Lesaka continues strong growth trajectory and achieves upper end of revenue guidance

JOHANNESBURG, November 7, 2023 – Lesaka Technologies, Inc. (Nasdaq: LSAK; JSE: LSK) today released results for the first quarter ended September 30, 2023 (“Q1 2024”).

Performance Highlights for Q1 2024:

- Revenue of $136.1 million (ZAR 2.5 billion)[1] in Q1 2024, compared to $124.8 million (ZAR 2.1 billion)[1] for the first quarter ended September 30, 2022 (“Q1 2023”). In South African Rand (“ZAR”) revenue grew 19%, driven by strong year-on-year growth in both the Merchant and Consumer Divisions.
- A return to operating profitability with an operating income of $0.2 million (ZAR 4.2 million) for the quarter, improving from an operating loss of $4.7 million (ZAR 80.0 million) in Q1 2023, driven by the turnaround in the Consumer Division and growth in the Merchant Division.
- The net loss continued to narrow, at $5.7 million (ZAR 105.6 million)[1]. This compares to a net loss of $10.7 million (ZAR 183.2 million)[1] in Q1 2023 and represents a 42% improvement in ZAR.
- Group Adjusted EBITDA, a non-GAAP measure and reconciled in Attachment B, of $8.7 million (ZAR 162.5 million)[1] representing an improvement of 108% compared to the Q1 2023 Group Adjusted EBITDA of $4.2 million (ZAR 71.9 million)[1]. In ZAR Group Adjusted EBITDA increased by 126%.
- Continued year-on-year growth in profitability in the Merchant Division, delivering Segment Adjusted EBITDA of $8.1 million (ZAR 150.2 million)[1] in Q1 2024 compared to $7.9 million (ZAR 135.2 million) in Q1 2023, an increase of 11% in ZAR. The outlook remains positive as the Merchant business extends its footprint in Southern Africa’s informal market.
- The Consumer Division reported its fourth consecutive quarter of profitability, delivering Segment Adjusted EBITDA of $2.5 million (ZAR 46.6 million)[1] in Q1 2024, compared to a loss of $1.4 million (ZAR 23.9 million)[1] in Q1 2023. With the divisional turnaround complete, initiatives to grow the Consumer Division are yielding positive results with revenue increasing 13% in ZAR, off a reduced cost base and in a challenging operating environment.
- Continued momentum in achieving positive net cash provided by operating activities of $3.4 million (ZAR 63.2 million) in Q1 2024, compared to net cash used in operating activities of $7.7 million (ZAR 131.2 million) in Q1 2023.
- Guidance for fiscal 2024 re-affirmed.

Lesaka Group CEO Chris Meyer said: “It has been yet another encouraging quarter for us. We achieved a major milestone by returning to profitability at an operating level for the quarter.”

Mr. Meyer added, “In a tough economic environment the continued growth in all our key revenue drivers demonstrates the resilience of our business model and the relevance of our services to our customers. We will continue to innovate and extend the positive impact we are having on the lives of South Africa’s small merchants and grant beneficiaries as the digitalization trend in the informal economy continues.”

(1) Average exchange rates applicable for the quarter: ZAR 18.71 to $1 for Q1 2024, ZAR 17.13 to $1 for Q1 2023 and ZAR 18.74 to $1 for Q4 2023. The ZAR weakened 9.2% against the U.S. dollar during Q1 2024 when compared to Q1 2023 and (0.2%) when compared to the prior sequential quarter (Q4 2023).

Summary Financial Metrics

Three months ended

(All figures in USD '000s except per share data)	Three months ended Sep 30, 2023	 Sep 30, 2022	 Jun 30, 2023	Q1 '24 vs Q1 '23	Q1 '24 vs Q4 '23	Q1 '24 vs Q1 '23	Q1 '24 vs Q4 '23
	USD '000's (except per share data)			% change in USD		% change in ZAR	
Revenue	136,089	124,786	133,149	9%	2%	19%	2%
GAAP operating income (loss)	228	(4,671)	(6,631)	nm	nm	nm	nm
Net loss attributable to Lesaka	(5,651)	(10,696)	(11,909)	(47%)	(53%)	(42%)	(53%)
GAAP loss per share ($)	(0.09)	(0.17)	(0.19)	(48%)	(53%)	(44%)	(53%)
Group Adjusted EBITDA[1]	8,719	4,199	8,449	108%	3%	127%	3%
Fundamental loss per share ($)[1]	-	(0.08)	(0.04)	nm	nm	nm	nm
Fully-diluted weighted average shares ('000's)	63,805	62,445	63,805	2%	-	n/a	n/a
Average period USD / ZAR exchange rate	18.71	17.13	18.74	9%	(0%)	n/a	n/a

(1) Group Adjusted EBITDA, fundamental loss and fundamental loss per share are non-GAAP measures and are described below under "Use of Non-GAAP Measures—Group Adjusted EBITDA, and —Fundamental net loss and fundamental loss per share." See Attachment B for a reconciliation of GAAP net loss attributable to Lesaka to Group Adjusted EBITDA, and GAAP net loss to fundamental net loss and loss per share.

Factors Impacting Comparability of Q1 2024 and Q1 2023 Results

- ***Higher revenue:*** Our revenues increased 19% in ZAR, primarily due to an increase in low margin prepaid airtime sales and other value added services, as well as higher transaction, insurance and lending revenues, which was partially offset by lower hardware sales revenue in our POS hardware distribution business given the lumpy nature of bulk sales;
- ***Operating income generated:*** Operating income was achieved following years of operating losses as a result of the various cost reduction initiatives in Consumer implemented in prior periods as well as the contribution from Connect;
- ***Higher net interest charge:*** The net interest charge increased to $4.5 million (ZAR 83.1 million) from $3.6 million (ZAR 62.1 million) primarily due to higher interest rates; and
- ***Foreign exchange movements:*** The U.S. dollar was 9% stronger against the ZAR during Q1 2024 compared to the prior period, which adversely impacted our U.S. dollar reported results.

