The Karooooo Blues

Perspectives: June 23rd, 2022

*"I think it's important that **we now can tap into the capital markets that understand our story.** We believe **we will get a fair valuation,** and which is, in my opinion, very important for all the shareholders"*

Zak Calisto, Cartrack CEO, BizNews interview published April 23rd, 2021. Emphasis added.

From time to time we notice companies moving their listings to different or multiple stock exchanges. The rationale provided to shareholders almost always includes to 'improve their valuation' This sounds like investment banking advice, and what may lie behind these public 'value' statements is that it is about boosting share prices and taking advantage thereof.

In April 2021 JSE listed **Cartrack** was renamed **Karooooo** and moved its main board listing to the Nasdaq, with a dual secondary inward listing on the JSE.

I fundamentally respect anyone's rights to do their own work, form their own opinion, and the freedom of speech. I too have the right and obligation to do my own homework and thinking, and to express my own view based on the evidence before me. I would like to present the following facts for your consideration.

1. Fund management firms and individual investors move capital globally and transact in listed assets on about any country's stock exchange with relative ease.
2. Foreign based investors account for a significant portion of listed businesses on the JSE's ownership and daily transaction volumes.
3. Cartrack was listed on the JSE from 2015 to late April 2021, and its PE and EV / Sales valuation multiples peaked at 57x and 14,8x respectively on January 25th, 2021. My point is that being listed on the JSE was

clearly no impediment to the company reaching its highest valuation multiples ever.

4. Since its listing on the Nasdaq, Karooooo's PE and EV / Sales valuation multiples have contracted and averaged 25x and 9.6x respectively, and is currently trading at 20x and 6,7x.
5. There are *many* examples of JSE listed businesses that have reached and even exceeded valuation multiples accorded its global comparable peer groups.

I have lived and worked on three continents and have met and worked with many of my professional industry peers and other market participants on the buy- and sell-side in South Africa and abroad in the past 27 years. I have *never* encountered any evidence to support a notion that foreign based market participants are any more or less sophisticated than those based in South Africa, or that anyone anywhere is in any way restricted or unable to transact in or understand how businesses and industries work.

<u>Karooooo share price since listing on the Nasdaq</u>

Source: Google Finance

If a positive rerating in the share price and valuation multiples of Karoooo by 'investors that understand their story' was indeed their main objective, being listed on the Nasdaq instead of the JSE has been a failure to date. Well, not for everyone…the investment bankers have, of course, been paid a handsome handling fee without recourse.

However, given that Karooooo used the Nasdaq listing to raise capital by issuing shares to its new foreign based shareholders, who understood and bought into the story, I would argue Mr. Calisto did exactly what we should expect from an excellent businessperson – buy low and sell high.

Our work continues…

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