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Operator: Good day, welcome to Karooooo Ltd Results Presentation for the second quarter of 2022. Hosting you today is Mr Zak Calisto, Chief Executive Officer and founder of Karooooo Ltd.

Zak Calisto: Thank you very much Operator. Firstly, I would like to thank everybody for joining us on today's call, and good morning, good afternoon and good evening wherever you find yourself. We have the disclaimant that shareholders can read through their own leisure. Karooooo is the owner of 100% of Cartrack. Cartrack was founded in South Africa. Karooooo is a Singaporean entity and we are headquartered in Singapore.

In our view all vehicles will be connected and data will drive all aspects of mobility in the future. Our mission, to build the leading mobility SaaS platform that maximises the value of data. What we do, we contextualise billions of data points and drive connectivity for our customers. We connect data through our proprietary in-vehicle smart devices. We also connect data through third-party and OEM in-vehicle smart devices. We add APIs into third-party systems pushing and connecting data, and we have our artificial intelligence video telematics devices that we also connect and stream our data to and from.

Our telematics devices that we choose, as I have said, it's to be our traditional telematics fleet management devices and our video telematics devices,. We also connect data and stream data through third-parties to our MiFleet platform, which is an administration portion of our platform that connects data that's not necessarily in-vehicle data. We contextualised the data by doing the data analytics.

We also use AI, and that's all driven through our SaaS platform. With that we allow our customers to monetise and get the value of the data that we have processed, our - as they get operation improvements, predictive analytics delivering, they are able to do their deliveries and manage their deliveries. Are able to manage their fuel service, the people out in the field working in the field and the workflow thereof.

We create business intelligence reports that allows our customers to contextualise their operations, their vehicles, their drivers. It allows our customers to know the drivers. We also add that their Carzuka, which is - we will go-live on the fourth quarter. We are in the beta phase at this point in time. With our insurance it will create best value for our customers for their insurance needs.

Fundamentally what we do is we solve mobility problems for our customers. We add value to the day-to-day operations of our customers. We deal and assist our customers with their high operating costs, fragmented and inefficient workflows, unproductive use of resources. We assist our customers with the safety and eco-compliance. We assist customers with logistics operations.

We also, and especially in today's world where e-commerce is getting a bigger part of most of our customers businesses, we assist them with their delivery operations. As I said before, we also assist with our customers managing their field workers - whether they are plumbers, maintenance of air-conditionings, whatever they are doing - we can do that on one single platform. We do, then we have the Carzuka which does secure buying and selling. We do competitive price insurance quotes.

We are well-aware of the metric effect of our platform and of the much needed created services. We envisage to create this value for our customers in the near future, and we have already started this journey. We operate in a large under-penetrated market. This slide shows you what we perceive the market size, the total market size, to be in different segments that we operate in.

In South Africa we have close to 1.1 million subscribers. There's over 10 million vehicles in South Africa, it's about 12 million vehicles. So at this point in time we have got about 8% of all vehicles on the road in South Africa, they are on, they are using our platform. In South-East Asia there is over 100 million vehicles. We have currently got over 150,000 vehicles. So we really have got very little of the total market. The last two years we haven’t been able to execute on our plans. But we believe that very soon we will be, and that is a large market.

Europe, very similar, we want to start investing into Europe in the beginning of next year. We have got in the region of about 120,000 vehicles. These number are at the end of August. We also believe the market is well over 100 million vehicles. Africa, outside South Africa, not our primary focus here at this point in time. We have got in the region of 65,000 vehicles. We are also to grow that market.

We will go to our financial performance and our performance during the quarter in this half year. So we have had very good, in our opinion, and healthy subscription revenue growth and we have had strong capital acquisitions within the current headwinds that exist in the market. Our subscriber growth has grown by 20%, and 97% of the business coming from Cartrack is subscription revenue.

Our subscription revenue growth on a constant currency basis grew by 21%, and our total revenue on a constant currency basis grew by 24%. On in actuals, [unclear] subscription revenue grew 16% and total revenue 20%. This is primarily as the rand [is sinking] substantially in this financial year compared to the last financial year.

