

Transcription
Q2 FY 2027 Financial Results of Karooooo.

Karooooo Ltd (NASDAQ:KARO) Q2 FY 2027 Earnings Conference Call October 20, 2026 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

Paul Bieber – VP: Investor Relations and Strategic Finance - Introduction

Hello and welcome to Karooooo's Q2 FY 2027 financial results presentation. On behalf of Karooooo, we would like to thank you for joining us today.

I am 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 may refer to year-over-year comparisons unless we state otherwise.

I will now pass the call over to Carmen.

Carmen Calisto

Thanks, Paul.

Karooooo FY 2026: What Matters Most

Q2 was another quarter of acceleration. Cartrack subscription revenue accelerated to 20% from 19% in the prior quarter despite FX headwinds. Importantly, Cartrack's constant currency subscription revenue growth increased 23% in Q2, compared to 21% in Q1, with constant

currency growth acceleration across all regions. Notably, South Africa subscription revenue growth accelerated to 25% compared to 24% in Q1, and Asia constant currency subscription revenue growth also accelerated to 25% compared to 17% in Q1. The acceleration demonstrates that our investments in sales capacity continue to drive tangible results as we balance new customer acquisition with building our cross-sell capabilities.

ARR increased 22% in constant currency. Reported ARR growth was 19% reflecting a strengthening ZAR, and 30% in US dollars.

In Q2, subscriber growth increased 18% as net subscriber additions increased 34%, a record for the second quarter, as we continue to realize the benefits of our recent investments in sales capacity and capitalize on sales momentum with video solutions and Cartrack Tag.

Our strong execution once again translated into record quarterly Karooooo operating profit of ZAR422 million despite FX headwinds, reflecting our ability to accelerate revenue growth while maintaining healthy profitability. Earnings per share also increased 18% in Q2.

As we look forward to the rest of the fiscal year, we reiterate our FY 2027 outlook.

Who We Are

Before diving into the details, here is a quick introduction to Karooooo.

We provide an operational intelligence platform for connected vehicles and mobile assets, helping businesses simplify decision making and optimize their physical operations. We serve an expanding, largely underpenetrated physical AI market, driven by digital transformation and the need for greater efficiency, safety and compliance.

We are a founder-led business with a two-decade track record of disciplined execution and capital allocation. Our platform supports approximately 2.9 million subscribers across more than 125,000 businesses in diverse industries.

Our financial model is anchored by accelerating, high-margin subscription revenue, which was 98% of Cartrack revenue in Q2. Commercial customer ARR retention remained at 95%, and LTV to CAC remains above nine times. We also now process more than 345 billion data points monthly, a proprietary data asset that continues to scale and enables us to deliver value to our customers.

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

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

Cartrack is our operational intelligence platform. Cartrack operates at scale and has a very attractive financial profile. Cartrack's operating momentum is the primary driver of Karoooo's growth and strong financial performance.

Cartrack delivered exceptional Q2 results with acceleration across regions that reflect the returns from the strategic investments we have made in expanding our sales capacity and selling Video and Cartrack-Tag to existing and new customers.

In Q2, Cartrack delivered approximately ZAR 1.42 billion in subscription revenue, an increase of 20% or 31% on a U.S. dollar basis. The 20% growth reflects an acceleration compared to 19% in Q1 despite a strengthening ZAR that negatively impacted reported Cartrack subscription revenue in Q2. Cartrack constant currency subscription revenue growth accelerated to 23% in Q2 compared to 21% in the prior quarter.

Cartrack's operating profit margin was a healthy 28% in Q2.

Karoooo Logistics is our rapidly growing "Delivery as a Service" offering, which helps large enterprise customers scale their Q-commerce, or "Quick Commerce," operations. We report it separately because its financial profile differs from Cartrack's subscription model. It is strategically important for us because it enables customers to grow with a capital-light model and deepens their relationship with us, supporting higher retention.

In Q2, Karoooo Logistics' "Delivery as a Service" revenue was ZAR 189 million, an increase of 36% or 49% on a US. dollar basis. Karoooo Logistics operating margin was 6% and reflects investments to ensure driver availability and expansion into our network.