Results of Operations by Segment and Liquidity

Our chief operating decision maker is our Group Chief Executive Officer and he evaluates segment performance based on segment earnings before interest, tax, depreciation and amortization ("EBITDA"), adjusted for items mentioned in the next sentence ("Segment Adjusted EBITDA"). We do not allocate once-off items, stock-based compensation charges, certain lease charges, depreciation and amortization, impairment of goodwill or other intangible assets, other items (including gains or losses on disposal of investments, fair value adjustments to equity securities, fair value adjustments to currency options), interest income, interest expense, income tax expense or loss from equity-accounted investments to our reportable segments. See Attachment B for a reconciliation of GAAP net income before tax to Group Adjusted EBITDA.

Merchant

Merchant Division revenue was $121.4 million in Q1 2024, up 21% compared to Q1 2023 in ZAR. Segment revenue increased due to the increase in low margin prepaid airtime sales and other value-added services, which was partially offset by lower hardware sales revenue given the lumpy nature of bulk sales. The increase in Segment Adjusted EBITDA is primarily due to higher sales activity, which was partially offset by lower hardware sales. Connect records a significant proportion of its airtime sales in revenue and cost of sales, while only earning a relatively small margin. This significantly depresses the Segment Adjusted EBITDA margins shown by the business. Our Segment Adjusted EBITDA margin (calculated as Segment Adjusted EBITDA divided by revenue) for Q1 2024 and Q1 2023 was 6.6% and 7.2%, respectively.

Consumer

Consumer Division revenue was $15.6 million in Q1 2024, 13% higher in ZAR compared to Q1 2023 and. Segment revenue increased primarily due to more transaction fees generated from the higher EPE account holders base, higher insurance revenues, and an increase in lending revenue as a result of an increase in loan originations. This increase in revenue, together with the cost reduction initiatives initiated in fiscal 2022 and through fiscal 2023, have translated into a turnaround in the Consumer Division and the realization of sustained positive Segment Adjusted EBITDA for four consecutive quarters. Our Segment Adjusted EBITDA (loss) margin for Q1 2024 and 2023 was 15.9% and (9.3%), respectively.

Group costs

Our group costs primarily include employee related costs in relation to employees specifically hired for group roles and costs related directly to managing the US-listed entity; expenditures related to compliance with the Sarbanes-Oxley Act of 2002; non-employee directors' fees; legal fees; group and US-listed related audit fees; and directors' and officers' insurance premiums. Our group costs for Q1 2024 decreased compared with the prior period due to lower external audit, legal and consulting fees and lower provision for executive bonuses, which was partially offset by higher employee costs.

Cash flow and liquidity

As of September 30, 2023, our cash and cash equivalents were $35.1 million and comprised of U.S. dollar-denominated balances of $2.2 million, ZAR-denominated balances of ZAR 586.7 million ($31.0 million), and other currency deposits, primarily Botswana pula, of $1.9 million, all amounts translated at exchange rates applicable as of September 30, 2023. The increase in our unrestricted cash balances from June 30, 2023, was primarily due to a positive contribution from our Merchant and Consumer operations, which was partially offset by the utilization of cash reserves to fund certain scheduled repayments of our borrowings, purchase ATMs and safe assets, and to make an investment in working capital.

Outlook for the Second Quarter 2024 ("Q2 2024") and Full Fiscal Year 2024 ("FY 2024")

While we report our financial results in USD, we measure our operating performance in ZAR, and as such we provide our guidance accordingly.

For Q2 2024, the quarter ending December 31, 2023, we expect:
- Revenue between ZAR 2.65 billion and ZAR 2.75 billion.
- Group Adjusted EBITDA between ZAR 170 million and ZAR 180 million.

We re-affirm our outlook for FY 2024, the year ending June 30, 2024. We expect:
- Revenue between ZAR 10.7 billion and ZAR 11.7 billion.
- Group Adjusted EBITDA between ZAR 680 million and ZAR 740 million.

Management has provided its outlook regarding Group Adjusted EBITDA, which is a non-GAAP financial measure and excludes certain charges. Management has not reconciled this non-GAAP financial measure to the corresponding GAAP financial measure because guidance for the various reconciling items is not provided. Management is unable to provide guidance for these reconciling items because they cannot determine their probable significance, as certain items are outside of the company's control and cannot be reasonably predicted since these items could vary significantly from period to period. Accordingly, reconciliations to the corresponding GAAP financial measure is not available without unreasonable effort.

Earnings Presentation for Q1 2024 Results

Our earnings presentation for Q1 2024 will be posted to the Investor Relations page of our website prior to our earnings call.

Webcast and Conference Call

Lesaka will host a webcast and conference call to review results on November 8, 2023, at 8:00 a.m. Eastern Time which is 3:00 p.m. South Africa Standard Time ("SAST"). A replay of the results presentation webcast will be available on the Lesaka investor relations website following the conclusion of the live event.

Webcast Details
- The results webcast can be accessed by using the following link: https://bit.ly/48M4stP

Participants using the webcast will be able to ask questions by raising their hand and then asking the question "live."

Conference Call Dial-in:
- US Toll-Free: +1 253 215 8782 or +1 301 715 8592
- South Africa Toll-Free: + 27 87 551 7702 or +27 87 550 3946

Participants using the conference call dial-in will be unable to ask questions.

