Transcription

Q4 and Full Year 2024 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q4 and Full Year 2024 Earnings Conference Call May 16, 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 2024 Q4 and full year earnings call. On behalf of Karooooo, we would like to thank you for joining us today.

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

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. Please note, Carzuka will no longer be reported on in FY25.

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 continue to help customers conquer complex challenges around safety, compliance, productivity, service delivery, cost management, fuel, maintenance, routing, resource allocation, driver & worker retention and more. Our platform leverages our large data scale, AI and data analytics to offer customers pragmatic insights that simplify problem solving to ensure successful implementation.

We are helping to pave the benchmark, and future, of efficiency, safety and impact for operational businesses, and continue to believe we have a large runway for growth.

KAROOOOO COMFORTABLY MEETS FY2024 OUTLOOK

We have comfortably met our financial year outlook targets in all categories, and continue on our over 10 year track record of strong growth and financial performance.

We ended the financial year with over 1,972,000 subscribers, ZAR3,523 million and an operating profit margin of 30%. We continue to focus on proving our ability to execute as we show strong growth whilst maintaining strong discipline in our capital allocation.

OUR HARD TO REPLICATE CULTURE REMAINS A GAME CHANGER

We continue to see that our hard-to-replicate culture stands as a true game-changer for our ability to execute. Guided by our founder-led ethos, our management team embodies an entrepreneurial spirit and fosters an owner-orientated mindset throughout teams in our entire business.

At the core of our culture lies transparency—a principle we uphold unapologetically. This is not for everyone, but it is how we continue to build loyal teams that achieve. We reject the idea of closed-door meetings, and instead choose open floor plans and candid communication. We are open about individual and team weaknesses, so that we know what to expect from each other and how to work together to empower each other through our strengths in order to maximise our collective impact.

Pragmatism defines our approach, emphasizing implementation and execution. We prioritize ease of use and practicality in everything we do to ensure a seamless integration into our customers' workflows. Our focus remains on tangible outcomes. We are impact orientated, not fanciful and idea orientated.

We remain agile. We adapt, innovate, and refine our processes with a sense of urgency. This mindset empowers us to break barriers, drive innovation, and continuously enhance our platform and value proposition for customers.

In embracing these principles, we continue to grow at scale with strong efficiencies. We continue to execute in different markets, under varying macroeconomic environments. We continue to innovate and evolve our platform, embracing new technologies in practical ways. And we continue to do so whilst remaining disciplined with our capital allocation.

INVESTMENT IN AI CONTINUES TO SAVE LIVES

Our commitment to product innovation and development remains, and we continue to invest in our AI capabilities. We have witnessed the profound impact that our data-enabled AI platform has on operational efficiency by empowering operators to address complex challenges head on.

The key to our success with AI has been our unique ability to derive simple to use tools that harness AI to deliver tangible insights and practical applications to customers. Through the combination of our AI-enabled cameras and easy-to-use and fully digitalized driver coaching tools we have delivered an end-to-end solution to customers that ensures they conduct effective coaching that focuses on the right things and ensures change happens.

A prime example of our solution's efficacy is showcased by a leading mine in South Africa who has flipped their standing on safety. Within just one month, they have achieved dramatic improvement in critical high-risk behavior that often leads to accidents and fatalities.

Fatigued driving incidents have decreased by 32%, mobile phone usage by 13%, seatbelt non-compliance by 35%, and camera coverage, which is indicative of non-compliance with safety or other protocols, have plummeted by 40%.

These transformative outcomes prove the power of our end-to-end solution in revolutionizing safety standards and operational efficiency. As we continue to innovate, we remain dedicated to driving positive change and fostering safer work environments globally.

OVER 121,000 COMMERCIAL CUSTOMERS
Karooooo's leading Operations Cloud now drives the digital transformation of over 121,000 commercial clients. We consistently demonstrate high implementation success and maintain a 95% commercial customer retention rate across businesses of various sizes in all industries, from logistics to construction, and from emergency services to tourism. We continue to have low industry and customer concentration risk.