Karoooo Q2 2027 Snapshot

In Q2, Karoooo delivered strong consolidated financial results. Total revenue increased 22% to ZAR1,640 million, subscription revenue increased 20% to ZAR1,418 million, operating profit increased 19% to a record ZAR422 million and subscriber growth increased 18% to approximately 2.9 million subscribers.

Cartrack's 20% subscription revenue growth and 28% operating profit margin were the primary drivers of Karoooo's strong financial performance in Q2.

Rare Financial Profile

Q2 continued our track record of profitable growth at scale. In Q2, Cartrack's 20% subscription revenue growth and 46% adjusted EBITDA margin made us a "Rule of 60" company, with no stock-based compensation add-back.

It is important to underscore just how differentiated our financial model has become. We believe we are among a select few companies operating at a "Rule of 50-plus" based on calendar year 2027 GAAP Street estimates. Within a universe of approximately 170 companies,

Karoo is the only small to mid-cap company operating at this combined level of growth and profitability.

With an essentially unchanged share count and no stock-based compensation, growth in free cash flow translates directly into higher per-share value.

Our rare financial profile reflects our unwavering commitment to profitable growth.

Q2 2027 Financial and Operational Highlights

Now, let's discuss our Q2 financial and operational highlights.

In Q2, ARR increased 19% despite FX headwinds, and constant currency ARR increased 22%. ARR in US Dollars increased 30% reaching USD354 million.

Cartrack Subscription revenue growth accelerated to 20% despite FX headwinds. Constant currency growth accelerated across regions highlighted by South Africa subscription revenue growth accelerating to 25% and Asia constant currency subscription revenue growth also accelerating to 25%.

Cartrack subscription revenue growth increased 31% in USD and 23% in constant currency.

Cartrack total subscribers increased 18%, reaching approximately 2.9 million. Cartrack net subscriber additions increased 34% to 94,516, a record for the second quarter.

Despite FX headwinds, Karoo delivered record quarterly operating profit of ZAR422 million. Growth oriented investments moderated in Q2 as consolidated sales and marketing expenses increased 16% compared to 33% in Q1.

We were a "Rule of 60" company in Q2 with subscription revenue growth of 20% and an Adjusted EBITDA margin of 46%.

Our balance sheet remains strong and unleveraged, and reflects the USD1.50 per share dividend payment in July and the investments in inventory classified as PPE, including memory, to support our current accelerated subscription revenue growth.

Cartrack's Growth Engine Underpinned by Strong Unit Economics

Our healthy subscription gross margin, efficient customer acquisition, and attractive commercial customer ARR retention rate continue to drive our healthy unit economics. In Q2, our subscription gross margin was 71%, our LTV to CAC ratio remained above nine times, and our commercial customer ARR retention rate was 95%.

Our unit economics remain healthy, and we remain committed to profitable growth as we pursue the expansive physical AI growth opportunity ahead.

South Africa Q2 FY27 Review

Q2 subscriber growth increased 18% and reached approximately 2.2 million subscribers in South Africa. South Africa net subscriber additions increased 20% to 65,997 as we realized the benefits of our recent investment in sales capacity and capitalized on strong demand for the Cartrack-Tag and video solutions.

Importantly, South Africa subscription revenue growth accelerated to 25%. This represents the 7th consecutive quarter of subscription revenue growth acceleration in South Africa.

The pace of growth reflects our deliberate strategy to cement our leadership position in South Africa through a balanced combination of subscriber additions and selling Video and Cartrack-Tag to our existing and new customers in South Africa.

Despite some macro-economic stress in the South African economy, we continue to see a compelling market opportunity in South Africa and are excited about the potential ahead.

Southeast Asia Q2 FY27 Review

Q2 subscriber growth increased 21% and reached 367K subscribers in Southeast Asia and the Middle East, with most of the subscribers in Southeast Asia.

Q2 subscription revenue growth accelerated to 12% compared to 6% in Q1 and increased 25% on a constant currency basis.

