Transcription

Q4 and Full Year 2023 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q4 and Full Year 2023 Earnings Conference Call May 09, 2023 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

Welcome and thank you for joining Karooooo's Q4 and Full Year FY23 results webinar.

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 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.

All investors and shareholders are advised to read this disclaimer.

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

Karooooo is not just embracing the future of operations, we are helping define it. We understand that mobility is core to all operations and see the large value in not just connected vehicles and equipment, but in connected teams and data driven decision making. By leading the way with innovative solutions and bold new practices, we are on a mission to be the leading operations cloud.

We envision a world where operational frictions are eliminated and businesses can operate in a seamless, efficient and safe way that enables them to achieve more with less.

WE SOLVE PROBLEMS

But achieving this is becoming significantly more difficult for operators. They're running 24-hour operations, their customers' expectations are increasingly leading to more complicated jobs that span multiple teams and departments, their employee expectations are also increasing, everything needs to be in real-time, new regulations keep popping up, costs are skyrocketing. There's new technology emerging daily, teams are using more tools than they can remember, there's an overwhelming amount of data available- little of which is leading to actionable real tangible insights. Things have become complex and they are unmanageable without a simple, but not simplistic, solution like ours.

Throughout our 17 years in the industry we have a strong track record of identifying trends early and understanding how we can build a solution that will benefit customers. We solve a large amount of independent as well as interconnected challenges for customers, from fleet & equipment management and maintenance, to delivery operations and field worker management. From risk management and compliance to resource scheduling and vehicle procurement.
By digitally transforming operations and offering tools that help guide our customers in navigating their challenges, we add strong value to their daily operations.

LARGE UNDERPENERATED MARKET
Karooooo plays in massive, interconnected and largely untapped global markets. According to analysts' estimates, operations account for over 40% of global GDP- we have a huge runway ahead of us. Businesses are becoming more aware that IoT data is critical to improving their operations, and operations are increasingly more cross-functional- meaning the interdependencies between the problems we solve are expanding, along with the opportunity ahead of us. We are only at the start of a large, long-term growth opportunity.

CUSTOMER LIST: SERVICE SMALL TO LARGE
Globally Karooooo saw a 19% increase in the number of commercial customers using its cloud platform. As of Q4 FY23 we helped over 105,000 small to large businesses across diverse industries optimise their operations, and we continue to see no customer or industry concentration risk. Customers have adopted our solution in varying ways, but all rely on our platform for their operations. The vast diversity in geographies, customers and applications of our platform speak to our strong ability to create a sticky solution and localise to market needs in a scalable manner.

OUR PRINCIPLES
Our strong track record of profitably growing at scale is best explained through an understanding of our fundamental business culture and principles that Zak took to market in 2004.

- Firstly, we are fully vertically integrated, from sales to technical installations, R&D to customer care- we do it all ourselves. This has given us in-depth, tangible knowledge of the day-to-day operational challenges our customers face. This means we have been building operational software that links different business units and solves complex problems since we were founded.
- We also know that not all data is useful, and it's the ability to link data from different sources and managing to communicate that in a simple to understand and execute way that makes the difference.
- Most importantly, we ensure our technology is setting a business up for success today, tomorrow and all days ahead. Our technology does not just focus on detecting problems and remedying the damages. It also focuses on tackling the root cause of challenges to prevent them from occurring in the first place.
- We build scalable solutions. We went to market with a solution that solved 80% of all customers' problems, and did not focus on developing a niche product for a specific industry or customer.
- Building for scale rather than customising forced us to learn how to distribute successfully at scale across regions and through different macroeconomic environments.
- We've also learnt that customers need to have everything in one place, and understand that alone we are unlikely to provide all the data needed to fully contextualise a business. So, we've ensured

our platform has open APIs and built an ecosystem that truly addresses the needs of a business. This increases our platform stickiness and future proofs our solution as customers' needs evolve.

- We focus on delivering a world-class customer experience. When we launched our fleet management solution, we went straight to cloud and were the first to market allowing customers the convenience of choosing a location and time for their IoT installations. This customer centricity has helped build strong foundations for our business.
- Today, we consistently invest in, and improve on our proprietary internal systems and tools that empower us to exceed our customer expectations. We see many companies beginning to struggle once they reach a certain scale as they cannot efficiently manage so many moving parts. Our proprietary internal systems allow us to remain extremely streamlined in servicing our customers as we grow at scale, ensuring we maintain our strong customer centricity and efficiencies.
- Constant innovation is our status quo. We always ask, is there a better way to do this? We do not believe that because it was the right way to do things 2 years ago, it is still the right way of doing things today.
- And finally, we work with customers to guarantee our solution fits into their business and is easy to implement across all stakeholders. This ensures strong uptake and long-term stickiness as customers very quickly feel the strong ROI of our solution.

