

Akash Dowra – Chief Strategy Officer

Welcome to Lesaka Technologies' results webcast for the third quarter of fiscal 2026. As a reminder, this webcast is being recorded. Management will address any questions you have at the end of the presentation. [Operator Instructions] Our press release and investor presentation are available on our Investor Relations website at ir.lesakatech.com.

During this call, we will be making forward-looking statements, and I ask you to look at the cautionary language contained in our press release, presentation and Form 10-Q available on our website.

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, which is non-GAAP. This assists investors in understanding the underlying trends in our business.

I will now turn the webcast over to Ali.

Ali Mazanderani - Executive Chairman

Good morning and good afternoon. Thank you for joining us for Lesaka's Q3 results presentation. I'm pleased to report Lesaka has delivered a strong set of results for Q3 FY 2026. It's also worth noting that this is substantially on a like-for-like basis. Net revenue was up 16% to ZAR 1.58 billion, short of our guidance of ZAR 1.65 billion due to slightly softer-than-expected performance in Merchant, as the division focused on the integration of the business units and closures of noncore business lines.

We remain confident in the profile and trajectory of the Merchant division, as Lincoln will talk you through in more detail shortly.

From a profitability perspective, group adjusted EBITDA came in at ZAR 337 million, at the top end of our guidance and a 45% increase over last year. Adjusted earnings was up 246% from ZAR 43 million to ZAR 148 million. Similarly, adjusted earnings per share increased from ZAR 0.52 to ZAR 1.80 for the quarter. Net debt to group adjusted EBITDA of 2.1x is a significant improvement over last year and is close to our target of 2x. Dan will unpack the divisional numbers in more detail shortly.

From the last quarter, we have simplified how we present our business, emphasizing its core structural revenue drivers. We present a single total view for active consumers and active merchants and aggregated ARPU for each. Consumer ARPU is a function of our transactional bank account and the penetration of our lending and insurance products within our account base, while Merchant ARPU is a function of our 5 products: acquiring, Alternative Digital Products (ADP), lending, software and cash. Over time, we may continue

to further refine our definitions of ARPU to better reflect the business strategy. We have 750 Enterprise clients.

So rather than representing the drivers in Enterprise on an ARPU basis, we do so on a take rate and total process volume for ADP and utilities. These 6 variables across the group together explain more than 90% of our net revenue. We will use this framework as the key drivers of the net revenue of our businesses each quarter to thread the operational performance of each division, along with the financial results. In full year results, we will provide more granular information on the underlying drivers of each of our core products by division.

For now, I will hand you over to Dan to take you through our financial performance in more detail.

Dan Smith - Group CFO

Thank you, Ali. Good morning and good afternoon to everyone joining us today. Before turning to our operating and financial performance and the components of our business, I would like to focus on the excellent progress we've made this quarter in addressing some of our legacy and noncore activities, as well as creating One Lesaka. These initiatives have resulted in a few nonrecurring items that have had a mixed impact on our results this quarter.

In our Merchant division, we made the decision to exit the ATM business, reflecting our disciplined focus on profitability and capital allocation. The business was structurally loss-making and immaterial in scale. Its wind down removes an ongoing group adjusted EBITDA drag and allows us to redeploy capital towards higher-return, digitally-led growth opportunities as part of our broader portfolio optimization. This resulted in a total impairment charge of approximately ZAR 27 million, split between our impairment entries and once-off items. Also within the Merchant division, Switchpay, a legacy buy now, pay later product, has been sunset, resulting in an impairment charge of ZAR 6.5 million recognized in the quarter.

At a group level, we focused on the collection of monies owed to us from a legacy investment and reversed the receivables allowance of ZAR 25 million. Similarly, we also deregistered a legacy offshore entity, being Masterpayment, resulting in a gain of ZAR 14 million.

As highlighted last quarter, we are progressing with our major rebrand to One Lesaka. The rebrand has been launched with an activation campaign, with the external customer rollout planned over the coming months. Rebrand-related costs of ZAR 16 million were incurred during the quarter, and we maintain our guided total rebrand costs in the range of ZAR 50

million to ZAR 75 million. Given our transformation as One Lesaka and our office consolidation, we also recognized an impairment charge of ZAR 26 million on lease premises due to lower utilization rates.

Finally, the accelerated write-down of our intangible assets relating to our legacy brands has tapered off with the purchase price amortization of intangible assets now at ZAR 98 million, which reflects a more normalized run rate.

Looking at our divisional performance, Lesaka delivered nearly ZAR 1.6 billion net revenue, a growth of 16% for the quarter. Merchant net revenue declined 4% to ZAR 751 million, as previously explained by Ali. We expect Merchant net revenue to be flat next quarter. However, as you will see on the next slide, segment adjusted EBITDA for Merchant increased this quarter.

In contrast, the Consumer division delivered another record performance with net revenue increasing 41% to ZAR 627 million, an all-time quarterly high. The Enterprise division also performed strongly, delivering net revenue growth of 51% to ZAR 220 million. This growth includes 3 months of contribution from Recharger compared to 1 month in the prior period. However, it also reflects meaningful organic growth, as the division's refreshed strategy and operating structure continue to gain traction in the channels they serve.

At a group level, adjusted EBITDA of ZAR 337 million was an all-time quarterly high for Lesaka and represents a 45% year-on-year increase. The Merchant division recorded a 3% increase to ZAR 151 million. We are pleased to see evidence of the efficiencies implemented over the past 6 months, translating to an increased margin to above 20%. Our medium-term expectations remain that the Merchant margin will continue to increase to above 30%.