Use of Non-GAAP Measures

U.S. securities laws require that when we publish any non-GAAP measures, we disclose the reason for using these non-GAAP measures and provide reconciliations to the most directly comparable GAAP measures. The presentation of Group Adjusted EBITDA, Group Adjusted EBITDA margin, fundamental net (loss) income, fundamental (loss) earnings per share, and headline (loss) earnings per share are non-GAAP measures.

Non-GAAP Measures

Group Adjusted EBITDA is net income (loss before interest, taxes, depreciation and amortization, adjusted for non-operational transactions (including loss on disposal of equity-accounted investments), loss from equity-accounted investments, stock-based compensation charges, lease adjustments and once-off items. Lease adjustments reflect lease charges and once-off items represents non-recurring expense items, including costs related to acquisitions and transactions consummated or ultimately not pursued. Group Adjusted EBITDA margin is Group Adjusted EBITDA divided by revenue.

Fundamental net loss and fundamental loss per share

Fundamental net loss and loss per share is GAAP net loss and loss per share adjusted for the amortization of acquisition-related intangible assets (net of deferred taxes), stock-based compensation charges, and unusual non-recurring items, including costs related to acquisitions and transactions consummated or ultimately not pursued.

Fundamental net loss and loss per share for fiscal 2024 also includes an impairment loss related to an equity-accounted investment and a reversal of allowance for doubtful loan receivable. Fundamental net loss and loss per share for fiscal 2023 also includes a net gain on disposal of equity-accounted investments, unrealized currency loss related to our non-core business which we are in the process of winding down and an impairment loss related to an equity-accounted investment.

Management believes that the Group Adjusted EBITDA, fundamental net (loss) income and fundamental (loss) earnings per share metrics enhance its own evaluation, as well as an investor's understanding, of our financial performance. Attachment B presents the reconciliation between GAAP net loss attributable to Lesaka and these non-GAAP measures.

Headline (loss) earnings per share ("H(L)EPS")

The inclusion of H(L)EPS in this press release is a requirement of our listing on the JSE. H(L)EPS basic and diluted is calculated using net (loss) income which has been determined based on GAAP. Accordingly, this may differ to the headline (loss) earnings per share calculation of other companies listed on the JSE as these companies may report their financial results under a different financial reporting framework, including but not limited to, International Financial Reporting Standards.

H(L)EPS basic and diluted is calculated as GAAP net (loss) income adjusted for the impairment losses related to our equity-accounted investments and (profit) loss on sale of property, plant and equipment. Attachment C presents the reconciliation between our net (loss) income used to calculate (loss) earnings per share basic and diluted and H(L)EPS basic and diluted and the calculation of the denominator for headline diluted (loss) earnings per share.

About Lesaka (www.lesakatech.com)

Lesaka Technologies, (Lesaka™) is a South African Fintech company that utilizes its proprietary banking and payment technologies to deliver superior financial services solutions to merchants (B2B) and consumers (B2C) in Southern Africa. Lesaka's mission is to drive true financial inclusion for both merchant and consumer markets through offering affordable financial services to previously underserved sectors of the economy. Lesaka offers cash management solutions, growth capital, card acquiring, bill payment technologies and value-added services to formal and informal retail merchants as well as banking, lending, and insurance solutions to consumers across Southern Africa. The Lesaka journey originally began as "Net1" in 1997 and later rebranded to Lesaka (2022), with the acquisition of Connect. As Lesaka, the business continues to grow its systems and capabilities to deliver meaningful fintech-enabled, innovative solutions for South Africa's merchant and consumer markets.

Lesaka has a primary listing on NASDAQ (NasdaqGS: LSAK) and a secondary listing on the Johannesburg Stock Exchange (JSE: LSK). Visit www.lesakatech.com for additional information about Lesaka Technologies (Lesaka ™).

Forward-Looking Statements

This press release contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. Such statements may be identified by their use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "plans," "could," "would," "may," "will," "intends," "outlook," "focus," "seek," "potential," "mission," "continue," "goal," "target," "objective," derivations thereof, and similar terms and phrases. Forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. In this press release, statements relating to future financial results and future financing and business opportunities are forward-looking statements. Additional information concerning factors that could cause actual events or results to differ materially from those in any forward-looking statement is contained in our Form 10-K for the fiscal year ended June 30, 2023, as filed with the SEC, as well as other documents we have filed or will file with the SEC. We assume no obligation to update the information in this press release, to revise any forward-looking statements or to update the reasons actual results could differ materially from those anticipated in forward-looking statements.

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LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Operations

	Unaudited Three months ended September 30, 2023	Unaudited Three months ended September 30, 2022
	(In thousands)	
REVENUE	$ 136,089	$ 124,786
EXPENSE		
Cost of goods sold, IT processing, servicing and support	107,490	100,528
Selling, general and administration	22,515	22,931
Depreciation and amortization	5,856	5,998
OPERATING INCOME (LOSS)	228	(4,671)
REVERSAL OF ALLOWANCE FOR DOUBTFUL EMI LOAN RECEIVABLE	250	-
GAIN ON DISPOSAL OF EQUITY-ACCOUNTED INVESTMENT	-	248
INTEREST INCOME	449	411
INTEREST EXPENSE	4,909	4,036
LOSS BEFORE INCOME TAX EXPENSE	(3,982)	(8,048)
INCOME TAX EXPENSE	264	31
NET LOSS BEFORE LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	(4,246)	(8,079)
LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	(1,405)	(2,617)
NET LOSS ATTRIBUTABLE TO LESAKA	$ (5,651)	$ (10,696)
Net loss per share, in United States dollars:		
Basic loss attributable to Lesaka shareholders	$ (0.09)	$ (0.17)
Diluted loss attributable to Lesaka shareholders	$ (0.09)	$ (0.17)

