



**Lesaka Technologies, Inc. (LSAK)
Q1 2024 Earnings Conference Call
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PARTICIPANTS

Lesaka Technologies, Inc.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

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Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Lincoln Mali – Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

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Hello, everyone, and welcome to Lesaka Technologies Webcast and Conference Call. As a reminder, the webcast is being recorded, and the presentation can be accessed through the webcast link as well as dialling in to the Zoom conference call dial-in numbers provided. Management will address any questions you may have at the end of the presentation. For those joining us via webcast, you can ask your questions by using the raise your hand button in Zoom. And for those joining via the Zoom conference line, you cannot ask your questions live today.

The webcast link Zoom conference call dial-in numbers as well as our press release and supplementary investor presentation are available on the Investor Relations website at ir.lesakatech.com. Additionally, Lesaka filed its Form 10-Q after the U.S. market closed yesterday, which is also available on the Investor Relations website.

As a reminder, during this call, we will be making forward-looking statements, and I ask you to look at the cautionary language contained in our Form 10-Q regarding the risks and uncertainties associated with forward-looking statements.

Also as a domestic filer in the United States, we report results in U.S. dollars under U.S. GAAP. However, it is important to note that our operational currency is South African rand and as such, we analyze our performance in South African rand.

In this presentation, we will discuss our results in South African rand, which is non-GAAP. This assists investors' understanding of the underlying trends in our business. As you know, the company's results can be significantly affected by currency fluctuations between the U.S. dollar and the South African rand.

Taking a quick look at today's agenda. Chris Meyer, Group CEO of Lesaka, will start with an overview of performance highlights for the first quarter of fiscal 2024 and a review of Lesaka's progress against its key strategic objectives. Steve Heilbron, CEO Connect and Head of Merchant Division, will provide an update on the Merchant division, followed by Lincoln Mali, CEO of Lesaka, Southern Africa, who will take us through the Consumer Division's performance this quarter.

Naeem Kola, Group's CFO, will present the detailed overview of our financial performance for the 3 months ended September 30, 2023, before handing back to Chris to update you on the Q2 and full year guidance and open the floor for any questions you may have.

I'd like to now turn the call over to Chris.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Good morning and good afternoon, and welcome to our first quarter 2024 earnings webcast and conference call. Today, I'm pleased to present the continuation of the growth in our Merchant division, and another quarter of continued improvement in the Consumer division as both our turnaround efforts and growth initiatives bear fruit. Lesaka is a leading fintech in Southern Africa with over 1.3 million grant beneficiaries using our EasyPay Everywhere financial services platform and over 84,000 MSME merchants using our fintech solutions to grow their businesses.

Our dual-sided consumer and merchant ecosystem penetrates deep into South Africa's informal markets, providing us with an opportunity to meaningfully drive financial inclusion across previously underserved communities. South Africa's economic environment remains difficult, which has made executing our strategy more challenging.

Despite seeing a reduction in load shedding this quarter, the effect of high interest rates, inflation and unemployment continue to negatively impact the wider South African economy. And with this in mind, these results demonstrate not only the resilience of our business model, but also the resilience of our customers and the value they have placed on our services.

We achieved an important milestone this quarter. I'm very pleased to report that at an operating income level, we did a profit for the first time in five years. And while it's just over ZAR 4 million this quarter, it is evidence that the strategy set by our Board to develop this financial technology platform, servicing the digital and cash needs of South Africa's consumers and merchants can generate significant shareholder value and is starting to pay off.

It is also the first quarter that is directly comparable to the prior year, with the Connect Group included for the full period in both quarters. The improvement from an operating loss of ZAR 80 million to an operating profit of ZAR 4.2 million is testament to the commitment and efforts of our employees in turning around the Consumer division and growing the Merchant division. We are proud of these achievements.

Turning to our revenue and group adjusted EBITDA for the quarter. We grew revenue at 19% year-on-year from ZAR 2.1 billion to ZAR 2.54 billion, which is at the upper end of our guidance range, and this was achieved through a 20% increase in merchant revenue and a 13% increase in consumer revenue.

Lincoln highlighted some of our new consumer growth initiatives during our annual results presentation in September. And it is pleasing to see that they are already starting to have a positive impact on the consumer business.

Group adjusted EBITDA came in at the midpoint of our guidance, and it is important to note that we incurred ZAR 6.1 million of restructuring costs, primarily in the merchant ATM business, without which, we would have exceeded our adjusted EBITDA guidance for the quarter. And Naeem will unpack the financials in more detail later.

But overall, I'm very encouraged by the performance our businesses are delivering. Our vision to build the leading fintech providing cash and digital solutions to small merchants and consumers in Southern Africa is firmly in our sights. M&A will play a role in achieving this vision, and we continue to evaluate opportunities that will enhance our market positioning. And this includes bolt-on acquisitions that will provide scale to our existing offering as well as those that will help us broaden our product offering to our clients.