Consumer segment adjusted EBITDA increased by 81% to a record ZAR 213 million, reflecting strong operating leverage and disciplined execution. Last quarter, we saw over ZAR 1 billion of origination volume for our lending products, and we are starting to see the positive impact flow through to our financial performance. The Enterprise division delivered a segment adjusted EBITDA contribution of ZAR 35 million as the business scales.

Group costs were ZAR 62 million, slightly elevated due to an investment made in improving finance, risk and compliance frameworks and strategic hires at a head office level. This is a more accurate reflection of our group costs run rate going forward.

Adjusted earnings per share continued its strong upward trajectory, increasing 247% to ZAR 1.80 per share, underscoring our ability to effectively integrate and extract synergies from our inorganic growth activity and our ability to scale organically once the integration and transformation phases are complete.

Our strong cash generation continued this quarter with cash generated from business operations of ZAR 365 million, closely tracking our group adjusted EBITDA. Given the short duration of our credit cycle and seasonality effects, we only required an additional ZAR 10 million of funding for our lending books, reflecting the efficiency and scale of our operations.

We paid ZAR 98 million in cash interest. And while not presented on the slide but reflected in the annexes to this presentation is a release of ZAR 320 million of seasonal working capital compared to the prior quarter. In aggregate, the group generated a pleasing ZAR 608 million in operating cash flow.

We continue to manage our CapEx carefully with ZAR 76 million of investment this quarter. Our CapEx was relatively evenly split between cash vaults, POS devices, and software and platform development.

The strong earnings growth and cash generation, combined with prudent capital allocation, resulted in our net debt to group adjusted EBITDA improving to 2.1x this quarter and bringing us closer to our medium-term target of 2x.

In recent quarters, the benefits of the platform we are building have become increasingly evident. Continued growth across our distribution footprint, combined with ongoing product innovation, has further improved operating leverage with operating margin rising from 17.2% a year ago to 21.4% this quarter. As the transformation of our Merchant division progresses and following the completion of the Bank Zero acquisition, we continue to expect operating margins to trend towards over 30% over the medium term at a group level.

A similar positive trajectory is evident in our capital investment profile. Consistent with prior guidance, we expect CapEx to remain below ZAR 400 million per annum. On the last 12 months basis, CapEx as a percentage of EBITDA has reduced from approximately 46% a year ago to 29% this quarter. Together, these trends highlight the strengthening fundamentals of the business as we continue to evolve and scale our platform.

Thank you. I will now hand over to Lincoln to take you through our divisional performance.

Lincoln Mali - Southern Africa CEO

Thank you, Dan. Good morning and afternoon, everyone. As Dan has alluded to, we're in the middle of building an integrated merchant business from 5 historical components. We are modernizing our core systems into a unified backbone, enabling our servicing staff to provide a more efficient and effective customer service. We are centralizing data, creating a 360-degree view of each merchant, and implementing AI to strengthen our risk capabilities and reduce customer friction.

This enables better credit decisions and reduce fraud. Furthermore, we are leveraging these assets to drive smarter customer engagement. For an example, AI-enabled WhatsApp support and targeted cross-sell engines will simultaneously enhance the client experience, and we believe will drive higher ARPU.

At an overall level, active merchants increased by 6% year-on-year. Looking at the mix of our active merchants, our community merchants grew 8% year-on-year. Last year, we restructured our community merchant sales force to allow for a more targeted distribution strategy, and we are pleased to see our community merchant portfolio increase. The number of active corporate merchants fell 4% year-on-year, primarily due to increased competition in monoline products, for an example, merchant acquiring.

At the aggregate, Merchant ARPU was 7% lower than last year and driven primarily by an increase in the number of community merchants as a percentage of the total. Community merchants are growing faster than corporate merchants, and this has a predictable impact on blended economics as they generate materially lower ARPU than corporate merchants, as shown in the slide.

As the community segment becomes a larger proportion of the overall base, aggregate Merchant ARPU naturally decreases even while engagement levels, transaction volumes and profitability increase. Secondly, as mentioned last quarter, the community ARPU reduction was impacted by a network-driven reduction in airtime commission rates. Since that reset, ARPU has been relatively stable quarter-on-quarter.

Within the corporate space, we saw flat performance in ARPU. Our current aggregation of ARPU includes network fees that is [interchange] and from our corporate segment, but excludes network fees from our community ARPU. We expect to review the definition of corporate ARPU in the new fiscal year to align the treatment of network fees to community ARPU.

Product penetration in Merchant was flat at 46% for 2 or more products. The merchants with 3 or more products reduced to 7%. The primary driver for this decline is due to the increase in our community merchant base who typically engage with ADP and acquiring. The total number of merchants with 3 or more products declined as we refined our lending criteria to the community merchant base.

While penetration rates for multiproduct accounts have shifted over the period, we are in the early stages of our ecosystem journey. Our current performance is intentionally driven by a land and expand strategy. As seen on the left-hand chart, we have a broad base of merchants through hero products and a set of highly valued ancillary products that tie merchants into the Lesaka ecosystem.

The core of our thesis remains unchanged. As product density increases, so does the value of the merchant. Within our community merchants, we can see that moving from a stand-alone solution to a [C+] product proposition drives a 94% uplift in ARPU. Increasing our product penetration in community relies on Merchant's strategy to expand lending and cash to our existing community base.