We have got a strong history of consistently growing. As you can see on these graphs, with our subscribers we have continuously scaled over many years since inception. We have grown every single quarter thereof. Our subscription revenue you can see consistent growth, and [relates] our subscription revenue was actually for this quarter in constant currency was actually $655 million, but actual was $628 million. That obviously the stronger rand affecting us.

When we look at our profitability, last year was a year where with COVID-19 with so much uncertainty we focused on protecting our business. We did not invest for growth in the last financial year. In this financial year we believe that COVID-19 will soon be, countries will know how to deal with COVID-19. So we have started to invest for growth, and for strong growth, and that saw our operating profit drop.

But as you can see, in this quarter it's already gone up by ZAR10 million compared to the previous quarter. So we are certainly on the increase again, despite all the headwinds both by currency and the increased investment for long-term growth.

Our net subscribers additions, in this quarter we did 42,000, and year-to-date for the half year we have done 102,000. Substantially more than last year where we did 48,000. In the region of about 51% more than half year 2020, which sometimes it's easier to compare to pre-COVID-19. During COVID-19 we still did 102,000, which we can live with.

Talking about Q2, we were negatively impacts our subscriber growth, net subscriber growth, was 42,0000, still 1% more than last year, also under COVID-19. We were - we are negatively impacted in July, our biggest segment there was unrest in South Africa which meant lower sales in July. Also what we did see is a lot of our customers depleted and repleted vehicles in this quarter, this last quarter, which also caused a little bit of noise in terms of our customer acquisition costs.

Our low cost of acquiring a subscriber, if you look at our ARPU last year it was ZAR156, now it's ZAR151. That’s largely driven [assuming the economics are] and influenced by the fluctuation in currency and the [unclear] reporting rand, we see a decline in ARPU that’s predominantly got to do with the currency fluctuation.

The same thing can go for the subscription revenue gross profit margin, a lot of this has got to do with currency fluctuations. Nevertheless we certainly believe our [unit] economics are good and this will allow us to continue growing our business and puts us in a very competitive position to be able to grow our business.

In this last half year, if we take this half year, we have grown our subscriber base in South Africa by 21%, Asia we grew it by 20%, Europe by 16%, and Africa-other outside South Africa, it's 7%.

We are investing for the future and as one can see, if we talk to the first quarter compared to the quarter of last year, our sales and marketing has gone up by 51%. That's predominantly on the back of head count, we have increased our head count substantially in sales. A lot of this head count is still not very productive, but they will become productive over the near-term.

We have increased R&D by 34%. We believe that R&D is now, it won't increase that much for the next 12 months. There might be a bit of an increase, but we have reached a level that we believe we have got sufficient people, or close to sufficient people, to deliver to what we set out to do now. As you can see, G&A went up by 11%, which is lower than our subscriber base increase, which means that we can drive some economies of scale.

We have got robust operating metrics. So in terms of research and development this quarter went up 6% by subscription revenue, against 5% last year. Sales and marketing 14%, against 10% last year. G&A which dropped from 22% to 21%. We intend to drop that even further over time. Our adjusted EBITDA margin is, if we exclude the Carzuka business, is 47%. It's very much in line with what we promised the market in terms of our outlook for the year. We continue to [beat the real appointment].

Our cash flow, at the end of the half year last year we had ZAR233 million in the bank. At the end of half year this year we had ZAR664 million. It's about ZAR350 million was proceeds of the IPO. But in this period we also paid in the region of ZAR250 million as a dividend while we were still listed on the [JSE as] Cartrack. Overall we have increased the cash in the bank I believe quite well, given our operating profit and our capital allocation and financial discipline.

Our operating activities, we saw it drop from ZAR560 million to ZAR442 million. That's predominantly because as we planned for our scaling of the business. A lot of this is movement in working capital and investment in the salaries of sales people in this department [add ZAR60 million] to the ZAR442 million.

