

Transcription

Q1 2026 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q1 2026 Earnings Conference Call July 23, 2025 8:00 AM ET

Company Participants

Zak Calisto – Founder & Group CEO

Paul Bieber – VP: Investor Relations and Strategic Finance

Carmen Calisto – Group Chief Strategy and Marketing Officer

Goy Hoeshin – Group Chief Financial Officer

Conference Call Participants

Paul Bieber

Hello and welcome to Karooooo's Q1 FY 2026 earnings call. On behalf of Karooooo, we would like to thank you for joining us today.

I'm Paul Bieber, VP of Investor Relations and Strategic Finance. We are joined today by Zak Calisto, Founder and Group CEO, Hoeshin Goy, Chief Financial Officer and Carmen Calisto, Chief Strategy and Marketing Officer.

I would like to remind everyone that some of the statements that we make today regarding our business, operations and financial performance may be considered forward-looking. Such statements are based on current expectations and assumptions. They are subject to several risks and uncertainties.

Our actual results could differ materially. Please refer to the safe harbor statement in our Form 20-F, including the risk factors, and the 6K that we filed yesterday. We undertake no obligation to update any forward-looking statements.

During this call, we will present both IFRS and non-IFRS financial measures. A reconciliation of non-IFRS to IFRS measures is included in the 6K that we filed with the SEC yesterday. Our comments will refer to year-over-year comparisons unless we state otherwise. I will now pass the presentation over to Carmen.

Carmen Calisto

Who We Are

Welcome to Karooooo's Q1 FY 2026 financial results presentation.

For those new to Karooooo, we operate a SaaS platform for connected vehicles and mobile assets that enables businesses to enhance operational efficiency, reduce costs, improve safety, and ensure compliance. We help businesses simplify decision making to optimize their physical operations.

We serve a large, underpenetrated market with strong, sustained demand driven by digital transformation, a constant need to improve operational efficiency, and an increasing focus on safety and compliance.

We are a founder-led business with a strong financial profile, a proven track record of execution excellence and a cultural focus on disciplined capital allocation and operational efficiency. Our platform supports more than 2.4 million subscribers across more than 125,000 businesses in South Africa, Southeast Asia, and Europe, spanning industries such as logistics, mining, agriculture, construction, retail, and the public sector.

Our financial model is anchored by attractive growth, high-margin subscription revenue, exceptional commercial ARR retention and powerful unit economics.

Our Q1 FY2026 Annual Recurring Revenue or ARR increased 18% to ZAR4,574 million and on a U.S. Dollar basis ARR increased 24% to USD254 million, subscription revenue accounted for 98% of Cartrack revenue, and our commercial customer ARR retention rate remains at 95%.

We continue to scale our proprietary data asset—now generating over 220 billion data points monthly—which we leverage to deliver impactful insights and value to our customers.

Finally, our LTV/CAC remained above 9x, enabled by strong retention, disciplined capital allocation and efficient distribution, which are embedded in our vertically integrated business model and company culture.

Leading Physical Operations Management Platform, Focused on Africa, Asia and Europe

During our presentation, we will review both of Karooooo's operating segments: Cartrack and Karooooo Logistics.

Cartrack is our operations management SaaS platform. Cartrack operates at scale and has a very attractive financial profile. Cartrack's operating momentum is the primarily driver of Karooooo's growth and strong financial performance.

In Q1, Cartrack delivered strong results highlighted by accelerating subscription revenue growth across all regions. These results reflect the early returns from the strategic investments we've made in expanding our sales capacity in recent quarters. In Q1, Cartrack generated ZAR1.1 billion in subscription revenue, an increase of 19% or 24% on a U.S. dollar basis. Notably, Cartrack subscription revenue accelerated this quarter. Cartrack's operating profit margin was a healthy 30%.

Karooooo Logistics is our rapidly growing "Delivery as a Service" offering that empowers large enterprise customers to scale their e-commerce and logistics operations. Karooooo Logistics is showing strong growth and operating momentum and driving real value for our enterprise customers. We report Karooooo Logistics separately as the Delivery as a Service offering differs from Cartrack's SaaS financial profile.

Karoo0000 Logistics is strategically important to us as it empowers our customers to scale their eCommerce and logistics operations through a capital light model while driving high Cartrack customer retention.

