Lesaka Technologies, Inc. (LSAK)
Q3 2023 Earnings Conference Call
May 10, 2023

PARTICIPANTS

Lesaka Technologies, Inc.

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

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

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

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

Rob Fink – Managing Partner, FNK IR

Other Participants

James Stark – Morgan Stanley

Raj Sharma – B Riley & Co.

Sven Thordsen, CFA – Anchor Securities

Theo O'Neill – Litchfield Hills Research

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Rob Fink – Managing Partner, FNK IR

Hello everyone and welcome to the Lesaka Technologies fiscal third quarter 2023 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 into 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 the webcast, you can ask your questions live by “raising your hand” in zoom. For those joining via the zoom teleconference line, you cannot ask your questions live.

The webcast link, zoom conference call dial-in numbers as well as our press release and supplementary investor presentation are available on our Investor Relations website at ir.lesakatech.com. Additionally, Lesaka filed its Form 10-Q after the U.S. market close yesterday, Tuesday May 9, 2023, which is also available on our 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 US 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 the currency fluctuations between the U.S. dollar and the South African rand.

Slide 2 – AGENDA

Taking a quick look at today’s agenda: Chris Meyer, Group CEO of Lesaka, will start with performance highlights for the third quarter of FY2023 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, which has produced a stellar set of results. Lincoln Mali, CEO of Lesaka Southern Africa, will provide an update on the Consumer Division, which has passed another key milestone this quarter, and then Naeem Kola, Group CFO, will present an overview of our financial performance for the three months ended March 31, 2023.

Chris will then conclude the results presentation with a discussion on the outlook for Lesaka, before the team opens up for Q&A, where we welcome any questions, you may have.

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

Slide 3

Good morning and good afternoon, and welcome to our third quarter earnings webcast and conference call.

I am pleased to report that Q3 represents another excellent quarter. We are excited by the Merchant Division's outperformance, driven by the Connect Group, and another quarter of continued improvement and profitability in the Consumer Division where we have delivered on our turnaround strategy and are moving strongly on to the front foot.

Our mission at Lesaka is to enable small merchants to compete and grow, and to improve the lives of South Africa's grant beneficiaries by providing access to innovative financial technology and value creating solutions. We will achieve this through our vision to build and operate the leading full-service fintech platform in Southern Africa, offering cash management, payment processing[1], Value Added Services, capital and financial services to small merchants and underserved consumers.

Slide 4 & 5

We have a comprehensive product and service offering, tailored for the markets in which we operate.

Lesaka's strategy is supported by the secular trends which support fintech disruption. South Africa's economy is dominated by cash, especially in the informal MSME market and the consumer space, where our operations are focused, with up to 90% of transactions still being cash based. Globally, digitalisation is advancing at a rapid pace and South Africa is also experiencing this secular shift. The market opportunity to extend digitalisation to the informal economy is exponential as it is both under serviced and untapped, and Lesaka is uniquely positioned with our comprehensive product offering and deep national footprint with over 80,000 points of presence across the consumer and merchant divisions. With our portfolio of cash and digital solutions serving both merchants and consumers we

[1] Payment Processing encompasses: (i) Card Acquiring, (ii) Supplier Payments and (iii) Bill Payments

believe Lesaka is well positioned for significant growth. In the merchant division, or B2B sector, we offer innovative solutions to both informal and formal businesses owners to grow, manage and digitalise their operations.

In the formal sector, operating as Cash Connect, we initially relied heavily on product innovation using technology to disrupt and secure our position in the market. When Connect moved into the informal sector, through the acquisition of Kazang, it used this technology to quickly grow from a traditional VAS offering into merchant credit, card acquiring, cash digitalisation and supplier payments. We now have a network of over 70 000 merchants in the informal markets using our products and services.

In the B2C, or consumer division, our products and services are specifically designed to enable access to financial services and cash for individuals who receive government grants and social welfare support. Through EasyPay Everywhere, (or EPE) we are providing regulated and affordable banking, lending and insurance products to 1.3 million active consumers each month.

Across the merchant and consumer markets, our network and product relevance give us broad reach into what have traditionally been seen as difficult environments for the banks and financial service providers to operate. It is the opportunity to continue expanding our reach and relevance into these environments that present us with exciting growth potential as we pursue our purpose of enabling small merchants to compete and grow and improving the lives of South Africa's grant beneficiaries.

Slide 6

As a management team, our journey of transforming Lesaka into a leading Southern African fintech, began in mid-2021. And throughout this time, we have been clear and consistent around how we intend to build our Merchant offering and transform the Consumer division. The acquisition of the Connect Group closed in April last year, and the rebranding of the combined business, as Lesaka was only announced in May of last year, almost 12 months ago, to the day. We are tremendously proud of the progress made since then and hugely appreciative for the unwavering dedication and resilience displayed by each one of our Lesaka colleagues, who have made the journey thus far such a success.

Turning to the progress made against our strategic objectives. In our B2B or Merchant division we said that we would expand our offering and complete the dual sided platform through acquisition. The acquisition and integration of the Connect Group has been nothing short of transformational for Lesaka. The secular growth trends underpinning the acquisition remain firmly intact. The integration of the Connect Group into Lesaka, and the performance delivered to date, has exceeded expectations, at the time of the acquisition just over a year ago.

In our Consumer division we committed to transforming the division from a significant loss-making business into a positive adjusted EBITDA contributor to the group. I am pleased to report a second consecutive quarter of Segment Adjusted EBITDA profitability which was sharply up on quarter 2.