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Balance Sheets

	Unaudited September 30, 2023	(A) June 30, 2023
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 35,141	$ 35,499
Restricted cash	19,865	23,133
Accounts receivable, net of allowance of - September: $170; June: $509 and other receivables	27,939	25,665
Finance loans receivable, net of allowance of - September: $4,393; June: $3,582	35,735	36,744
Inventory	27,754	27,337
Total current assets before settlement assets	146,434	148,378
Settlement assets	26,352	15,258
Total current assets	172,786	163,636
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of - September: $35,331; June: $36,563	27,663	27,447
OPERATING LEASE RIGHT-OF-USE	5,655	4,731
EQUITY-ACCOUNTED INVESTMENTS	2,253	3,171
GOODWILL	133,139	133,743
INTANGIBLE ASSETS, net of accumulated amortization of - September: $33,619; June: $30,173	117,595	121,597
DEFERRED INCOME TAXES	9,859	10,315
OTHER LONG-TERM ASSETS, including reinsurance assets	77,822	77,594
TOTAL ASSETS	546,772	542,234
LIABILITIES		
CURRENT LIABILITIES		
Short-term credit facilities for ATM funding	19,754	23,021
Short-term credit facilities	8,983	9,025
Accounts payable	13,595	12,380
Other payables	35,105	36,297
Operating lease liability - current	1,722	1,747
Current portion of long-term borrowings	3,630	3,663
Income taxes payable	1,292	1,005
Total current liabilities before settlement obligations	84,081	87,138
Settlement obligations	25,362	14,774
Total current liabilities	109,443	101,912
DEFERRED INCOME TAXES	45,713	46,840
OPERATING LEASE LIABILITY - LONG TERM	4,081	3,138
LONG-TERM BORROWINGS	130,587	129,455
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities	2,253	1,982
TOTAL LIABILITIES	292,077	283,327
REDEEMABLE COMMON STOCK	79,429	79,429
EQUITY		
LESAKA EQUITY:		
COMMON STOCK		
Authorized: 200,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury: September: 63,638,912; June: 63,640,246	83	83
PREFERRED STOCK		
Authorized shares: 50,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury: September: -; June: -	-	-
ADDITIONAL PAID-IN-CAPITAL	337,490	335,696
TREASURY SHARES, AT COST: September: 25,244,286; June: 25,244,286	(288,238)	(288,238)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(196,081)	(195,726)
RETAINED EARNINGS	322,012	327,663
TOTAL LESAKA EQUITY	175,266	179,478
NON-CONTROLLING INTEREST	-	-
TOTAL EQUITY	175,266	179,478
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY	$ 546,772	$ 542,234

(A) Derived from audited consolidated financial statements.

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Cash Flows

	Unaudited Three months ended September 30, 2023	Unaudited Three months ended September 30, 2022
	(In thousands)	
Cash flows from operating activities		
Net loss	$ (5,651)	$ (10,696)
Depreciation and amortization	5,856	5,998
Movement in allowance for doubtful accounts receivable and finance loans receivable	1,525	1,049
Movement in interest payable	1,764	26
Fair value adjustment related to financial liabilities	(34)	63
Gain on disposal of equity-accounted investments	-	(248)
Loss from equity-accounted investments	1,405	2,617
Reversal of allowance for doubtful loans receivable	(250)	-
Profit on disposal of property, plant and equipment	(36)	(208)
Facility fee amortized	227	249
Stock-based compensation charge	1,759	1,462
Dividends received from equity accounted investments	-	21
Increase in accounts receivable and other receivables	(2,345)	(2,943)
Increase in finance loans receivable	(488)	(3,581)
Increase in inventory	(479)	(279)
Increase (Decrease) in accounts payable and other payables	375	(438)
Increase in taxes payable	308	642
Decrease in deferred taxes	(562)	(1,394)
Net cash provided by (used) in operating activities	3,374	(7,660)
Cash flows from investing activities		
Capital expenditures	(2,809)	(4,501)
Proceeds from disposal of property, plant and equipment	284	417
Acquisition of intangible assets	(135)	-
Proceeds from disposal of equity-accounted investment	-	253
Loan to equity-accounted investment	-	(112)
Repayment of loans by equity-accounted investments	-	112
Net change in settlement assets	(11,237)	(1,884)
Net cash used in investing activities	(13,897)	(5,715)
Cash flows from financing activities		
Proceeds from bank overdraft	59,574	146,068
Repayment of bank overdraft	(62,793)	(136,922)
Long-term borrowings utilized	2,471	1,059
Repayment of long-term borrowings	(2,629)	(1,580)
Proceeds from issue of shares	21	6
Acquisition of treasury stock	-	(185)
Net change in settlement obligations	10,696	1,987
Net cash provided by financing activities	7,340	10,433
Effect of exchange rate changes on cash	(443)	(8,487)
Net decrease in cash, cash equivalents and restricted cash	(3,626)	(11,429)
Cash, cash equivalents and restricted cash – beginning of period	58,632	104,800
Cash, cash equivalents and restricted cash – end of period	$ 55,006	$ 93,371

Lesaka Technologies, Inc.