The pace of reported subscription revenue growth in the region reflects FX headwinds.

As the second largest contributor to group revenue, Southeast Asia continues to present the most compelling growth opportunity for the group in the medium to long term. We plan to continue with a strong, yet prudent drive to increase Sales and Marketing in Southeast Asia, and we anticipate our investments to have a positive impact on subscriber growth in the region.

Southeast Asia is a vast underpenetrated market for sophisticated fleet management and video-based solutions, and we are well-positioned to capitalize on the physical AI opportunity in Southeast Asia.

Europe Q2 FY27 Review

Q2 subscriber growth increased 13% and reached 245K in Europe. Q2 subscription revenue growth was 4% and 14% on a constant currency basis. The pace of reported subscription revenue growth in the region reflects FX headwinds.

We continue to expand our customer base and drive our distribution capabilities in the region.

Karooooo Logistics Q2 FY27 Review

In Q2, Karooooo Logistics continued to build scale and delivered revenue of ZAR189 million, an increase of 36%, and a 6% operating profit margin. Q-commerce or “Quick-commerce” orders, a

type of e-Commerce focused on ultra-fast delivery, drove the exceptional performance. Q2 operating profit margin reflects costs associated with ensuring driver availability and network expansion.

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 customers.

Review of Our FY2027 Priorities

In Q2, we continued to make progress with our FY 2027 priorities.

First, we made progress cementing our leadership position in South Africa, our largest market, as evidenced by our 25% subscription revenue growth in the region. Our accelerating growth reflects the planned subscriber growth and the adoption of Cartrack-Tag and video solutions.

Second, we moderated our investments in sales and marketing in Q2 as evidenced by the 16% increase in sales and marketing expenses in Q2 compared to 33% in Q1 and 37% in FY 2026. Despite this moderation and FX headwinds, subscription revenue growth accelerated once again in Q2. We remain committed to optimizing our recent investments in sales capacity and growing our distribution footprint at a more moderate pace in FY 2027.

Third, we are embracing AI across the organization to enhance our platform, improve efficiency and accelerate the pace of execution.

Customer Spotlight

Before handing the call over to Hoeshin to discuss our financial results in more detail, we'd like to highlight the ROI our platform delivers to customers.

Our success is built on delivering tangible value and ROI to customers.

For one customer in Singapore's construction sector, deploying our operational intelligence platform delivered a 25% improvement in on-time delivery, a 23% increase in fuel efficiency and 100% driver accountability.

The customer combined real-time fleet visibility and fuel intelligence with geofencing alerts to coordinate efficient loading, driver identification and targeted coaching. It then added Cartrack AI Vision for intelligent driver monitoring. Alongside these operational improvements, the customer reduced speeding by 43%, harsh driving events by 31%, phone usage by 65% and driver fatigue by 33%.

Our operational intelligence platform goes beyond vehicle tracking. It helps customers reduce costs, operate more efficiently, improve safety and better serve customers.

With that said, I will now pass the call over to Hoeshin.

Goy Hoeshin

Thank you, Carmen. I will now discuss Karooooo's financial performance for Q2 FY27.

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

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

Q2 extended Cartrack's track record of durable and profitable growth at scale driven by consistent execution, our resilient subscription revenue model, and attractive historic retention rates.

In Q2, subscribers increased 18% to approximately 2.9 million, subscription revenue increased 20% to ZAR1,415 million and operating profit was a quarterly record at ZAR411 million.

Cartrack Delivered Record Net Subscriber Additions For The Second Quarter

Cartrack experienced strong customer acquisition in Q2 with net subscriber additions of 94,516 subscribers, an increase of 34%. This represents record net subscriber additions for the second quarter.

We delivered record net subscriber additions, whilst successfully cross-selling Cartrack-Tag and Video to new and existing customers. We note that when we cross-sell Cartrack-Tag or Video to an existing customer, it does not contribute an incremental subscriber in our subscriber count.

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

Subscription revenue momentum remains the engine behind Cartrack's strong financial performance.