In the corporate segment, Lesaka experienced a 60% uplift in ARPU when our customers shift from 1 product to 2 product. We currently have no corporate clients with 3 or more products. Our industry-specific strategy in Merchant is focused on increasing our product penetration in Merchant. For example, in the restaurant and hospitality segment, we're adapting our product and sales force to be able to serve our clients with a combination of software, acquiring, lending and cash. In the fuel industry, we're developing our acquiring and software capabilities to augment our current cash and lending offerings.

We believe this ecosystem product approach, coupled by a single distribution and servicing capability, will grow percentage of corporate merchants with 3 or more products in the medium term. Looking at our Merchant volumes for the quarter. Card TPV increased by 7% to ZAR 10.6 billion, with active acquiring merchants up 9% to 74,000. On the cash side, volume grew 2% with a slight increase in wallet for the quarter of 4,900. Within the base, as with previous quarters, we have seen net reduction in the corporate merchant base and good growth in the community base.

The growth of our cash offering in the community merchant space has supported the strong growth in the TPV of our Alternative Digital Products, or ADP for short.

As community merchants immediately digitize their cash taking in their own wallets or in the nearby merchants, they have more value in their wallets to use for airtime, electricity and voucher purchases for resale and supplier payments. ADP TPV is up 30%, reflecting traction for our offering. Following the margin compression seen within our prepaid solutions in financial year 2025, particularly airtime, we are pleased to see a normalization and return to growth in these volumes with 11% increase in prepaid solution products and a 47% increase in supplier-enabled payments.

Turning to Merchant lending. Originations in quarter 3 were 22% lower year-on-year at ZAR 227 million. The comparative period in quarter 3 of financial year 2025 included unusually high spike in originations from our corporate channel, driven by fuel-related lending push and the rollout of preapproved lending offers late in the year 2024, which then originated in the quarter 3 financial year 2025. While January and February were muted, we did experience a very strong March, much of which was driven by demand in the fuel sector ahead of anticipated price increases.

Our lending portfolio closed 4% up at ZAR 427 million. We are comfortable with this lending activity, and it reflects a deliberate decision to be conservative in merchant credit, whilst we refine our Merchant lending offering as part of our broader Merchant ecosystem. This is not about a lack of opportunity. It's about exercising capital discipline and protecting the long-term quality of the book. Software, particularly through our Unity platform in the hospitality space, is central to our long-term Merchant strategy.

Unity is not about site growth alone. It is a cloud-native platform that enables the Merchant ecosystem and sets the platform for multiproduct penetration at scale. Approximately 50% of all Unity clients are fully integrated into our acquiring proposition with 80% of all new software clients on board utilizing Unity.

In conclusion, we are laying the foundation for a stronger, scalable business through platform consolidation, data and AI investment, and integrated product strategy. Consumer had another excellent quarter with an 81% increase in segment adjusted EBITDA. As expected, our KPIs have all shown impressive increases with active consumers up 19%, ARPU also up 19% and cross-sell success continuing its upward trend. Active consumers now stand at over 2 million with a permanent grant recipients of 1.7 million, representing a 14.6% market share. Looking forward, our medium- to long-term expectation is that we could reach a 25% market share, based on our current growth trajectory and distribution plan.

Encouragingly, in quarter 3, only 3 players showed growth during the quarter, of which Lesaka grew the largest. Net additions in quarter 3 were almost 26,000, more than double our nearest competitor, demonstrating the strong brand and product fit we have developed in this segment. Importantly, growth is not dependent on competitor dislocation alone. There are approximately 150,000 new grant entrants every month, and our expanding distribution footprint positions us strongly to capture a disproportionate share of these new customers. By June, we expect to have increased our footprint to a further 30 community sites and a further 15 new branches.

This expansion materially strengthens our access to both urban and rural grant recipients and support sustainable organic growth.

Our ARPU has increased by 19% year-on-year to ZAR 99 per month, driven by continued engagement and cross-sell success. At the end of quarter 3, 20% of our active consumer base was utilizing our full product suite, up from 17% last year, with 50% of our base having 2 or more products. This consistent increase in our product penetration rate is a clear demonstration of the power of our value proposition and superior distribution capabilities within the segment and is a clear indication of our ability to continue to grow.

Our lending product has been the key driver of our Consumer division's financial performance. In the third quarter, we originated approximately ZAR 856 million, representing a 33% year-on-year increase, with the outstanding book growing 73% to around ZAR 1.4 billion. This momentum reflects the successful rollout of our 9 months loan product, which now represents nearly 50% of all new lending originations. We expect this to continue increasing, supporting growth in both book size and average tenure. We are also evaluating a modest increase in maximum loan values and repayment terms to meet customer demand, while maintaining our disciplined risk framework.

We have a deep understanding of our lending base with a high proportion of originations to repeat and long tenured customers. This supports effective credit scoring, provisioning and product development. The portfolio continues to perform within normal parameters, and our 6.5% provision level remains above the observed risk experience with any refinement to be communicated transparently at the end of the year.

Turning to our funeral and pension plan insurance business. We delivered another very strong quarter. Gross premiums written grew by 38% to ZAR 146 million, while in-force policies increased by 34% to 704,000. We have recently started rolling out insurance policy sales to non-Lesaka consumers within Lesaka ecosystem. This represents a significant opportunity with an estimated 3 million grant recipients currently uninsured.

We are leveraging our existing distribution network and sales force to access this market efficiently. While the initiative is not yet financially material, it is strategically important and directly aligned with our purpose of extending affordable financial protection to underserved communities.

