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Operator: Welcome to Karooooo Limited earnings presentation for the third quarter of Karooooo's 2022 financial year. Today, Zak Calisto, CEO and Founder, will be presenting to you. Zak will take questions from participants after the presentation. Over to Zak to commence with the presentation.

Zak Calisto: Good day to everybody that has taken the time to listen to our Q2 results. For both potential investors and investors that are not familiar with our structure, Karooooo is the entity and Cartrack was [where we originally started it] was founded in South Africa and now are headquartered in Singapore.

We have had the track record of being in the business for 15 years and as we go we've evolved over time. We certainly are investing a lot into R&D to accomplish our vision and our mission. We see [team mobility 1:07] as core to all the ground operations. What we also see is that customer needs are quickly evolving at a relatively fast pace and it's going far beyond connected vehicles and equipment. This is driven primarily by the technology where we've gone from GPRS to 3G to 4G to 5G, and the speed of technology has evolved us to be able to see a much larger opportunity and to drive much stronger value for our customers. Our mission is to establish [deliverable 1:44] on-the-ground operation clouds.

What we do is we solve problems by transforming on-the-ground operations by our customers. We add value to the day-to-day operations of our customers. In that, we do the fleet and equipment management, the logistics and delivery operations management, we assist our customers with their field workers and management thereof. We do video safety.

We certainly and in today's day and age that there's more and more demand for ESG compliance and reporting. We're planning for controlling that. We do risk mitigation and we do integrations into the back office of customer systems and warehouses. We recently - and we're in beta phase, and we will be launching actually towards then Q4, early Q1, which is our buying/selling [unclear] vehicles despite us launching the beta type at this point in time. We are certainly growing our insurance platform [and explaining it] to our customers.

Can everybody hear me, is it clear? We fundamentally add open operations cloud with seamless integrations into our customer systems. We collect data from proprietary in-vehicle smart devices. We also connect data from third party and OEM in-vehicle smart devices, AI video telematics, and we certainly also do collect data and push data and push data through APIs to third-party systems, [unclear] systems. We take the data and on our cloud we do the data analytics, we do artificial intelligence.

We do understand that in the very early stages of the potential of artificial intelligence, and with that then we drive our fleet of verticals that exist on our one platform. Further, we help monetise - how we monetise the data is by adding fundamental value to our customers. We do not sell data to third parties, and we see the real value of data is really how do we assist our customers and our future customers.

[You should] also be aware of the untapped network effect of our platform. We are starting to invest in our [REIT], we are able to unlock all this value. At this point in time we collect over 70 billion data points and we consider them as valuable data points because there are other data points that we disregard as not being valuable.

We certainly believe and as technology evolves the opportunity seems to be getting bigger, and we are in the very early stage of this large and long-term growth opportunity. IoT data is certainly key to improving operations for our customers. If we look at customers, our customers' operations, fundamentally a majority of it is driven around their fleets, their vehicles. Any customer of ours that hasn't got any on-the-ground operations, you will find that vehicles are key to those operations.

If we look at the market size, South Africa has got about 10 million vehicles. At this point in time we've got about 10% of all vehicles in South Africa are on our platform. Southeast Asia, we estimate there to be over 100 million vehicles. We've got 138,000 vehicles, so it's really a very small percentage. We've got a huge growth opportunity in Southeast Asia. Europe is much the same as South Africa, a large opportunity as well.

We believe in South Africa we can grow relatively fast for maybe another four to six years but I think in Southeast Asia and Europe we have really got a long runway for growth. Then Africa's got about 10 million vehicles; it's not our major focus at this point in time, and we've got 67,000 vehicles in Africa. It is estimated that over 40% of global GDP actually is all about on-the-ground operations and what really gets spent to be able to generate economical value on the ground.

For the last few years, we've had a robust and consistently profitable business model. If you look at our SaaS ARR growth over the last few years, we've averaged around 20%. We need to bear in mind that there are currency fluctuations. As at November 2021, 30 November, the exchange rate of ZAR16 to the dollar, that equated to US$172.5 million. We have just over 78,000 commercial customers on our platform. The vertically integrated business model, end-to-end all-inclusive IoT cloud software platform, well-established infrastructure, expanding distribution network, and we certainly have proven over time that we have the ability to execute and to scale.