We continued to profitably scale the Karoo0000 Logistics business. In Q1, Karoo0000 Logistics' "Delivery as a Service" revenue reached ZAR121 million, an increase of 20% or 26% on a US. dollar basis. Given Karoo0000 Logistics' robust revenue growth, we are very excited about the long-term growth opportunity.

Karoo0000 Group Snapshot Q1 FY6

In Q1, Karoo0000 delivered total revenue of ZAR1,277 million, an increase of 18%, subscription revenue of ZAR1,141 million, an increase of 18% earnings per share of ZAR8.55, an increase of 19% and total subscribers of approximately 2.4 million, an increase of 17%.

Cartrack subscription revenue growth of 19% and operating profit margin of 30% underpinned our stellar financial performance in Q1. It's noteworthy that Cartrack's operating profit margin was stable at 30% despite the increased investment in sales capacity and infrastructure to drive accelerating growth.

Q1 continued our track record of delivering profitable growth at scale. In Q1, we were a "Rule of 60" company when adding our Cartrack subscription revenue growth of 19% and our Cartrack adjusted EBITDA margin of 46%.

Rare Financial Profile Within SaaS Universe

Before detailing our Q1 financial and operational accomplishments, we want to take a moment to underscore our distinctive financial profile - something that is exceptionally rare in the public markets, particularly among small-cap companies. We believe we are among a select few SaaS companies operating at a "Rule of 50-plus" based on calendar year 2025 GAAP Street estimates. Within a SaaS universe of approximately 160 companies, we believe we are the only small cap company operating at this level.

Being part of this elite group reflects our unwavering commitment to disciplined and profitable growth.

Q1 FY2026 Financial and Operational Highlights

Moving on to our Q1 Financial and Operational highlights.

In Q1, SaaS ARR accelerated to 18% compared to Q4 2025 growth of 17%. On a U.S. Dollar basis, Q1 SaaS ARR accelerated to 24% compared to Q4 2025 growth of 21%.

Cartrack Subscription revenue growth accelerated to 19% compared Q4 2025 growth of 16%.

On a U.S. Dollar basis, Cartrack subscription revenue accelerated to 24% compared to Q4 growth of 20%.

Cartrack total subscribers increased 17% highlighted by stable growth in South Africa and an acceleration of growth in Southeast Asia to 22%. We also delivered record Q1 net subscriber additions.

Q1 Average Revenue Per User or ARPU increased 2% in ZAR or 6% on a U.S. Dollar basis as we started to deliver on our aim to increase ARPU in South Africa in FY 2026.

Cartrack operating profit margin was a healthy 30% and benefitted from disciplined expense management and modest ARPU growth.

Karooooo Earnings Per Share of 8.55 increased 19%.

We remained a “Rule of 60” company, and our balance sheet remains strong and unleveraged. We ended the quarter with net cash and cash equivalents of ZAR1,103 million.

Cartrack’s Unit Economics Remain Efficient and Healthy

Our healthy subscription gross margin, efficient customer acquisition, and attractive commercial customer ARR retention rate continue to drive our healthy unit economics. In Q1, our subscription gross margin was 74%, our LTV to CAC ratio remained above 9x, and our commercial customer ARR retention rate was 95%. We are also experiencing attractive ARR growth with our retained customers.

It’s noteworthy that we accelerated our subscription revenue growth in Q1 while maintaining healthy unit economics. We are excited about our massive TAM and remain committed to profitable growth as we pursue the expansive growth opportunity ahead of us.

South Africa Q1 2026 Review

We ended Q1 with approximately 1.8 million subscribers in South Africa, an increase of 16%. South Africa subscription revenue comprised 70% of our total subscription revenue, and South Africa Subscription revenue growth accelerated to 16%.

We are encouraged by the strong teams that we are building in South Africa to accelerate organic growth, broaden our customer base, and increase subscription sales to existing customers in the region. We continue to see a compelling market opportunity in South Africa driven by ongoing digital transformation, rising demand for video solutions, and the market-expanding impact of Cartrack-Tag. With a trusted brand and an experienced team, we continue to see a compelling market opportunity in South Africa.