The Consumer division is now well positioned for growth and Lincoln will go into more detail on this later, covering some of our specific initiatives and our consumer value proposition. Lesaka is well positioned to offer competitive, tailored, and cost-effective solutions to South Africa's social grant recipients, and improve the lives of South Africa's grant beneficiaries and their families.

Thirdly, with the outperformance of the Merchant division and the greatly improved operating results from the consumer business, our liquidity and debt position have continued to improve as the group generates positive cash used in operating activities before bulk purchases of airtime in our VAS and Card division. Our lenders demonstrated a significant vote of confidence in Lesaka by increasing and extending our borrowing facilities and providing us with greater flexibility in managing cash balances and increasing our capacity for growth.

Slide 7 & 8

Turning to our performance for quarter 3, I am pleased to report we achieved our profitability guidance with a Group Adjusted EBITDA of R137 million for the quarter, an annualized increase of 22% over Q2 FY23. This was achieved despite lower contribution from parts of our pre-existing Merchant division, which Steve will go into later, and represents a significant turnaround on the loss of R113 million recorded in Q3 FY22.

Our guidance was for Group revenue to be in the range of R2.5 billion to R2.8 billion for FY23 Q3. We reported Group revenue of R2.4 billion, which is marginally lower than our guidance , however, this is due to the mix of airtime products sold in the quarter, which Naeem will explain in more detail. The important point is that both the gross profit contribution on airtime and the contribution of airtime to Group Adjusted EBITDA was in line with guidance.

Overall, I am very pleased to report yet another quarter of continued growth in Group Adjusted EBITDA. Our business is on an exciting trajectory, supported by secular growth trends that remain firmly intact, and as a management team, we remain laser focused on delivering to our strategy and continuing to execute on the growth opportunity.

With that I will hand you over to Steve, who will provide an update on the performance of our Merchant division.

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

Slide 9

Thanks Chris. As Chris touched on in his opening remarks, South Africa's evolution from a cash-based to a digital payments economy is at a relatively early stage and there is a significant growth opportunity as digitalisation gains momentum. This creates space for disruption, which Lesaka is well placed to achieve.

In our Merchant division we offer innovative solutions focusing on formal and informal merchants and continue to build a leading position in a growing and underserved market.

We often get asked how large we think this opportunity is. The following high-level data points provide guidance in answer to this question. Like many developing economies some 60% of total transactions in South Africa are cash based. Less than 8% of merchants have access to formal credit and less than 4% of informal merchants can accept digital payments.

South Africa's future prosperity lies with small businesses. Our focus is to resolve the pain points that both formal merchants, and primarily informal merchants experience, by using financial technology as an enabler.

Experts agree that cash will remain a key component in the choice of payment in the South African economy, particularly in the informal sector, and that is why it is important to have a holistic offering that spans across both cash and digital. Many players in this market are either focused on cash OR digital, not both.

In summary, the market opportunity attendant to the digitalisation of South Africa's informal economy is significant and untapped. Made up of merchants and consumers underserved by incumbents and with limited access to traditional financial services, this sector is large; with an estimated GDP of well above ~R300 billion. Within the informal sector, ~90% of transactions are cash based and only ~10% of informal sector flows are digital payments.

We are excited about our holistic offering, positioned across cash and digital and suited to the transformation of commerce in the informal market, a market that is vibrant, untapped, and growing.

Slide 10

This was another solid quarter for our Merchant division, driven by the Connect Group.

We reported revenue of R2.1 billion and R148 million of Merchant segment adjusted EBITDA, exceeding guidance during the third fiscal quarter.

As evident on this slide, the relative contribution to revenue and EBITDA from our pre-existing merchant division, comprising of NUETS, being our legacy terminal business and Easy Pay, our Bill Payments business, has declined, as the Connect group of businesses continue to grow at a quicker pace and ahead of expectations.

We are pleased that the Connect Group continues to outperform the acquisition business case, despite macroeconomic and socio-political challenges highlighting the resilience of our business model and value proposition to merchants.

The Connect Group's revenue grew 25% year on year from FY22 Q3 to FY23 Q3. Revenue grew 4% compared to Q2 despite the seasonality of the prior quarter which included the December holiday period where trading activity is higher than in other months; and the fact that this current quarter included February which is a 28-day month. We have included a graph that shows this quarterly seasonality over the past 3 years.

We often get asked why we are not significantly impacted by current levels of loadshedding. Our client base is well diversified across South Africa, making load shedding a localized phenomenon, and the periods of downtime thus far have been manageable.

It is important to stress that we have significantly grown our merchant base from approximately 35 000 merchants in February 2020, to approximately 44 000 by February 2022, and approximately 71 800 merchants at the end of March 2023, which represents a 3-year compound annual growth rate of 27% per year, and 63% growth rate over the past twelve months. As is evident, rapid growth in the national footprint of our merchant base, coupled with the continued broadening of our product offering, accounted for robust growth.

I will now move to discussing our offering and revenue drivers in more detail.

Slide 11, 12 & 13

Our bouquet of products results in increased consumer adoption driving higher volumes of sales for merchants. We utilize our proprietary infrastructure to offer a merchant and their customers what they need.

We provide merchants with a POS device linked to a digital wallet from which they can pay suppliers, sell many products like airtime, electricity, and bill payments, take customer payments via card swipes or tap and pay, whilst providing instant settlement. Merchants are also able to access funding and a smart vault via the device.

For us the partnership with a merchant usually starts with a VAS device, this drives growth in all products – more merchants, more devices, more wallets, more product flow.