Attachment A

Operating segment revenue, operating (loss) income and operating (loss) margin:

Three months ended September 30, 2023, and 2022 and June 30, 2023

	Three months ended			Change - actual		Change – constant exchange rate(1)	
Key segmental data, in '000, except margins	**Sep 30, 2023**	**Sep 30, 2022**	**Jun 30, 2023**	**Q1 '24 vs Q1 '23**	**Q1 '24 vs Q4 '23**	**Q1 '24 vs Q1 '23**	**Q1 '24 vs Q4 '23**
Revenue:							
Merchant	$ 121,361	$ 109,782	$ 115,193	11%	5%	21%	5%
Consumer	15,580	15,004	16,487	4%	(6%)	13%	(6%)
Subtotal: Operating segments	136,941	124,786	133,149	10%	3%	20%	3%
Intersegment eliminations	(852)	-	-	nm	nm	nm	nm
Consolidated revenue	**$ 136,089**	**$ 124,786**	**$ 133,149**	**9%**	**2%**	**19%**	**2%**
Segment Adjusted EBITDA							
Merchant	$ 8,061	$ 7,893	$ 8,228	2%	(2%)	12%	(2%)
Consumer	2,480	(1,394)	2,481	nm	(0%)	nm	(0%)
Group costs	(1,822)	(2,300)	(2,260)	(21%)	(19%)	(13%)	(20%)
Group Adjusted EBITDA	**8,719**	**4,199**	**8,449**	**108%**	**3%**	**127%**	**3%**
Segment Adjusted EBITDA (loss) margin (%)							
Merchant	6.6%	7.2%	7.1%				
Consumer	15.9%	(9.3%)	15.0%				
Group Adjusted EBITDA (loss) margin	**6.4%**	**3.4%**	**6.3%**				

(1) – This information shows what the change in these items would have been if the USD/ ZAR exchange rate that prevailed during Q1 2024 also prevailed during Q1 2023 and Q4 2023.

Loss from equity-accounted investments:

The table below presents the relative loss from our equity-accounted investments:

	Three months ended September 30,		
	2023	2022	% change
Finbond	$ (1,445)	$ (2,631)	(45%)
Share of net loss	(278)	(1,521)	(82%)
Impairment	(1,167)	(1,110)	5%
Other	40	14	186%
Share of net income	40	14	186%
Loss from equity-accounted investments	**$ (1,405)**	**$ (2,617)**	**(46%)**

Lesaka Technologies, Inc.

Attachment B

Reconciliation of GAAP loss attributable to Lesaka to Group Adjusted EBITDA loss:

Three months ended September 30, 2023 and 2022

	Three months ended		
	September 30,		June 30,
	2023	2022	2023
Loss attributable to Lesaka - GAAP	$ **(5,651)**	$ **(10,696)**	$ **(11,909)**
Loss from equity accounted investments	1,405	2,617	2,535
Net loss before (earnings) loss from equity-accounted investments	(4,246)	(8,079)	(9,374)
Income tax (benefit) expense	264	31	(1,844)
Loss before income tax expense	(3,982)	(8,048)	(11,218)
Reversal of allowance for doubtful EMI loans receivable	(250)	-	-
Net (gain) loss on disposal of equity-accounted investment	-	(248)	12
Impairment loss	-	-	7,039
Unrealized Loss FV for currency adjustments	102	-	179
Operating income/(loss) after PPA amortization and net interest (non-GAAP)	(4,130)	(8,296)	(3,988)
PPA amortization (amortization of acquired intangible assets)	3,608	3,928	3,590
Operating income/(loss) before PPA amortization after net interest (non-GAAP)	(522)	(4,368)	(398)
Interest expense	4,909	4,036	5,159
Interest income	(449)	(411)	(584)
Operating income/(loss) before PPA amortization and net interest (non-GAAP)	4,387	(332)	4,761
Depreciation (excluding amortization of intangibles)	2,248	2,070	2,203
Stock-based compensation charges	1,759	1,462	1,354
Lease adjustments	696	812	651
Once-off items	78	598	64
Group Adjusted EBITDA - Non-GAAP	**$ 8,719**	**$ 4,199**	**$ 8,449**

	Three months ended		
	September 30,		June 30,
	2023	2022	2023
Once-off items comprises:			
Transaction costs	$ 78	$ 203	$ 58
Non-recurring revenue not allocated to segments	-	-	(1,469)
Employee misappropriation of company funds	-	-	1,152
Expenses incurred related to closure of legacy businesses	-	395	244
Separation of employee expense	-	-	79
	$ 78	**$ 598**	**$ 64**

Once-off items are non-recurring in nature, however, certain items may be reported in multiple quarters. For instance, transaction costs include costs incurred related to acquisitions and transactions consummated or ultimately not pursued. The transactions can span multiple quarters, for instance in fiscal 2022 we incurred significant transaction costs related to the acquisition of Connect over a number of quarters, and the transactions are generally non-recurring.

Non-recurring revenue not allocated to segments includes once off revenue recognized that we believe does not relate to either our Merchant or Consumer divisions. Employee misappropriation of company funds represents a once-off loss incurred. Expenses incurred related to close of legacy businesses represents costs incurred related to subsidiaries which we are in the process of deregistering/ liquidation and therefore we consider these costs non-operational and ad hoc in nature. We incurred separation costs related to the termination of certain senior-level employees, including an executive officer and senior managers, during fiscal 2023 and we consider these specific terminations to be of a non-recurring nature.

Expenses incurred related to close of legacy businesses represents costs incurred related to subsidiaries which we are in the process of deregistering/ liquidation and therefore we consider these costs non-operational and ad hoc in nature.

Reconciliation of GAAP net loss and loss per share, basic, to fundamental net loss and loss per share, basic:

Three months ended September 30, 2023 and 2022

	Net (loss) income (USD '000)		(L)PS, basic (USD)		Net (loss) income (ZAR '000)		(L)PS, basic (ZAR)	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
GAAP	**(5,651)**	**(10,696)**	**(0.09)**	**(0.17)**	**(105,635)**	**(183,231)**	**(1.66)**	**(2.93)**
Intangible asset amortization, net	2,625	2,828			49,104	48,432		
Stock-based compensation charge	1,759	1,462			32,797	25,045		
Impairment of equity method investment	1,167	1,110			22,084	19,015		
Reversal of allowance for doubtful EMI loans receivable	(250)	-			(4,741)	-		
Transaction costs	78	203			1,465	3,478		
Net loss on disposal of equity-accounted investments	-	(248)			-	(4,248)		
Non core international - unrealized currency loss	-	395			-	6,767		
Fundamental	**(272)**	**(4,946)**	**-**	**(0.08)**	**(4,926)**	**(84,742)**	**(0.08)**	**(1.36)**

Lesaka Technologies, Inc.