If we just take the highlights of Q3, we grew our subscriber base by 18% to 1.47 million subscribers. We are quite proud to announce that we've actually gone at this point in time over 1.5 million subscribers; it's public information. Our subscription revenue on constant currency improved by 19%. 98% of our revenue comes from subscription revenue and our total revenue on constant currency improved by 25%.

If you look at our historical data in terms of scaling, you can see consistently that every quarter we've gone up in the amount of vehicles on our platform. Our subscription revenue has also consistently gone up over all the quarters. We are now at ZAR664 million in Q3. The previous quarter was at ZAR628 million, so it was a healthy increase in Q3.

In terms of profitability, our operating profit for the quarter was ZAR205 million compared to the previous quarter of ZAR178 million and that's primarily because in Q4/Q1 we invested substantially in sales and marketing. With COVID, we saw that we had to become a little bit more prudent with our capital allocation so we cut back a little bit on the sales and marketing costs and we've seen the increase in operating profit. Clearly, our intention is to grow subscription revenue and subscribers and we want to do it in a financially disciplined manner. If you look at our total revenue, our best quarter ever, we had ZAR720 million for the quarter. We've consistently grown our revenue every quarter historically, and in terms of earnings per share, we had ZAR4.72 for quarter 3.

In terms of unit economics, we believe we've got very strong unit economics. We've got robust operating margins and we've consistently beaten the Rule of 40. Our balance sheet is unleveraged and we sit in a very strong cash position at this point in time. I think the most important takeaway for us and strategically what's important for us is that we have ample capacity to increase our investment in sales and marketing and still remain profitable, and I think that for us is very - and we have the balance sheet to back us up. Our net subscribers addition, if you look for the nine months, we had 164,000 net subscriber additions. Compared to last year, the first nine months, it was 119,000; in the prior year it was 128,000.

If we look at Q3, we had 61,000 net subscribers while last year the same quarter we had 71,000. The difference is around 9000 subscribers. In terms of growth sales, it was - we had a better quarter than last quarter. However, we did have more churn in this quarter as we come to the tail end of customers that we hadn't been [unclear] any revenue and they had gone into financial difficulty because of COVID, and we've churned these customers in Q3.

We have very strong unit economics. Our lifetime value of customer relationships is very healthy. We're sitting with a LTV to CAC of over 9x and that really puts us in a very good position to be able to increase our investment for growth. It is often confused, the lifetime value of a customer and the lifetime value of a subscriber, and I would just like to make the clarity and differentiate between the two. A customer, you onboard a customer but a customer will keep vehicles on our platform but they'll churn the vehicles and buy new vehicles over time. So, one customer could remain with you for a couple of years but it is expected given our historical data that customers keep their vehicles on our platform for 61 months.

We do the amortisation over 60 months. What we do give here is what does it cost us to acquire a subscriber and put them onto our platform and that we take into account the average of a new customer and an existing customer. Clearly, a new customer is more expensive than an existing customer but we've bundled them together to give just one number. In Q3 of FY22 it was ZAR1981 of which ZAR697 gets expensed upfront and ZAR1284 gets capitalised and depreciated over 60 months.

Our lifetime value of a subscriber for Q3 of FY22, ZAR6634 comparable to ZAR6739. There is a bit of noise because of currency but it is also because we've increased our sales and marketing and we haven't actually derived the necessary value at this point in time given the headwinds of COVID, but nevertheless still very healthy. Our contracts operating profit margin for the quarter was 31%. We have ample profit margin to really increase and ramp up our sales.

In terms of our growth per region, South Africa saw a 90% increase in subscribers, Asia saw 20%, Europe 15%, and Africa 8%. I think overall we're content given the headwinds and given that we've remained with a tremendous amount of financial discipline over the quarter.