WHY WE WIN

Fundamentally, our foundations have allowed us to successfully differentiate ourselves for strong execution, and we consistently build for the future. We are forward looking and are building a sustainable business that will benefit stakeholders for the generations to come. In summary, we win for the following reasons.

1. We have unique go-to-market strategies: we challenge the status quo and focus on solving problems.
2. We place full focus on providing a great customer experience: customers know they can rely on our solution as the backbone of their operations.
3. Our culture is entrepreneurial: our teams take ownership, are innovative and remain agile to adapt to different market conditions.
4. We have a user-friendly end-to-end operations cloud: it is easy for customers to derive huge value from our platform.
5. We have strong distribution channels: we can reach small to large customers across varying industries and geographies, regardless of where they are in their digitalisation journey.
6. We have proprietary internal management systems: our teams and business units speak to each other to ensure we can continue to successful scale at large.
7. Our business is also vertically integrated business model: all components of our operation are aligned towards the same goal.

Fundamentally, we deliver a high ROI for customers and customers rely on our platform to run their month-to-month, day-to-day, hour-to-hour operations. For many, the uptime of our platform is more important than the uptime of any other software their business is using.

GLOBAL TRENDS DRIVING NEED & ADOPTION

Whilst there is a lot of noise in the world, there are three key trends that have gained strong sustained momentum and are driving huge need and adoption for our platform.

- Firstly Digitalisation: companies of all sizes and across all industries are looking for ways in which they can reinvent their business with technology. They understand that to remain competitive they need full visibility of their operation. They know they need to leverage data and contextualised insights to meet the speed of quick decision making required in today's world.
- Then ESG: companies, and consumers are looking to do better. And companies are looking to go far beyond just reducing their carbon emissions. They're looking at increasing vehicle lifespans, switching to electric vehicles, increasing their community impact with better service delivery. Customers are asking us to show them how to use our solution to bridge the historical divide between drivers, teams and managers to boost morale and safety within their business.
- And lastly Compliance: businesses and regulators are looking for increased transparency and compliance is spreading across all operations teams and industries. Governments are implementing and enforcing more laws around work times and other safety or wellbeing metrics, and penalties for non-compliance to legislation are increasing,

We have seen these shifts intensify over the years globally, and now we see that companies are embracing change and determined to be great at them.

ASIA: AN UNDERPENETRATED, FRAGMENTED MARKET WITH A MASSIVE TAM

- Asia is full of rapidly growing emerging markets making the opportunity for Karooooo huge. Each market remains largely underpenetrated and fragmented with no single large nor comprehensive provider.
- Populations in these markets are digitally savvy, and technology is widespread even in small remote towns.
- Whilst the opportunity is large, it is important to note that Asia is full of strong cultures that vary dramatically between markets. It is a place where it is critical to have hands on the ground to understand all local nuances and localise effectively. We believe by positioning our global headquarters in Singapore, we are positioned well for success.
- Companies are looking for partners they can rely on for their business. and are learning to think about return rather than focusing on cost. We see many large, and small, businesses come to us for our reliable, easy-to-use platform as well as our strong customer centricity and support.
- Our advanced cloud platform and robust service delivery sets us up well to compete favourably in Asia.

ASIA: ALSO A MARKET FLOODED WITH PIONEERING COMPANIES THAT CARE ABOUT MUCH MORE THAN JUST GPS

Whilst there is a portion of the market that is only beginning their digitalisation journey, there is also a large portion of the market paving the way with sophisticated needs. Companies understand the value our platform provides and rely on our analytics to deliver on their missions. These companies are doing much more than just looking at GPS.

- Companies care about their service delivery. A tourism company uses our solution to ensure their passengers are transported safely, on-time and also receive the full trip they were sold. Sophisticated reporting alerts managers when drivers deviate from their prescribed routes, leave tourism sites too quickly or make any unexpected stops. With our platform, they have brought down their speeding events significantly and ensured all trips run according to schedule. They understand that our solution is a core product to their reputation, risk management and brand.

- Businesses are forward thinking. A short-term rentals company has fully adopted EV and uses our solution to optimise their charging schedules, our advanced engine diagnostics and other telemetry data to establish effective maintenance schedules that neither overshoot or undershoot services leading to a huge reduction in overall maintenance costs whilst extending vehicle lifespans. With vehicle productivity metrics, they know where to house each vehicle and are better able to predict demand for business planning and vehicle purchasing. They were able to effectively launch a vehicle delivery solution with our in-field service tools giving them a game changing differentiator, and have redefined what customers expect from rental companies.
- Businesses are data-driven. A FMCG business doing over 10,000 daily deliveries understand the value of data, and contextualising it across different business units. Using our platform, all teams now have full and unified visibility of the entire business process. Real-time analytics and communication has enabled them to slash the number of steps in their delivery process saving them thousands of hours across their fleet daily. With sophisticated APIs into their ERP and other tools, they have connected their entire operation. The queuing downtime of a vehicle as a result of inefficient warehousing strategies has been minimised, driver wages are now accurately calculated, safety has skyrocketed through gamified safe driving plans, idling and unproductive fuel usage has been conquered. The business has seen dramatic savings from the increased productivity across their fleet and warehouses, as well as peace-of-mind knowing their drivers are representing the company in a strong professional light.

