

# Q1 2019 Investor Presentation



# Safe Harbor Statement

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information.

The use of words such as “may”, “might”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “project”, “intend”, “future”, “potential” or “continue”, and other similar expressions are intended to identify forward-looking statements.

All of these forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, industry, strategy or actual results to differ materially from the forward-looking statements.

These risks and uncertainties may include those discussed in the Company’s annual report on Form 10-K for the year ended June 30, 2018, on file with the Securities and Exchange Commission, and other factors which may not be known to us. Any forward-looking statement speaks only as of its date. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

# Defined Terms

Unless specifically noted otherwise within this presentation, the following terms are hereby defined as follows:

**Constant Currency:** We analyze our results of operations both in U.S. dollars, as presented in the consolidated financial statements, and supplementally in ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the U.S. dollar and ZAR on our reported results and because we use the U.S. dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business. The use of constant currency is a non-GAAP measure.

**Adjusted EBITDA:** Net income before non-controlling interests, earnings from equity accounted investments, interest, taxation, depreciation and amortization expenses (“EBITDA”) adjusted for impairment losses, transaction or financing related charges, and other non-operating or non-recurring items that are considered expenses or income under U.S. GAAP. EBITDA and adjusted EBITDA are non-GAAP measures and represent a performance measure that is not intended to represent a liquidity measure.

**Reconciliation of US GAAP measures to EBITDA, Adjusted EBITDA, Fundamental Earnings and Earnings Per Share:** The reconciliation is included in the attached supplemental data.

The Company does not provide reconciliation of its forward-looking non-GAAP measures to GAAP due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for GAAP and the related GAAP to non-GAAP reconciliation, including adjustments, that could be made for currency exchange rate fluctuations and other charges reflected in the Company’s reconciliation of historic numbers, the amount of which, based on historical experience, could be significant.

# Performance **Summary**

## First Quarter Fiscal 2019 company highlights include:

- Revenue of \$126 million and Fundamental EPS of \$0.01
- Fundamental EPS includes a \$0.28 loss from CPS operations through Sep 30 contract termination
- Adjusted EBITDA of \$13 million; Free Cash Flow of \$13 million
- Progress on turning Korea around and restructuring of the International Payments Group

## Investment Portfolio performance:

- Cell C, Bank Frick and Finbond - performed in line with expectations

## Form 10-Q filing delayed due to restatement of F2018 10-K:

- Changes in Cell C value should have been reported in F2018 net income
- No impact on F2018 FEPS, remains at \$2.00 including fair value adjustment
- 10-Q and 10-K/A expected to be filed once internal process completed
- Does not impact F2019 guidance

# FINANCIAL HIGHLIGHTS

First Quarter 2019



# Q1 2019 Financial Report

## Q1 2019 Financial Highlights

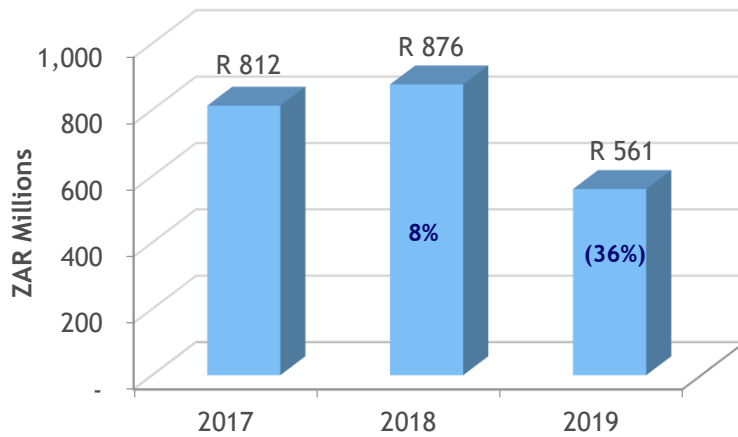
- **Revenue - \$126 million**
  - 17% decrease from \$153 million in Q1 2018
  - 7% decrease on a constant currency basis
- **Adjusted EBITDA - \$13 million**
  - 62% decrease from \$35 million in Q1 2018
  - 10% Adjusted EBITDA Margin compared to 23% in Q1 2018
- **Fundamental Net Income - \$1 million**
  - 97% decrease from \$24 million in Q1 2018
  - 96% decrease on a constant currency basis
- **Fundamental EPS - \$0.01**
  - 98% decrease from \$0.43 in Q1 2018
  - 96% decrease on a constant currency basis

**Note:** Adjusted EBITDA is adjusted for transaction related costs and other adjustments. Fundamental EPS also includes these and other adjustments; see reconciliations in Appendix A for additional details.