In Q2, Cartrack subscription revenue growth accelerated to 20% despite FX headwinds and reached ZAR1,415 million. Cartrack subscription revenue growth was 31% in US Dollars and 23% in constant currency. Subscription revenue comprised 98% of Cartrack's total revenue.

ARR increased 19% despite FX headwinds and reached ZAR5,708 million. ARR increased 30% in US Dollars and 22% in constant currency.

Karooooo Continues to Deliver Strong Growth

Our proven and profitable subscription revenue model continued to deliver strong consolidated growth.

In Q2, Karooooo's total subscription revenue increased 20% to ZAR1,418 million.

Operating profit increased 19% to a quarterly record of ZAR422 million as we moderated our investments in sales and marketing.

Earnings per share increased 18% and adjusted earnings per share increased 12% to ZAR9.28. Earnings growth moderated due to higher tax rates and finance expenses. Prior year adjusted earnings per share excluded the effect of secondary offering costs, and there were no such costs in current year.

Subscriber Growth Accelerating

Q2 subscriber growth increased 18% to approximately 2.9 million subscribers. South Africa subscriber growth increased 18%, and Asia subscriber growth remained robust at 21%. Asia is our fastest growing region in terms of subscriber growth.

Q2 subscriber growth of 18% represents an acceleration compared to FY 2026 growth of 16%.

Q2 2027 Cartrack Geographic Subscription Revenue Mix and Growth

In Q2, Cartrack constant currency subscription revenue growth accelerated across all regions.

South Africa subscription revenue growth accelerated to 25% compared to 24% in Q1.

Asia and Middle East subscription revenue growth accelerated to 12% and 25% on a constant currency basis compared to 6% and 17% on a constant currency basis in Q1. Subscription revenue growth accelerated despite an increase in subscribers from lower ARPU countries.

Europe subscription revenue growth was 4% and 14% on a constant currency basis compared to 7% or 13% on a constant currency basis in Q1.

Accelerating growth across regions reflects our strong execution and provides a solid foundation for continued durable growth.

ARR Growth Robust Despite FX Headwinds

In Q2, ARR increased 19%, reaching ZAR 5,708 million. ARR growth was 30% in USD and 22% in constant currency.

This reflects the underlying momentum in the business and signals that our strategic initiatives are gaining traction.

Results Demonstrate Earnings Power Despite Upfront Cost to Accelerate Subscription Revenue Growth

Karooooo earnings per share increased 18% to ZAR 9.28 and adjusted earnings per share increased 12% compared to Q2 FY2026.

Cartrack earnings per share contribution increased 13% to ZAR 9.08.

Karooooo Logistics earnings per share contribution was ZAR 0.20

Free Cash Flow Reflect Strategic Investment in PPE To Support Growth

Q2 free cash flow was ZAR 41 million and primarily reflects an increase in trade and other receivables due to increased subscription revenue and investment in in-vehicle IOT devices to support growth.

Given our accelerated growth, we increased our investment in in-vehicle IoT devices for both current and future use, including memory, to create a buffer against rising RAM and memory prices. Our 1H FCF reflects a ZAR 966 million investment in these IOT devices. Given our investments to date, we expect more robust free cash flow generation in the second half of the year.

As we pursue accelerated growth, we expect free cash flow to reflect our investments to drive growth. While quarterly fluctuations may occur due to working capital dynamics and growth-oriented investments, we remain confident in our ability to consistently generate meaningful cash flows to support growth and or dividends.

We have two-decade track record of financial discipline and strong free cash flow generation that powers our disciplined capital allocation strategy and healthy return on invested capital and positions us well for future growth.

Balance Sheet Strong Despite Investments to Support Growth and Capital Returned to Shareholders

During the quarter, we increased our bank short-term working capital facilities as we made upfront investment in both in-vehicle IoT devices and IoT devices for future use to maintain our current momentum. The significant and ongoing increases in memory chips also contributed to the increased levels of IoT devices for future use. These investments increased 86% to ZAR966 million during the first half of the year. As a result, bank overdrafts are now considered part of our financing arrangements rather than cash management and will be classified within financing activities in the Statement of Cash Flows.