By way of example, more than 60% of merchants that have our VAS device in store convert to also utilizing our Kazang Pay offering, followed by Kazang Pay Advance.

The Kazang VAS Merchant estate closed Q3 at approximately 71,800 merchants, up 52% yoy from FY22 Q3 and up by approximately 7 300 merchants on Q2.

Kazang VAS throughput for the quarter was R7.3 billion, up 28 % yoy and up 7.5% compared to Q2. Kazang VAS volumes are now consistently averaging close to R2.5 billion per month with a more diversified product range.

Supplier payments in our Kazang VAS business continue to grow and are becoming a larger composition of the Kazang VAS throughput. This proposition supports customer acquisition, as we expand our ecosystem and provide additional value to our merchants. Supplier payments is safer and more efficient for the suppliers and merchants who utilize this platform. This offering allows merchants to pay suppliers at their own convenience, reducing the need to hold cash, lowering transport costs as well as the time taken to execute supplier payments.

The combined Card Connect and Kazang Pay merchant estate closed Q3 at approximately 42,000 merchants, this is up 107% yoy and up by 22% on Q2.

In our card acquiring business, Card Connect and Kazang Pay, throughput for the quarter was R3.2 billion, up 93% yoy from FY22 Q3. This performance is almost entirely attributable to the incredible growth achieved by our Kazang Pay solution. To provide some perspective, the average monthly throughput volumes for Q3 2023 was R770 million per month compared to an on average R72 million per month in Q3 2021. This represents greater than ten-fold increase over the 24-month period.

In our Merchant credit businesses, Capital Connect and Kazang Pay advance, credit disbursed for the quarter of R280 million is up 40% yoy. We have become a key provider of capital to the vital MSME merchant segment and have grown the receivable book from R238 million to R343 million representing 44% growth yoy.

We are experiencing great momentum in KazangPay advance and Capital Connect evidenced by strong uptake from merchants. To date we have created value in advancing over R2.2 billion to merchants in support of their prosperity and growing their small businesses. We are uniquely positioned to serve these merchants given the data set available to us, these merchants transact with consumers utilizing our holistic merchant offering, which provides us with a view into the flows and throughput of each of their businesses. Loss rates remain low, and we are conservatively provided in these businesses.

The formal market is more competitive, but our leading Cash Digitalisation offering, which essentially places the bank in the merchant store, means we are deeply embedded in their business and as a result are very well placed to grow our offering through innovating and solving pain points – e.g., of this is Capital Connect.

The Cash Connect business throughput for the quarter of R26.2 billion is up 2% yoy, partially affected by loadshedding and other seasonal implications, however we believe the annual run rate trajectory for this business to be in the order of 8 to 10%, for the fiscal year ended June 2024. The merchant estate closed Q3 at circa 4 370 cash vaults, this is up 8% yoy.

As previously discussed, we have integrated the ATM business into Cash Connect. This has served to enhance our focus on the ATM offering as a standalone ATM acquiring business with a heightened focus on achieving scale and efficiencies. We continue innovating in the cash recycling space and launched our ATM Recycler in the third quarter, and we are progressing with expansion to our merchant clients. The ATM business has been transformed into a profit centre. In servicing the consumer business, our strategy of moving ATM's away from branches, and into retailers, is proving to be successful. The focus for ATM's is profitability, not growth. We are downsizing the ATM network by removing unprofitable sites to drive incremental profitability in FY24.

EasyPay is a strategic asset in our merchant offering. We have identified that this business requires some additional investment for growth over the near-term which will position it well for growth and profitability in years to come. We are having success at signing up new Billers and new Collectors. We have added Kazang top-up through EasyPay. We have also transitioned our EasyPay Money Market from pilot phase to roll-out phase in Q3 2023 and are optimistic about its prospects.

In conclusion this was an excellent quarter for our Merchant business. We continue to grow across all products, with standout performances in our Kazang VAS and Kazang Pay business units as well as notable performance in both the Merchant credit businesses, Capital Connect and Kazang Pay advance.

A key highlight of this quarter is that Kazang, across all products and services, delivered the best quarter in the business' history.

The Kazang brand is increasingly recognized and respected across the South African economy.

We remain excited about the opportunities in the Merchant division and are encouraged by our ability to scale our product sets within the respective target market. This is evident from our historical performance as reported over the past four quarters since the acquisition of Connect, and our growth rates achieved pre the acquisition.

We are focused on and are achieving our objective of providing our growing merchant base with relevant solutions.

I would now like to hand over to Lincoln, CEO Southern Africa to discuss the performance of the Consumer division.

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

Slide 14

Our Q2 2023 results reported in February 2023 marked a watershed moment for Lesaka with the successful transformation of the Consumer Division into a positive segment adjusted EBITDA contributor. This was through the efforts of our staff and leadership team's focus to deliver on our commitments.

Today I am so proud to present a further improvement in Segment Adjusted EBITDA for Q3 to R30 million. This represents a 192% improvement from the last quarter and a R167m positive turnaround from last year.

I am hugely encouraged by the continued solid positive trend in Segment Adjusted EBITDA performance and pleased that January, February, and March were all strongly positive. Our consumer division is starting to normalise, it's starting to be a positive contributor to the Lesaka Group and importantly there is an increasing consistency and predictability in the numbers being reported.

Our improved performance has been driven largely by our three-pronged strategy, namely: (i) the rightsizing of the business, (ii) increasing ARPU through cross-selling and (iii) growth in active EPE accounts, particularly in the permanent grant recipient space. I would like to address each of these levers.