We continue to leverage our vast data set to empower our customers with full visibility and control of their operation by offering them meaningful insights and practical tools for simplified decision making.

POSITIONED FOR GROWTH
Karooooo is positioned for growth. We have continued to strategically invest in infrastructure for customer acquisition, high customer service delivery and strong product innovation.

We continue to believe that South East Asia will be our largest driver of growth in the medium to long term. We have added new members to our leadership team who are all focused on execution and growth, and have continued to build out our sales and support infrastructure and have successfully increase our presence in new provinces.

Our internal systems play a large role in our ability to deliver such strong customer service at scale, and we continue to improve on them to ensure we can adhere to our standards as we continue to grow. Our team is excited to move into our new head office building in South Africa in Q2 of FY25 which will allow us to further unlock the impact of our culture.

We have established innovative partnerships to leverage our data scale and AI-enabled platform which we will continue to nurture, and we have a strong cash position and strong cash generation to fuel our growth.

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 Q4 FY24. Please note that all comparisons are against Q4 FY23 unless otherwise stated.

RECORD SUBSCRIPTION REVENUE & EARNINGS

FY24 has been an exciting year for us. We delivered record subscription revenue and earnings while maintaining our momentum of growth and demonstrating our financial discipline. Our consistent strong results further extend our long-standing track record of scalable growth, providing us with multiple levers for continued expansion. In this quarter, our subscription revenue up 18% to ZAR935 million and on a year-to-date basis, up by 17% to ZAR3,536 million.

Operating profit up by 25% to ZAR296 million rand and on a year-to-date basis, up by 18% to ZAR1,043 million. Earnings per share up by 45% to ZAR6.81 and on a year-to-date basis, up by 24% to ZAR23.85.
We will maintain our robust business model, with our focus remains on growing our subscription revenue as we continue our investment to scale the business.

HIGH CASH CONVERSION AND FOCUSED CAPITAL ALLOCATION

Earnings for this quarter were ZAR215 million and our free cash flow was ZAR161 million.

Our free cash flow has remained positive despite our investment in the development of our new South African Central office. Up to this quarter, we had invested ZAR263 million in this development.

Our results were achieved through strong financial discipline as we continue to make strategic investments for sustainable long-term growth. Our high cash conversion demonstrates our focused capital allocation, and we will remain focus in this approach.

ACCELERATES EPS

Our earnings are benefitting from our robust economies of scale.

Karooooo's Earnings per share in this quarter grew by 45% to ZAR6.81. The increase is the result of positive revenue growth and improved profitability despite our prudent and strategic investment for growth.
On a year-to-date basis, our earnings per share accelerates to ZAR23.85.

Karooooo logistic started to see its traction, contributing ZAR0.48 of positive earnings per share to the group.

Our year-to-date earnings per share was impacted by ZAR1.40 for the provision we made for Carzuka's reduced its operations.

Going forward, we will cease reporting Carzuka as a stand-alone segment as it integrates into Cartrack's broader business operations.

ROBUST BUSINESS MODEL BACKED BY STRONG & CLEAN BALANCE SHEET

Our financial performance in this quarter showcased a strong cash position, with net cash on hand plus cash in bank fixed deposits reaching ZAR922 million.

Debtor's turnover days improving to 29 days alongside with prudent provisioning to weather off strong economic headwinds in some of the markets we are operating.

Given our strong cash position and cash generation, currently, we expect to declare a dividend in Q2 FY25. A testament to our confidence in our robust business model that are backed by a strong and clean Balance Sheet.

We will now focus on Cartrack, the underlying asset to Karoooo'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 15% to 1.972 million.

Subscription revenue grew by 17% to ZAR930 million while operating profit grew to ZAR289 million. Cartrack has consistently proves its ability to scale in varying macro-economic conditions, and consistently beaten the rule of 40.

CARTRACK CONSISTENT TRACK RECORD OF STRONG CAGR
Our compound annual growth rate (CAGR) has proven to be strong and consistent over the past 10 years.