Our insurance product is a key driver for compounding our product penetration in the short to medium term. As we increase our attachment rates of insurance at the time of client onboarding and we increase our stand-alone insurance sales, we do expect the collection rate to moderate to circa 90% over time. Importantly, we believe this will still result in a net positive gross written premiums for Lesaka. We believe the overall quality of our insurance book will continue to remain high and compare favorably against the wider insurance market.

The Consumer division continues to demonstrate strong momentum with resilient growth drivers, effective last-mile distribution and clear product relevance. By leveraging our technology and distribution network in tandem, we are confident that Consumer will remain a core engine of value creation for Lesaka, delivering both financial performance and meaningful impact for the communities we serve.

I will now move on to the performance of our Enterprise division. The Enterprise division continued to make solid progress this quarter, contributing ZAR 35 million or about 10% to group adjusted EBITDA. Strategic progress is evident in ADP TPV for the quarter, which increased 19% year-on-year. Bill payments were up 12.5% to ZAR 9 billion. And prepaid solutions grew by more than 50% to ZAR 2.8 billion as we continue to expand our collector and receiver ecosystem.

As highlighted in previous quarters, we've also partnered with several key players, increasing our distribution and collection footprint. We are now seeing the growth from our channel partners, driven by targeted marketing campaigns.

Our ADP take rate improved by 22% to 1.3%. As a reminder, we earn a fixed fee per bill payment transaction. However, we earn a commission on TPV for facilitating buying and selling of prepaid solutions. As the business scales the prepaid solution offering, we will see a product blend leaning towards an ad valorem revenue model.

In Utilities, TPV increased 18% to ZAR 477 million on a like-for-like basis with active meters rising to 368,000. Excitingly, in quarter 4, we will launch an electricity advance product to our utilities customers. This product will allow Lesaka utilities customers with active meters to load electricity when they are short of funds by an interest-free facility. The business model is simple as we will charge a flat fee for the service and recover the advance from future purchases. We look forward to sharing more information as the product rolls out through the base.

Thank you. That concludes our operational review. I will hand back to Ali now for the outlook.

Ali Mazanderani - Executive Chairman

Thank you, Lincoln. Innovation is at the heart of who we are. We don't just want to win the game. We want to change the game. So we thought to provide examples of 3 strategic initiatives that demonstrate that across our businesses and which set the foundation for our continued competitive advantage.

Firstly, we believe payment rails globally will increasingly move to blockchain as a superior underpin from a resilience, availability and cost of settlement perspective. We also believe that in the South African context, a ZAR-denominated stablecoin will form the foundation of this. As a founding partner of ZARU, we intend to pioneer use cases across our ecosystem to allow consumers and merchants to settle securely and at low cost, eliminating the friction of traditional banking hours and fees. We will provide more updates on what we are doing and what this should mean at our end-of-year investor presentation.

Secondly, the scarcity of credit, provided in a frictionless, fair and sustainable manner across the continent is a major opportunity for us.

We choose to focus on making that credit available to underserved consumers and merchants where traditional banks don't have the capability, competency or desire to compete. One focus for us in this respect is in short-term credit advances against utility products like airtime, data and electricity. You will see increased activity from us in this space, leveraging either touch points to our existing banking customers through an app or USSD channels or utility customers in homes where we provide the electricity meter. In both instances, we would expect to have an advantage in repayments vis-a-vis others.

Thirdly, the explosion in AI tools offers a wonderful opportunity for a pioneering technology company with digital enablement and efficiency of operations at the heart of our values and competitive advantage to further this advantage relative to traditional incumbents with legacy platforms. We are actively embedding AI tools across our group from engineering teams' code development to new product launches, to fraud management and operational efficiencies that allow us to better provide services more securely and more sustainably, complementing our human engagements. Again, we will be providing in due course more details on some specific initiatives and the impact thereof.

Turning to guidance. We are tightening our guidance forecasts for the rest of this financial year. We are updating our net revenue guidance to ZAR 6.2 billion to ZAR 6.5 billion for FY '26, the midpoint of which implies 20% year-on-year growth. We are on track to deliver our group adjusted EBITDA guidance for the year as we did for this quarter, but also tightening the guidance range to ZAR 1.25 billion to ZAR 1.35 billion, implying we expect to come in at the bottom end of the previous range. The midpoint of our updated group adjusted EBITDA guidance implies 43% year-on-year growth for FY '26.

We are also updating our adjusted earnings per share guidance for the year. We previously provided guidance of at least ZAR 4.60 per share, and we are now raising this to a range of ZAR 5.50 to ZAR 6.00 per share, the midpoint of which implies a growth greater than 150% on a year-on-year basis. We will increasingly reference our adjusted EPS as the primary measure of our profitability. We are also reaffirming from a net income perspective, without exclusions, we expect to be profitable for FY '26, the first year this will be the case since the creation of Lesaka 4 years ago in May 2022.

In our end-of-year presentation in September, we will be providing our guidance for FY '27 and also our medium-term outlook for the next 3 years. Given that we expect the Bank Zero acquisition to be completed in the coming months, that being so, we will be providing guidance for FY '27 and the medium-term outlook inclusive of Bank Zero.

Thank you for attending our earnings presentation. We will now address any questions you have for the team.

Akash Dowra - Chief Strategy Officer

Chorus Call, please, can you open the line for Ross Krige from Investec?