Attachment C

Reconciliation of net loss used to calculate loss per share basic and diluted and headline loss per share basic and diluted:

Three months ended September 30, 2023 and 2022

	2023	2022
Net loss (USD'000)	(5,651)	(10,696)
Adjustments:		
Impairment of equity method investments	1,167	1,110
Net loss on sale of equity-accounted investments	-	(248)
Profit on sale of property, plant and equipment	-	(208)
Tax effects on above	-	58
Net loss used to calculate headline loss (USD'000)	(4,484)	(9,984)
Weighted average number of shares used to calculate net loss per share basic loss and headline loss per share basic loss ('000)	63,805	62,445
Weighted average number of shares used to calculate net loss per share diluted loss and headline loss per share diluted loss ('000)	63,805	62,445
Headline loss per share:		
Basic, in USD	(0.07)	(0.16)
Diluted, in USD	(0.07)	(0.16)

Calculation of the denominator for headline diluted loss per share

	Three months ended September 30,	
	2023	2022
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest under GAAP	63,805	62,445
Denominator for headline diluted loss per share	63,805	62,445

Weighted average number of shares used to calculate headline diluted loss per share represents the denominator for basic weighted-average common shares outstanding and unvested restricted shares expected to vest plus the effect of dilutive securities under GAAP. We use this number of fully-diluted shares outstanding to calculate headline diluted loss per share because we do not use the two-class method to calculate headline diluted loss per share.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the transition period from _________ To _________

Commission file number: **000-31203**

LESAKA TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida	**98-0171860**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

President Place, 4th Floor, Cnr. Jan Smuts Avenue and Bolton Road, Rosebank, Johannesburg, 2196, South Africa
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **27-11-343-2000**

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.001 per share	LSAK	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (check one):

☐	Large accelerated filer	☒	Accelerated filer
☐	Non-accelerated filer	☒	Smaller reporting company
		☐	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of November 1, 2023 (the latest practicable date), 62,384,522 shares of the registrant’s common stock, par value $0.001 per share, net of treasury shares, were outstanding.

Form 10-Q
LESAKA TECHNOLOGIES, INC.
Table of Contents

Part I. Financial information

Item 1. Financial Statements

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Balance Sheets

	September 30, 2023	June 30, 2023[(A)]
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 35,141	$ 35,499
Restricted cash related to ATM funding and credit facilities (Note 8)	19,865	23,133
Accounts receivable, net and other receivables (Note 2)	27,939	25,665
Finance loans receivable, net (Note 2)	35,735	36,744
Inventory (Note 3)	27,754	27,337
Total current assets before settlement assets	146,434	148,378
Settlement assets	26,352	15,258
Total current assets	172,786	163,636
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of - September: $35,331 June: $36,563	27,663	27,447
OPERATING LEASE RIGHT-OF-USE (Note 16)	5,655	4,731
EQUITY-ACCOUNTED INVESTMENTS (Note 5)	2,253	3,171
GOODWILL (Note 6)	133,139	133,743
INTANGIBLE ASSETS, NET (Note 6)	117,595	121,597
DEFERRED INCOME TAXES	9,859	10,315
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 5 and 7)	77,822	77,594
TOTAL ASSETS	546,772	542,234
LIABILITIES		
CURRENT LIABILITIES		
Short-term credit facilities for ATM funding (Note 8)	19,754	23,021
Short-term credit facilities (Note 8)	8,983	9,025
Accounts payable	13,595	12,380
Other payables (Note 9)	35,105	36,297
Operating lease liability - current (Note 16)	1,722	1,747
Current portion of long-term borrowings (Note 8)	3,630	3,663
Income taxes payable	1,292	1,005
Total current liabilities before settlement obligations	84,081	87,138
Settlement obligations	25,362	14,774
Total current liabilities	109,443	101,912
DEFERRED INCOME TAXES	45,713	46,840
OPERATING LEASE LIABILITY - LONG TERM (Note 16)	4,081	3,138
LONG-TERM BORROWINGS (Note 8)	130,587	129,455
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	2,253	1,982
TOTAL LIABILITIES	292,077	283,327
REDEEMABLE COMMON STOCK	79,429	79,429
EQUITY		
COMMON STOCK (Note 10)		
Authorized: 200,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury - September: 63,638,912 June: 63,640,246	83	83
PREFERRED STOCK		
Authorized shares: 50,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury: September: - June: -	-	-
ADDITIONAL PAID-IN-CAPITAL	337,490	335,696
TREASURY SHARES, AT COST: September: 25,244,286 June: 25,244,286	(288,238)	(288,238)
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 11)	(196,081)	(195,726)
RETAINED EARNINGS	322,012	327,663
TOTAL LESAKA EQUITY	175,266	179,478
NON-CONTROLLING INTEREST	-	-
TOTAL EQUITY	175,266	179,478
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY	$ 546,772	$ 542,234