Our M&A focus is primarily on our merchant business. We have successfully turned the Consumer division around and have recorded four consecutive quarters of adjusted EBITDA profitability. And we have also fundamentally transformed this business into one, which is customer-oriented and sales-focused.

We are seeing early traction in improved customer acquisition and account activations, which is very encouraging and is evidence of the significant efforts made by our consumer team over the past few quarters. From a balance sheet perspective, our positive cash flow from operating activities generated ZAR 63 million this quarter compared to an outflow of ZAR 131 million in Q1 last year, demonstrating just how far we have come in one year.

Our net debt-to-EBITDA ratio reduced to 3.1x at quarter end with our near-term target being below 2.75x, and we expect to achieve this in fiscal 2024. We continue to focus on our noncore asset disposals, which will further improve our balance sheet strength and debt ratios when complete. As mentioned in our Q4 results, we have signed a share repurchase agreement in respect of our interest in Finbond for a cash consideration of approximately ZAR 64 million, which we will utilize to partially settle debt.

In November 2023, Finbond released a firm intention announcement regarding the repurchase transaction, and we expect a meeting of Finbond shareholders to be held in December 2023 to approve the transaction. This means the transaction is expected to close in December 2023. Lesaka is a leading player in the sectors in which we choose to participate.

We will be launching our quarterly Lesaka Informal Economy Index tomorrow, 9 November, utilizing our unique data sets and insights into the informal and township markets in South Africa combined with relevant thought leadership. There is very little empirical data available in this important sector of our economy, and that which is readily available is often contradictory.

We hope to bring more consistency to defining the informal market and the understanding thereof through our work in this space. We are entering an exciting period at Lesaka with the turnaround of the Consumer division and an integrated Connect Group, Lesaka is poised to capitalize on its leading position in South Africa's informal markets and scale the depth and breadth of its fintech platform in the next phase of its development.

And with that, I would like to hand over to Steve to take you through the performance of our Merchant division.

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Thank you, Chris. Before I run through our Q1 performance, I will briefly outline our merchant strategy. We have a comprehensive product portfolio covering both cash and digital and formal and informal markets. Our unique position allows us to benefit from both the significant reliance on cash in the South African economy and the rapid shift to digital that is currently taking place.

As I referenced at our recent annual results, this shift opens up opportunities for us to pioneer informal markets and disrupt the incumbents and the traditional ways of transacting in the formal markets. We rely on being innovative and responsive to the needs of our merchants with quick development turnaround times and the ability to get products onto the street without delay.

We take calculated risks, we learn quickly, and we are adaptable. We are instilling this culture across the group as we fight for success in these competitive markets. Critical to our strategy is the holistic offering we have for our merchants. We have numerous competitors on an individual product basis, but our holistic solution is proving to be both durable and an effective differentiator.

As a fintech company, our approach is unique and disruptive from cash lots and immediate digitization, quick access to capital for growth opportunities, a comprehensive VAS product suite to attract consumers to merchant stores to a supplier payment platform and industry-leading payment technologies, we offer solutions that make a meaningful difference to our merchants' daily trading, risk management and business administration.

We will entrench and extend our position in the informal and formal MSME markets by continuing to embed ourselves as a critical partner to our merchants by offering real value. We offer four primary solutions to our merchants. Our portfolio of products result in increased consumer adoption, driving higher volumes of sales for our merchants.

We provide merchants with a device linked to a digital wallet from which they can pay suppliers, sell many VAS products, make bill payments for customers, take payments via card swipes or tap and pay whilst providing instant settlement. A partnership with an informal merchant usually starts with the VAS device. This drives growth across all products.

By way of example, more than 60% of Kazang merchants that have our VAS device have converted to also utilizing our Kazang Pay card offering. Many of them are utilizing our supplier payment platform to improve efficiencies and reduce cash risk. These deeper relationships with our merchants increase our value and our stickiness to them and underpin our strategy.

From a VAS device perspective, we have increased our stake by 34% year-on-year and by 3% quarter-on-quarter to over 77,000 devices. Focusing on device growth core to our device placement strategy is the decision to focus on quality business, which is reflected in a healthy throughput in margin per device. This drives profitability, which I will talk to shortly.

In line with this strategy, we uplift unprofitable devices, which can arise from a number of factors. Two contributing factors are increased competition, which results in a drop-off in usage or the optimization of our fleet following on from a specific campaign.

I mentioned at our last results that during Q1 to Q3 of the 2023 financial year, we installed a large number of devices at informal merchants in order to support supplier payments to a few major FMCG companies that we partnered with. This has resulted in a more than double year-on-year increase in our supplier payments throughput.

The supplier payments platform is an important value-add service to our merchants as it significantly de-risks the operations from a cash perspective and reduces admin time. We have a number of large FMCG partners on board, which is driving increased adoption and usage and is resulting in growth.