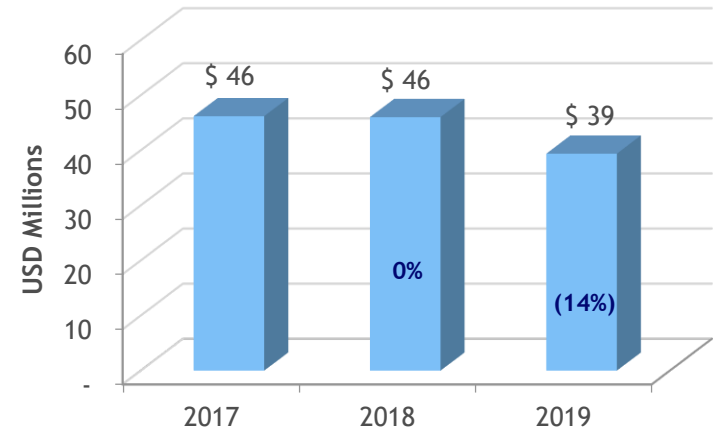
# Q1 2019 Financial Report

## Business Segment Results – First quarter

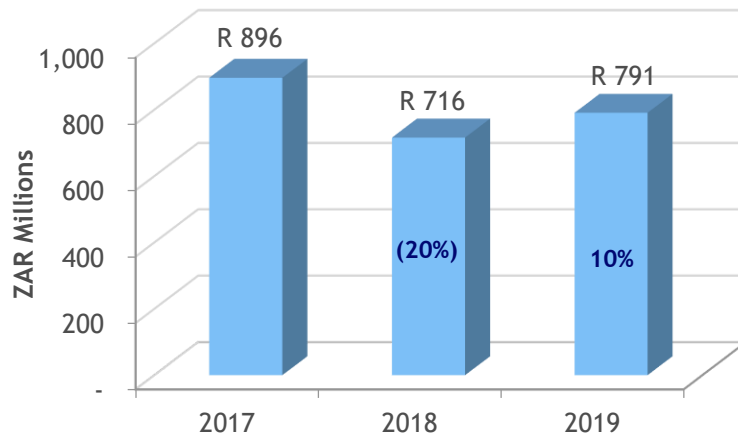
Q1 constant currency SATP Revenue



Q1 USD ITP Revenue



Q1 constant currency FIAT Revenue



- **SATP constant currency revenue declined 36%**
  - Decrease in social welfare grants, offset by increase # of EPE accounts
- **ITP USD revenue declined 14%**
  - Lower contributions from IPG
- **FIAT constant currency revenue increased 10%**
  - Inclusion of DNI offset lower valued added services sales and financial inclusion revenue.

# Q1 2019 Financial Report

## Business Segment Results – First quarter

USD (Millions)	Revenue		Operating Income		Operating Margin	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
SATP <i>% Change*</i>	\$ 38 (36%)	\$ 66	(\$ 4) (132%)	\$ 12	(9%)	19%
ITP <i>% Change*</i>	39 (3%)	46	3 (41%)	5	7%	12%
FIAT <i>% Change*</i>	53 11%	54	11 (8%)	14	21%	26%
Sub-total <i>% Change*</i>	130 (12%)	167	11 (62%)	32	8%	19%
Inter-segment Eliminations <i>% Change*</i>	(4) (65%)	(14)	(10) 66%	(7)	nm	nm
Total <i>% Change*</i>	\$ 126 (7%)	\$ 153	\$ 1 (96%)	\$ 25	1%	16%