Our investment into PPE has gone from ZAR228 million to ZAR271 million. There is a large portion of that which has got to do with our investment into infrastructure for the growth that we foresee into the future. At the same time that's obviously the increased sales compared to last year that's driven that increase to ZAR271 million. Our free cash flow, it's down 41% with ZAR171 million for the half year, which we believe is really healthy free cash flow.

Our outlook remains unchanged. I think this is quite important for us because given that it's sometimes very difficult, specifically with COVID-19, to forecast and to give an outlook. We remain confident that we will meet what we promised shareholders. Our number of subscribers at this point in time is 1,409,000. We believe we will exceed 1.5 million subscribers.

Our subscription revenue was ZAR1.2 million at the half year, ZAR1.234 million [sic - see slide 29 ZAR1.234 billion]. We believe we will get over the ZAR2.5 million - billion. Our adjusted EBITDA, excluding Carzuka, for the half year was at 45%. That is already in line with our outlook for the year.

Our ARR as at 31 August 2021 differs between the rand and dollars. That's obviously got to do with the change in the currency, the exchange rate, between South African Rand and US Dollar. Our South African Rand was ZAR2.540 billion, [I don't know how to read that inaudible], which is 15% up. In US dollars it's just over US$175 million, which is up 34% compared to last year.

I would now like to open up and to take questions from…

Unidentified Female: Matt from William Blair.

Operator: Ladies and gentlemen, if you wish to ask a question please press star-one on your telephone and wait for your name to be announced. If you wish to withdraw your question please press the pound or hash key. Please stand by while we compile the question and answer session.

Zak Calisto: Hi Matt, I am happy to take your question.

[Matthew Pfau]: (William Blair, Analyst) Hey Zak, can you hear me?

Zak Calisto: Yes, I can, Matt.

Matthew Pfau: (William Blair, Analyst) Okay, great. Yes, thanks for taking the questions, and nice results guys. I wanted to dig into the impact that you're seeing from COVID-19 on your business. Is it primarily isolated to the Asia region at this time? Or are you continuing to see impacts in South Africa and Europe as well?

Zak Calisto: So I think COVID-19 is clearly impacting us in all our segments. It impacts us from (1) our ability to manage our business, and (2) from the actual marketplace itself. Clearly Asia is the most impacted, Europe is not as impacted as Asia, and South Africa is the least impacted at this stage.

We up to now have really struggled in Asia. But the good news is that this we have already, we received permits to take in some of our senior staff into the Philippines, into Indonesia and Thailand. So they all came through all in the same week, which is quite encouraging.

Despite us growing 20% in Asia, we believe that in the short-term or near-term we can start accelerating that growth. So we're quite excited about the markets starting to open up. We believe that the markets within six months to nine months hopefully the countries will learn to live with COVID-19. I'm not sure if I'm answering your question, Matt.

Matthew Pfau: (William Blair, Analyst) You did, that’s helpful. Then in terms of the impact of the social unrest in South Africa in July, maybe can you just sort of help frame that magnitude? Because even with that impact that region still grew really well.

Zak Calisto: So what it did for us, it basically really impacted our sales in July. In our business every day counts. It's how many sales can you do in a day, we don’t even measure it in a month. Clearly in July it was a fall. The biggest province in South Africa is Gauteng, the second biggest province is KwaZulu-Natal. We closed down all our operations in KwaZulu-Natal, and we closed some operations in Gauteng and some in Mpumalanga.

I think all off that impacted our sales substantially. But it also impacted us negatively whilst customers that were already struggling with COVID-19 and then that were looted and that left them in total financial ruin. So we did see that’s basically how we got impacted in July. But despite that, you're right, you said, we still collect 20% and our financial metrics in South Africa remained intact.

Matthew Pfau: (William Blair, Analyst) That’s great. Just one more from me. In terms of the supply chain and your ability to source components for your in-vehicle devices. How are you feeling about that? Are you able to get enough product to meet demand?