NETWORK EFFECTS

1. Karooooo has a large untapped network effect opportunity generated from its platform, with over 125 billion valuable data points generated monthly. In South Africa, we have around 10% of all vehicles on the road giving us a huge runway for adding increased benefits for our customers.
2. Customers are benefitting as we are personalising their experiences and providing them with tools to improve decision making and increase their efficiencies. For example, a company can now benchmark their operations against others in their industries. Predictive analytics of historical data are not only leading to improved customer loyalty but allow us to develop new Products and Services.

INVESTMENT HIGHLIGHTS

To summarise, we believe our strong management, entrepreneurial culture and vertically integrated business model have led to our proven track record of growth and profitability in varying macro-economic headwinds across regions.

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

We offer a strong value proposition that is easy to prove to customers. Our customer churn remains low as customers see we are consistently delivering on new value-enhancing solutions whilst maintaining a stable ARPU. They trust us. We are able to pass on the benefits of economies of scale to our customers as we successfully execute whilst maintaining prudent capital allocation.

Karooooo has 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 has resulted in a robust balance sheet and resilient business model.

We have ample runway for growth.

I will now pass over to HoeShin who will take us through our financial performance. Thank you.

Goy Hoeshin
I will now talk through Karoooo's financial performance for Q4 FY23. Please note that all comparisons are against Q4 FY22 (Q4 FY22) unless otherwise stated.

OPERATING PROFIT, EPS AND FCF
The performance of Q4 has been strong and our cash generations continued to bolster from our profitable SaaS business model.

As expected, after substantial investment for future growth in all segments, operating profits and earnings per share for the quarter rose by 60% and 51% respectively. Year-to-date operating profit increased by 26% to ZAR 882 million and earnings per share increased by 27% to ZAR 19.29. This is the result of our prudent and strategic investment growth strategy.

Free cash flow up by 54% in this quarter and 44% on a year-to-date basis. This result was achieved despite the group's strategic investment in expansion, brand building and customer acquisition for long-term growth.

Considering the strong earnings and free cash flow, clean and unleveraged balance sheet, we are pleased to declare a record dividend of USD 85 cents per share. The dividend will be paid to the shareholders in July 2023. We are confident that this will not impact our growth.

PERFORMANCE BY BUSINESS SEGMENT Q4 AND YTD Q4
We view our business and report our performance into three segments namely Cartrack, Carzuka and Karooooo Logistics.

Our total revenue increased by 24% to ZAR 916 million at the end of Q4 and ZAR 3,507 million on a year-to-date basis.

Cartrack grew its revenue by 16% to ZAR 796 million at the end of Q4 and 17% to ZAR 3,076 million on a year-to-date basis. Operating profit for the year increased by 28% to ZAR 915 million and operating profit margin stood at 30%. Cartrack's year-to-date EBITDA margin at 47% is in line with Karooooo's planned investment for future growth and management's guidance range for 2023.

Carzuka's steady expansion continued to justify our belief in the sustainability of its agile, data-enhanced and highly scalable business model. It is also a testament of Karooooo's customer-centric innovation in solving unique mobility needs. Carzuka delivered ZAR 64 million in revenue at the end of Q4 and ZAR 251 million year to date. While it is at an operating loss as we continue to invest in the infrastructure and brand building, we will also focus in refining our internal processes to improvise the efficacy and being pragmatic in our spending. Once the revenue is more than ZAR 300 million per quarter, we believe the business will turn profitable.

Karooooo Logistics delivered significant growth generating ZAR 56 million in revenue at end of Q4 and ZAR 180 million on a year-to-date basis. Karooooo Logistics showed an encouraging operating profit of ZAR 5 million and an operating profit margin of 3% for the year. Its focus on delivery-as-a-service ("DaaS") has gain momentum while it continued to integrate into Cartrack's platform to expand its customers based.

All segments are seeing strong traction, with the benefits of our strategic investments beginning to show.

ROBUST BUSINESS MODEL AND CASH POSITION

Our profitable SaaS business model continue to bolster our cash flow generation ability, with net cash on hand up by 35% at the end of the year at ZAR 966 million. During the year, ZAR 72 million was invested in the development of the South African Central Office and ZAR 50 million was invested in the working capital of Carzuka. In Q3, cash dividend of USD 18.6 million was paid to the shareholders.

Debtor's turnover days continued to show improvement to 31 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, a strong balance sheet and cash position, and have consistently beaten the rule of 40. We remain confident that our track record of success, especially our ability to generate healthy cash flows, is sustainable.