We certainly are investing for the long term of the business and for evolving our platform and building our customer base for the future. If you see sales and marketing expense, we have increased that by 23%. Our real increases come in R&D; we've increased our R&D spend by 80% and a lot of that investment that we're doing today, we'll only see benefits of that in the medium to long term. In terms of G&A, we've kept good and tight discipline on that, and that's gone up by 10%.

Our operating margins for the quarter was research and development 6%, very much in keeping with our long-term targets that we gave when we IPO'd in April on the NASDAQ. Our sales and marketing subscriptions is at 12% in keeping with the same quarter of last year. We certainly want to increase that to 17% to 19% and we believe that's a good result and substantially faster growth than the current 20%.

General and administration of a percentage of subscription revenue, that's at 20% down from 21% and ideally we want to see that at 12% to 16% over the long term. Our adjusted EBITDA margin as a percentage of subscription revenue for the quarter was 52%, down from the 53% of last year and we believe our target will be 50% and 55%. Fundamentally, the trends are in line with our long-term financial goals set out upon our listing.

In terms of free cash flow, despite our strategic investment in customer acquisition and in R&D and our capital allocation during the pandemic, we still had what we believe is good free cash flow of ZAR306 million. Our operating activities, we generated ZAR750 million. We invested into PPE ZAR445 million and we believe given our strong revenue generation, strong earnings growth, and strong cash flow we believe that our balance sheet is where we feel very comfortable with it and we've got ample capacity to fund growth.

Cash on hand, we were sitting ZAR799 million at the end of Q3 compared to ZAR67 million in the same period in the previous year. Our debtors days is 34 days which I believe is very healthy. That's been quite consistent for several years. We've traditionally been in the early - 50 to 35 days. This is clearly supported by internal proprietary systems that we manage, internal systems including our collection management of debtors.

Our outlook for the year remains unchanged despite the pandemic. The number of subscribers, our initial outlook that we gave at the beginning of the financial year was 1.5 million to 1.6 million. We've already surpassed the 1.5 million so we feel very comfortable that reaching a subscription revenue of between ZAR2.5 million and ZAR2.7 million, that should be easily accomplished. Our adjusted EBITDA margin, our outlook was between 45% and 50% and the year to date we're sitting at 47%. So, we also feel comfortable that we will be able to meet our outlook.

Our ARR at the end of November was ZAR2.76 billion and that's also showing big growth.

I want to thank you for listening to this short presentation and I'll be taking questions. The first question I'll take is from Mike from Canaccord.

Mike Walkley: (Canaccord Genuity, Analyst) Great. Thanks, Zak. Zak, I want to get your thoughts on Samsara's recent IPO in the US market getting a premium valuation. How do you compete with them? Do you compete with them and if you do, how do you fare head-to-head? Maybe you can talk about how their strategy is either similar or different from your strategy.

Zak Calisto: The first thing that I'd like - I haven't really studied Samsara in huge detail, but from the literature that I've read, I think they very much play in the same market as us and other competitors in America like Geotab. There's quite a few competitors that we have. We haven't really come across any in the market, but from what I read I think they are a worthy competitor. They certainly appear to be doing a really good job in terms of growing their business. I see their growth is 68%.

They are allocating a tremendous amount of cash; they are not profitable but they [unclear] growing at 68%. They're allocating a lot of cash into sales and marketing, which I think is quite a good strategy in America because I think America and South Africa have got similarities in the sense that COVID hasn’t quite affected America in the way it's affected Asia. Overall, I think they're doing a good job.

In terms of valuation, let's be honest, I'm not really an expert on valuating companies and [unclear] the other thing, what we're doing. Hopefully, we'll be out of COVID in Asia and then we can start going faster.

Mike Walkley: (Canaccord, Analyst) Okay, thanks. Then a follow-up question, just on the sales and marketing and investment. How is the hiring opportunity and how should we think about modelling sales and marketing as it ramps towards your longer-term [product] of 17% to 19% target?

Zak Calisto: At this point in time we'd actually ramped up - if you go and you look at Q1, I got it wrong. I thought another three to six months we - even when we gave our outlook, my view on that was that we will have COVID for six months, in the last six months of the year we'll probably be sitting with no COVID or little COVID effects. I got it wrong. It seems like we're going to have 12 months of full COVID effects but despite that we're still going to meet our outlook.