We continue to bring new suppliers onto our platform. During the last two quarters, we have focused on optimizing this new fleet by removing devices from the low profitability sites, which has impacted quarterly device growth on a net basis. This pattern of onboarding and then cleaning up is an expected occurrence in the Kazang business when any major partnerships are initiated or cashless delivery routes on existing partnerships are expanded.

Turning to VAS throughput, we saw a 20% year-on-year increase, with the quarter being flat compared to Q4 if you include international money transfers. There has been a significant change in product mix relating to international money transfers, which impacted our quarter-on-quarter growth. International money transfers have reduced 80% year-on-year and 71% quarter-on-quarter due to a change in the regulatory environment in South Africa, which has impacted the industry as a whole. Fortunately, this is a low-margin product for us, and we have not seen a material impact on overall gross profit.

Excluding IMD, our core VAS throughput increased by 58% year-on-year and showed a quarter-on-quarter growth of 12% or 48% on an annualized basis. The gross profit of our VAS business in Q1 2024 increased 8% compared to Q4 2023, representing a healthy quarter-on-quarter growth.

In our card acquiring business, our installed card-enabled devices increased to 46,600 units, representing a 68% year-on-year growth and a 4% quarter-on-quarter growth off a much higher base.

This device growth demonstrates continued adoption of card payments in the informal economy and the frictionless process of converting VAS devices to POS devices.

From a throughput perspective, we saw a 56% increase year-on-year. On a quarterly basis, throughput grew 6% or 24% annualized. These are very good numbers considering the pressure our merchants' customers are under at this present time.

Our VAS and card throughput and margin growth shows good momentum that supports the growth rates we communicated to the market in our guidance. Our cash vaults or cash digitization is primarily exposed to the former SME market, which has been more severely impacted by load shedding, interest rates and consumer pressures in the informal market.

Year-on-year, we saw a 1% increase in throughput on our vaults with a number of cash falls increasing by 5%. On a quarterly basis, we have seen good momentum in Q1 with throughput up 3% over Q4 or approximately 12% annualized. We are effectively putting a bank in our merchant stores and positively enhance their risk profiles whilst also driving operating efficiencies.

As we extend the solution across the informal market, we anticipate making a real difference in our merchants' lives by enabling them to dynamically compete and grow. High inflation, coupled with high interest rates is impacting our formal and informal credit businesses. As I mentioned earlier, we innovate and execute quickly, but if we don't achieve the desired result, we don't hesitate to change course.

Our informal sector credit offering, Kazang Pay Advance is not proving effective in its current form. And as such, we have withdrawn the product and gone back to the drawing board. The reductions in origination of new loans, loan book and disbursements are primarily a result of this decision.

By many accounts, we are at or near the top of the interest rate cycle and with recent inflation data showing an encouraging downward trend, we anticipate a more favorable operating and trading environment for our merchants, which may allow for a resumption in credit growth later in the year.

Our EasyPay enterprise market solution, which offers VAS, switching and bill payments in the formal market through our retail partners experienced pressure during the 2022 and 2023 financial years.

Despite this, we deem this platform to be strategically important, and we have invested in the technology and changed our management structures. With over 600 billers on the platform, which are embedded into all major retail systems, it has an extensive footprint that would be very difficult to replicate. Whilst this business is not a material profit contributor at this stage, we are encouraged by its recent performance with throughput increasing by 8% quarter-on-quarter, and we believe it can make a meaningful contribution in the medium term.

The economic environment remains challenging, and I'm pleased with the yearly and quarterly throughput and the device growth that has been achieved under the circumstances. We have a few exciting innovations in our development cycle. In this fintech-enabled environment, innovation and agility are critical to long-term success.

We are in the fortunate position to have the financial strength, skill and a large installed client base across which we can continue to innovate, experiment and drive growth. The merchant division delivered a 20% revenue increase year-on-year and 5% quarter-on-quarter. Considering the headwinds, our merchants faced over this period, we are very pleased with this result.

From a segment adjusted EBITDA perspective, we reported an 11% increase year-on-year with a 3% decrease quarter-on-quarter. Our first quarter profits were impacted by a few items, which pulled us back.

Firstly, as a result of the suspension of our Kazang Pay Advance credit offering to informal merchants, we provided for expected credit losses on the remaining outstanding exposures at the end of the quarter. Whilst we made a small profit overall on Kazang Pay Advance, providing for the outstanding loans in this quarter was necessary and conservative.

The impact of withdrawing Kazang Pay Advance on our quarter-on-quarter segment adjusted EBITDA was approximately ZAR 3 million. Secondly, we restructured our ATM business when it was integrated with the Cash Connect business. This resulted in a one-off restructuring charge of ZAR 4.6 million this quarter. Our innovative ATM recycler is generating significant interest as an alternative to bulk VAS merchants.

Adjusting for the effect of these two factors results in a quarter-on-quarter segment adjusted EBITDA growth of 3% in Q1. As mentioned in previous presentations, we do take advantage of bulk deals in our VAS offering from time to time, which improves our profitability. These deals can be material and Naeem separately discloses these in his slides each quarter given the impact on group cash flow.