EPS RECONCILIATION

Our earnings per share increased by 51% to ZAR 4.70 in Q4 and 26% to ZAR 19.29 on a year-to-date basis. The increase is the result of positive revenue growth and improved profitability during the year despite the impact from the dividend withholding taxes of ZAR 27 million.

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

Cartrack extending decade-plus track record of execution excellence
Cartrack continues to prove its ability to scale in varying macro-economic conditions.

Overall, subscribers grew at scale by 13% to 1,717,077. And in this quarter, subscription revenue grew to ZAR 793 million and operating profit rose to ZAR 248 million.

CARTRACK'S STRONG ANNUAL COMPOUNDING GROWTH AT SCALE

Our track record of strong annual compounding growth and financial discipline can be seen in our performance.

On a year to date basis, Cartrack's subscription revenue grew 17% to ZAR 3,004 million and our operating profit grew 28% to a record ZAR 915 million.

Our operating profit and operating profit margin were negatively impacted this financial year as we expensed upfront a bigger portion of our cost of acquiring a subscriber in our cloud than in previous years.

Worth mentioning, our SaaS ARR for the year grew by 19%.

CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD OF STRONG SAAS REVENUE GROWTH
As Cartrack's continue with strong SaaS revenue growth, Cartrack's total total revenue grew 17% to ZAR 3,077 million.

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

The strong performance of Cartrack was largely supported by demand of small to large enterprises to improve compliance functions and to digitally transform their business to become more efficient and competitive.

CARTRACK DEMONSTRATES ITS ABILITY TO EXPAND MARGINS
As Cartrack continues to have great visibility of future revenue, our realisation of economies of scale continue to demonstrate our ability to expand our margins.

Gross profit for Q4 up by 27% to ZAR 568 million and gross profit margin improved from 65.4% to 71.4% compared to Q4 last year. On a year-to-date basis, gross profit up by 22% to ZAR 2,202 million and gross profit margin improved from 68.4% to 71.6% compared to last year.

Operating profit for Q4 up by 61% to ZAR 248 million and operating profit margin improved from 22.5% to 31.1% compared to the same quarter last year. On a year-to-date basis, operating profit up by 28% to ZAR 915 million and operating profit margin improved from 27.1% to 29.7% compared to last year.

Adjusted EBITDA up by 23% to ZAR 371 million and Adjusted EBITDA margin improved from 44.2% to 46.6% compared to Q4 last year. On a year-to-date basis, Adjusted EBITDA up by 19% to ZAR 1,456 million and Adjusted EBITDA margin improved from 46.6% to 47.3%.

CARTRACK 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 is 73% and our operating profit margin is 30%.

Whilst we will remain prudent with our capital allocation, we are well positioned to continue to scale our business.

CARTRACK'S SUBSCRIBER UNIT ECONOMICS

Over the years, Cartrack has maintained a steady ARPU and average cost of acquiring a subscriber. ARPU for the year was ZAR 155.

Cartrack's average lifetime revenue per subscriber increased to ZAR 9,323 this year.

The average cost of adding a subscriber to our cloud in the year was ZAR 2,264 and in Q4 it was ZAR 2,148.

Taking ZAR 9,323 and subtract the ZAR 2,264, give us a headroom of ZAR 7,059 per subscriber. From the ZAR 7,059 we incurred the cost to service a subscriber over 60 months which allows us to derive a very strong operating profit margin. The headroom has remained steady.

CARTRACK CONTINUES TO GROW SUBSCRIBERS BASE WITH SOLID TRACTION IN SEA

Cartrack continued to expand in all geographies. In South Africa, despite challenging trading conditions due to national power outages, subscribers grew by 11% as we seen strong customer demand for our value proposition.

In Asia, the Middle East and USA, subscribers grew by 28% as the pace of Cartrack's expansion into Southeast Asia moves ahead of historical growth rates.

Considering that South East Asian economies only began to open up towards the end of Q1, we are pleased with the traction gained in this region.

As the second largest contributor to the group revenue, South East Asia presents the group's most compelling growth opportunity in medium to long term.

Europe saw a healthy growth of 13% and remains a region we aim to allocate more resources in order to drive more rapid growth. Africa other maintained its momentum with 8% increase in subscribers.

On a year-to-date basis, our ARR increased 19% to ZAR 3,2325 million which is at a good trending as we continue to grow our subscriber base and ARR.

CARTRACK ROBUST 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.

Research and development as a % of subscription revenue is 6%, in line with our long-term targets of 4-6%.

We will be increasing capital allocation into sales and marketing to drive growth, whereby we expect sales & marketing as a % of subscription revenue to increase from the current 13% to be within our long-term target of 17-19%.

We also expect general and admin as a % of subscription revenue to drop from 22% as we experience increased economies of scale, whereby it will fall in line with targets of 12-16%.