In terms of sales and marketing, we went - and because I got it wrong, we started spending quite a lot of money on sales and marketing and realised that we were allocating capital not to the same financial discipline that we had had in the past. If you look at Q3 and Q3, we cut back on the sales and marketing spend. We're still getting the growth but clearly if we want to start growing at over 30% or 40%, we're going to have to increase that, but we've got to do it when the market is then - once we're able to travel, we're able to deploy the people, we're able to execute.

At this point in time, the fact that we're sitting at 20% of the markets we are, I think that we feel comfortable that we're doing a relatively okay job, while still keeping good unit economics. I think there is argument for us to weaken our unit economics and start growing faster despite that it's in the pandemic, but this is something management is continuously evaluating, evaluating whether we should just compromise on our unit economics so that we can get the growth. Hopefully, in the short term we will see the pandemic being less restrictive.

Mike Walkley: (Canaccord, Analyst) Okay. Congrats on keeping your full-year guidance and the results despite COVID restrictions more than we thought. I'll pass along to the next caller.

Zak Calisto: Thanks very much, Mike. The next caller, Alex from Raymond James.

Alexander Sklar: (Raymond James, Analyst) Thanks, Zak. Last quarter you talked about the record adds in September. I'm curious about if you can talk about how many [unclear] the rest of the quarter, and with that you called out some of the retention from some of the early customers that you subsidised during the pandemic. Any update on how much of that is left?

Zak Calisto: That's basically - since we started subsidising customers, it's really at the tail end. Even in this last year [unclear], we churned in the region of about - I haven't got the exact number but we churned between 11,000 and 16,000 vehicles that were really vehicles that we had been subsidising, we hadn't been invoicing for a good six months, that we've actually switched them off. We probably have another 20,000 of those vehicles that we'll probably do in Q4 and then after that I think it's business as normal and we won't have any of those where we're still having the cost of sales while we're doing no revenue on the back of COVID. Despite that, we still got very good net adds in the quarter.

Alexander Sklar: (Raymond James, Analyst) Got it, okay. Then on the messaging evolution, now I'm just talking to on-the-ground, operation, cloud, what can you tell us in terms of where you're investing today and what's going into the core telematics offering versus everything else on the platform? Then with that longer term, how do you think about monetisation of that broader platform?

Zak Calisto: We've got a great - there's various ways of looking at this. The first thing is we've got great operating margins, we've got great unit economics. We are investing substantially more in R&D, as you could see, compared to a year ago we've increased R&D spending by 80%; that's quite material. A lot of that investment is for the medium and the long term.

Having said that, where are we spending the money? A lot of it is going into the video safety, it's going into the integrations into customer assistance, it's going into software to help our customers in terms of last-mile delivery, in terms of consignment centres where different customers can send consignments to one centre and then we can distribute it for them using third-party couriers or using outsourced drivers. We're driving all of that integration into the stores of large retailers, into their warehouses, in terms of the management of fleets but not on the ground in terms of their administration where we had lots of customers doing things on various systems or manually or in Excel.

We're helping them digitalise and help the process of all the vehicles, the equipment they use in their operations. We're doing a tremendous amount of work over and above the fleet management that we have traditionally done in the past. What's allowing us to do this clearly technology. When we first started out in the business there was only SMS. Then came GPRS and 3G, 4G, and what we can do with data today is substantially more than what we could do years ago.

I think at least 18 months ago, that's when we started developing all this extra [unclear] that goes onto our platform. We launched our latest platform towards the end of last year, and we believe we've got a long way to go to improve on our platform, to improve on our offering, and we see us investing for quite a long time into the future to be able to deliver a world-class product for our customers.

Alexander Sklar: (Raymond James, Analyst) Great. Thank you.

Zak Calisto: Thanks. Next, Matt from William Blair.

Matthew Pfau: (William Blair, Analyst) Hi, Zak. Thanks for taking my questions. I want to first ask about impact of Omicron and what you've seen so far from that in the fourth quarter.