Firstly, on right sizing, we identified opportunities that would result in cost savings of approximately R350 million per annum for FY23. I'm pleased to say that we have completed about 90% of the work that will allow us to deliver on these savings. There are however some optimisation initiatives where we have experienced delays especially in the restructuring of the branch network through exiting some leases and the repositioning of our branch ATM estate.

These rightsizing initiatives have been difficult and delicate as we have had to sensitively balance the needs of our customers with the long-term sustainability of our business, yet we remain proud of the progress made so far and about what is possible going forward.

Proud as I am about this turnaround, I recognise that it is slightly below guidance for the Consumer business, primarily due to lower EPE account and loan growth than expected. I will address how we want to focus on this when I speak about our growth strategy later.

Slide 15

Secondly, I would like to focus on our cross-selling initiatives. We have managed to further improve our ARPU in Q3, which has increased from approximately R70 to R78 per month over the past 12 months. We achieved this through the restructuring of the sales force, sizeable investments and focus on training, as well as disciplined performance management across our teams. We have also invested in our technology platform which has enhanced the ease with which our teams can onboard customers using our digital tablet capability as well as give them the opportunity cross sell other products like insurance and credit to our customer base.

Our loan book is up 11% year on year to R397 million and our loans loss ratio is also stable at below 4%.

Our insurance sales have been very encouraging having exceeded our expectations this year. Our penetration into the EPE account holder base is now at 28%, up from 18% last year. We now have approximately 309,000 in-force policies which represents a 25% increase year on year.

We are very pleased with the quality of the insurance clients we are on-boarding, and we have consistently been achieving collection rates at approximately 98% compared to industry averages for this market which are 60%. In the past 12 months we have paid out more than R100 million in insurance claims to clients, with 90% of claims paid within 24 hours.

We have always stressed that we see social grant recipients as viable and valuable customers. Our data is starting to show us the loyalty and stickiness of our customers. Our high collection rates on insurance (approximately 98% as mentioned); low loss ratios on loans (below 4% per annum as mentioned); and the high number of repeat borrowers (more than 90%) are starting to show that our customers appreciate the products and solutions we offer.

These data points are direct evidence of the fact that our products are seen as essential by our customers and as a result they are truly committed to servicing their monthly repayments and premiums. We will also continue to enhance our proposition looking to identify more products and services that are of relevance and benefit to these customers.

This leads me onto our active EPE account growth strategy.

We currently have approximately 1.3 million EPE account holders, of which 85% are permanent grant recipients, or just over 1.1 million. As at the end of March 2023, we increased our overall EPE customer base by 16% year-on-year.

Customer churn is a major focus in our business. Natural attrition, which is largely attributable to children turning 18 and mortality, averages around 10-12% per annum in the overall grant beneficiary market. Our permanent grant account base grew by 3% on a net basis year-on-year.

Temporary, or SRD grants were introduced during the Covid pandemic in 2020, and our SRD customer base has grown fivefold since last year.

Looking forward, the consumer division will be targeting an increased growth rate in our permanent grant base, given the investments we have made in our sales teams, technology platforms and relationships with SASSA at a local level.

Over the last few months, we have focused so much of our efforts on turning the business around in the fastest possible timeframe. Achieving that EBITDA profitability has allowed us to move onto the front foot and to position it for future growth.

Slide 16

I would like to highlight some of the salient aspects of our growth plan and the activities that will drive the growth in the coming quarter into FY24.

Firstly, we have bolstered the management capability in the team by bringing on board, George Roussos, a veteran of 24 years with African bank as Head of Consumer. Working with George, we have streamlined the efforts of our team to move from a turnaround mode to a growth focused mode as we shift from the sometimes difficult and delicate right sizing initiatives towards growth and expansion. I am pleased with how George has integrated into the team and the energised focus that we have.

Secondly, we remain focused on growing our permanent grant EPE base. In this regard we have taken many actions, more specifically, but not limited to:

- Marketing initiatives.
- Enhanced on-boarding systems.
- Incentives to promote customer switching.
- Continued engagement with SASSA and agile actions in response to SASSA's outreach programmes.

Thirdly, we want to focus on purpose-based lending, this means that we want to further align our lending products to the unique needs of social grant beneficiaries. We are investing in channels like USSD and Voice branch (i.e., Call Centre) to make the lending process more convenient for customers. We will also be entering into partnerships with other players who are also starting to see social grant beneficiaries as customers, we think this can unlock value for customers and enable us to offer even more competitive and relevant products.

Fourthly, we want to reposition our distribution network for more accessibility and convenience. We are doing a lot of work on our physical service infrastructure, call centre functionality and digital channels.

Lastly, we want to focus on improving our operational efficiency by further developing our systems and introduce more technological interventions within our business and to propose other innovations to the industry and to SASSA.

The current challenges facing the post office with regards to social grants payments as well as service, is an opportunity for a creative partnership between the public and private sectors. As many social beneficiary Postbank cards expire, these recipients are looking for alternative solutions and providers for assistance. This has increased awareness and competition amongst banks, FinTech's, retailers and telcos to try and attract this previously ignored customer segment.

As EasyPay Everywhere we have mobilised our staff and teams to be responsive to this challenge and we stand ready to assist in any way we can.

Our relationship with African Bank, which acquired 100% Grindrod Bank in May 2022, remains strong and we continue to interact on a regular basis. Lesaka is strategically important to African Bank.

We have a full plate indeed, but I am very excited by the prospects of the consumer business. We believe that we can achieve our growth ambitions this year and the years ahead through the initiatives we have spoken about and others we have in the pipeline. We have truly only just begun.