Our adjusted EBITDA as a % of subscription revenue at 48% will continue to improve to be in line with our targets of 50-55% as we remain pragmatic in our operating expenses.

CARTRACK MEETS 2023 OUTLOOK
We have met our 2023 outlook with number of subscribers stood at 1.7 million, Cartrack's subscription revenue recorded at ZAR 3,004 million and an Adjusted EBITDA margin of 47%. We are happy with the progress we have made for the year.

CARTRACK 2024 OUTLOOK
Our guidance for Cartrack's outlook for year 2024 is:

Number of subscribers between 1.9 to 2.1 million.
The wide range is because of the volatility and macro-economic environment.

As you may be aware, we published our subscriber numbers on our website and as at the end of April, we have reported the subscribers to be over 1.75 million.

Subscription revenue outlook for 2024 is between ZAR 3,400 million to ZAR 3,600 million and operating profit margin between 28 to 31%.

CARZUKA & KAROOOOO LOGISTICS CONTINUE TO GAIN TRACTION
Carzuka and Karooooo Logistics continue to scale and bolster Karooooo's revenue growth. Both segments showed good progress with strong year to date revenue growth of 273% and 154% respectively.

In combination with its intuitive e-commerce platform, Carzuka has made significant progress expanded its physical showroom, adding steadily strategic hubs across South Africa and building its brand.

Karooooo Logistics will continue to integrate into Cartrack's platform enabling Cartrack customers to manage and enhance their logistics capacity with ease.

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.

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

Zak Calisto

Thank you very much. Good Evening or Good Morning wherever you are in the world.

Question: Kiran Kuttickat, William Blair

Can you discuss the importance of the OEM partnerships with BMW and Mercedes and are there more in the pipeline?

A – Zak Calisto

I've said on many occasions before that eventually the OEMs will have their own telematic solutions and they'll have their own platforms. Their own platforms will be more about the diagnostics of the vehicle and the safety of the vehicle.

Our platform is really about helping customers with the operations and with things outside of the diagnostics, but clearly we also do the diagnostics. And this is just an example where we now get the data from the OEM devices and that data then gets exposed into our platform.

Are there more in the pipeline?

We are talking to all the other European motor manufacturers. We are in the final testing stage with some, and I believe by the end of Q2 we are probably adding about another five OEM brands onto the portfolio. We do see the go-to-market strategy with this only really adding value to us by FY25.

We are currently doing the integrations with BMW and Mercedes, but then we've also got to get the distribution right, and this obviously is a long-term project and a long-term partnership.

Question: Kiran Kuttickat, William Blair

What are your expectations for the Asia region in FY24?

A – Zak Calisto

We've got two months into the region, clearly Asia in March and April has outperformed any of the other regions in terms of percentage growth.

We are employing people and building our distribution capacity in the region. And that is our focus at this point in time. It's just building that capacity to distribute and like everything, it's not always easy to build that capacity. It takes a lot of effort, a lot of energy, a lot of trial and error, and we are very busy with that.

We are quite content with the traction we've seen.

Question: Myles Fourie

What is Karooooo's current staff complement and what % do you expect it to increase in FY24?

A – Zak Calisto

As at the end of February 2023, our staff was just over 4,000, and we probably intend finishing off the year with about 4,800 staff members.

Question: Myles Fourie

Are you having any difficulties in filling staff vacancies in SE Asia and Europe?

A – Zak Calisto

The reality is that filling vacancies is never easy. If you do find somebody that finds it easy, please let them come and teach us what the recipe is.

But it's always difficult, especially if you want do it in the way we've traditionally grown our business, which is very much focused on financial discipline and making sure that the staff are trained. It's important that you build up the staff and it's never easy. But that's what we've been doing for many years now.

Question: Parker Lane, Stifel

How are you thinking about the seasonality of net subscriber additions throughout the coming year, when you consider the trends that you've seen to start 1Q?

A – Zak Calisto

If we look at the first two months of Q1, it's very much in line with our expectations. We've added about over 40,000 net subscribers in two months, so I think we're having a relatively good Q1.

And typically over a decade plus of history, what we normally find is Q1 and Q4 are traditionally difficult quarters. This is predominantly because of all the public holidays that you get at the end of the year and in April – you have Christian, Jewish and Muslim holidays. There's a tremendous amount of holidays and festivities in Q1.

So, it's normally a weaker quarter. Hopefully, we'll have a better Q2 and Q3.

Question: Hristo Georgiev

Can you give us more details on the partnerships with BMW and Mercedes in Europe? What is the value proposition of Cartrack to both OEMs given that they have proprietary telematics service?

A – Zak Calisto:

I think that question has been partially answered.

Our value proposition is really that, for instance, in Europe there's compliance now where every single sedan vehicle that is owned by a company must have a digital tachograph (Cartrack's product is called eTaco).