Zak Calisto: Clearly there is delays in components. We at this point in time feel comfortable that we are not going to have problems for the next 12 months. We believe in our suppliers, believe that they will be able to supply us. What we are doing is we are purchasing more than what we normally would be. That is obviously affecting our free cash flow and our operational, the cash we generate from operations. Because the working capital that we are requiring at the moment is a big higher to be able to carry the inventories necessarily for growth.

Matthew Pfau: (William Blair, Analyst) Perfect, thanks Zak. I appreciate you taking my questions.

Zak Calisto: Thank you Matt. The next question is from Mike from Canaccord.

Mike Walkley: (Canaccord Genuity, Analyst) Hey, thanks Zak. Can you hear me?

Zak Calisto: Yes, I can Mike.

Mike Walkley: (Canaccord Genuity, Analyst) Okay, great. Yes, congratulations on the strong first half results, despite all the challenges in your targeted regions. First question for you, just on the sales hiring. Do we expect sales and marketing to continue to ramp in the second half of the year? Or is it more of a steady growth, it's more about getting the current sales force more efficient?

Zak Calisto: So in South Africa we will do very little hiring more for sales staff. We have got enough head count. We need to focus in the next six months to nine months on getting the head count efficient. In Asia we certainly are going to start hiring now. So in Asia I believe our sales force is relatively efficient, but we need to really ramp that up.

So in South Africa no increase. Then we intend in the beginning of the next financial year where we start getting a lot of focus to Europe and to ramp up our sales efforts in Europe. So overall, South Africa we just at this point it's we are going to go a little bit of consolidation to get the efficiencies right.

But on the - and said that, in Asia we are going to go on a very strong hiring, start hiring. Now that we have got people, getting senior managers into these countries. The managers are only moving in at the end of November, and we will start hiring - we have actually started hiring already this month. We will hire before the senior managers get in place.

Mike Walkley: (Canaccord Genuity, Analyst) Okay, thanks. Then just my follow-up question, just great to see you rewrite the full year guidance. South Africa after the unrest, are things more efficient on a daily sales basis? Anything embedded in there in how efficient the sales needs to be by the end of the year in terms of continuing to grow that region?

Zak Calisto: So our best month to date in the history of South Africa was actually last month, September. We had a record month in September. We believe that we will just grow from strength to strength. But as we have said that, we need to focus now on efficiency and on our strategy. We have a lot to improve in order to execute on our plans.

Mike Walkley: (Canaccord Genuity, Analyst) Great, thanks for taking my questions. Great to hear South Africa had a great month in September.

Zak Calisto: Thank you. The next question is from Alex from Raymond James.

Alexander Sklar: (Raymond James & Associates, Analyst) Hi Zak. The prepared remarks alluded the significant modernisation opportunity from data. I know you've launched Carzuka, you've got the insurance product. I'm just curious, how do you stack-rank some of those big buckets on slide 5 in terms of the biggest opportunities you're hoping to unlock in terms of addressable market on that data?

Zak Calisto: Just can we get the slide 5? One moment please. Okay, so I think we have invested a lot in our technology platform, the Carzuka platform is not ready yet. We only envisage the platform to be ready in Q4. However we have started in beta phase, and that's really encouraging. We can really see that in the month of October we are going to do more revenue than we did in Q2 in the beta phase. So we believe we can exponentially grow that business.

The insurance, we are redoing the way it works. I think there was a bit of a misunderstanding of the legislation around insurance and what we did and the tech we delivered. We are adjusting that to be able to fit a more optimal way of executing on our plan. But nevertheless we are doing 1000 policies a month. So it really is just a question of us having the right people in place, which I believe we have got right now, and slowly building this business. These businesses that fit [in right well] with what we do.

We are also really aware that these things aren't done overnight. It could take us a bit of time. But I am feeling very confident that we are going to do well out of these verticals in our business.