Southeast Asia Q1 2026 Review

We ended Q1 with approximately 290 thousand subscribers in Southeast Asia and the Middle East, with most of the subscribers in Southeast Asia. Southeast Asia and the Middle East subscriber growth accelerated to 22% and is now 17% of our total subscription revenue.

Southeast Asia continues to present the largest growth opportunity over the medium-to-long term and is our fastest growing region. In Q1, Southeast Asia and Middle East subscription revenue growth accelerated to 30%.

We aim to increase our sales headcount by 70% by February 2026 compared to February 2025.

Our differentiated SaaS platform, growing brand equity built on superior customer service, service delivery and distribution, and attractive regional macro-trends should provide us with a solid foundation to drive continued growth and expansion in the region for many years to come.

We believe Southeast Asia is a vast and underpenetrated market for sophisticated fleet management and video-based solutions, and we are excited about the vast growth runway ahead.

Europe Q1 2026 Review

We ended Q1 with approximately 210 thousand subscribers in Europe, an increase of 20%. Europe is now 10% of our total subscription revenue, and European subscription revenue growth accelerated to 22%. On a constant currency basis, European subscription revenue growth accelerated to 20%.

We have partnered with leading OEMs to provide easy access to our platform, seamlessly integrating their connected vehicle data to our platform through APIs. We expect these partnerships to contribute to our results in the medium to long term. In addition, we are experiencing encouraging demand for our proprietary compliance technology in the region as customers seek to simplify compliance with evolving legislation and enforcement.

We continue to accelerate our organic growth, expand our customer base and increase subscription sales to existing customers in the region.

Karooooo Logistics Continues to Scale

In Q1, Karooooo Logistics continued to build scale and delivered revenue of ZAR121 million, an increase of 20%, and an 8% operating profit margin.

Karooooo Logistics supports our strong financial performance by immersing our platform into large customers' operations, contributing to strong customer retention. Karooooo Logistics also enables us to learn about the operational and logistics challenges confronting our large customers.

We see a large opportunity for Karooooo Logistics going forward as large businesses seek to increase their e-commerce offerings and optimize their logistics capabilities through a capital light model.

Progress On Our FY2026 Priorities

In Q1, we made good progress with our FY 2026 priorities.

First, we've begun strengthening our leadership position in South Africa by selling our video solutions and Cartrack-Tag to our existing customer base. This initiative has demonstrated early traction, as reflected in a 2% ARPU increase in Q1. However, the dynamics on the ground are more nuanced. While video and bundled Cartrack-Tags are positively contributing to ARPU expansion, sales momentum with stand-alone Cartrack-Tags, which carry a lower revenue per subscriber, is partially offsetting the ARPU uplift. We remain confident in our long-term ability to grow ARPU in South Africa though reaching our 10% ARPU growth target for FY 2026 may take a little longer than initially expected as we build our internal capabilities. Longer term, we believe there is potential to increase South African ARPU by significantly more than 10%.

Second, we continue to expand our distribution footprint in Asia and Europe. We are seeing success in expanding our teams in the region.

Finally, we continue to work with our customers globally to drive broader engagement with our platform and to capture the growing demand for video capabilities, including AI video.

Disciplined Capital Allocation Framework

Capital allocation is a fundamental part of our culture, and we aim to remain disciplined with our capital allocation strategy, rooted in a 20-year culture of profitable growth at scale and prudent financial management—key drivers of long-term shareholder value.

Our capital allocation framework is unchanged and prioritizes:

- Organic Growth & Innovation – Our paramount priority is investing in organic growth and product innovation, given our strong unit economics, sustained profitability, and large market opportunity.
- Returning Capital to Shareholders – At current growth rates, our business generates significant excess cash. With our strong balance sheet and net cash position, we aim to return surplus capital to shareholders when we cannot efficiently invest it for growth, primarily through an annual dividend. As to avoid doubt, management prioritizes growth over dividends.
- Strategic M&A – We take a prudent and strategic approach to M&A. We view M&A as a tool to accelerate time to market in key geographies, expand our product portfolio, or strengthen our competitive position. However, given our compelling organic growth profile, customer-centric culture and attractive unit economics, we set a high bar for any potential acquisitions. M&A opportunities must offer clear strategic value or optionality to meet our criteria.

Ultimately, we see it as our responsibility to allocate capital thoughtfully, always with the goal of maximizing long-term shareholder returns.