Thank you, I would like to hand over to Naeem to take you through the detailed numbers.

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

Slide 17 & 18

Thank you, Lincoln.

I am very pleased with the strong financial performance achieved in this quarter across revenue, group adjusted EBITDA and the group debt restructure. Merchant division outperformed guidance, and the consumer Division continued an EBITDA positive trajectory.

As a reminder, Lesaka is a domestic filer in the United States, we report results in U.S. dollars, under US GAAP. However, our operational currency is South African rand and as such we analyse 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, our results can be significantly affected by the currency fluctuations between the U.S. dollar and the South African rand.

Q3 2023 includes pre-existing Lesaka and Connect Group for the full quarter, as was the case for Q2 2023, however compared to Q3 2022, this quarter only includes the pre-existing Lesaka business and thus, the Q3 2023 vs. Q3 2022 comparison is not a meaningful, especially within our Merchant Division. We will provide sequential quarter comparisons, which we believe is a more accurate representation of growth and profitability. I will note that for next quarter, the fourth quarter of fiscal 2023, year-over-year comparability of results will be more meaningful, as the 2022 fourth quarter included Connect for most of that quarter.

Slide 19

This slide illustrates the significant positive turnaround of revenue, Group Adjusted EBITDA, and Operating loss before PPA. Over the last four quarters we have seen a R250 million improvement in our quarterly Group adjusted EBITDA, turning the business around from a Group adjusted EBITDA loss of R113 million in Q3 2022, to a Group adjusted EBITDA profit of R137 million this quarter, we are very pleased by this achievement.

Operating income/(loss) before acquired assets amortization, the purple block on the graph has moved from a loss of R147 million in Q3 2022, to a profit of R34 million in the current quarter. As a reminder, acquired assets amortization reflects the accounting treatment for acquired assets, which is both a non-operational and a non-cash accounting charge, which we believe significantly skews our reported operating income.

This result was driven by the positive turnaround in the performance of the Consumer division and significant contribution in the merchant division coming from the connect group acquisition.

Slide 20

Looking at the Group income statement, we achieved a consolidated Group revenue of R2.4 billion for the quarter, up 1% sequentially on Q2. Noting that the previous quarter included approximately R75 million of lumpy Nuets revenue which related to the sale of hardware devices, adjusted for this Group revenue grew by 4% quarter on quarter.

Reported Group revenue is marginally lower than our guidance range of R2.5 billion to R2.8 billion. As Chris mentioned earlier, this relates to an increased percentage of PIN-less (or direct top-up) airtime and data bundles being sold versus PIN-based (or voucher) airtime. On PIN-less airtime and data bundles, where we act in an agent capacity, only the commission earned is reported as revenue. Whereas for PIN-based airtime, where we act as principal, we recognise the total face value as revenue. Our revenue is marginally lower as the mix of pin-less airtime was higher than pin-based airtime when compared to the assumptions in the forecast. At gross profit level the merchant division exceeded forecast.

Consolidated Group revenue was $134 million for the quarter, compared to $136 million in Q2 2023, representing a decrease of 2%, which is due to ZAR weakness against the USD.

Operating loss for the quarter is R33 million an improvement of R5 million, or 13%, as compared to Q2 2023.

Slide 21

Looking at our segment's financial performance, Q3 2023 reflected positive performance across both business divisions, validating our efforts to transform the business to deliver growth and strong profitability. Both divisions contributed positive Adjusted EBITDA in the quarter.

Merchant revenue increased nominally in ZAR to R2.1 billion. In USD, Merchant revenue decreased approximately 2% to $118 million due to currency exchange fluctuations. Excluding the effect of the lumpy Nuets revenue in Q2 2023, merchant revenue grew by 4% on a ZAR basis.

Consumer revenue increased 5% to R284 million from R270 million in the second quarter driven by strong growth in our insurance and consumer loan product revenues. In USD, Consumer revenue increased 3% to $15.9 million from $15.4 million.

The Merchant division delivered a Segment Adjusted EBITDA R148 million, compared to R160 million in the second quarter. Excluding the effect of the lumpy Nuets business contribution of R22 million, Segment Adjusted EBITDA would have grown 8% quarter on quarter. The merchant business outperformed the upper end of our guidance range provided for FY23 Q3 which was R145 million.

The Consumer division delivered Segment Adjusted EBITDA of R30 million compared to R10 million in Q2 2023, a R20 million improvement, with the business delivering a positive Segment Adjusted EBITDA during each month of this fiscal quarter. In USD, this represents $1.6 million compared to $578,000 Q 2, increasing by more than 100%. The consumer division performed lower than the bottom end of our guidance provided for FY23 Q3, R40 million. We experienced positive revenue growth; however, we did not fully achieve cost saving benefits. Cost benefits not achieved, approximating R12 million, mainly related to the timing of executing on the drivers of these underlying savings. We continue to see traction in the implementation of our right-sizing initiatives and are confident that the underlying savings will be reflective in our financial performance in quarters to follow.

Group costs for the quarter were in line with expectations, and closer to the lower end of guidance provided despite currency impacts. Stock-based compensation declined by 41% sequentially compared to Q2, as expected. Stock-based compensation charges decreased in the quarter compared to Q2 2023, mainly due to a one-off award of approximately R25 million issued to secure a longer-term contract with a key senior executive in Q2. Refer to slide 33 in the appendix for more detail.

Once-off items increased by R19 million in the quarter predominantly driven by a R4.6 million increase in transaction-related expenditures; and the recognition of other costs of R14.5 million incurred this quarter, which includes certain employee separation expenses and charges related to previous years.