\*% change in constant currency



# Q1 2019 Financial Report

## Balance Sheet Overview

USD (Millions)	Sep 30, 2018	Jun 30, 2018
Cash	\$ 99	\$ 90
Restricted cash	\$ 85	\$ 0
Investments and Equity Accounted Investments	\$ 299	\$ 299
Total Assets	\$ 1,202	\$ 1,219
Total Equity	\$ 724	\$ 738
Total Debt	\$ 49	\$ 50
Book Value / Share	\$ 12.75	\$ 13.03
Net Cash / Share	\$ 0.87	\$ 0.70
Debt / Equity	0.07	0.07

# Q1 2019 Financial Report

## Key Investments

	% held	Balance Sheet (Sep 2018)	Value
<u>Equity Accounted:</u>			
Bank Frick	35%	\$48 million	>\$52 million (1)
Finbond (JSE listed)	29%	\$37 million	\$68 million (2)
OneFi	25%	\$9 million	\$25 - \$35 million (3)
<u>Investments:</u>			
Cell C	15%	\$168 million	>\$168 million (4)
MobiKwik	12%	\$27 million	\$35 million (5)
<b>TOTAL</b>		<b><u>\$289 million</u></b>	<b><u>&gt;\$348 million (6)</u></b>

1) Based on latest trading results

2) 268m shares at R3.60 at \$1/R14.14

3) Based on peer analysis of other neobanks

4) EV/ EBITDA model : \$276M EBITDA; 6.75x multiple; \$622 net debt, 10% marketability discount

5) 12% of \$290m (recent MobiKwik valuation at Bajaj investment)

6) Compared with Net1 market cap of \$382 million (56.7M shares x \$6.72)

Values at carrying value unless stated otherwise

# **BUSINESS** OVERVIEW

SOUTH AFRICAN TRANSACTION PROCESSING

First Quarter 2019



# SATP Segment Highlights

## Q1 2019 Financial Highlights

- **Revenue - \$38 million**
  - 43% decrease from \$66 million in Q1 2018
  - 36% decrease on a constant currency basis
  - CPS paid 91 % fewer beneficiaries than in Q1 2018, resulting in revenue being lower by 87% and considerable operating loss incurred. Awaiting confirmation of Treasury recommended pricing with effect from April 1, 2018, from ConCourt.
- **Operating Loss - (\$4) million**
  - 128% decrease from \$12 million in Q1 2018
  - 132% decrease on a constant currency basis
  - Significant CPS operating loss due to revenue shortfall caused by delay in ConCourt order

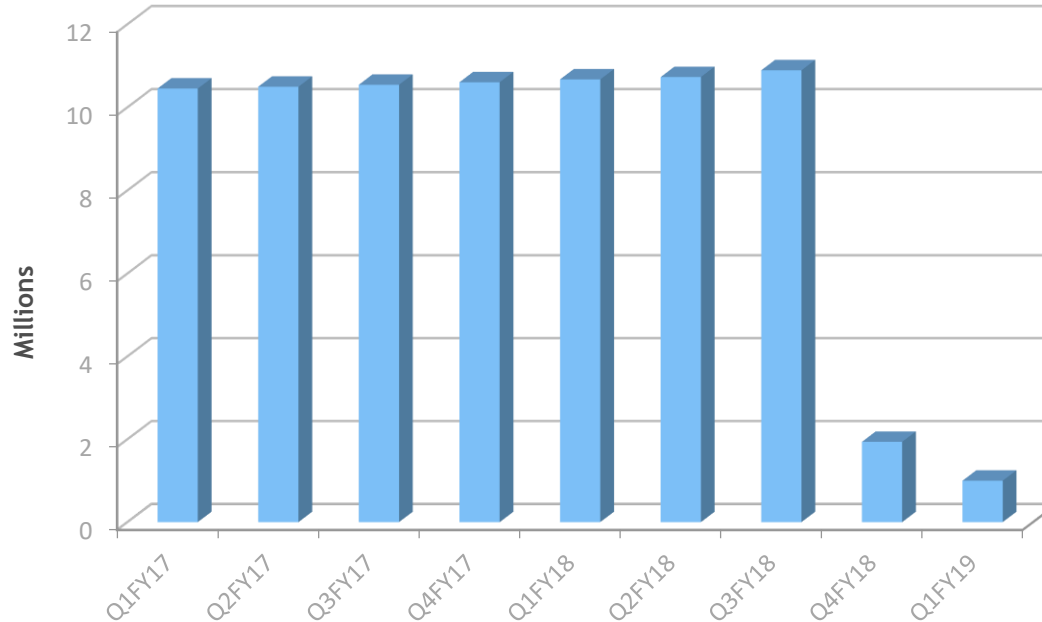
# SATP Segment Highlights (cont.)