Our balance sheet reflects our track record of durable growth at scale, profitability, and cash generation. Our cash and cash equivalent balance as at the end of Q2 was ZAR 649 million. The decrease was mainly due to dividends of ZAR752 million paid in July 2026. As we hold our cash reserves in USD, the strengthening of the South African Rand also reduced the Rand value of our cash balance.

Debtor collection days remain healthy at 33 days and are within our historical norm.

Reiterate FY 2027 Outlook

Year to date, we have delivered record net subscriber additions and healthy retention driving 22% Cartrack constant currency subscription revenue growth. We believe we are on track to accelerate Cartrack subscription revenue growth in FY 2027 as we realize the benefits of our recent investments in sales capacity. We aim to drive our growth by balancing subscriber growth with the increased adoption of Video and Cartrack-Tag. We also believe increased sales

efficiency, coupled with realizing other efficiencies in the business due to scale and leveraging AI, will support strong EPS expansion.

With that said, we reiterate our FY2027 outlook that implies accelerating constant currency subscription revenue growth at the midpoint and healthy EPS growth. We expect to benefit in the second half from continued revenue momentum, continued sales and marketing efficiency, and a moderately lower tax rate.

Q2 2027 Key Earnings and Investment Highlights

In closing, we delivered strong Q2 results, with constant currency growth accelerating across regions and notable strength in South Africa and Asia. We also delivered record quarterly operating profit despite FX headwinds.

Q2 free cash flow reflects investments in growth, including memory, and we expect cash flow to strengthen over the coming quarters as we continue to deliver value to our shareholders.

These results reflect the strength of our operating model and the returns on our sales capacity investments. As we look ahead to the rest of FY 2027, we are well positioned to accelerate growth and deliver meaningful earnings per share expansion, while remaining committed to disciplined capital allocation and long-term value creation.

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

QandA:

Q: Dylan Becker, William Blair

Subscription revenue growth has picked up again and Q2 net adds were record. What is driving this? And how lasting do you think it is heading into the second half and FY '28?

A – Zak Calisto

Dylan, I think what's driving it is really our investment into product and into our distribution. And we're obviously executing and improving on that distribution. And we believe a similar momentum should continue for the remainder of FY '27. And depending how things are by FY '27 -- end of FY '27 by Q4, we'll then have a better visibility how we want to execute during FY '28.

Q: Dylan Becker, William Blair

Cartrack's operating margin dipped slightly this quarter. How are you weighing reinvestment for growth against margin expansion? And what does it mean for profitability this year?

A – Zak Calisto

In terms of constant currency, I certainly believe the outlook we've given for the year, we will meet it. In terms of operating profit margin, we model our pricing on a unit economics model. And even if IFRS, the operating profit margin dips, it's not necessarily a true reflection of the

underlying business given that so much of our customer acquisition costs are expensed upfront and the revenue is over the next couple of years. So that's not aligned.

So all of these operating profit margins, you nearly need to average it out over a period of 5 or 6 years to get our real operating profit margin. And obviously, to get the real operating profit margin, you've got to assume that we're not growing. And then our operating profit margin goes all the way up to around 40%. So we're more focused on our unit economics than actually the IFRS reporting.

Q: Dylan Becker, William Blair

How is the competition in connected vehicles and fleet management changing as AI capabilities improve?

A – Zak Calisto

I think the AI capabilities are improving at a very rapid rate. We've started a strong adoption of our AI in terms of running our internal processes, the way we develop product and also building AI into our platform. So we are investing in these 3 pillars of AI. And I think all our competitors are doing the same. So I think like any business, it progresses and it adapts to the new reality. And I think we're doing -- I feel very comfortable that we are able to compete going forward.

Q: Alex Sklar, Raymond James

You spoke to a continued increase in operating capacity in Southeast Asia. How much sales hiring is expected over the next year? What are you seeing in the region in terms of broader demand and ramping productivity in the sales force that you've hired over the last 12 months?