I will now hand it over to Hoeshin who will discuss our Q1 financial performance.

Goy Hoeshin

Thank you, Carmen. I will now discuss Karooooo's financial performance for Q1 FY2026.

Please note, my comments will refer to year-over-year comparisons unless we state otherwise.

Karooooo Continues to Deliver Strong Subscription Revenue and Earnings Growth

Our proven and profitable SaaS business model continued to deliver strong results in Q1.

Karooooo's total subscription revenue increased 18% to ZAR1,141 million. On a U.S. Dollar basis, Karooooo subscription revenue increased 24%. Operating profit increased 17% to ZAR352 million, and Adjusted Earnings per share increased 19% to ZAR8.55.

Cartrack's Strong Performance Continues, Fueled by SaaS Revenue Momentum

We will now focus on Cartrack's financial performance, which is fuelled by SaaS revenue momentum.

In Q1, Cartrack revenue increased 18% to ZAR1,156 million, and Cartrack subscription revenue increased 19% to ZAR1,138 million. Subscription revenue comprised 98% of Cartrack total revenue.

In Q1, ARR increased 18% and 24% in ZAR and US Dollars, respectively. Our ARR growth is slightly lower than Cartrack subscription revenue growth due to several factors including the impact of FX, timing, and rounding.

Cartrack Extends Decade-Plus Track Record of Consistent Execution and Resilience

As you can see from the trend of the charts, Cartrack has a proven track record of scaling in varying macro-economic conditions given our consistent execution, resilient subscription revenue model, and attractive historic retention rates.

In Q1, Cartrack experienced healthy customer acquisition. Q1 Subscribers increased 17% to approximately 2.4 million, subscription revenue increased 19% to ZAR1,138 and operating profit increased 19% to a record ZAR342 million.

Cartrack Delivered Record Q1 Net Subscriber Additions

Cartrack experienced solid customer acquisition with record Q1 net subscriber additions of 84,013, an increase of 11%.

Cartrack's Q1 Subscriber Mix and Growth

Cartrack continues to grow its subscription revenue across geographies, and subscription revenue growth accelerated across all regions.

South Africa subscription revenue growth accelerated to 16%.

Asia and Middle East subscription revenue growth accelerated to 30%.

Europe subscription revenue growth accelerated to 22%.

The acceleration across regions reflects our execution track record and provides a solid foundation for continued growth.

Q1 Cartrack Subscriber Growth Healthy; ARR Growth Accelerating and ZAR ARR Accelerated

In Q1, total subscriber growth of 17% remained healthy while SaaS ARR accelerated to 18% compared to 17% in Q4 FY2025.

We believe the acceleration in SaaS ARR reflects the underlying momentum in the business and signals that our strategic initiatives are gaining traction.

Karoo0000 Continues to Deliver Strong Earnings Per Share Growth

Karoo0000's earnings per share increased 19% to ZAR8.55 in Q1. Earnings per share benefitted from subscription revenue growth. In Q1, Cartrack's earnings per share contribution increased 20% to ZAR8.37. Karoo0000 Logistics earnings per share contribution was ZAR0.18 despite the increased investments in driver training and quality control to support growth.

Karoo0000 has a Decade Plus Track Record of High Cash Generation

In Q1, we resumed our significant free cash flow generation. Free Cash flow was ZAR338 million and benefited from disciplined working capital management.

The Free Cash Flow generated is in line with Karoo0000's disciplined capital allocation strategy and supports our future growth.

Karoo0000 has a Durable Business Model Supported by A Strong and Clean Balance Sheet

Our balance sheet reflects our track record of growth at scale, profitability and cash generation.

Our net cash on hand plus cash in bank fixed deposits was ZAR1,103 million.

Debtor's collection days remain extremely healthy at 27 days and are within our historical norm.

We are paying a total cash dividend of approximately USD38.6 million to our shareholders in August 2025. That is a dividend of USD1.25 per share.

We believe that our ability to generate healthy cash flows is sustainable given our annuity business model coupled with our track record of consistent execution and success.