## Q1 2019 Key Trends

- **Social Grant Distribution**

- Significant decrease in the average number of grants paid during the quarter
- CPS has extended its full support to government and SA citizens and in the interim continues to deliver uninterrupted service

Number of Social Grants Paid

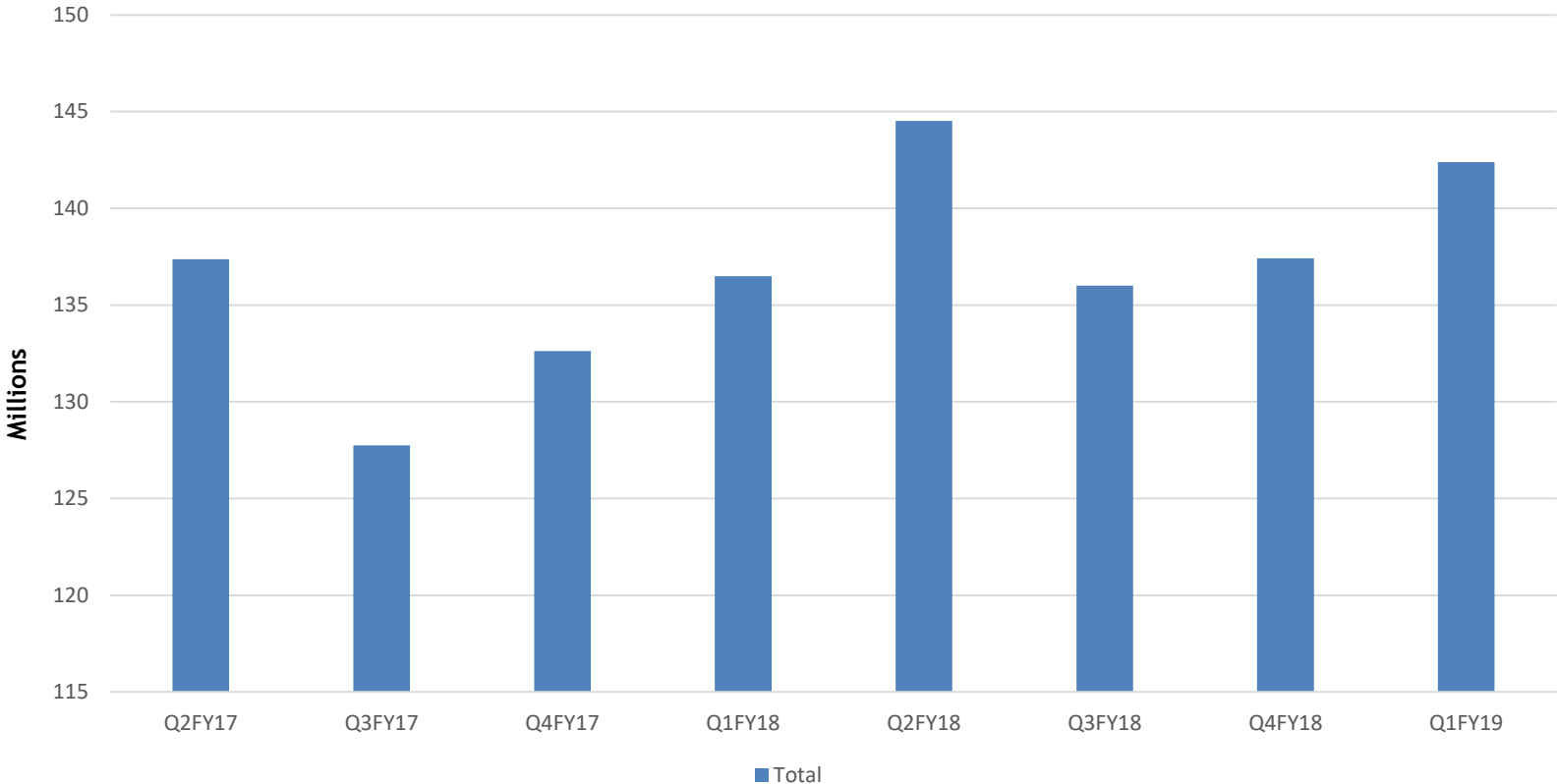


# SATP Segment Highlights

## Q1 2019 Key Trends

### EasyPay

#### Number of EasyPay Transactions



# **BUSINESS** OVERVIEW

INTERNATIONAL TRANSACTION PROCESSING

First Quarter 2019



# ITP Segment Highlights

## Q1 2019 Financial Highlights

- **Revenue - \$39 million**
  - 14% decrease compared to \$46 million in Q1 2018
  - Q1 2018 includes results of Mastertrading working capital finance operations that ceased in Q2 2018
  - Contraction in IPG processing activities
  - Seasonality impact on South Korean revenue
- **Operating profit - \$3 million**
  - 42% decrease compared to \$5 million in Q1 2018
  - Modest increase in contribution from South Korea
  - Contraction in IPG processing activities results in loss in Q1 2019