Specifically, our:
- subscriber CAGR stood at 19%,
- subscription revenue CAGR at 20%,
- gross profit CAGR at 18%, and
- operating profit CAGR at 15%.

These results, underscore our robust business model and strategic execution.

Our commitment to disciplined financial management and strategic investments positions us well for continued success and sustainable long-term growth.

CARTRACK CONTINUES WITH DECADE PLUS TRACK RECORD WITH STRONG SAAS REVENUE
Cartrack's strong subscriber growth drove its overall SaaS revenue growth.

Total revenue growth in this quarter grew by 20% to ZAR958 million. On a year-to-date basis, total revenue grew 17% to ZAR3,614 million.

Cartrack's total subscription revenue grew 17% to ZAR930 million. On the year-to-date basis, Cartrack's total subscription revenue grew 17% to ZAR3,523 million.

Cartrack's total subscription revenue represents 97% 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 EPS GROWTH AT SCALE
As Cartrack continues to have strong visibility of its future SaaS revenue, our realisation of economies of scale continue to expand our earnings and maintain our high margins.

In this quarter, earnings per share stood at ZAR6.52, up 27% comparing to previous quarter.

CARTRACK ABILITY TO MAINTAIN HIGH MARGIN AND WIN
Gross profit for Q4 up by 21% to ZAR686 million and on a year-to-date basis, gross profit up by 18% to ZAR2,589 million.

Gross profit margin has remained consistent at 72%.

Operating profit for Q4 up by 17% to ZAR289 million. On a year-to-date basis, operating profit up by 17% to ZAR1,065 million.

Operating profit margin has remained consistent at 30% over the periods.

Adjusted EBITDA up by 22% to ZAR454 million and on a year-to-date basis, Adjusted EBITDA up by 17% to ZAR1,710 million. Adjusted EBITDA margin has remained consistent at 47%.

These results, prove Cartrack's ability to maintain high margins and -- bolster our winning capability to be a leading operations cloud service provider in the market.

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 72% and commercial customer retention rate of 95%.

Given our track record, we are well-positioned to continue scaling our business.

CARTRACK'S STRONG SUBSCRIBER UNIT ECONOMICS CONTINUES
Over the years, Cartrack has maintained a steady ARPU and average upfront cost of acquiring a subscriber. ARPU for the quarter was ZAR160.

Cartrack's average lifetime revenue per subscriber in this quarter stood at ZAR9,593.

The average up front cost of adding a subscriber to our cloud in this quarter was ZAR2,281. These costs, mainly relates to sales commission and telematic devices which are capitalized and sales and marketing expenses that are expensed off.

The headroom, derived from the average lifetime revenue per subscriber, after subtracting the average upfront cost of adding a subscriber was ZAR7,312 per subscriber.

From the ZAR7,312, we incur the cost to service a subscriber over the contract life cycle of 60 months. The cost to service a subscriber decreases as we grow our subscriber base.

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

CARTRACK CONTINUES TO GROW SUBSCRIBERS BASE & ARR WITH SOLID TRACTION IN SEA
Cartrack continues to grow its subscribers base and ARR to expand in all geographies.

Our subscribers in South Africa grew by 14% despite 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 24% 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 16% and remains a key focus area for our resource allocation. Leading OEMs have partnered with us, providing their customers access to our platform and driving our growth. 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-other maintained its growth with 12% increase in subscribers.

At the end of quarter 4, our ARR increased 16% to ZAR3,749 million.

This encouraging trend reflects our continued momentum in our subscribers growth 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 aim to enhance our value proposition to our customers.

Sales and marketing expenses as a % of subscription revenue stood at 13%.

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 are 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 49%.

KAROOOOO LOGISTICS CONTINUES TO GAIN TRACTION
Karooooo Logistics delivered significant growth generating ZAR93 million in revenue, up by 65% and a commendable operating profit of ZAR7 million up by 201% 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 given its strong quarter on quarter DaaS revenue growth.

MEETING 2024 OUTLOOK
We are pleased to have comfortably met our 2024 outlook and are satisfied with our performance.