Our Q4 results included a benefit from such deals, but we had no repeat of this in Q1, which also contributed to a lower growth in segment adjusted EBITDA than we had hoped for. Whilst individually not material, the combined effect of the bug had a negative impact on the quarter-on-quarter profitability comparison. However, the underlying profitability of our business remains strong.

In conclusion, we are very pleased with the top line growth and profitability achieved in Q1, considering the challenging environment. I'd like to hand over to Lincoln to take you through the Consumer Division results and strategy.

Lincoln Mali – Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

Good morning and afternoon, everyone. Thank you, Steve. I'm pleased to report continued profitability in the Consumer Division with another increase in segment adjusted EBITDA. As the only financial service provider focused exclusively on grant recipients, we have dedicated 100% of our resources to understanding and servicing their needs as effectively as possible through product design fit-for-purpose distribution networks and service channels.

At our fourth quarter results, I spoke about the various initiatives that we have implemented to address this, including increased marketing and budget, investment in our sales force with incentivization focus on active account-based growth, improved onboarding systems, reducing friction on activations, incentives to promote customer switching, brand renewal and repositioning to enhance customer experience and convenience and continued engagement with SASSA in support of their programs.

I'm pleased to report that we are starting to see some very encouraging results coming through. These are part of wider initiatives to fundamentally change the Consumer Division to a sales and customer-focused business.

We have seen a broader step change in account openings over the past few months as our initiatives start to pay off. Our gross account activations were 76,000 for the quarter which is an improvement from the 45,000 in the first quarter last year. It was encouraging to see a reduction in churn, which resulted in a net account activation of over 42,000 compared to 2,700 in Q1 2023. Natural churn is a factor of the grant space as child support grant cease when a child turns 18 and as mortality impacts old aid grant recipients. We estimate this to be approximately 10% to 12% per annum.

I'm excited about the growth we have seen coming through, which evidences the persistence our teams have shown over the past few quarters.

I've already referenced our EPA account growth, but it is important to maintain this momentum and further increase activations, which provide us with a base to cross-sell and grow up. We ended the quarter with over 1.3 million active EPE customers, of which approximately 85% are core permanent grant recipients. This represents a 13% year-on-year growth.

Our EasyPay loan book increased 20% year-on-year to ZAR 423 million at quarter end. Gross advances for the quarter of ZAR 353 million were up 22% compared to quarter 1 last year. Our loan loss ratio remained stable at approximately 6% on an annualized basis. Our insurance product continued its good growth, increasing to 359,000 active policies at quarter end, a growth of 34% from last year.

Our insurance book penetration increased from below 25% last year to approximately 30% at the end of quarter 1. Our insurance offering to grant beneficiaries we serve continues to grow well above the key industry statistics, demonstrating the value based on our funeral insurance offering by customers.

We've grown our in-force funeral policy holder book by 18% compared to the funeral policy industry as a whole, which has contracted. Furthermore, the industry reported an annual lapse rate of over 22%, whereas our annual lapse rate is around 7%, an indication that our clients retain their policies for longer and are less likely to replace our policies with those offered by our competitors.

We are pleased with the quality of both our lending and insurance books as we are managing to maintain the low loss ratio and high collection rate despite the increasingly tough economic environment. On the back of efficient cross-selling, our ARPU has improved from approximately ZAR 74 per month last year to over ZAR 83 per month at the end of this quarter.

For quarter one, we saw a 13% increase in revenue to ZAR 291 million compared to last year. Our primary profitability measure, segment adjusted EBITDA continued to show excellent improvement, achieving a ZAR 46 million profit for this quarter from a ZAR 24 million loss last year.

Compared to Q4 2023, EBITDA was flat. However, if adjusted for restructuring and one-off expenses of ZAR 2.9 million, Q1 EBITDA would have been 6% higher. The improvement in our revenue and rightsized cost base see the positive jaws delivering improved profitability.

In conclusion, I'm very pleased with the first quarter results, especially the increase in EPE account openings that we have seen during this period. The improvements in our products, distribution and technology are bearing fruit, and we are well placed to quickly and sustainably expand our share of the grant recipient market in South Africa.

I would like to hand over to Naeem now, who will take you through the income statement and balance sheet in more detail.

Naeem Kola – Chief Financial Officer, Lesaka Technologies, Inc.

Thank you, Lincoln. As Chris said, the first quarter of fiscal 2024 year reflects positive operational momentum in both divisions translating into financial performance despite the challenging trading environment. We again delivered against what we set out to do with revenue reported at the upper end of our guidance and group adjusted EBITDA within our guidance for the quarter.

The Consumer Division is seeing signs of increased momentum in our key revenue drivers and the overall trends in our merchant division remain positive. It is also important to note that we incurred ZAR 6.1 million of restructuring costs mainly in the merchant ATM business without which we would have exceeded our EBITDA guidance.