Ross Krige - Investec Securities

Three questions for me. Just firstly, on the Consumer, just with regard to the very strong margin accretion that we're seeing consistently over time and the jump up in Q3, if I look ahead at some of the opportunities there, so you're talking about the volume growth prospects, the size of the market that you're addressing there, and you've talked about the cross-selling prospects and you've executed on that. And then, you've alluded to that comment on risk performance being better than what your provisioning suggests, which you'll give more detail on. But if I put all of that together and think about operating leverage ahead, am I correct in saying that, that points to significantly higher EBITDA margins even off this base? That's the first question.

I can carry on, if you like.

Ali Mazanderani - Executive Chairman

We can address that one, if it's helpful, Ross, first. I mean, the short answer is, we do see the ability to continue to expand those margins. I mean, year-on-year, those margins have gone from 26% to 34% in the Consumer business. And yes, we do believe there's more room for growth as we scale that platform.

Ross Krige - Investec Securities

Great. Okay. Moving on to Merchants. So just 2 parts to this question. One on the ARPU dynamics.

So Lincoln explained a lot of this. But maybe just in terms of the outlook, if I look at active merchants by type, so across corporate and community, should we expect to see stable ARPU going forward or some pressure as the mix changes within each of those segments? Or -- yes, just any comment on the next 6 to 12 months?

And then, on profitability, clearly, the margin improved there as well, as you talked about. I'm just trying to understand what the sort of runway if we look at the next, I guess, 6 months, 12 months, whether or not some of the, I guess, cost-saving activities that you've embarked on will still come through and how long that runway is.

Ali Mazanderani - Executive Chairman

So the -- I mean, I think I'm not sure, Ross, it was you at the last call or somebody else who asked the question around how we see the evolution of the margin. And our perspective is that we see a continuation of the evolution in the next quarter. However, from FY '27, we do expect to see a different trajectory there. And giving you a little bit more granularity around that. Obviously, we have a smaller ARPU in the community space than in the corporate space, but the community space is growing faster.

However, within community ARPU, we expect in the coming year to see an increase, both because of the scale and quality of customers that we onboard, as well as because we expect to have an increase in the product penetration within that base in a similar way as we experienced that in the Consumer business.

What I would also say is that the ARPU, while the number of merchants and the ARPU is a good representation of the net revenue, and that's why we're focusing the net revenue drivers on that, it doesn't obviously speak to margin, and that margin is both the gross margin and the EBITDA margin. And we believe that we have room in both capacities.

From an EBITDA margin perspective in the Merchant business, this quarter last year, we had an 18.7% margin. And obviously, in this quarter, it's north of 20%, and that's despite the fact that, obviously, the revenue performance was not where we expect it to be going forward. We do see that margin having substantive room for growth. I think we have previously communicated that we think the Merchant business should be targeting EBITDA margins of closer to 30% and execution will define how quickly we get there. But like the Consumer business is evolving EBITDA margin, the Merchant business should follow a similar trajectory.

I just -- from a Lesaka perspective as a whole, I think it's probably also worth observing that we see operational leverage there as well. While we have made some investments in group costs, we don't expect that to be growing at the same rate as our EBITDA margin. So group EBITDA margins, which have gone from 17% to 21%, we expect to also be increasing substantively.

The question on the sort of the margins within the businesses, you always have to look at a few different components on the ARPU -- from the ARPU perspective. So the first one is the mix between corporate and community, where there are differential components. The second one is the cross-sell, how effective we are in basically layering the product because obviously, you make much more ARPU around them. The third is, there is, because ARPU is just a revenue number, some aspects of seasonality associated with it. So if you were to

have looked, say, for example, back to last quarter because it was during the festive season, you would expect that to be larger volumes or throughput.

So you'd expect that to be larger ARPU as well.

And the final thing to consider in that respect is, obviously, the margins per product. And you will get, going forward, better understanding of those underlying drivers because we will be providing, at the end-of-year presentation, some of the second derivatives of that. But in essence, the focus in the Merchant business over this year has been about trying to improve the quality, trying to improve the unit economics as we signposted because we want to be scaling into something that has an excellent return profile around it. And we are still in the process of doing that. I think that the strategic intent is ahead of the operational reality there, whereas in the Consumer business, I think we are fully in the slipstream of where we wanted to be.

One thing I would just emphasize within that Consumer business is, there remains, within our core product offering for the SASSA grant recipients, material room, but that is not where we are circumscribing our aspiration. Clearly, we have an aspiration, obviously, to extend that as well. So there's sort of the existing market share within the existing segment. And then, there's the opportunity to move into adjacent segments.

Ross Krige - Investec Securities

On Enterprise and utilities, just wondering if -- on Enterprise and utilities, just wondering if you could guide on what the net financial impact could be from migrating the other [indiscernible] of ADP volumes to Merchant?

Ali Mazanderani - Executive Chairman

Sorry, Ross, I don't think I heard that properly.

Ross Krige - Investec Securities

Sorry, I'll repeat. So, on Enterprise, specifically within utilities, I think there was a comment on migrating some of the subproducts of ADP volumes, the prepaid volume to Merchant, I think specifically. And then, on the -- I think there was a comment that they'll be migrating the rest of those products, the rest of the subproducts of ADP volume from [indiscernible] to Enterprise.

Ali Mazanderani - Executive Chairman

I understand. I understand. So basically, think of the Enterprise division in addition to having external customers, 750 corporate clients, it's also servicing ourselves. And there is operational efficiencies that can be released as a consequence of that, which should

speaking again to margin improvement across the group, part of which would be represented in the segment that it services. Both consumer and merchant would ultimately be consumers of Enterprise services, but would also then be represented in the Enterprise business' margin.