Alexander Sklar: (Raymond James & Associates, Analyst) Okay, great. Then I want to ask about ESG, and kind of more from a customer acquisition standpoint. Particularly in

Europe where there's kind of a reporting directive coming into place. You added a new Board member with ESG experience.

I'm just curious, is that coming up in your conversations at all in terms of customers needing to better track their data, and that's actually being somewhere you can lead with from a sales standpoint? Thanks.

Zak Calisto: So we have got a whole department getting us compliance. We have done a lot of work with GDP on compliance in Europe. Also our Lead Independent Director, Siew Koon, is very familiar with the ESG and what is required. We feel comfortable that we are able to deliver all those requirements.

Alexander Sklar: (Raymond James & Associates, Analyst) Okay, great, thank you.

Zak Calisto: Thank you. The next question from [Brian from Proveco].

Brian: (Proveco, Analyst) Hi, thanks for taking my question. I noticed this quarter in the presentation that you didn't break down sort of customers added by type. So small, medium or large enterprises. Just curious where the net adds in this quarter came from mostly?

Zak Calisto: It was very much a mix in the past, so it's, I would say that overall about 65% of our business came from commercial, and about 35% came from consumer.

Brian: (Proveco, Analyst) Okay, got it. Just looking at the next quarter coming up, because it looks like it will be maybe a tougher comparable year-on-year. You said you had a good month in October. How do you think that's tracking so far? What do you think will be the greatest drivers of subscriber growth in the second half of this year?

Zak Calisto: I think the second half it's just we have invested a lot into sales. It's getting the people efficient. But like I said, September was really our best month. We are just hoping that every month we can improve on the previous month. We have got all the reason to believe that we can do that.

But having said that, we have go to execute, we have got to do it, before we - I'm not very clear, that saying, I would prefer to talk about the past and what we have done. We have made - we have given an outlook and we believe we will deliver on that outlook.

Brian: (Proveco, Analyst) Okay. Last question, sorry, thanks, if you could talk a little bit about the acquisition made, I think it was Picup was the name. Maybe the rationale behind that and the amount spent and all that?

Zak Calisto: So we have a lot of our large corporates, and what we see is a huge tick-up in e-commerce. What that means is we have got a deliver platform on - so a lot of our small-medium enterprise customers. What they can do is, they can do deliveries and they can monitor their deliveries and [pre-fill] delivery. Give tasks to their drivers and assign different parcels.

However what Picup does is they go a step further. They are able to do that as well. But they integrate into the customers' warehouses and into the payment systems. Then the companies are able to use their own vehicles, used outsourced drivers, and also use third-party courier companies or delivery companies, and/or big trucks. Depending what they want to do.

So it's bringing the whole logistics where a customer doesn't necessarily have to rely on his own fleet and can get elasticity with other vehicles. We believe that’s a very important part to have on our platform (1), and it's a very important service. Especially if we look at in this time where we believe the way mobility will work. So it's really about us doing things today for five years to 10 years' time.

We feel very comfortable with that acquisition. We have seen their monthly revenue since we have bought them climb month-on-month. So they [continuously to] climb. We believe that business has got legs for growth.

Brian: (Proveco, Analyst) Okay, and is that - I imagine you keep the kind of financials separate? Or is this maybe like a module you can charge additional for your existing Cartrack customers?

Zak Calisto: So…

Brian: (Proveco, Analyst) Because right now I'm - my understanding is that all the modules are on one? There's no price differential, it's one flat fee.

Zak Calisto: So at this point in time we have got everything one with the Cartrack platform. Clearly with this coming on we will report the financials separately. It's a small business at this point in time. The reason why we will keep these financials different is otherwise it will be a bit of spaghetti and difficult to understand our numbers.

Also once Carzuka gets a bit of momentum, which we believe by next year it will be, then we also intended to split out the numbers of Carzuka, of the Picup, and certainly of Cartrack. We are strategically thinking how do we incorporate Picup into Cartrack's platform.

The two R&D teams are talking, and we will make that decision in the near-term how exactly we are going to deal with that. It's something we haven't quite crystalised yet. There's different routes, and we are going to see which is the best route. In different markets it might have a different route.