(A) – Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Operations

	Three months ended September 30, 2023	Three months ended September 30, 2022
	(In thousands, except per share data)	
REVENUE (Note 15)	$ 136,089	$ 124,786
EXPENSE		
Cost of goods sold, IT processing, servicing and support	107,490	100,528
Selling, general and administration	22,515	22,931
Depreciation and amortization	5,856	5,998
OPERATING INCOME (LOSS)	228	(4,671)
REVERSAL OF (ALLOWANCE) OF EMI DOUBTFUL DEBT (Note 2 and 5)	250	-
NET GAIN ON DISPOSAL OF EQUITY-ACCOUNTED INVESTMENTS (Note 5)	-	248
INTEREST INCOME	449	411
INTEREST EXPENSE	4,909	4,036
LOSS BEFORE INCOME TAX EXPENSE	(3,982)	(8,048)
INCOME TAX EXPENSE (Note 18)	264	31
NET LOSS BEFORE LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	(4,246)	(8,079)
LOSS FROM EQUITY-ACCOUNTED INVESTMENTS (Note 5)	1,405	2,617
NET LOSS	$ (5,651)	$ (10,696)
Net loss per share, in United States dollars (Note 13):		
Basic loss attributable to Lesaka shareholders	$ (0.09)	$ (0.17)
Diluted loss attributable to Lesaka shareholders	$ (0.09)	$ (0.17)

See Notes to Unaudited Condensed Consolidated Financial Statements

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

	Three months ended September 30, 2023	Three months ended September 30, 2022
	(In thousands)	
Net loss	$ (5,651)	$ (10,696)
Other comprehensive (loss) income, net of taxes		
Movement in foreign currency translation reserve	(844)	(22,093)
Movement in foreign currency translation reserve related to equity-accounted investments	489	2,441
Release of foreign currency translation reserve related to disposal of Finbond equity securities	-	2
Total other comprehensive loss, net of taxes	(355)	(19,650)
Comprehensive loss	(6,006)	(30,346)
Add comprehensive loss attributable to non-controlling interest	-	-
Comprehensive loss attributable to Lesaka	$ (6,006)	$ (30,346)

See Notes to Unaudited Condensed Consolidated Financial Statements

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Changes in Equity

	Lesaka Technologies, Inc. Shareholders											
	Number of Shares	**Amount**	**Number of Treasury Shares**	**Treasury Shares**	**Number of shares, net of treasury**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated other comprehensive loss**	**Total Lesaka Equity**	**Non-controlling Interest**	**Total**	**Redeemable common stock**
	For the three months ended September 30, 2022 (dollar amounts in thousands)											
Balance – July 1, 2022	87,215,613	$ 83	(24,891,292)	$ (286,951)	62,324,321	$ 327,891	$ 362,737	$ (168,840)	$ 234,920	$ -	$ 234,920	$ 79,429
Shares repurchased (Note 12)			(35,460)	(185)	(35,460)	-			(185)		(185)	
Restricted stock granted (Note 12)	231,523				231,523				-		-	
Exercise of stock options	2,000	-			2,000	6			6		6	
Stock-based compensation charge (Note 12)					-	1,462			1,462		1,462	
Stock-based compensation charge related to equity-accounted investment (Note 5)					-	6			6		6	
Net loss					-		(10,696)		(10,696)	-	(10,696)	
Other comprehensive loss (Note 11)								(19,650)	(19,650)	-	(19,650)	
Balance – September 30, 2022	87,449,136	$ 83	(24,926,752)	$ (287,136)	62,522,384	$ 329,365	$ 352,041	$ (188,490)	$ 205,863	$ -	$ 205,863	$ 79,429

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Changes in Equity

	Lesaka Technologies, Inc. Shareholders												
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive loss	Total Lesaka Equity	Non-controlling Interest	Total	Redeemable common stock
	For the three months ended September 30, 2023 (dollar amounts in thousands)											
Balance – July 1, 2023	88,884,532	$ 83	(25,244,286)	$ (288,238)	63,640,246	$ 335,696	$ 327,663	$ (195,726)	$ 179,478	$ -	$ 179,478	$ 79,429
Exercise of stock option (Note 12)	6,793	-			6,793	21			21		21	
Stock-based compensation charge (Note 12)	-				-	1,768			1,768		1,768	
Reversal of stock-based compensation charge (Note 12)	(8,127)				(8,127)	(9)			(9)		(9)	
Stock-based compensation charge related to equity-accounted investment (Note 5)						14			14		14	
Net loss							(5,651)		(5,651)	-	(5,651)	
Other comprehensive loss (Note 11)								(355)	(355)	-	(355)	
Balance – September 30, 2023	88,883,198	$ 83	(25,244,286)	$ (288,238)	63,638,912	$ 337,490	$ 322,012	$ (196,081)	$ 175,266	$ -	$ 175,266	$ 79,429