So it would be distributed. Exactly the quantity of it, it's, I'd say, probably less about the scale of the operational cost saving and more about the control and the quality that we can provide as a consequence of bringing it in-house and not having third-party dependencies on our ecosystem that affects our product delivery. And that ultimately will speak to our promise to our customers.

There is also -- there is some economies of scale, however, in being able to aggregate our purchasing capacity, right? We will clearly be a very material player as a consequence of that aggregation. So we do expect to see margin improvement on what we can buy as a consequence.

Akash Dowra - Chief Strategy Officer

I'm going to move now to Frank Geng from Briarwood Chase Management.

Frank Geng – Briarwood Chase Management

Just had 2 quick ones on Consumer. One is, I guess, what's driving the greater ARPU numbers year-over-year and sequentially? Is that mostly kind of the loan and the insurance book or any other initiatives? And then, secondly, on the margin, yes, it seemed a bit higher versus the past and especially kind of on an incremental basis. So curious what's driving that.

Is that mostly kind of lending, or there's a provisioning kind of step-down? Just any color on that?

Ali Mazanderani - Executive Chairman

Lincoln, do you want to have a go?

Lincoln Mali - Southern Africa CEO

Yes. So thanks, Frank. I think, as we've highlighted before, our ability to cross-sell is a key, key part of our success. The distribution model that we have enables us to be where the customer is and cross-sell the loan and cross-sell the insurance. And I think that you're starting to see that growth, and that momentum will continue.

The other things that Ali is mentioning will be adding to that. But for now, there's still room within that consumer base to be able to cross-sell the loans and be able to cross-sell the insurance.

Already when you look at some of the numbers, you're starting to see that over 50% of our clients have got 2 or more products with us and that more than 20% of our clients have got 2 products with us. So you're starting to see that we've got that ability to cross-sell even more into that base, and that will improve the business substantially.

Yes. I think the overall outlook on our provision has been very conservative. We have tried to remain in line with the risk that we see, but we have signaled that there are opportunities to make some changes. And when we do make those changes, we'll be transparent about what those changes are looking like. But for now, even all the new changes that we've made in the loan product, both in terms of the duration of the loan and the size of the loan, has not seen any material change in the quality of the book.

The quality of the book remains very, very good.

Akash Dowra - Chief Strategy Officer

We are going to move to questions from the webcast now. And we have a few questions from James Slabbert from SBG Securities. Question one, since the start of the Middle East conflict, are there any particular developments you have observed in Consumer and Merchant? Talk about collectability of premiums and loan repayments, but also credit quality. Any commentary on the resilience of clients would be appreciated.

Ali Mazanderani - Executive Chairman

I mean, I think the -- in substantial terms, the answer is, not really in terms of issues relating to credit quality or -- there's obviously a consequence of the Middle Eastern events in terms of the cost of fuel, and so disposable income from the market as a whole. But I would just emphasize that we are really not a proxy on the market. Our opportunity is in effectively growing substantively our share in the market by having a superior proposition. And so, our expected growth rates are more around our capacity to either take market share or alternatively by growing a market that is currently not digitized.

I don't know, Lincoln, if you have anything specific you want to add to that?

Lincoln Mali - Southern Africa CEO

Yes, I would say the same thing to -- that Ali said. In the actual core business, we have not seen any material changes that are there. Of course, there are long-term impacts that are there in the broader society. But in our business, there is no material impact that we see,

either in our ability to collect or in the credit quality or in any of the performances of the underlying business.

Ali Mazanderani - Executive Chairman

And then, Dan, if you have anything?

Dan Smith - Group CFO

The only thing I'd add to that is, when there's dislocation in the market, it creates an opportunity for us to respond to our customers' and our clients' needs as well. We successfully did that in our Merchant business in March, which was, let's call it, the starting point in the Middle East conflict with fuel prices increasing, gave us an opportunity to support our fuel merchants. And in our Consumer business, should this lead to elevated inflation, it might create an opportunity there for us to support our clients, of course, within appropriate credit measures.

Ali Mazanderani - Executive Chairman

I think, in general, as a business, we do have pretty good resilience, but there will always be specific areas or specific things. I think what we're trying to message is, it's not anything that is very material in terms of the P&L performance. But I could also point out that clearly, as a business, we also roll out point of sales. Those point of sales, overwhelmingly they are -- they come from Asia. And so, you do have to be cognizant of not just the availability, but also the exchange rate.

And if the exchange rate improves vis-a-vis, then we will have a benefit. And if it declines, it will have a cost.

Akash Dowra - Chief Strategy Officer

Question number two. The revenue increasing at a group level -- with revenue increasing at a group level, how do we square the decrease in cost of sales? Is there some favorable pricing from suppliers or any other dynamic at play that has allowed you to manage cost of sales as well?

Ali Mazanderani - Executive Chairman

There is a lot of dynamics in that. So the first one is, we are consciously exiting business lines that are not core, that have lower margin, and so you have a mix effect around that. We are growing, in revenue terms, higher-margin businesses faster. And we are also benefiting from scale and operational efficiencies across the business. So it's not one single thing.

It's a number of things coming together. And the rather pleasing thing is, I don't think we are nearly through that journey. We have quite a lot of operational efficiencies that we can extract in the business over time to continue to improve that. And there are tools that are also being made available to us increasingly as a consequence of AI innovation that will allow us to do more -- even more than we might have thought was possible before.