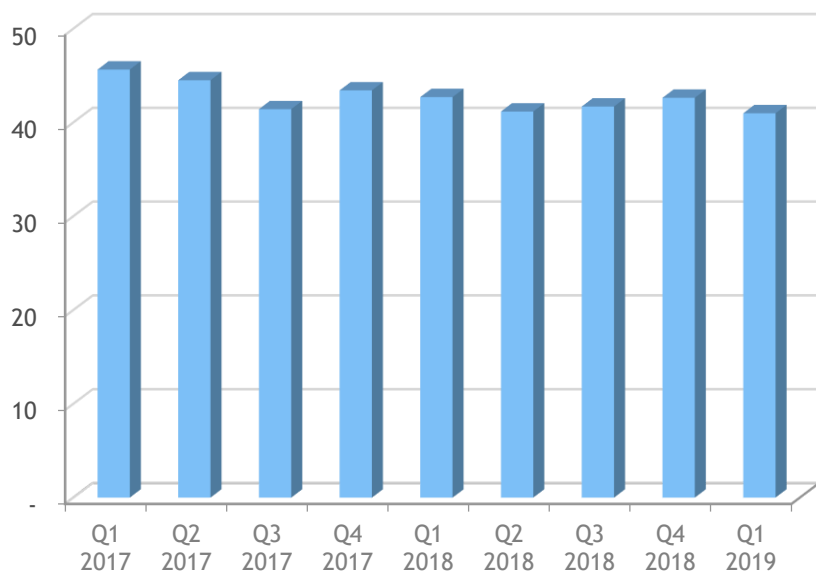


# ITP Segment Highlights

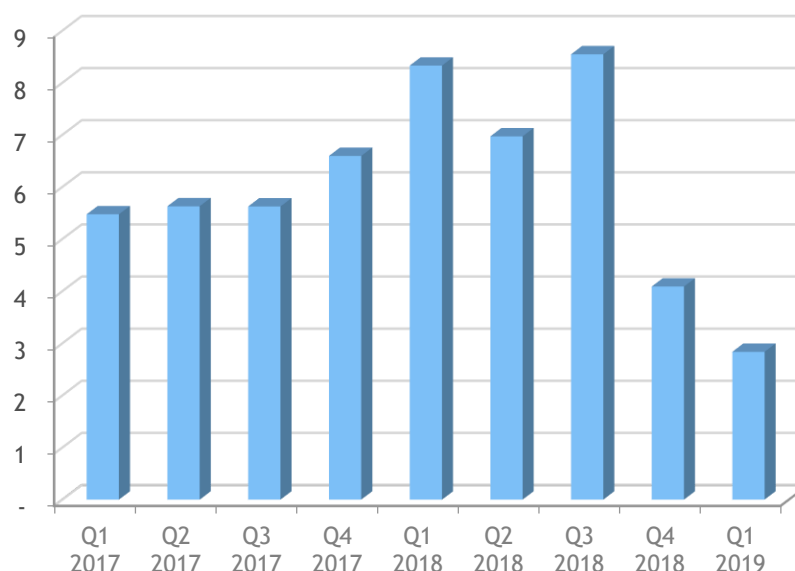
## Q1 2019 Key Trends

- **South Korea and Rest of the World (ROW) Growth**
  - South Korea revenue for the quarter impacted by timing of Korean thanksgiving
  - ROW revenue impacted by contraction in IPG processing activities, specifically weakness in China volumes, and elimination of working capital finance revenue, which ceased in Q2 2018

Revenue KRW Billions



Revenue ROW-ITP USD Millions



# **BUSINESS** OVERVIEW

FINANCIAL INCLUSION & APPLIED TECHNOLOGIES

First Quarter 2019



# FIAT Segment Highlights

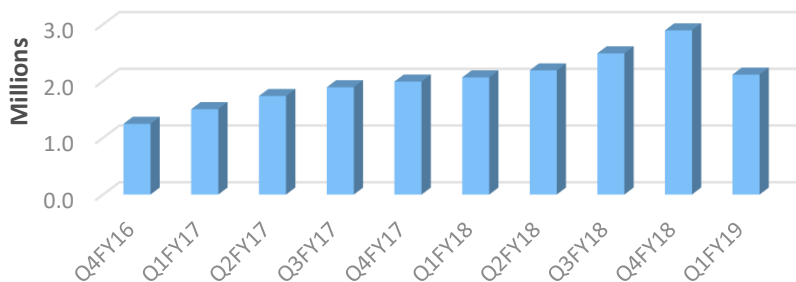
## Q1 2019 Financial Highlights

- **Revenue - \$53 million**
  - 2% decrease from \$54 million in Q1 2018
  - 11% increase on a constant currency basis
- **Operating Income - \$11 million**
  - 19% decrease from \$14 million in Q1 2018
  - 8% decrease on a constant currency basis
- **DNI included from Q1 2019**
- **EPE Accounts**
  - Active accounts have reduced to 1.7 million in October due to combination of churn and SASSA actions
- **Smart Life Policies**
  - Future results may be impacted by lapses resulting from SASSA actions
  - Smart Life remains the largest life insurer in its market segment