A – Zak Calisto

Alex, it's always a very tough thing to keep your sales force productive. And many people undermine the importance of salespeople. And it's a long journey to get salespeople to where they're supposed to be. And we certainly are improving in Asia and across all our other regions.

And we believe in the model that if you've got 80% of your staff doing the minimum or an acceptable amount of sales, then you can start continue to hire.

And we very much believe in that 80%, 20% ratio.

So given that, depending how quickly we can get people and get them to where they're supposed to be, that will determine the speed of our hiring process. So we are getting quite a lot of higher productivity from our sales force, but we will continue with the same business model, which is to obviously increase our distribution.

Q: Alex Sklar, Raymond James

Can you walk through the drivers of the sequential change in Cartrack gross margin? How much was tied to the higher hardware and other revenue? And how would you think about the impact of video and tags to gross margins?

A – Zak Calisto

So Alex, the way we do our pricing is based on our unit economics model. And depending on hardware, the cost of hardware is got a strong -- is a direct relation to what we're going to charge in terms of subscription revenue. So our margins are very consistent irrespective of what product. And for instance, if memory prices go up like they are going up, then our prices increase to make sure that our unit economics are unchanged. Gross profit margin for us really has 2 factors that can change it.

Typically, the one factor would be how much hardware that we sell to customers where it doesn't form part of subscription revenue. So the higher that is that we've got absolutely no margin when you sell just product because that's not our business. Our business is actually to sell the service. So if you sell hardware, your revenue and your cost of sales will be about the same. So that gives you a 0 gross profit.

So the higher that is, that will impact you. Then the other very important thing is if you slow down sales, then you'll have less of your customer base still in the depreciation part of -- let's say, we depreciate over 5 years. So it's only customers in the last 5 years that form part of that cost of sales and depreciating of PPE.

As you scale that up like we currently are, that puts pressure on your subscription revenue, although temporary pressure because you now are -- you've increased the amount -- the percentage amount of your base that's still depreciating PPE. So that puts pressure on your gross profit margin. But if you even it out over time and if you could do the IFRS a bit different, our gross profit margin would be very constant over time.

Q: Scott Searle, ROTH

Can you provide a quick update on the adoption of video-based services and how this is trending by the region?

A – Zak Calisto

Scott, throughout all the regions we operate, we are seeing an uptick in the adoption, and we're feeling very comfortable that we're in the very early days of this adoption. We also simultaneously are also bringing to the market more and more product in video as we realize the universe and how many different solutions and different customers' needs there are. So we are continuing to develop and bringing product to the market, and we continue to also develop our sales skills to be able to get that product adoption. And I think we are making good progress.

Q: Scott Searle, ROTH

How are the tags trending in the South African market? What is the growth outlook for the next 2 years?

A – Zak Calisto

I certainly believe we are making huge momentum with the tags. There's very strong customer demand for it. During Q1, we actually ran out of inventory because of the demand and we focus more on customer acquisition and cross-selling. In Q2, it was more cross-selling environment. And we believe that the uptake for both video and tag is strong.

Q: Scott Searle, ROTH

What is the impact of fuel costs? Is it driving a more rapid adoption given the cost benefits or translating a pause in decision-making?

A – Zak Calisto

I don't believe it's translating to a pause in decision-making. And our platform allows our customers to deal with a lot of challenges, fuel being one of them. And one would be in terms of common sense, think that it's a tailwind. But I think it's our efforts in increasing our distribution that's driving the adoption. And I can't attribute our growth to the fuel prices.

Q: Scott Searle, ROTH

OpEx was well controlled in the quarter. Is this expected to continue and drive further op leverage into FY -- into the second half of FY '27 and FY '28?

A – Zak Calisto

Scott, I don't want to commit to this because we've got to be quite agile in our thinking. And we've given outlook to the market. We believe we're going to meet the outlook, and we're going to keep ourselves quite agile. Over the long term, obviously, that OpEx needs to increase. And a lot of it is actually got to do with sales and marketing.

So as we optimize sales and marketing, that's the biggest increase that we're possibly going to have.