As a reminder, Lesaka is a domestic filer in the United States. We report results in U.S. dollars under U.S. GAAP. However, our operational currency South African rand and as such, we analyze our performance in South African rand. This is the first quarter that is directly comparable to the prior year with Connect Group included in full for both periods. Looking at the consolidated income statement

for the quarter, we grew revenue by 19% to ZAR 2.54 billion compared to Q1 2023 and 2% compared to Q4 2023.

In U.S. dollars, we reported consolidated revenue of \$136 million for the quarter, up 9% compared to \$125 million in Q1 2023 which is reflective of the 9% weakness in the ZAR against the U.S. dollar over the period.

At an operating income level, we achieved an important milestone for this quarter, reporting a profit of ZAR 4.2 million for the quarter compared to a loss of ZAR 80 million in Q1 2023. Depreciation and amortization of ZAR 109 million for Q1 2024 include ZAR 67 million related to the amortization of acquired intangibles. Related to the Connect Group acquisition, acquired asset amortization reflects the accounting treatment for acquired assets, which is both a non-operational and a noncash accounting charge.

In September 2022, we sold our interest in Carbon, a noncore equity accounted investment, the second tranche of the equity payment of ZAR 4.7 million fell due in the quarter and has been received, and thus, we reversed the allowance for doubtful loans receivable of ZAR 4.7 million created in fiscal 2023 upon the sale of the interest. This reversal is included in the caption “reversal of an allowance for doubtful EMI loans receivable” in our condensed consolidated statement of operations.

Our net interest expense decreased to ZAR 83 million in Q1 2024 from ZAR 86 million in Q4 2023 through further cash optimization measures across the group. Q1 2024 versus Q1 2023 is mainly impacted by the increase in the benchmark interest rate in South Africa in Q1 2024 compared to Q1 2023. In the prior period, we reported progress made in the rationalization of investment in Finbond, another noncore investment. We have entered into agreement to exit this position and receive a cash consideration of approximately ZAR 64 million in December 2023 when this transaction is expected to close.

The loss from equity accounted investments in the income statement relates to the impairment loss on Finbond investment of approximately ZAR 22 million recognized during the quarter. The impairment arises because we are required to eliminate the foreign currency translation reserve held against the Finbond investment due to the expectation that the position will be sold by the end of December 2023.

Overall, we expect no impact on the net asset value. Fundamental loss per share, which excludes nonoperating items, continues to narrow, improving 94% compared to Q1 2023 to ZAR 0.08 per share. In management's view, this is appropriate earnings per share measure given the adjustment for one-off nonrepeatable items and PPA amortization and other noncash items.

As mentioned, at an operating income level, we hit an important milestone in this quarter, reporting an operating income of ZAR 4.2 million compared to a loss of ZAR 80 million in Q1 2023, which is largely attributed to the improvement in the Consumer Division's operating performance.

After adjusting for amortization of acquired intangibles of ZAR 67 million and non-operational and noncash accounting charge, we have delivered an ZAR 84 million improvement to operating income compared to Q1 2023. At a divisional level, merchant delivered a 20% revenue increase year-on-year and 5% quarter-on-quarter, a robust result given the challenging operating environment for merchants we serve.

In the Consumer Division, revenues grew 13% year-on-year. We are seeing very good momentum in EPE account activations driven by our new consumer growth initiatives highlighted by Lincoln earlier. This is a positive indicator as it is the foundation for building further annuity income in our consumer revenue base.

Year-on-year, the Merchant Division reported a segment adjusted EBITDA of ZAR 150 million for the quarter to September 2023 compared to ZAR 135 million in Q1 2023. The Consumer Division delivered segment adjusted EBITDA of ZAR 46 million for Q1 2024 compared to a loss of ZAR 24 million in Q1 2023. I will unpack the sequential quarterly results at the division level on the next slide.

Group cost of ZAR 34 million reduced 14% compared to ZAR 39 million in Q1 2023 mainly due to lower external audit, legal and consulting fees. Group adjusted EBITDA for the quarter increased 126% to ZAR 163 million and came in at the midpoint of our market guidance for group adjusted EBITDA.

Consumer revenue decreased 6% quarter-on-quarter to ZAR 291 million from ZAR 309 million in Q4 2023. Adjusting for ATM revenue related to third-party acquired transactions, which are reported in the Merchant Division for this quarter, consumer revenue would have increased by 4% in the quarter.

Merchant segment adjusted EBITDA of ZAR 150 million increased 11% year-on-year, although decreased 3% compared to ZAR 154 million in Q4 2023. Steve addressed this in detail in his Merchant overview, but the primary reasons are restructuring costs in the ATM division, provisions related to the Kazang Pay Advance product and the lower revenue of bulk VAS deals and resale of airtime vouchers during Q1 2024. Excluding the impact of the restructuring costs in the Kazang Pay Advance withdrawal, Merchant segment adjusted EBITDA would have increased 3% quarter-on-quarter to ZAR 158 million.