Akash Dowra - Chief Strategy Officer

Question number three. How should we think about our working capital cycle in terms of collecting receivables, extending debtors and selling inventory? Are there periods in the year that are typically more favorable than others?

Ali Mazanderani - Executive Chairman

Dan?

Dan Smith - Group CFO

There is a cyclicity in our working capital cycle. So quarter 2, let's call it, the December period, is peak volumes for us. So therefore, our inventory naturally spikes in that period of time. Quarter 3 compared to quarter 2 is a -- results in a de-gearing in our inventory. And you would have seen in this period, inventory clawed back about ZAR 120 million quarter-on-quarter.

So, that drove a large portion of the cash inflow, working capital cash inflow.

Similarly, our receivables also has a similar cyclicity. Our payables are roughly flat, so that unwinds a little bit less. So comparing things quarter-on-quarter, quarter 3 sees an unwind, quarter 4 normalization and slight increase, and in quarter 1 of the next financial year similarly.

Akash Dowra - Chief Strategy Officer

And the last question from James. To what extent does Bank Zero integration enable you to up those 3-plus cross-sell metrics in Merchants, particularly in the corporate space?

Ali Mazanderani - Executive Chairman

So I think that Bank Zero transaction has multiple benefits for the business. But specifically, in the merchant space, clearly, Bank Zero has had a historical focus on SMEs as being a digital bank provider for them. The consequence of the transaction should allow us to effectively be able to offer a banking product through our existing sales force, our existing relationships, which should be accretive -- augmentative in terms of the ARPU that

we would be able to generate, especially because we should be able to also generate benefit from float, as well as from other sources.

Akash Dowra - Chief Strategy Officer

The next question is from Jamie Friedman from Susquehanna International Group. CapEx as a percentage of revenue seems to be declining and helping free cash flow, in Page 11. Is that a function of mix? How should we think about it?

Ali Mazanderani - Executive Chairman

Dan, go ahead.

Dan Smith - Group CFO

On an aggregate basis, we have guided the market, on an annual basis, roughly ZAR 400 million of CapEx is the right quantum of CapEx to support the group, both from the maintenance and from our growth ambitions. There's a little bit of seasonality around that in terms of timing of delivery of POS devices, for example, similarly, timing of when we bring on board capitalized software development costs at the appropriate stage. So quarter-on-quarter, some variability. But I'd look at it in the whole, on an annual basis, our CapEx shouldn't exceed ZAR 400 million. So, of course, therefore, as our EBITDA is growing, we get the benefit of that capital efficiency in our group.

Ali Mazanderani - Executive Chairman

There is -- I mean, just to augment, Dan, there is obviously an element of mix effect associated with that in that the product lines that are growing faster are typically ones that have lower CapEx requirements. And I think that, that general trend, as you move towards greater digitization, should continue because if you think about where, as Dan said, the CapEx is spent, a nontrivial part will be on cash vaults and on point of sale. And even in the context of that being on point of sale, there are -- there is evolution in customer uses of feature form that we would expect going forward. So I'm quite confident around the long-run resilience of the cash conversion of the business and expect to see a continued expansion of that capability, albeit there will be -- it's not necessarily going to be a straight line every quarter. There's going to be instances in which investments will be needed to be made, but substantively, expect a declining percentage.

Akash Dowra - Chief Strategy Officer

The next question is from Charles Boles from Titanium Capital. Buy now, pay later seems to very much be involved in SA. You have exited Switchpay. Does this suggest you have a negative view of the BNPL market? Or was the exit due to factors specific to Switchpay?

Ali Mazanderani - Executive Chairman

I think it was more specific. I don't have a specifically negative view of the buy now, pay later market. I think that as a business in the merchant space, I think we are at a build moment within our credit proposition, as Lincoln was alluding to within the conversation. And it doesn't represent our lack of willingness to participate in that market. It was a legacy product that was not fit for purpose in terms of the scalability that we needed to achieve and the unit economics and [hygiene] we wanted.

Akash Dowra - Chief Strategy Officer

The next question is from Tim Olls from Laurium Capital. Within the Merchant segment, please, could you share some color on the competitive dynamics resulting in the decline in the corporate merchant numbers? And what more can be done to defend this? And are you able to share current 2 and 3 product penetration rates for community and corporate customers separately?

Ali Mazanderani - Executive Chairman

On the product penetration rates, do we not -- I mean, I think we can share. I think that, as I said before, going forward, in the next investor presentation, we are going to provide greater granularity. So you can expect that clarity there.

In terms of what's going on in that -- in the corporate space, so there are -- where we have a strong resilience of our offering is where we have multiple products and specifically 2 products in the corporate space. So if you have a point of sale software with attached acquiring like in the hospitality space with Unity, you will have lower churn. If you have stand-alone point of sale single product, you should expect there to be less defensibility. And I think the reduction in the customer base is a combination of some legacy that we inherited that we didn't feel was sort of core to where we were going. But I don't have an expectation that, that trajectory is going to continue.

I do have an expectation that we will be -- in the coming year, be investing in growth in our merchant count, as well as -- in the corporate space as well as in the community space, albeit the growth within the corporate space, I expect to be lower than the community space. But it's not representative to us of the medium-term growth path.

Akash Dowra - Chief Strategy Officer

The next question is from Jarred from All Weather. Please provide more color on the level of provisions for the loan book and how that changes under the current macro environment.

Ali Mazanderani - Executive Chairman

I don't know if you want to go at that, Dan.