Reaffirming FY 2026 Outlook: On Track to Deliver Growth Acceleration

In FY2026, we aim to accelerate Cartrack subscription revenue growth by further expanding our distribution footprint in existing markets, driving broader platform adoption, and capitalizing on growing demand for our AI video solutions. We are encouraged by our positive momentum in Q1 FY2026, where subscription revenue accelerated to 19%, signalling that our strategic initiatives are gaining traction.

With continued investments in sales, marketing, and infrastructure, we believe we are well-positioned to achieve our FY2026 growth ambitions.

Accordingly, we are reaffirming our previously provided FY2026 outlook.

Hypothetical no ARR growth scenario to illustrate margin potential based on Feb 2025 ARR

A frequent question we receive from investors focuses on the trade-off between growth and margin profile. Our FY 2026 outlook details a range of growth and margin outcomes as we aim to accelerate our growth this year. Equally important, we believe it's insightful to examine how our financial model could perform in a zero-growth environment with stable customer retention.

It's important to recognize that our current financial statements reflect the substantial upfront customer acquisition costs that appear in our sales and marketing expense line. While these costs are expensed immediately under IFRS, they support the acquisitions of customers that typically remain with us for many years. This timing differential creates a meaningful mismatch between when we incur customer acquisition costs and when we recognize the full revenue benefit or the lifetime value of our long duration customer relationships. Currently, our LTV/CAC is more than 9 times.

In a hypothetical no-growth scenario with consistent ARR retention patterns, we believe we would have the flexibility to significantly reduce our sales and marketing expenditure. This lever could potentially drive our operating profit margins higher to approximately 38% - a substantial improvement from current levels as growth-oriented marketing expenses are eliminated. In addition, the approximately 38% operating profit margin could potentially improve as it does not account for the potential additional benefit accrued from reduced depreciation and expansion expenses in a no-growth environment.

For additional context, our margin profile incorporates growth-related costs to increase our footprint and customer acquisition. Further, in a no-growth scenario, depreciation would decline slightly, providing a further potential margin expansion opportunity.

Q1 2026 Key Earnings and Investment Highlights

In closing, the underlying acceleration in the business reflects the strength of our operating model and early traction from strategic investments in sales capacity and customer acquisition. We've made deliberate choices to invest to enhance our distribution footprint, and we're beginning to see those efforts materialize. With continued execution, disciplined investment, and growing regional performance, we believe that we are well-positioned to deliver consistent and profitable long-term growth.

With that, I'll turn the presentation over to Zak Calisto for Q&A.

Q&A:

Q: Joshua Reilly, Needham

If we look at the subscriber growth in South Africa, it was very consistent in the first quarter, any colour on the trajectory of the consumer growth for the balance of the year relative to the commercial subscriber growth?

A – Zak Calisto

In South Africa we are experiencing strong traction in both consumer and commercial customer growth, and we expect this trend to continue throughout the year. Fundamentally, we are having good traction on both commercial and consumer customer growth.

Q: Joshua Reilly, Needham

If we look at your Southeast Asia markets, are you seeing any impact to subscriber growth in these regions from the US tariff impact as these are key centers for US manufacturing or is local economic growth driving trends of adoption?

A – Zak Calisto

I don't believe the tariff environment that the whole world is talking about is impacting our business at this point in time. I think our growth in Southeast Asia is just because we are addressing the market and we're increasing our footprint. Fundamentally, I don't think the tariffs will have an impact on us but it might in the future, but I cannot see it.

Q: Joshua Reilly, Needham

How should we think about the cross-sell of video and Cartrack Tag relative to your expectations and the subsequent impact to ARR growth and ARPU growth for the balance of the fiscal year?

A – Zak Calisto

We were hoping that we could increase our ARPU this year by around 6%, equating to about a 10% increase in South Africa. We made good progress in Q1, and we are getting momentum on this, and we might miss that 10% initial outlook, I believe we are building the teams and we are building the muscle to be able to execute on this.

Q:

Please explain why you have chosen expansion in SE Asia rather than Africa which I would suspect has less competition?

A – Zak Calisto

We've expanded into Africa mostly to support our South African customers, and we believe the market opportunity in Southeast Asia is significantly larger.

Q: Dylan Becker, William Blair

On the accelerating subscription revenue, can you give us colour on the mix between subscriber growth and cross-selling initiatives? Early validation of success as customers look to land more multi-product and what that can mean for broader stickiness/retention throughout the platform?