In the Consumer Division, we anticipate the momentum in EPE account activations to translate into continued improved segment adjusted EBITDA as we scale our consumer financial services platform. Fundamental loss per share continues to narrow improving 94% to ZAR 0.08 per share compared to a loss of ZAR 1.36 per share in the first quarter of 2023.

Quarter-on-quarter, this is an 89% improvement from a loss of ZAR 0.76 in Q4 2023. From a cash flow perspective, we saw continued momentum in achieving positive net cash provided by operating activities of ZAR 63 million in Q1 2024 compared to net cash used for operating activities of ZAR 131 million in 2023. Q3 2023 and Q4 2023 after adjusting for bulk VAS purchases will reflect a similar cash generation of between ZAR 50 million to ZAR 60 million per quarter.

Looking further at how our net cash utilized in operating activities per cash flow statement compares to cash generated from business operations. We generated ZAR 184 million operating cash flow before interest paid, tax paid, working capital-related items and movement in loan book funding. We define this as cash generated from business operations and consider it an appropriate indicator of our conversion of EBITDA to cash.

In Q1 2003, we generated ZAR 73 million, an increase of ZAR 111 million in a year. In our merchant card acquiring business, working capital requirements are relatively small. We estimate that approximately every ZAR 100 million in throughput growth requires ZAR 3 million in additional working capital.

The negative ZAR 51 million working capital in Q1 2024 relates to month end falling on the weekend, and this requires mainly Kazang business to prefund VAS purchases to ensure we meet volume

requirements over the weekend. Our net debt-to-EBITDA ratio is calculated as the net debt at a specific date divided by the annualized group adjusted EBITDA for the quarter.

For Q1 2024, this improved to 3.1x due to improved EBITDA performance in the quarter compared to 3.2x in Q4 2023 and 5.9x a year ago in Q1 2023. As mentioned in Q4 2023, we are very pleased with the conclusion of our new funding arrangements, which are now finalized. Our lenders have agreed to reduce the margin on Facilities G and H by 75 basis points on the basis of improvement over a net debt-to-EBITDA ratio. Reducing our net debt remains a strategic objective for the group. If we achieve a net debt-to-EBITDA ratio, as defined in our loan agreements of below 2.75x, this will result in a further 100 bps reduction in the margin on Facilities G and H.

Capital expenditure in Q1 2024 amounted to ZAR 53 million. As we previously highlighted, this is mainly growth CapEx related to the merchant division. Our growth CapEx delivers a strong IRR on capital invested.

In conclusion, Q1 2024 is evidence of the continued improvement in operational and financial performance and delivering against the guidance we set out for the quarter. Thank you.

I will hand over to Chris for his comments on the outlook for Q2 and the full year results.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thank you, Naeem. Turning to our guidance. I would like to provide our quarter 2 revenue guidance of ZAR 2.65 billion to ZAR 2.75 billion and group adjusted EBITDA of ZAR 170 million to ZAR 180 million. I would also like to reaffirm our full year 2024 revenue guidance of ZAR 10.7 billion to ZAR 11.7 billion, and group adjusted EBITDA of ZAR 680 million to ZAR 740 million. Our outlook provided does not include the impact of any M&A transactions that may occur.

Thank you for attending the presentation of our first quarter results for the period ended 30 September 2023. And I would like to invite you to ask any questions you have at this stage. Thank you.

Rob Fink – Managing Partner, FNK IR

The first question is going to be a live question from Raj Sharma of B. Riley.

Raj Sharma – B Riley & Co.

Yes. I wanted to understand, first of all, on the consumer side, what are the consumer dynamics of adding the EPE accounts in? Can you talk about the immediate opportunity set that's available for customer acquisition and also the cadence of the churn going forward. I believe it can be pretty up and down in the last several months. But could you talk a little bit about the natural/deliberate churn on the accounts and where do you see that going? And then I have a follow-on question on the Connect side.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thanks, Raj. I'll take the question on churn. And then I'm going to ask Lincoln to speak about the growth opportunity in the market as we see it. So we'll take it the other way around, if you don't mind. In terms of churn away, we think about it as, firstly, there's what we would call natural attrition in the grant space. And that really is to do with in the old-age grant category, firstly is if a grant recipient passes away.

And then the other piece of natural attrition is in the child grant beneficiary space where the child achieved the age of 18, and therefore, the parent no longer qualifies for that grant.

Those natural attrition categories account for approximately 10% to 12% churn -- natural churn in the grant space each year. And if you look at our numbers, that is generally the churn that we are seeing. We're seeing about 10% to 12% churn in our numbers at the moment per annum.

In Q4, we did have a spike in churn, and that was mainly to do with some cleanup that we did in the account base with some dormancy, which we do from time to time. So that was a decision on our part. It was an action we took at the time. But that is why we saw some spike in churn for that quarter. This quarter, we are back to what we would consider sort of the normal ranges.

Lincoln, if you want to pick up the question on the growth opportunity and the immediate focus in that regard.