Dan Smith - Group CFO

Jarred, I'd split it between different types of provisioning in the Merchant loan book and in the Consumer loan book. So in the Consumer loan book, we provided 6.5% at the moment. We run obviously a variety of different models. Our experience indicates something more favorable than 6.5%. And as I signaled in the previous quarter results, we are revisiting the appropriate levels of provisioning.

We think that at year-end would be the right time to either confirm our current levels of provisioning or change them, based on obviously what the models and our experience is at that point in time. But they are well within our overall risk appetite. And as I said, our experience there is better than 6.5%.

On our Merchant loan book, which is far smaller, but obviously, the average value of loans is significantly higher, there we provide according to the typical expected credit loss models. Our experience there, previous quarter, you would have noted, we did have some specific impairments, which affected our overall level of Merchant earnings, specifically on the lending side. That has normalized, those handful of specific instances, and there was nothing unusual or out of the ordinary course in terms of our credit experience in this quarter.

Akash Dowra - Chief Strategy Officer

The next question is from Christos from Avior. Will the ZARU settlement on the merchant side be in ZAR or ZARU?

Ali Mazanderani - Executive Chairman

I'm not sure I understand the question, to be honest. So ultimately, there's a difference between whether the settlement is in fiat currency, ZAR or ZARU versus what is the infrastructure through which that is converted. So the question as to whether a merchant wishes to accept a stablecoin as opposed to ZAR would ultimately, I think, be the prerogative of that merchant. The thing that I think is more relevant is what rails is that settlement occurring through. And just to reiterate, the fundamental difference is blockchain is 24/7.

You don't have to wait for banking hours. Speed of settlement is a core differentiator, and the cost associated with utilizing that blockchain ecosystem should be far favorable than legacy banking rails. So it's not a -- the utilization of blockchain as plumbing for merchant

accounts is separate to whether the merchant has actually been settled in the fiat currency or in a stablecoin.

Akash Dowra - Chief Strategy Officer

We are going to move back into the Chorus Call now for our last call questions from Theodore O'Neill from Litchfield Hills Research.

Theodore O'Neill – Litchfield Hills Research

Congratulations for beating the estimates in the quarter. My first question is, are you seeing any impact from the conflict in the Middle East?

Ali Mazanderani - Executive Chairman

So there, I mean, not really and not especially, as we mentioned earlier, some residual impact. There's a consequence in terms of, obviously, the cost of fuel, but that's not really translating into negative impact. In some ways, we've had a beneficial consequence in that it created an opportunity for us to do advances to [fuel] companies ahead of price changes. There is obviously some other consequences in terms of consumer disposable income and things. But fundamentally, we're not really an index on the economy, and we don't view it as being a critical factor in our performance, at least for the moment.

Theodore O'Neill – Litchfield Hills Research

Okay. And exiting the exiting the ATM network, was there a buyer for that? And by exiting it, was part of that -- thought behind that, that it would align better with Bank Zero?

Ali Mazanderani - Executive Chairman

So, I mean, there wasn't -- we didn't feel that there would be a benefit in selling it. It was going to be more costly, I think, than potentially winding it down. Otherwise, that would have been what we would have done. In terms of strategically, it was purely based on the fact that we want to be a business that delivers exceptional results. It was not a core part of the offering.

It was not a business line that is indexed to digitization or one that we consider to be necessary to support the ecosystem, and it was providing a negative drag on earnings. And we would rather spend our time on things like the digitization of the society and blockchain enablement and AI enablement than on a legacy piece of infrastructure.

Theodore O'Neill – Litchfield Hills Research

Right. Finally, can you give us an update on the status of the move-in to the new headquarters?

Ali Mazanderani - Executive Chairman

Yes. I think the time that we are doing this investor presentation in the next quarter, we should be doing so from our new headquarters, and we are very excited. And it's not just about having a nice refreshed office environment. It's also -- I think it will have a profound impact on the way we work and then the efficiency of the business because currently, as we are trying to coordinate across different aspects, sitting in the same office with all the components, I think, will be hugely beneficial. So we are expecting to see good positive ways of work develop as a consequence of that.

And it also will dovetail nicely with the more visible launch of our brand. So it's actually a very exciting season coming up for us in that respect.

Lincoln Mali - Southern Africa CEO

Yes. I mean, if I could just add that what it also coincides with is us launching our values and bringing our teams together across all the different provinces, getting people to really fully understand what One Lesaka means because there's going to now be one brand, and both consumers and merchants and enterprise customers will relate to one brand, so getting our staff across the country to understand what this is about. So it's not only the new offices. It's also those offices that will start to build in the months to come in the different provinces, but also people starting to work across the divisions and across the functional areas in head office, as Ali was saying, is the way we want the new culture to emerge from this. And that, again, drives this thinking about cross-selling, doing more for our customers and giving them more solutions.

The more people get to know about those solutions, the better it will be for them to be able to sell those solutions to customers, be they merchants or consumers or enterprise clients.

Ali Mazanderani - Executive Chairman

[Also Theo, just to add, it's not just Johannesburg. We're moving into one office in Cape Town as well in a few months. Subsequently, we expect to be doing the same in Durban. And across our footprint in the provinces, there is a rationalization process associated with that. So our office footprint will shrink across the country.

And it is a very powerful thing for the business.

Akash Dowra - Chief Strategy Officer

Thank you, Ali, Dan and Lincoln, and thank you, everyone, for joining the Chorus Call and through the chat and for engaging today. We are going to wrap it up here. As a reminder,

there will be a replay of the webcast on the Lesaka investor website. Thank you, everyone, for your participation.