The stock-based compensation charge for Q3 2023 has normalized compared to Q2 2023, which included a once-off award.

Operating income pre-Interest and PPA improved to R34 million from R29 million. This has improved from a R13 million loss in Q1 2023 and a loss of R146 million in Q3 2022.

Interest costs in the quarter increased predominantly due to higher interest rates and short-term funding of VAS bulk purchases, that will be explained on slide 23.

Slide 22

Fundamental Loss per share, which excludes non-operating items, of 35 South Africa cents per share is ahead of market consensus and in managements view is the appropriate earnings per share measure given the adjustment for once-off, non-repeatable item, and PPA amortization which is a non-cash item.

We generated R141 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 2023 we generated R73 million, an increase of approximately R70 million in 6 months.

Slide 23

Looking further at how our net cash utilized in operating activities per the cash flow statement, compares to Cash Generated from Business Operations.

Our net cash utilized in operating activities is predominantly impacted by R135 million of bulk airtime purchases, as well as the impact of interest payments and loan book funding.

Bulk VAS purchases are short term investments usually realised within 3 to 6 months and funded through short-term funding arrangements. For us, this is opportunistic in nature, is driven by the benefits of scale, adding further profitability in our VAS business.

On the whole, taking this all into account, the business generates positive working capital. This is most notable in our merchant VAS business, where working capital is mainly funded from advance purchases by customers.

In our merchant card business, working capital requirements are relatively small. We estimate that approximately every R100million in throughput growth requires R3million in additional working capital.[2]

Our Net debt (adjusted for short term funding of bulk VAS purchases) to EBITDA ratio, calculated on annualizing the relevant quarters group adjusted EBITDA, has improved to 3.5 times as compared to 3.6 times in Q2 2023, applying the same basis of calculation for the comparative quarter, Q2 2023.

Slide 24

Capital expenditure in Q3 FY2023 amounted to R85 million. As we previously highlighted this remains mainly growth related and in the merchant division. As set out on this slide, we believe our growth Capex delivers a strong IRR on amounts invested.

In conclusion, our performance in Q3 2023 is evident of the efforts in fiscal 2022, and the continuation thereof. The corresponding positive financial performance thereof is reflected in this quarter's results. We are very pleased with the conclusion of our new funding arrangements, which is testament to the continued execution of our strategy which has resulted in an extended borrowing term (to December 2025) and an increase in our borrowings, with additional funding of R200 million secured. This provides adequate liquidity and time to focus on growing our consumer loan book and other organic growth opportunities within the group.

Lesaka is now profitable in terms of Adjusted EBITDA, in both divisions, on a sustainable basis, and well positioned for growth. Our continued focus on strategic initiatives is progressing well and we are optimistic about delivering on positive performance for the remainder of the year.

[2] We fund working capital on average at T+2 of daily throughput volume, equating to 27bps on a normal day and can spike up to 55 bps if month end falls over a weekend.

In line with South African mandatory audit firm rotation rules, we have appointed KPMG as our principal accountant, effective from July 1, 2023, for our fiscal 2024 year and Deloitte's services will terminate on completion of their audit of our fiscal 2023 results. The change in our auditor is solely as a result of our compliance with South Africa's mandatory audit firm rotation requirements.

I would now like to hand over back to Chris who will address the Group's outlook.

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

Slide 26

Thank you Naeem, before I turn to our full year outlook, I'd like to provide a brief update on our progress towards establishing an Employee Share Ownership Plan ("ESOP"). You will recall, that as part of the Competition commission's approval of the Connect Group acquisition, we committed to establishing an ESOP of up to 5% of issued share capital within two years of the Connect Transaction closing. The ESOP will be a qualifying transaction under South Africa's Broad Based Black Economic Empowerment Act, and is a key strategic imperative for Lesaka, as a company. I am pleased to report that we are progressing well on this initiative, and are confident that we will achieve this condition of the Connect acquisition within the time frames agreed.

Turning to our Q4 and full year outlook for the Lesaka group to 30 June 2023. Our guidance for Revenue and Adjusted EBITDA at a Group level remains unchanged for the 12 months ending 30 June 2023. We expect revenue to come in between R8.7 billion and R9.3 billion and Group Adjusted EBITDA of between R480 million and R525 million.

More specifically with three fiscal quarters under our belt and visibility into our fourth fiscal quarter, we believe our Group Adjusted EBITDA will likely be at the midpoint of this range.

At a divisional level we are raising our FY23 Merchant Segment Adjusted EBITDA range to between R580 million and R595 million, from our previous guidance of between R550 million and R565 million, as a result of the continued outperformance of the Connect Group.

We are lowering our Consumer Segment Adjusted EBITDA range to between R65 million and R80 million, primarily due to the lower-than-expected EPE account and loan growth in the last two quarters.

In line with market practice, we will provide our guidance for FY24 in September, when we report our results for the year-ended 30 June 2023. Suffice to say that we believe our monthly net loss before tax will turn positive in the first quarter of FY2024, excluding PPA amortization and the impact of any changes in our non-core investments, marking another important milestone in the growth trajectory of Lesaka.

In conclusion, the results for the fiscal year to date are evidence of the turnaround in our Consumer division and continued growth in our Merchant division and are testament to the strategy we put in place just over a year ago. We will continue building on the momentum created across the business, delivering on our unique position to drive growth.

With that, we'd like to open up the Q&A session and take your questions.