The purpose of that is that governments do not want to see any company vehicle being driven for more than four hours by one person. And that was supposed to come into play in Q4 of last year. It's now been postponed to Q2 of this year. We are the only company in Europe that's actually been approved and that's why they've postponed it.

They want to get more of our competitors to have their technology approved. And clearly there will be plenty of sedans which will require this technology because a lot of these sedans do belong to companies. And over and above that, there's other services that we can supply that the OEMs are not geared to supply.

Question: Rudi van Niekerk, Desert Lion Capital

Well done on great results. What threats, challenges and opportunities does the shift to Electric Vehicles pose to Cartrack?

A – Zak Calisto:

We are very fortunate, Rudi, that we are in Singapore. Singapore is probably in the top five leading countries with electric vehicles, and we are very close to the infrastructure of electric vehicles, and we are developing technology to deal with this.

This will give us that advantage that once it takes bigger momentum in Europe and specifically in South Africa, we'll have the technology that today we are really giving to the Singaporean customers and be able to scale that technology into other regions.

Question: Alex Sklar, Raymond James

Can you talk about how subscriber growth trended in March/April relative to F4Q? How did that look on a geographic basis?

A – Zak Calisto:

The question has partially been answered on a geographic basis. Clearly, Asia continues to be our strongest region in growth, but what's encouraging is we saw a strong recovery in South Africa predominantly as we have geared ourselves to operate in a more difficult environment. And predominantly that's been caused by the power outages, the traffic lights that don't function and the delays. So, it's encouraging what we see in Q1.

Question: Matthew, Confluence Impact Fund

Please can you comment on ARPU for Cartrack by region?

A – Zak Calisto:

We've got a very steady ARPU if you take Europe, South Africa and the rest of Africa - very steady. Asia's ARPU is significantly higher than any other region. But the reason for that is that we've got a huge base of customers in Singapore where doing business is also much more expensive than in other regions.

So, as Indonesia, Philippines, Thailand and Malaysia gets bigger those ARPUs will trend to be very similar to South Africa and the other regions we operate in.

Question: Alex Sklar, Raymond James

How are you thinking about sales and marketing hiring in FY24 withing the context of your outlook?

A – Zak Calisto:

Clearly this is a focus area. It's the hiring, the training, the retention - it's what we've been doing and it hasn't been easy. I think what we saw in FY23, it was post-Covid and it was like the world had been reshuffled in terms of talent whether it's R&D talent, sales staff, or administrative staff.

So that's all starting to settle quite nicely and hopefully we'll be able to find our feet and be able to expedite the hiring and the training and get stronger, year by year.

Question: hkoetsier

In relation to the unit economics where lifetime revenue less cost of acquisition of subscriber/customer allows a roughly ZAR 7,000 excess over acquisition cost, what is the current lifetime cost to service a customer as disaggregated between administration costs and portion of S&M costs to resell rolling over customers?

In my understanding this value - where continued costs are allocated over the lifetime of an average subscriber, should provide investors better insight in seeing how each incremental customer adds tangible current value to Karooooo.

A – Zak Calisto:

Fundamentally, if we look at the unit economics of a subscriber, we've got the ARPU and average life cycle expectancy which is 60 months. You multiply those two, and you get the revenue that you envisage or estimate to get from one vehicle on your platform. From there, you deduct your cost of getting that vehicle onto the Cloud, and that gives you the ZAR 7,000.

Then we've got what we call the average cost to service a customer, which is in the region of about ZAR 60, which gives you ZAR 60 times 60 – it's another ZAR 3,600 and that gives you an estimated number that will lead you to your operating profit.

Also affecting operating profit is the amount of money that you are investing in expansion of your distribution. But fundamentally, that is the unit economics, and that's one of the tools that we use in measuring the unit economics per subscriber, per vehicle on the platform.

Question: Abdul Hakeem

You have guided that once you achieve ZAR 300 million in Carzuka quarterly revenue, will be able to achieve breakeven. When do you expect to achieve this, could you provide us a timeline?

A – Zak Calisto:

The reality is that we've developed new technology, but we are still facing quite a lot of teething problems, operational problems, and just the normal problems that most businesses have as startups.

So while I would like to feel that we will get to that ZAR 300 million relatively quickly, in the biggest scheme of things over the next four-six-seven quarters, it could be earlier. It's very difficult for me to give you a timeline at this stage.

Question: Abdul Hakeem

Carzuka revenue dipped 11% in Q4, what were the reasons behind this?

A – Zak Calisto:

The reasons behind those are the long holidays and the increase in interest rates, so what we found is that affordability did drop. But I think fundamentally our real issue there was us just slowing down the amount of staff, fixing our mistakes and getting ready to rebuild in Q1. So, it's a little bit of growing, fixing, growing, fixing – just part and parcel of how we've organically always built our businesses.

Question: Muhammed

What is the real impact from power outrages to the business?