KAROOOOO'S OUTLOOK FOR 2025
We are committed to maintaining this momentum and driving further growth in 2025.

Our mission is to be a leading operations cloud service provider and we believe Karooooo is well positioned for the growth. We operated in a growing and largely under penetrated market, with strong demand coming from customer needing to differentiate and digitalise themselves.

We expect our continuous investment in our AI products, platform and customer experience continue to generate robust results in the future.

Our outlook for FY2025 is:

- Number of subscribers - between 2.2 to 2.4 million,
- Cartrack's subscription revenue - between ZAR3.9 to ZAR4.15 million,
- Cartrack's Operating Profit Margin - between 27 to 31%. And,
- Karooooo's earnings per share – between ZAR27.5 to ZAR31

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
Excellent results with one blemish-why has subscription growth in SEA stalled?

A – Zak Calisto
We were on budget. However, we were expecting to exceed budget. We feel we will improve substantially.

Question: Matthew @ Confluence Impact Fund
What underpinned the improved effective tax rate?

A – Zak Calisto
These two aspects to that:
1) As certain of our operations were loss making and as they become profitable, that improves our tax rate;
2) Inter-company dividends and the amount of dividends we've flowed through all the way to Karooooo that also impacts the taxes we've paid.

Question: David Eborall, Saltlight Capital
Zak, you announced in February that the company was buying back 1 million shares, but only 50k were purchased this quarter. How are you planning to buy the 1 million shares? Are you waiting for a price range, or are you looking at some kind of tender offer?

A – Zak Calisto
It was up to 1 million, not 1 million.

We continue to buy shares. What has only allowed us to buy in the region of about 50 000 shares was really the strict SEC rules to buy shares on the open market. We had quite severe limitations given our low liquidity but we rely heavily on being able to buy blocks and our broker has reached out to our investor base. We bought two very small blocks and we were not able to buy any other blocks as none of the other investors were sellers.

Question: Alexander Sklar, Raymond James
Can you comment if anything changed throughout fiscal 4Q in terms of linearity of subscriber additions and how have subscriber additions tracked thus far in fiscal first quarter?

A – Zak Calisto
We're seeing a very good Q1 at this point, it's public knowledge that we've surpassed 2 million subscribers now and we're expecting to have a Q1 in this quarter. And I think last year it is very much in keeping with our outlook. Given the outlook we've given for this year, we'll definitely meet it. But so far, the first two months of the year have been very encouraging.

Question: Alexander Sklar, Raymond James
Looks like the subscriber count guide implies a step up in quarterly adds from about 60k this year to 80k throughout fiscal 2025, so what gives you the confidence in an acceleration there?

A – Zak Calisto
I think during the last two financial years, specifically in the last financial year, we've really allocated a lot of capital in growing and improving the way we guide, manage and educate our staff and our sales teams. We believe this will certainly give us yield in FY25 and beyond.

Question: Sandile Magagula
1) You're buying back 10% of your shares in issue, who is selling?
2) Secondly, on current reinvestment in growth, and current FCF run rate, what needs to happen under your control to double Non-IFRS FCF to over a billion, just as you have double EBIT within 4 years?
3) Lastly, why share repurchase program is more appealing to you over dividends?

A – Zak Calisto
1) Any shareholder who is willing to sell, we are in the market buying.
2) Our free cash flow is something that we definitely look at, but our main focus is not growing free cash flow. Our main focus is growing the business. And if we grow our business substantially faster than we're growing now, that will actually have a negative impact on our free cash flow. So, while free cash flow is definitely a very important measure to us, what's more important for us is the way we allocate capital. We've got other metrics that we prioritise over free cash flow.
3) The share buyback is in itself a dividend to all the shareholders, and we believe our share is undervalued and that's why we have opted to also do share buybacks.

Question: David Eborall, Saltlight Capital
Just looking at your guidance, if we take the incremental revenue and incremental subs for the high scenario, the APRU is projected to drop from R160 pm to R120 pm. Could you talk about what your thinking is here? Are these competitive dynamics?