Rob Fink – Managing Partner, FNK IR

While we wait for our first live question, I'm going to read a question that was submitted by Theo O'Neil. Looking at Q4 and backing out the first three quarters of the year from your annual guidance, into a revenue range of R1.83 to R2.43 billion, an EBITDA of 140.6 to 185.6. He wants to know, given the midpoint of those ranges, what do you think about the dynamics of revenue going down and EBIDA going up. Can you explain that?

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

I think as we highlighted in the consumer performance the major reason for the miss in the guidance was related to cost saving benefits coming through. We envisage that some of those cost initiatives that we have undertaken will come through in the fourth quarter.

That is the uplift of that comes through in our consumer business. In terms of revenue, our revenue uplift for the Q4 would be towards the upper end of the guidance limit, which you have indicated in your calculation. So yes, we are expecting our overall EBIDA margins to improve as those cost saving benefits on which we have already actioned on would come through in the first quarter, mainly on the ATM business as well as on the branch networks costs that will be reduced.

Would you like to add anything to that Chris?

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

As you said, our outlook for revenue would be at the top end of that range. EBITDA in the middle.

Rob Fink – Managing Partner, FNK IR

Thanks, Chris. Next, we're going to take a live question from James Stark from Morgan Stanley.

James Stark – Morgan Stanley

Chris, Lincoln and team, thank you very much for the opportunity. Two questions from me. Firstly, if you could tell us a bit more about your money market offering and what sort of revenue expectations you're expecting for that. Just give us some color on how it's going to run at what you're thinking it will serve and how you're going to take that to market.

The second question relates to PayShap I mean, obviously you are quite involved in the informal market, so I know PayShap is relatively new innovation out of the bigger banks. Are you seeing or detecting any kind of impact, any anecdotal or otherwise, around the progress this is having on in the informal sector?

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

At the outset, let me say that the money market product that was launched Q3 its very much at its nascent phases. But if I can say, historically we didn't participate in the formal market in the money market space. So while our entire VAS and cash digitization offering was more focused on the informal market, we are very excited about our ability to bring that VAS offering more holistically together with an ecosystem of supplier payment into the formal market.

And so far, prospects look good and we've had some very good traction. We have a fairly significant formal merchant base, well over a thousand fuel courts, etc. And this product, this offering is testing well in the formal space.

The point I was making is that it's very early days from an RPP perspective and PayShap. The early adoption rates haven't been publicized as yet. But we at Lesaka are quite excited about getting a seat at the table and our ability to participate. I did make the point that at this particular stage fintechs don't actually have a seat at the table.

The ability to participate at this point has been limited to the banking community. This is something that we would like to see change very quickly and we see opportunities to reduce our cost base. We see opportunities to create new revenue streams. And of course, we also anticipate that some of our revenue streams may come under pressure, but this would be offset by abilities to reduce cost and create new revenue lines.

This is a piece of technology that we are quite excited about and will look to use both on the revenue and cost side in our business.

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

Thanks, Steve. James, I think that's the important thing at the moment that really four banks, only four of the banks are involved in PayShap, as I'm sure you're aware. We are in a very close and regular conversation with bank serve of and you know as the leading fintech in South Africa we are tremendously excited about the introduction of PayShap and our potential involvement in it.

As soon as it opens up a little wider, we stand ready for that.

Rob Fink – Managing Partner, FNK IR

Our next question coming in is from Raj Sharma, B. Riley & Co.

Raj Sharma – B Riley & Co.

I wanted to ask, could you tie in your operating profit before the prepaid time to the to the U.S, the GAAP loss reported? How should we think about this going forward?

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

Raj, I think the operating profit number tie in if you know, as we presented on the slide after we we've adjusted for PPA and interest we get to a rand amount in the quarter of about 114 million. And then if you adjust for the net loss or gain on equity investments of 5.9, you get to the income or loss before taxes.

Of the 120 million which is the rand amount that ties back into the dollar amount of 6.7 million loss.

Raj Sharma – B Riley & Co.

Got it. And then could you talk about the prepaid airtime, how it impacted the revenue? It seems like the revenue that came in was a little bit lower than expected. Was that because of the airtime sales? And how do how do you classify them and how do we think about them going forward?

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

Raj, as I mentioned in the presentation, with the airtime. You have the pin-based airtime and pin-less airtime. The difference with the two is that the voucher-based airtime we actually carry that as inventory and accounting rules and standard, we then have to show the face value of that as revenue.

The pin-less airtime because we only act as an agent on behalf of the providers, that is not considered as we don't have to carry that as inventory and, therefore, we only show the commission.

If you look at how the market is changing, the pin-less airtime is what customers prefer because it's more efficient, it's easier than getting a voucher and losing a voucher. What we are seeing is a much more higher volume of pin-less airtime.

We only bring in the commission amount versus bringing in the face value from a GP basis and from a margin basis. We earn a very similar GP and margin on both the products, which is really the product mix that impacted the revenue. And that's why we said this was more a forecasting change in the mix of pin-less and pin-based rather than revenue declining.

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

For me, that sort of simple way to think about it is the, the voucher-based airtime. We are recognizing on a gross basis where we are principal and where we are purely acting as an agent, we recognize it on a net basis. That's the difference between gross and net. The bottom line in terms of margin, gross profit is unchanged.

Raj Sharma – B Riley & Co.

Got it. Thank you. But on a follow-on question, could you talk about the how severe the impact is of load shedding on your Merchant in South Africa?

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

On the whole, the impact of load shedding on our merchant business has not had a material impact. Load shedding is a localized phenomenon. In other words, parts of the country, experienced load shedding in in concentrated areas while the rest of the country remains open in and on.