Zak Calisto: I happened to be in South Africa at the time that Omicron surfaced and what we saw at that point in time, Asia just started opening up their borders approximately for two weeks into the neighbouring countries like Thailand, Malaysia, Philippines, Indonesia. They were opening it up. Then Omicron surface and then all the borders got closed again. I had to get onto - all the flights got cancelled from South Africa. It was a nightmare getting back into Singapore. My family was supposed to come out to South Africa; we couldn't do that.

I think that's on the one [unclear] where all the immediate reaction by different governments and different policies. On the ground, what we saw in South Africa is that the hospitals, the hospital beds, there's nobody in hospital. I speak to doctors that it doesn't seem to be a huge problem, Omicron. I think that makes me feel that it's just a question of time where the markets will open up again, and I'm hopeful of that. Clearly, certainly I was getting very hopeful and everything went into lockdown again. I'm not sure if I've answered quite your question.

Matthew Pfau: (William Blair, Analyst) Yes, I think that does. You mentioned ramping up sales and marketing and investments into next fiscal year. Maybe you can just give us some idea about what the priorities are in terms of where you're going to allocate some of those investments.

Zak Calisto: I think we've got to do it in a prudent way, and we certainly - for us, our biggest priority is Asia, but you've got to be able to execute otherwise we're just burning money, if that makes sense. We certainly - Asia is our top priority and certainly Europe as well. We want to get investing - because I think that's the real opportunity. The biggest opportunity for us with the longest runway is clearly Asia and Europe. South Africa we've already got 11% of the vehicles on the road, or 10%.

We believe we could grow really well for maybe another five, six, seven years and after that the only way we're going to generate revenue growth is by starting to charge for the additional verticals on our platform. It's something that we can start looking at that probably in South Africa in about two years' time, three years' time, to increase revenue and ARPU once we've got - once we believe we've got a large share of the customer, the potential market. I think Asia and Europe is still very early stages with a lot of opportunities, specifically Asia.

Matthew Pfau: (William Blair, Analyst) Okay, great. Thanks for taking my questions, Zak.

Zak Calisto: Thanks. Roy from Morgan Stanley.

Roy Campbell: (Morgan Stanley, Analyst) Thanks, Zak. Just a quick question on your other growth opportunities. If you could maybe focus just a little bit on Carzuka. We've recognised a little bit of revenue over this. Perhaps how profitable is that revenue recognition and from here what would you expect the growth and the opportunity to be with the likes of that Carzuka. Maybe you can touch on the insurance and the acquisition, the logistics of acquisition as well. Thank you.

Zak Calisto: Carzuka is in beta phase. In Q2, I think we did about ZAR9 million revenue. In Q3 we did about ZAR24 million. I'm estimating that we'll probably do over ZAR40 million in Q4. We're hoping to go live towards the end of Q4; we might be a little bit later, live in Q1, and then we'll have a platform where we can really start scaling the business. At this point in time it's more about getting our tech ready and it's more about us getting the model right in terms of processes and procedures. I feel comfortable we will be able to execute and have a very good business within two to three years. I'm feeling very comfortable about that. We're deriving a lot of [value] out there, a lot of value to our customers. That's that opportunity.

In terms of insurance, [we've been] over 1000 policies and [unclear]. That's been quite flat for the last two, three years - two, three quarters rather. We're hoping to start scaling that also in the next financial year.

In terms of Picup, we have been working with Picup for over two years and we - a lot of the subscription revenue that they were generating came through the contract platform already. They were more focused on the integrations into the warehouses and into the retail stores of customers and into doing the cloud-sourced drivers and the professional couriers. We're now at this point in time merging their side of the technology to our technology and then we're going to bring all of it into one single platform, which is our platform. At that point in time then we're obviously going to spend time and money investing in scaling that business, and I believe that is an important part for the long-term driver of what we're doing in terms of assisting our customers with their operations.

Roy Campbell: (Morgan Stanley, Analyst) Thank you, Zak.

Zak Calisto: Next, Parker Lane from Stifel.