A – Zak Calisto
I haven't got the exact metrics, I'd have to look at to see how you get to these numbers but just looking at the question, it does not look correct. I don't believe that would be the case, it just depends how you've calculated this. I'd have to look at how you did this arithmetic to provide a response.

Question: Gokul Raj
How big can Karoooo Logistics get in a 3-4 year time frame? And what margins can this segment generate?

A – Zak Calisto
I think the margins we're currently generating are really optimised profit margins, they could certainly improve but we don't believe we must model our long-term growth at higher margins than we currently have. This sort of margins is what we can expect. And how fast we can grow? I certainly believe in the next four years we will see growth of no less than 25% year-on-year and I'm being quite conservative but it's very much my personal view.

Question: Sevashen Thaver
What trends are Cartrack seeing in the SA competitive landscape?

A – Zak Calisto
I think we have been in the market for 10 years less than our competitors, and we continue to grow our business but both in subscribers and subscription revenue. We don't rely on OEM low subscription revenue models to grow our subscribers and we not a company that's focused on white-labelling.

Question: Rudi Van Niekerk, Desert Lion Capital
Could you please confirm whether the company will continue with the recently announced share buyback program?

A – Zak Calisto
Yes we will.

Question: Sevashen Thaver
Is Cartrack seeing fleet sizes in SA growing given the failure of the rail network?

A – Zak Calisto
I think it's still very early days, and I think the transport industry in SA is also in disarray however what we are seeing is courier companies getting larger. In terms of long haul companies, we don't really see anyone getting bigger.

Question: Rudi Van Niekerk, Desert Lion Capital
What is the scope for scaling Karooooo Logistics? Do you think it could grow to a level where it would make a meaningful contribution to total group operating profit?

A – Zak Calisto
I think I've answered that question already.

Question: Patrick O'Leary, Fleetwatch
Europe comprises 16% of your subscriber base. What countries have you penetrated in Europe given that Europe has a massive number of telematics suppliers. Are any European OEMs selecting Cartrack as an OEM offering as has happened in South Africa.

A – Zak Calisto
We've got close to all the OEMs in Europe, they're all dealing with us. They've opted to use our platform. However, we're still in very early stages of doing that and we believe that in the medium term that's definitely going to be a significant source of our business.

Question: Dylan Becker, William Blair
As you expand into new geographies (called out new provinces in the quarter), with your quick ROI, are you seeing initial customer lands serving as references that are driving additional customer acquisitions in the market as brand awareness grows?

A – Zak Calisto
To clarify, when we talk about geography we refer to a country and when we refer to provinces we refer to a large country like Indonesia where we only have presence in maybe two or three of the provinces but there is still a number of large cities where we do not have a presence.

Certainly so, as our brand gets stronger we certainly get bigger momentum in the business and in a lot of these geographies we starting to get a lot of brand recognition but I still think in a lot of them we're still far from being a very strong brand. Clearly in certain countries we already are a very strong brand but in some countries we're still building the brand.

Question: Chris Logan, Opportune Investments
Can you please provide some insight into what factors are necessary to substantially accelerate subscriber additions in SE Asia from the current 24% possibly back towards the growth levels pre the COVID epidemic severely impacted this region (30 FY20, 55% FY19 and 58% FY FY18)?

A – Zak Calisto
I think it's just really us building our distribution which I believe we've made really good progress in FY24, I think that progress is going to serve us well in FY25 and beyond. We continue to expand into other provinces in the countries we operate, so as we build our capability to distribute we will certainly get back to a much higher levels of growth.

Question: Rudi Van Niekerk. Desert Lion Capital
How does the gradual adoption of EV's impact Cartrack's business?

A – Zak Calisto
Our platform can deal with EV vehicles, we've integrated with a lot of EV's and in actual fact we have two OEMs sending us their EV vehicles so for us it's well advanced with our EV technology.

Question: Myles Fourie
Any bolt on acquisitions in the pipeline?

A – Zak Calisto
No not at this stage.

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