Lincoln Mali – Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

Raj, if you remember the conversations we've had over the previous quarters. The first phase of our turnaround was on us taking cost out of the business, training our staff, repositioning our brand, improving the relationship with SASSA and stakeholders. And as we indicated, that part we've been able to complete. We now focus on growth and we have two growth opportunities.

The first one is that every month, you have customers or grant recipients getting a new grant and we are always positioning ourselves to be one of the key financial institutions that are able to attract that customer base to come to us versus going to somebody else.

The second one are those customers that are leaving the post office. And so those two combined opportunities are giving us the opportunity to be able to position ourselves to take advantage of those. So, if you look at this quarter, we've been able to have gross activations of 76,000 for the quarter and the net number is 45,000.

And we're starting to see that momentum because of our sales initiatives, our rebranding exercise, our communication and marketing, we think we are well poised to be able to grow our customer base much more than we had done in the previous year. So those opportunities are there for us, and we are able to take advantage of them.

Raj Sharma – B Riley & Co.

Great. And could you also talk a little bit about this on the Connect side, Steve, the Kazang Pay Advance pulling it back. Was it competitive pressure? Could you give more color on that? Was it a competitive product? Or was it purely just your own product that needed to be revamped?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Sure. Raj, as I mentioned in our presentation, we have a philosophy of experimenting with product. On the back of our Kazang Pay product, our advanced product is something that we brought to market

last year. We had a number of vintages based on certain algorithms that we launched, and we were not happy with the performance of those loans.

Now as I mentioned, on an overall basis, we made a small profit but we decided to pull the product back into the warehouse. We're going to make some tweaks and relaunch the product into what is a healthy Kazang Pay base, but we need to tweak some of the data points and some of the learnings in the credit piece.

We were just not happy with the response that we were getting. We decided to pull back, reengineer and we will relaunch. But we are excited today. We're still quite excited about the opportunity. And we see an experiment like this not as a failure, but as part of the learning, which is true to really the culture that we've been talking about present -- from each quarter presentation to the next.

Rob Fink – Managing Partner, FNK IR

Our next three questions we have come over the Q&A widget. I'm going to go one by one. Guys, can you give us a sense of the timeline for potential M&A, your thoughts on the market and how you would go about funding any potential transactions, what you're looking for?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Timing is always very difficult to talk to. At this particular point, it's fair to say that we are engaged with specific targets. These are very real opportunities. We're making very, very good progress. We are expecting and hoping that we will close on transactions within the FY '24 financial year.

In terms of funding those transactions, again, this will be a combination of using our own equity, raising equity and a combination of debt. Some of the transactions we are looking at will involve a straight share swap.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

If I could add to that, for us, we have a number of important parameters that we put around the funding strategy, the capital market strategy pertaining to M&A, we've spoken about a focus on our debt levels and EBITDA to debt ratio. So that's an important thing.

Secondly, value will always be a key determinant. And thinking about relative value to our shareholders and the relative value of our share at any point in time. We're very mindful around accretive opportunities and disciplined M&A underpinning anything that we might bring to the table.

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

If I can maybe just add to what Chris is saying is besides being accretive, the core thrust is either bolt-on to create scale in the areas that we currently play, but also critical to this is the addition of merchant services in new product offerings to our existing client base in terms of focus on the merchant space. And I think we did say the majority of our focus from an M&A perspective is on the merchant business.

Rob Fink – Managing Partner, FNK IR

Moving to the Consumer business, how much of consumer growth is coming from Postbank?

Chris Meyer

I'll start to approach the question and I'll maybe bring Lincoln in. There's no empirical evidence of exactly where growth comes from. We have anecdotal evidence speaking to our customers as we onboard them, and we can see what's going on in the market. We can see the significant reduction in numbers in terms of Postbank's customer base, that is public information.

So yes. I think Lincoln talked about two categories. Category one is new grant recipients entering the base. And that is about a 10% number per annum coming into the universe of grant recipients. And then there's this trend moving away from the Postbank post office.

I think on the whole, moving away from the post office is the biggest trend, and that is the opportunity that is most present for us. That is something that we're obviously very well focused on and positioned for.

Lincoln Mali – Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

Yes, if I could add to that. What's important for us is how we become competitive and how we have a value proposition that appeals to customers, so that we're not just relying on something going wrong with the Post Office. We want customers to be attracted to us to want to see a very proposition that speaks to them. And we want them to want to come to us. And we're getting a lot of referrals from our existing customers to other customers because of the services that we provide.

We're also getting a lot of traction from our engagement with community leaders and all of that. All of that work helps us to position ourselves well. If there are troubles in the Post Office, obviously, it will count in our favor. But our focus is making sure that we are relevant, and we give a proposition that makes sense for customers. Because if we just only rely on problems in the Post Office, if the post office fixes this problem, then we don't have our room to grow.

There is a competitive market out there with banks and retailers, and we want to be one of those that are preferred by customers because of our value proposition.