Brian: (Proveco, Analyst) Got it, thanks so much for taking my questions.

Zak Calisto: No, we thank you. There is a question from [Sandilly]. An increase in the expense associated with [growth statutory result] the increase in net subscriber growth reflects on the success and the effectiveness of the investment strategy. Will you be pleased at year end if adjusted EBITDA margin contracts below the lower bound of guidance 45% to 50% for FY22? Are you looking to [keep] the same rate of expenses growth for Q3 and Q4 of this financial year?

Well, it's quite a long question. So the first thing is, we believe that our adjusted EBITDA margin will be between 45% and 50%. We certainly will be pleased with that because that's what we budgeted for.

Will we - the same growth in expenses? There will be growth in expenses, like I have said earlier on. On sales it will be more in Asia at this point in time. We will also be building up some operational capabilities for our expansion into Asia. So there will be a continued increase and a continued investment, but we certainly believe that we will still be in that EBITDA margin that we have given guidance on.

Next question?

Unidentified Female: [If you want to end now?]

Zak Calisto: Yes. Next question? Hello Zak, how is the chips shortage affecting telematics devices? Do you expect this to have an impact on the planned growth going forward?

I have spoken a little bit about it. We don't believe that's going to have an impact on our growth in terms of subscriber growth.

From [Valman]. How has the competitive environment evolved over the past 12 months to 18 months across the various regions? Are the OEMs themselves becoming more serious competitors to the service?

So the competitive environment in the last 12 to 18 months it's been under COVID-19. I believe there hasn't been much of a change in the competitive environment. In terms of the OEMs, I do not see them as competitors. We are able to collect that data from the

OEMs. We have actually signed deals with OEMs specifically in the last 12 months. We can collect data from the OEMs.

We are in a very different space to OEMs. OEMs put in telematic devices mostly to get vehicle diagnostics for maintenance and driver safety. We are able to do the same, but we go more into the efficiencies and to our customers with other aspects that OEMs don't necessarily want to play in. Or have the infrastructure, or intend building the infrastructure, as it comes with quite a level of complexity what we actually do.

A question from Howard. Zak, congratulations [on the set of] results. Question about investing for growth. Approximately how many sales people outside [unclear] do you have in Asia on the [downdraft]. [Now where was] that a year ago, 24 months ago?

Howard, I haven't got the numbers in front of me. I can always get these numbers for you. But in terms of what I can tell you is that our growth in sales people today and 24 months, it's very much the same. We didn't really invest in a head count. So it's marginally increased, but we do intend starting to increase specifically now that we have been given the go-ahead to bring in management into Thailand, Philippines and Indonesia.

The next question from [Unclear]. Hello Zak, [some effective capital]. I want to ask if there are any plans to increase [the liquid] shares in the JSE? Thank you for taking my question.

We certainly have plans to increase the free-float. Myself and Juan, jointly we own 77%. Juan's sold some shares, 309,000 shares, to pay a portion of his tax liability during the restructure. I still haven't sold any of my shares to cover that tax restructuring. We do intend, by myself and Juan, to sell down our shares. I think over time we do not need to own 67% of the business, and we certainly want to jointly own 50% of the business. We believe it's better for us to have a more liquid shares.

Then a question from [David Everoff]. Zak, it's great to see additional investment in sales in Asia. Any colour on which countries you are investing in? I think I have answered that. So revenue is an obvious - sorry, I've got to read this. Revenue is obviously a lagging indicator to incremental investment. Yes, I agree with that, and that is in keeping with what we promised to the market. Hence the decline in our margins in adjusted EBITDA.

So it is something that is not coming as any surprise to us or to the market. It is in keeping with our planned strategic plan.

That's all the questions. I thank everybody for attending, and I look forward to talking to you in three months' time. Thank you very much, bye-bye.

Operator: Ladies and gentlemen, this does conclude our conference for today. Thank you for participating, you may all disconnect.

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