Q: Ablay

Expected credit losses increased significant this quarter. Is this mainly due by subscriber growth? Or are you seeing changes in customer payment behaviour?

A – Zak Calisto

I think if you compare it to Q2 of last year, then I agree with you. But if you compare it historically, it's very much our norm. What happened in Q2 last year, we had done -- we had gone through a progress where we received a lot of large payments. So it was a bit skewed last year. And then when we run our calculations on the debt, the provisioning for debt because a lot of the bad debt had paid, it skews the comparison.

So you've got to actually look at it into what has been our normal rate over the years. So it's in keeping. Are we seeing changes in the customer payment behaviour? Because we've onboarded a lot of new customers. you normally find the first month or 2, it's the difficult part in getting

money from your customers because you need to find out how they pay, is the contact person, who is the right person.

So we are having a little bit of that lag, but our collections still remain extremely healthy at 33 days. And I think it's got to do a little bit with our accelerated growth that you see the collections declining a little bit.

Q: Ablay

Given the different margin profiles of logistics and Cartrack, how do you balance scaling logistics with maintaining the group's long-term profitability?

A - Zak:

We look at these 2 businesses separately, and it's actually all sitting on the Cartrack platform, but we report on it separately. And the reason we report on it separately is it's very difficult to actually evaluate each part of the business given it's very different financial profiles. So we keep an eye on -- in 2 different segments. So we understand that they've got very different operating profit margins, but we manage it as if it's 2 different businesses, but actually, it's one business.

Q: Joshua Reilly, Needham

It seems that your strong sustained subscriber growth, the current macro of sustained high oil prices and the Iran war is not seriously impacting your business. How is your differentiated to the market service strategy aiding growth and market share gains?

A – Zak Calisto

I think, Joshua, we're not an island, and I do believe the oil prices are impacting our customers. And it could be, in a way, a negative thing for us or a positive. But we've, over time, been able to deal with varying macroeconomic environments. And quite frankly, at this point in time, I don't believe it's had an impact on us. It could have an impact in the future, but I don't see it. And I don't believe our market share has unrelated to the petrol prices. I think our market share, the gain of market share, it really is about our ability to execute.

Q: Joshua Reilly, Needham

As interest rates remain elevated, you have a strong capital position and balance sheet. Are you seeing any of your competitors pull back on their resources in the field or investments for growth given the current macro challenges?

A – Zak Calisto

Joshua, we are so focused on our own business and our own improvements that we need to do. And to be quite frank with you, I haven't really looked at the competitive environment and what exactly are they doing. So I cannot answer that. The next question, how is the tag and the video attach rate trending relative to internal plan and updated thoughts on countries for expansion and tag. What I can say is that Cartrack-Tag and video, we are exceeding our budget for the financial year.

Q: Joshua Reilly, Needham

In the current macro, are you seeing trends around customers hesitant to add vehicles to their fleet? What specific things are you seeing with customers as they manage around macro headwinds?

A – Zak Calisto

Joshua, I think it's a bit early days. I mean the petrol prices, they spike up and down. There's a bit of uncertainty. But I think fundamentally, in the markets we operate in, everybody is more or less business as usual.

Q: Myles Fourie

With Cartrack operating in an exceptional 98% subscription annuity base, how is the rise of factory embedded OEM telematics changing your long-term capital model?

A – Zak Calisto

What we realize with the OEM telematics, they typically don't give our customers what they actually require. They very much focus on the safety and maintenance of the vehicle. So even we are getting a lot of OEM business, at the end of the day, we're having to put in our own hardware solutions to be able to really address the customers' challenges.

Q: Myles Fourie

As you scale Karooooo Logistics, what operational guardrails are you in place to ensure these asset-heavy low-margin segment does not dilute your premium?

A – Zak Calisto

Karooooo Logistics is not asset heavy. And yes, it is a lower-margin business, substantially lower margin business. But like I said earlier, we are reporting these 2 segments separately, and we are looking at the business and the margins, and we don't -- the consolidated is not what we look at. We look at each segment separately.

Thank you, everybody, for joining us today, and thank you. Bye-bye.