With our diverse customer base across the country, that impact is therefore localized and not in a national impact all at once. It also means load shedding is done in stages through the day, and it means that our merchants often have the opportunity to catch up and make up some of the volume lost through the course of the day.

I would add, though, that we haven't seen the material impact of load shedding to date, albeit we've seen some within our cash business, as Steve mentioned earlier. What I would add is my comments are, I suppose, mainly in relation to what we've seen over the last quarter, which is probably an average of around loadshedding level five and below level four even.

And what that means is you've probably been experiencing something like 6 to 7 and a half hours of load shedding in a 24-hour cycle. More recently in the in the last month, load shedding is averaging higher than that and is probably averaging closer to what we call level eight which means you could be up to even 12 hours of load shedding in a 24-hour period.

And there might be different challenges that that come through with things like connectivity in terms of the cell towers for the telcos and sometimes battery life as well. If load shedding materially worsens from what we saw in this quarter, there may be different factors at play that that may impact.

But I think on the whole, what we're very happy with is that, in a tough operating environment where our merchants and our consumers are enduring a lot of inconvenience through load shedding, our business has proven to be resilient. And you're seeing this growth, you are seeing this performance, despite the fact that we face and our customers face in the South African economy.

Raj Sharma – B Riley & Co.

Yeah. Thank you. Just one last question is on the Connect acquisition and it continues to perform really strongly. And also, could you mention could you talk about the competition in the merchant space? How is it that you continue to grow with such resilience and strength?

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

So again, we have tremendous respect for the competitors that play in the merchant space. We are well-diversified between the formal and informal market, which makes us a little bit different to the majority of the competitors. Together with the fact that we have a fairly comprehensive offering in that we play in digital and cash and we also play in card and card acquiring.

We play in the value-added services, airtime, electricity, prepayment business. We're also in the credit space and in the digitization of cash, which means we play right across the spectrum. Many of our competitors play in one or two of these particular areas. Let me also say that the informal market is relatively nascent and the fact that this competition is healthy and good.

But this is a big market, it's untapped and there's plenty opportunity for growth for a variety of different players. And in the formal market, the Lesaka and Connect brand has developed real strength. As we've mentioned before, Capital Connect, won retail funder of the year in past days, we starting to get traction in that business.

We are very soon as we touched on earlier, we are launching our VAS or prepaid business through the money market into the formal markets. And because we are so deeply embedded in the formal market merchant segment business, the ability to scale is a competitive advantage that we have.

Raj Sharma – B Riley & Co.

Great. Thank you.

Rob Fink – Managing Partner, FNK IR

Thanks Raj. If you want to ask a live question on today's call, you can use the raise your hand button to express your interest while we poll for additional questions. We're going to take a question from Sven Thordsen, Anchor Securities. Given the environment as lending criteria and consumer been amended, what is happening with loan decline rates? Are you increasing provision coverage?

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

On the whole, we apply quite strict lending and affordability criteria in our consumer business and in our merchant business. We don't believe we've had to adjust our criteria. As I say, we applied very strict criteria across both businesses in terms of in terms of loan loss provisions.

We haven't seen any material change in terms of credit performance in our consumer business. We've slightly increased our provision on our merchant business, but nothing, nothing material there at all. Just to, again, to reflect tighter the interest rate environment in that space. But I think on the whole, we're comfortable with credit. We're comfortable with our approach to lending.

And we feel that our book is performing well.

Rob Fink – Managing Partner, FNK IR

Great. Thank you. And we have one final question from Theo O'Neill Litchfield Hills Research. In your prepared remarks, you said you were active in moving unprofitable ATMs into other areas. How do you evaluate whether to move an ATM or find a way to increase usage? Second question - Is there a limit to the number of ATMs you can manage or acquire?

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

Yes, I think what we want to look at is volume the number of customers that are patronizing that ATM from across the spectrum, the proximity of that ATM to the transport nodes. And if we feel that that ATM is performing below the threshold that we have put, we have discussions with the merchant that's there and if there are ways to up the volumes, we would keep that ATM or if the merchant is not prepared to do that, I would ask them to pay a rental for that.

If the merchant is not willing to do to do so, then it's the call that will now reside in in Steve's team for the ATM business to withdraw that ATM and put that ATM in an environment where there's higher growth, better traction and better service to customers. This has allowed us to look at every ATM and see whether that ATM is providing value, providing service, and is giving us the right GP.

That analysis has been done across the country and it's been done also in consultation with the consumer team to make sure that it makes sense from the customer point of view, but it also makes sense from a business point of view.

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

I think about a very commercial lens and understanding our customer behaviour ultimately is driving our strategy around ATMs.

Rob Fink – Managing Partner, FNK IR

There are no further questions here. So that is going to conclude the call. Chris, do you have a closing statement or a final thought?

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

Thanks very much. On behalf of the team and everyone at Lesaka, thank you to everybody for taking the time to be on the call with us today to dialling in and listening to our update. As we've said, and I hope it's come across, we are tremendously proud of the results that we've presented here today.

We feel that this is testament to both the turnaround in the consumer business and the excellent growth that we're seeing in our merchant business. The consumer business, as we said, is now consistently profitable. The merchant business is growing with the Connect Group exceeding our initial expectations. And importantly, as we said at a business operational level, we are producing positive cash flow.

On the whole, we're very excited about where we are and we look forward to again, giving further update in in September when we'll give you the full year to June numbers. And as part of that, we'd like to give you an outlook around the full year to 2024, which for us holds a lot of excitement, a lot of potential.

Thank you very much for joining us today and wish you all well. Thank you.