A – Zak Calisto:

I think fundamentally, we are not an island, so we rely heavily on the telecom infrastructure and as all South Africans know, the quality of telecoms has dipped because of the outages.

Traffic lights are becoming a very big problem. And not only for us, but for our customers. Just in South Africa, we've got approximately 2000 people on the roads between salespeople and technical people, and all of that really impacts our operations. Then obviously we've got the diesel that we use on a monthly basis because we are not getting electricity from Eskom. In our new building, that is going to be totally environmentally-friendly.

We are going to be running on solar and on gas, and our water will be coming from boreholes. So hopefully, we are going be more self-sufficient in the next building.

Question: Sebastiaan Kwakkenbos

As the business pivots to ex SA markets, will you try to maintain ARPU in USD terms or will you still be targeting the ZAR 150 price point?

A – Zak Calisto:

I don't think we necessarily intentionally target any price point. The way we really price ourselves is really about unit economics. So the ZAR 150 that we talk about in 2023 is a very different ZAR 150 that we spoke about in 2005. And so fundamentally, it's all really about how we get our business to have great operating profit margins without being too greedy.

And I think our current operating profit margin range is very healthy, and if we can get those at ZAR 150, then so be it. So we run our business model really about operating profit given our unit economics and given our LTV to CAC. Those are two of our fundamental tools that we use to measure our business.

Question: Rudi Van Niekerk

Regarding Carzuka - the Q4 revenue was lower than prior quarters. Was this a deliberate operating decision by management to slow down growth as you position in the market, or is it a function of the operating environment and market dynamics? What is your outlook for Carzuka? Recently we have heard from players like We Buy Cars that their current outlook is less rosy than in the past.

A – Zak Calisto:

Question has been answered previously.

Question: David Eborall, SaltLight Capital

Could you give us a sense of what the 4Q23 balance sheet investment is in Carzuka (inventory, PPE, lease obligations)? Where do you expect this to go to get to scale? What kind of ROI are you expecting over the long-term for Carzuka?

A – Zak Calisto:

With Carzuka, during the whole financial year we put in ZAR 50 million. It's predominantly working capital, which includes inventory. We believe that once we get to scale, even if we have invested a billion rand into it, we've got two things - we can easily get banks to finance us, which all banks are willing to do, but we've decided to use our own cash. We believe that given the ability for us to trade the vehicles at the speed we can trade them at and the gross profit margins, we'll have a great return on investment for the shareholders.

The lease obligations, we obviously will do that in a very prudent manner and as we scale we'll analyze each lease obligation. But I think fundamentally, we'll be mindful of our investment and the return on investment for our shareholders.

Question: Gregory Eckersley

Is growth through acquisition to build the network and network effect possible and something you would entertain?

A – Zak Calisto:

Clearly, we would entertain anything that makes sense. If there was something that we could purchase, or acquire to build onto our business then we would do it.

But we are also very conscious that our strength is to grow through organic growth. We are also very cautious as a lot of opportunities do land on our table, which we turn down. Because the effort to get the culture right in that company could actually derail us and make us lose focus for many months or even years, just to get the integration right.

So, we have turned down quite a few opportunities.

Question: Dan Billis, Alquity

How impactful were the power outages in SA for Q1 please? For capital allocation going forward, will the focus be on dividends rather than another acquisition?

A – Zak Calisto:

Question has been partly answered.

I think fundamentally, at this point in time and if it was actually up to me, the best way to deliver value to our shareholders would be to do share buybacks. But given our low liquidity, it doesn't make sense. Given our balance sheet and that we are still able to grow and regenerating a substantial amount of free cash flow on a monthly basis, we thought it was just prudent to return to shareholders USD 85 cents per share.

Question: Khanh Ho

Do you see the impacts of challenging macroeconomic conditions on your additions of subscribers? The number of new additions in South Africa in February-quarter 2023 is only 25k, is it the sustainable additions going forward? And when will the additions in South East Asia start to ramp up?

A – Zak Calisto:

As I've mentioned before, we've had the very good two months. We've gone over additional 40,000 just in the first two months. We've seen good growth also in South Africa, in Southeast Asia and Europe. And clearly all these macroeconomic conditions do affect us and a lot of the time it's really just about us adapting to the new challenges.

And, while we are agile and we are quite fast, sometimes it does take a little bit longer than what we expected. As we've given guidance for FY24, I feel very comfortable that even with these current macroeconomic conditions, that we should be able to meet the guidance that we've given.

Question: Chris

With South Africa constituting 76,6% of Cartrack's subscriber base how are you managing the loadshedding challenges?

A – Zak Calisto:

We have addressed this question.

Question: Myles Fourie

What volume of subscribers is required to reduce G&A to 12%-16%? How long will this take?

A – Zak Calisto:

We could drop our G&A relatively quickly. The reality is we continue to build on our back office to be able to deal with future growth. So it's not going to happen just yet, but as we get more and more market penetration, then I believe it will be very quickly that we will drop from current levels down to 12 - 16% and that can easily happen over a period of four to five years.