J. Parker Lane: (Stifel, Analyst) Hi, Zak. Thanks for taking the questions. I wanted to talk about the unit economics of the business. It's obviously very strong today at 9x LTV to CAC. What does that look like when you enter some of these newer markets in Southeast Asia, in Europe? Is that typically a fair bit lower than scales over time or do you really see those unit economics hold true regardless of the location you're trying to acquire customers in?

Zak Calisto: At the moment it's 9x. I certainly believe that we could certainly drop that when we initially start scaling, but I believe if we are able to keep our unit economics once we've taken any sector away from - because what we find is when you starting scaling, there's always a bit of fat and a bit of spillage, but once you're able to work out the spillage, and I think provided the pricing remains where it is today, I certainly believe we can keep very similar LTVs to CAC.

J. Parker Lane: (Stifel, Analyst) Got it. Then just thinking about the broader strategy here of on-the-ground operations, how much will talking acquisitions play a role in expanding the platform going forward? Obviously you did the Picup deal but could we expect that to be a normal cadence of a deal or two each year going forward as you widen the scope of the platform?

Zak Calisto: The reality is this is the first acquisition that we've done. Traditionally, we're very much a vertically integrated business and even if you look at our internal systems, the way we run the business internally, that's all proprietary software. What led to this acquisition was that we had been working with Picup for over three years; we know the management very well, we know what they're [bolting], and we realised the value on bringing it to one single platform like ours, the real value that that can generate over time. That's what made us buy this asset and then to integrate into one single platform. I don't believe we are wired to grow by acquisition. We're not against it, but we're certainly not on the trail to do acquisitions in order to grow. I believe we've got enough tailwinds to be able to get the growth that we want organically.

J. Parker Lane: (Stifel, Analyst) Appreciate the feedback. Thanks again.

Zak Calisto: I'm just reading out the question here from [Gregory]. What do you see as the largest challenge to your growth? Is it internal/external capacity, competition, exposure, or something else? I think, Gregory, I always say the biggest challenge is normally what you don't know, because you don't know what to do about it. At this point in time the real challenge is human capital. I think all businesses face the same challenge. It's the human capital, whether it's for sales and marketing, G&A, R&D.

It's never easy. It's always difficult. Obviously, there are challenges that will come and what we do find is being in business it's always - there's always something that you couldn't think of that's just around the corner. I think what's important is over time we are a very agile time and we are able to address the challenges as they come.

Then we've got [Woki Lablundla]. Hi, Zak. Given the strong and underleveraged balance sheet and healthy cash and cash equivalents, can you give an indication of the Company's inorganic growth strategy or the M&A opportunities or are you pursuing currently bolt-on acquisition, partnerships, diversify the business, and if so, what sort of businesses are on the radar?

I think fundamentally we're not, like I said earlier, looking for businesses to acquire, or to bolt on, or to do M&A, but clearly we're very pragmatic and being so, and we're very realistic, there will certainly be I believe a great opportunity to do an M&A at some time or another, given I don't believe - I think the market is large enough for there to be multiple winners. There could certainly be an opportunity for M&A, and if we were to acquire any business it would have to be very strategic, if that makes any sense.

Then we've got another question from Gregory. What does the ideal customer look like and what services do they subscribe and to what is the opportunity in business in them? I think fundamentally we don't have an ideal customer. If you look at our customer portfolio at this point in time, we've got customers ranging from consumer to large enterprises. Our smallest customer has got one vehicle; our largest customer has got 37,000 vehicles. Then the type of vehicles they've got, it goes from motorcycles to large trucks in mines that weigh 500, 600 tonnes.

In terms of industries, we've got a range of industries from tourism to logistics to oil and gas, mining, retailers, wholesalers. You name it, we've got the customer. So, we don't have an ideal customer; we don't have that, and each customer has got their very own unique needs. At this point in time I believe we can cater for 99% of most customers' needs in terms of fleet management and we certainly are now investing far beyond fleet management to be able to assist the customers in getting more value and integrating all the data that we collect into their data operations.

Thank you, everybody, for attending. We will see you in three months' time. Thank you very much. Bye-bye.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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