A – Zak Calisto

I think we are getting the cross-selling initiatives, but probably the best way to look at it. That's given us an uplift of 2%. We're hoping that will rise by Q4 to higher levels, and it's mostly new subscribers with an element of cross-selling. And I believe this cross-selling is going to pick up momentum as we build the muscle to execute.

Further, early validation of success as customers look to land more multiproduct and what can mean for broader stickiness retention throughout the platform?

I think fundamentally, our customers we've got -- if you look at our retention rates, they are relatively high compared to our peers. So I do believe we've got significant stickiness. And I think what it really means for us is that if we don't add this extra level of service, then we might lose customers. So it really is not really about improving retention. It's more about keeping our retention rates.

Q: Dylan Becker, William Blair

Update on hiring/capacity plans? What does the typical ramp process look like for reps and how it can contribute to sustained levels of elevated subscription growth?

A – Zak Calisto

Fundamentally, Dylan, as we increase the number of sales staff in a perfect world, you should have a correlation of one. And that is that if you increase your sales force by 50% or by 100%, then you should get 100% more net sales. And that would then trickle off into a lower percentage in your subscriber -- on your base subscriber growth. So in Asia, typically, if you're able to increase your salespeople by 70%, we then should get a subscriber growth of about 28% this year. And that's what we're working towards.

Q: Dylan Becker, William Blair

Impressive data moat, as this continues to grow and expand, and you continue to go deeper with customers with more products, how do you think about ability to continue innovating and developing new products and driving even deeper value/insights for customers?

A – Zak Calisto

Dylan, that's fundamentally what we've been doing for years. The more data we have, the more information we can give our customers. And clearly, what we are offering today is much better than it was 5 years ago and substantially better than 10 years ago. And I believe in 5 years' time, we will be in a much better position than we're currently in as well.

Q: Alexander Sklar, Raymond James

Can you talk about how the SE Asia hiring plans are trending YTD so far relative to 70% growth target? Are you expecting any change in productivity 6-12 months following these hiring efforts vs. the past year?

A – Zak Calisto

We're very much on target with our hiring plans. In some countries, we're a little bit behind. In other countries, we're ahead. So overall, I think we're on target.

We certainly are. Otherwise, we wouldn't be doing it, and I believe we'll be able to deliver.

Q: Alexander Sklar, Raymond James

How will the growth in ARPU from cross-selling Video/Asset Tags/Analytics impact the LT EBIT margins for the Cartrack business?

A: Zak Calisto

Fundamentally, the way we do our pricing is very much based on our operating profit margin. And we believe this ARPU that this increase in ARPU is not to increase profitability margins. It will just increase our profits and increase our revenue, but it won't have an impact on the margins. It will just increase the ARPU and the ARU. But with that comes additional cost of sales and OpEx expenses.

Q: Colin Smith, All Africa Partners

Would you like to increase the company's ownership of Karooooo Logistics, and if so, is there a route to doing so?

A – Zak Calisto

Our agreement, our shareholders' agreement, we have the option to increase our shareholding. And that option comes into place in February 2026, and we'll evaluate it in 2026. And if we don't do it in FY '26, we will keep on evaluating it.

Q: Yakov Schleider

Please give us some colour around the opportunity in Asia. You mentioned in the press release you are growing sales headcount there by 70%, can you talk to the ramp up process of hiring and when a hired sales associate is fully trained/operating at capacity.

A – Zak Calisto

Jakov, I think I've covered this question.

Q: Roy Campbell, Morgan Stanley

How is the Cartrack tag performance / roll out in South Africa progressing?

A – Zak Calisto

The tag is phenomenal progress. It really is a game changer for us in the marketplace, and we really are getting a lot of traction with the Cartrack Tag. And we believe it's early days in the bigger picture. So we're very excited about this product. It's working really well at this stage, and I believe it's going to be a game changer.

Q: Roy Campbell, Morgan Stanley

The effective tax rate is quite low, can you please detail the reasons and how this looks for the balance of the year.

A – Zak Calisto

Roy, I haven't got the answer on hand. But fundamentally, we are benefiting from entities that are now becoming profitable and which had tax losses.

I think those are the questions. Thank you very much for everybody for joining us today. Thank you. Goodbye.