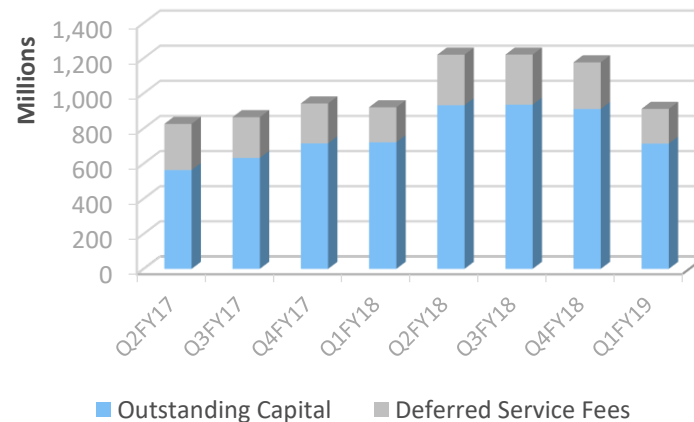
# FIAT Segment Highlights

## Q1 2019 Key Trends

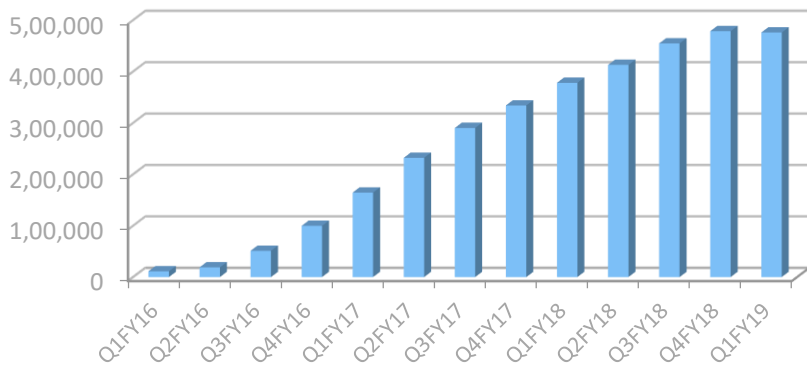
### Number of EPE Accounts



### Value of Loans Outstanding



### Number of Billed SmartLife Policies



# NET1 OPPORTUNITIES



# South Africa – Biggest Near Term Opportunity

SOUTH AFRICA IS NET1'S CORE MARKET, ONE IN WHICH WE HAVE MAXIMUM EXPERTISE, INFRASTRUCTURE AND DISTRIBUTION. WE ARE EXPANDING OUR CUSTOMER BASE AS WELL AS THE PRODUCTS PROVIDED TO THAT BASE.

## Q1 2019 PROGRESS UPDATES:



### EPE

EPE accounts (issuing) impacted by churn due to forced migration at the end of SASSA contract similar to Q4 2018; partially offset by successful launch of EPE acquiring initiative