Rob Fink – Managing Partner, FNK IR

Next question was submitted from David Garrity. Congratulations on a solid quarter and the good news on the reduction of funding costs. On the midpoint revenue guidance, you indicated about 12.5% year-over-year growth. This is lower than previous year's growth. What are the factors leading to this?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

David, thank you very much for the question. Firstly, you must remember that prior year -- so the growth between FY '22 and FY '23, you need to take into account the inclusion of the Connect Group for a partial period. The addition of the Connect Group into our numbers last year makes it very difficult to make a like-for-like comparison when we look at FY '24 and beyond.

And that is why we gave guidance at the start of the year, so last quarter, around expected revenue growth, medium-term targets of around -- I think we said 18% to 20%. So that would be our full year

expectation around guidance where we said our full year revenue expectation of between ZAR 10.5 billion to ZAR 11 billion.

And we also gave, if you recall, an indication of a medium-term outlook beyond that. We believe the guidance we're giving today in terms of next quarter is consistent with that medium-term outlook and full year guidance.

I also think it's important to highlight that we're coming into Q2, and Q2 for us is seasonally an important time. Seasonally, it's our busiest time, particularly in our merchant business. And you would have seen that highlighted in the slides in the presentation earlier. I think we need to look at the revenue guidance within that context as well.

Rob Fink – Managing Partner, FNK IR

The next question is going to come in from the phone from Theodore O'Neill at Litchfield Hills Research.

Theo O'Neill – Litchfield Hills Research

Congratulations on the good quarter. My question is about ARPU in the consumer segment. You're showing a 12% growth year-over-year in ARPU. And I was wondering a couple of questions around that. Should we expect that number to slow given the economic headwinds? And then as we think about that number going forward, do you target a growth rate for that or an absolute number to achieve in ARPU? Just wondering if you could talk about those issues.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

I'm happy to take the question. Theodore, thanks for the question around ARPU. For us, yes, we're happy with the growth that we've seen in ARPU. For us, the focus is actually around penetration into our customer base in terms of the ancillary products that we provide.

Just to remind the primary base, our focus is around the EPE account and and transactional fees on the account. And from there, we look to offer both insurance and credit to our customer base. And

our focus is growing the penetration levels. And the growth in ARPU has come from moving our insurance penetration levels from -- we spoke about moving from 25% to 30%.

If you look back 18 months ago, that number was around 20%. So we've seen very good growth in penetration and insurance. And we've maintained a penetration of around 40% on our loan book, even with the growth that we've seen in the customer base. Those are the drivers.

We haven't set a target for overall penetration. It's too early for us to set that out, but that should give you a sense of what's underpinned the overall increase in revenue primarily.

Lincoln Mali – Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

Can I also add that in these difficult times, we are also watching the quality of our businesses. Even during this difficult time, the loan loss ratio has remained stable, but we continuously watch the quality of our book, and we have not seen any material deterioration in that regard.

And also in the insurance side, we still have high collection rates in that space that are above industry norms and even our lapse rates are well below what's happening in the industry. So therefore, for us, we are watching not just growth, but also quality of that growth. And therefore, as Chris was saying, and ARPU that is resilient during these difficult times.

Rob Fink – Managing Partner, FNK IR

A few more here that have been submitted over the chat. How does the removal of Kazang Pay Advance impact growth in the Merchant Division in the next few quarters on other revenue lines?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Let me start off by saying that essentially, the momentum and numbers that we have disclosed support the guidance that Chris has given in terms of Q2 and FY '24 guidance. We have factored all of that into the numbers that we've presented. We are hoping that we can bring Kazang Pay Advance back to the table.

We would like to try and do that in Q3 or early Q4. The impact of that from a profitability perspective, though, I think will be enjoyed more in FY '25. As we mentioned earlier, we pulled the product. It's more or less P&L neutral over the period. As I mentioned in our presentation, we made a provision on a conservative basis in Q1 of ZAR 3 million, which affected the Merchant segment adjusted EBITDA. We believe that we are adequately provided at the end of that quarter and we're now tweaking the product and we'll bring it back.

Rob Fink – Managing Partner, FNK IR

And our final question today. Can you offer an update on MobiKwik performance and its listing plans?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

The overall performance in the business continues to be good. They have reported positive EBITDA for at least two consecutive quarters and are cash generative. The focus in the MobiKwik business, when we talk to management and founders, is building a track record of EBITDA positivity and cash generation to put them in a position to list the business.

We spoke to them recently. They reaffirmed to us their intention is to look to IPO the business. The expected range that we understand it is in the second half of calendar 2024. So somewhere after June, probably around September, that is their focus. We remain positive in terms of our overall exposure to MobiKwik and the direction of travel of the business.

Rob Fink – Managing Partner, FNK IR

Thank you, everyone. We've hit our hour mark. We're going to wrap it here. And a reminder to everyone after you disconnect, there will be a replay of this webcast on the Lesaka Investor website. If there were any remaining questions, someone from the IR team will reach out to you shortly to answer them. We thank you, everyone, for your participation.