe in 4/5 years' time it could be a good thing.

Question: Myles Fourie

When will your new HO be in operation and will you hold the Q4 results in these premises? How have debtor days trended down over the last year? Is 30 days the norm?

A – Zak Calisto

According to our plans, the handover was planned for July this year for us to get the building. We are now looking at moving into the building at the end of May this year, so we're probably two months or so before the planned date.

I have answered the debtors' days one in a previous question.

END

Thank you for joining us today. Please email us with any further questions at ir@karooooo.com.