### Cell C

Reported double-digit service revenue and EBITDA growth in 1H 2018. Signed landmark tower sharing agreement with MTN which will expand its 4G coverage from 33% to 80%, now expected in January 2019

### DNI

Consolidated DNI as of June 30, 2018. Q1 2019 revenue and operating income of ZAR 267 million and ZAR 113 million respectively. Performance tracks guidance and looking to prioritize synergies with EPE and Smart Life.

### Finbond

UEPS/EMV certification complete – first cards to be issued starting January 2019

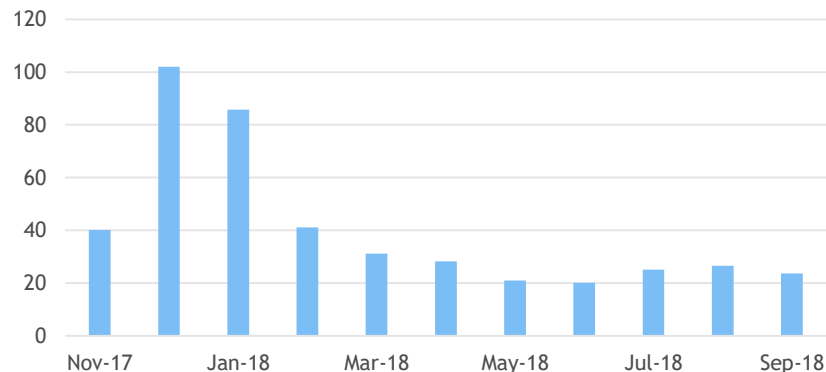
# IPG Consolidation and Expansion

IPG PLAYS AN INTEGRAL ROLE IN PROVIDING END-TO-END SOLUTIONS FOR ISSUING, ACQUIRING AND PROCESSING GLOBALLY.

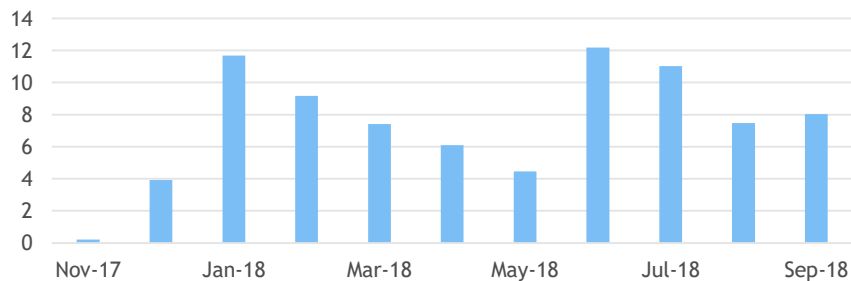
## Q1 2019 PROGRESS UPDATES:

- Consolidation of various business units largely complete with appropriate management structure,
- Contraction in China processing volume
- Licenses, sales and business development, and operations
- On-boarded new SEPA client in Q4 2018

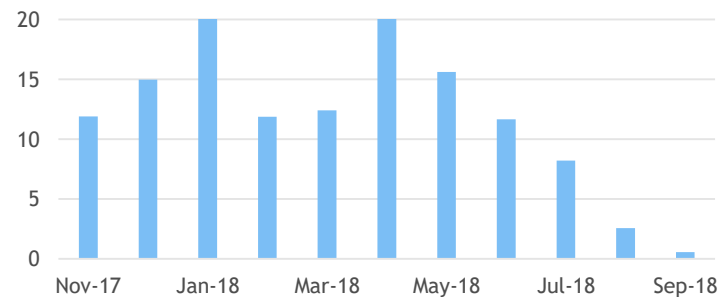
Card Processing Volume (\$Mil)



SEPA Processing Volume (\$Mil)



China Processing Volume (\$Mil)



# OneFi – Our 25% investment in neobank

OneFi - first Sub-Saharan African neobank offering loans, fixed savings and payments services via Paylater, a proprietary 100%-mobile app platform.

**Aims to provide financial services to the next billion through expansion into West Africa in calendar 2019 (currently in Nigeria, two other countries targeted)**

## **ACHIEVEMENTS**

- Processed over 1 million loans through fully autonomous machine learning algorithms
- Expanding product lines to credit cards, insurance and personal finance management

## **PROSPECTS**

- We are excited by and supportive of the expanded OneFi business model
- Well placed to impact and revolutionize the financial services sectors in the markets in which it operates (similar to the other major neo bank platforms such as Revolut, N26 and Nubank)



# SUMMARY & OUTLOOK

Fiscal Year 2019



# Fiscal 2019 Guidance

- **2019 GUIDANCE: Fundamental EPS of at least \$0.65 assuming:**
  - Average EPE accounts of 1.8 million (down from prior guidance of 2.5 million);
  - average acquiring customers of 1.75 million for the remaining nine months - ARPUs on acquiring customers are approximately half of those of EPE customers;
  - DNI revenue and earnings growth of 10%;
  - South Korea full year results consistent with fiscal 2018;
  - Break-even result for CPS for fiscal 2019, which assumes the successful resolution of the company's claim for additional revenue at the treasury recommended rate for the work performed during the last six-month of its SASSA contract; and
  - A constant currency base of ZAR 12.70/\$1, 56.8 million shares and a tax rate of 35%.
- **Above guidance excludes any effects of fair value adjustments during fiscal 2019**

# Appendix A



# Reconciliation of non-GAAP measures

## First quarter – Fundamental Net (Loss) Income and EBITDA

	Three months ended			
	Sep-18		Sep-17	
	\$ '000	EPS, basic	\$ '000	EPS, basic
<b>Fundamental net (loss) income (Non-GAAP)</b>	<b>774</b>	<b>0.01</b>	<b>24,446</b>	<b>0.43</b>
Amortisation of intangible assets, net of tax	(4,481)		(2,131)	
Amortization, net related to non-controlling interest	876		-	
Stock-based charge(2)	(587)		(827)	
Amortisation of intangible assets, net of tax - equity accounted investments	(144)		(543)	
Transaction costs	(1,550)		(1,329)	
Facility fee	(87)		(133)	
<b>Net income attributable to net1 (GAAP)</b>	<b>(5,199)</b>	<b>(0.09)</b>	<b>19,483</b>	<b>0.34</b>
Non-controlling interest	95		244	
Earnings from equity-accounted investments	(1,373)		(2,075)	
Interest income	(1,876)		(5,044)	
Interest expense	2,759		2,121	
Income tax expense	6,490		10,277	
Depreciation and amortization	10,794		8,966	
<b>EBITDA (Non-GAAP)</b>	<b>11,690</b>		<b>33,972</b>	
Adjusted for:				
Transaction costs	1,550		1,329	
<b>Adjusted EBITDA (Non-GAAP)</b>	<b>13,240</b>		<b>35,301</b>	



Thank you!