And it happens relatively quickly. But at this stage, we are more focused on building the backbone and the support infrastructure for growth.

Question: Cornelius T. Makari

Your returns on capital have been declining over the past five or so years. Covid played a part. What's management's long-term return on capital (ROE or ROA) target?

A – Zak Calisto:

It depends how you measure this. We could take all the cash that we've got on our balance sheet and pay it all out as a dividend, and then all of a sudden, our return on equity will be extremely high. We could easily pay a much higher dividend and get a better return.

I think the ROE that we've got currently is extremely healthy and we're very conscious of it. In terms of having no cash on our balance sheet, which is traditionally what we did have when we were only on the JSE, we used to give out all the cash. Then our returns would be very much in line with those days.

Question: Prashant Premkumar

How do you view our ecosystem shifting with the huge investments likely to go into AI in the next years? will the ecosystem become more favorable or less for us?

A – Zak Calisto:

We have got quite a lot of machine learning in our algorithms that we do with our data.

We have got AI as well. Clearly the AI we're seeing at the moment is really good and it's very impressive and obviously over time a lot of this AI will filter into companies like ourselves and we certainly have quite a roadmap for it. But we're also not rushing into it because we want to understand it a bit better so that our investment in AI is done correctly.

So I think we will speed up or invest further into AI, we just need the dust to settle. And I think in the next 12 to 24 months, we'll be evaluating how we will use some of the AI that's in the market in our own business intelligence reports. So we are discussing it and I don't believe it'll be a difficult thing to incorporate onto our platform.

Question: Khanh Ho

Can you discuss more about the economics of the logistics business Picup? What's the market size, who are the competitors, and what's the long-term goal in profitability margin?

A – Zak Calisto:

At this point in time, we saw a profitability margin of about 3%. We believe that it can come up to 5- 6%.

I think the real play is actually to get the logistics stack onto our platform where our customers can do all their long distance and their last miles through using one single platform. And that's what we are working on, and that is what I believe is really scalable and really profitable because that takes us into a SaaS environment as opposed to a delivery as a service environment.

So at the later stage, our customers won't necessarily use Picup, they can use any of these crowdsource delivery platforms. We are not very specific that they use Picup. We are more about looking after our customers so that they can leverage on all of these other technologies to help them grow their businesses.

Question: David Eborall, SaltLight Capital

What are you going to do with cash? Isn't it time for buybacks?

A – Zak Calisto:

Have answered that, not really for us at this point in time as we haven't got the high liquidity.

So it doesn't make sense.

Question: Patrick O'Leary

What is your opinion on South Africa as a viable investment destination given the many adverse challenges the country is facing; load shedding; high crime; high unemployment, corruption, and the other negatives the country is projecting to the world.

A – Zak Calisto:

My view is that I'm South African. I was brought up in South Africa. Since a child, I've always seen headwinds.

Nothing we see today is that different to when I was a child at 14 years old. I think the problems are different, but there's still problems. Back then we dealt with other headwinds. These are different headwinds, but I think we've got a resilient economy. I will strongly recommend that anybody that understands South Africa and wants to invest in South Africa, it's a good destination to invest.

Clearly South Africa has got a lot of nuances but certainly strong corporate governance and a strong economy despite all these other challenges.

Question: Sandile Magagula

Can you maintain the current payout ratio into 2024?

A – Zak Calisto:

Our pre cash flow conversion to earnings per share conversion is extremely high. The factor of that is predominantly how fast we grow. The guidance we've given for FY24 was based that we are expecting macroeconomic headwinds. And given that, it's still very much a guidance that we'll still grow at double digit numbers, which is very healthy.

I certainly believe that our payout ratio could be maintained in 2024, but clearly I don't make that decision. That is a board decision whether we pay dividends or not. But in my mind, we certainly believe we'll have the cash to do it.

Question: Sandile Magagula

At which point can we expect investment in growth to cease?

A – Zak Calisto:

Sometimes I get up in the morning, and I feel that we really are just a startup. There's so much opportunity, there's so much to do. I really cannot answer that question at this point in time.

Question: Khotso Mophosho

How did you manage to keep Capex relatively low while growing at this rate?

A – Zak Calisto:

We've got quite a strong history of looking at our capital allocation in a very disciplined way.

It really is our discipline and our organic way of growing that's allowed the Capex to be quite low. Having said that, what we also saw in FY23, which obviously affected our operating profit negatively, was that in the bundled sales, a bigger portion than we had seen in prior years was actually expensed upfront and less was capitalized.

In other words, the shareholders will get the benefit in over the next four years, and they took a bigger punch in operating expenses this year. Despite that, we still got 30% operating profit and we still did in Cartrack ZAR 950 million in operating profit.

END

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