See Notes to Unaudited Condensed Consolidated Financial Statements

LESAKA TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Cash Flows

	Three months ended September 30, 2023	Three months ended September 30, 2022
	(In thousands)	
Cash flows from operating activities		
Net loss	$ (5,651)	$ (10,696)
Depreciation and amortization	5,856	5,998
Movement in allowance for doubtful accounts receivable and finance loans receivable	1,525	1,049
Loss from equity-accounted investments (Note 5)	1,405	2,617
Movement in allowance for doubtful loans to equity-accounted investments	(250)	-
Fair value adjustment related to financial liabilities	(34)	63
Interest payable	1,764	26
Facility fee amortized	227	249
Net gain on disposal of equity-accounted investments (Note 5)	-	(248)
Profit on disposal of property, plant and equipment	(36)	(208)
Stock-based compensation charge (Note 12)	1,759	1,462
Dividends received from equity-accounted investments	-	21
Increase in accounts receivable and other receivables	(2,345)	(2,943)
Increase in finance loans receivable	(488)	(3,581)
Increase in inventory	(479)	(279)
Increase (Decrease) in accounts payable and other payables	375	(438)
Increase in taxes payable	308	642
Decrease in deferred taxes	(562)	(1,394)
Net cash provided by (used in) operating activities	3,374	(7,660)
Cash flows from investing activities		
Capital expenditures	(2,809)	(4,501)
Proceeds from disposal of property, plant and equipment	284	417
Acquisition of intangible assets	(135)	-
Proceeds from disposal of equity-accounted investments (Note 5)	-	253
Loan to equity-accounted investment	-	112
Repayment of loans by equity-accounted investments	-	(112)
Net change in settlement assets	(11,237)	(1,884)
Net cash used in investing activities	(13,897)	(5,715)
Cash flows from financing activities		
Proceeds from bank overdraft (Note 8)	59,574	146,068
Repayment of bank overdraft (Note 8)	(62,793)	(136,922)
Long-term borrowings utilized (Note 8)	2,471	1,059
Repayment of long-term borrowings (Note 8)	(2,629)	(1,580)
Acquisition of treasury stock (Note 12)	-	(185)
Proceeds from exercise of stock options	21	6
Net change in settlement obligations	10,696	1,987
Net cash provided by financing activities	7,340	10,433
Effect of exchange rate changes on cash	(443)	(8,487)
Net decrease in cash, cash equivalents and restricted cash	(3,626)	(11,429)
Cash, cash equivalents and restricted cash – beginning of period	58,632	104,800
Cash, cash equivalents and restricted cash – end of period (Note 14)	$ 55,006	$ 93,371

See Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and the rules and regulations of the United States Securities and Exchange Commission for Quarterly Reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three months ended September 30, 2023 and 2022, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2023. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

References to "Lesaka" are references solely to Lesaka Technologies, Inc. References to the "Company" refer to Lesaka and its consolidated subsidiaries, collectively, unless the context otherwise requires.

Recent accounting pronouncements adopted

In June 2016, the Financial Accounting Standards Board issued guidance regarding *Measurement of Credit Losses on Financial Instruments*. The guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans, and other financial instruments, an entity is required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which reflects losses that are probable. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The guidance became effective for the Company beginning July 1, 2023. The adoption of this guidance did not have a material impact on the Company's financial statements and related disclosures, refer to Note 2.

In November 2019, the FASB issued guidance regarding *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842).* The guidance provides a framework to stagger effective dates for future major accounting standards and amends the effective dates for certain major new accounting standards to give implementation relief to certain types of entities, including Smaller Reporting Companies. The Company is a Smaller Reporting Company. Specifically, the guidance changes some effective dates for certain new standards on the following topics in the FASB Codification, namely Derivatives and Hedging (ASC 815); Leases (ASC 842); Financial Instruments — Credit Losses (ASC 326); and Intangibles — Goodwill and Other (ASC 350). The guidance defers the adoption date of guidance regarding *Measurement of Credit Losses on Financial Instruments* by the Company from July 1, 2020 to July 1, 2023. The guidance became effective for the Company beginning July 1, 2023. The adoption of this guidance did not have a material impact on the Company's financial statements and related disclosures, refer to Note 2.

The Company's updated accounting policy regarding allowance for credit losses is as follows:

Allowance for doubtful accounts receivable

Allowance for doubtful finance loans receivable

The Company uses historical default experience over the lifetime of loans in order to calculate a lifetime loss rate for its lending books. The allowance for credit losses related to Consumer finance loans receivables is calculated by multiplying the lifetime loss rate with the month-end outstanding lending book. The allowance for credit losses related to Merchant finance loans receivables is calculated by adding together actual receivables in default plus multiplying the lifetime loss rate with the month-end outstanding lending book. Prior to July 1, 2023, the Company regularly reviewed the ageing of outstanding amounts due from borrowers and adjusted its allowance based on management's estimate of the recoverability of the finance loans receivable. The Company writes off microlending finance loans receivable and related service fees and interest if a borrower is in arrears with repayments for more than three months or is deceased. The Company writes off merchant and working capital finance receivables and related fees when it is evident that reasonable recovery procedures, including where deemed necessary, formal legal action, have failed.

1. **Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Allowance for doubtful accounts receivable (continued)

Allowance for doubtful accounts receivable

The Company uses a lifetime loss rate by expressing write-off experience as a percentage of corresponding invoice amounts (as opposed to outstanding balances). The allowance for credit losses related to these receivables has been calculated by multiplying the lifetime loss rate with recent invoice/origination amounts. Prior to July 1, 2023, A specific provision is established where it is considered likely that all or a portion of the amount due from customers renting safe assets, point of sale ("POS") equipment, receiving support and maintenance or transaction services or purchasing licenses or SIM cards from the Company will not be recovered. Non-recoverability is assessed based on a quarterly review by management of the ageing of outstanding amounts, the location and the payment history of the customer in relation to those specific amounts.

Recent accounting pronouncements not yet adopted as of September 30, 2023

There are no recent accounting pronouncements that have not yet been adopted as of September 30, 2023.

2. **Accounts receivable, net and other receivables and finance loans receivable, net**

Accounts receivable, net and other receivables

The Company's accounts receivable, net, and other receivables as of September 30, 2023, and June 30, 2023, are presented in the table below:

	September 30, 2023	June 30, 2023
Accounts receivable, trade, net	$ 10,231	$ 11,037
Accounts receivable, trade, gross	10,401	11,546
Allowance for doubtful accounts receivable, end of period	170	509
Beginning of period	509	509
Reallocation to allowance for doubtful finance loans receivable	-	(418)
Reversed to statement of operations	(235)	(31)
Charged to statement of operations	179	2,005
Utilized	(284)	(1,645)
Foreign currency adjustment	1	89
Current portion of amount outstanding related to sale of interest in Carbon, net of allowance: September 2023: $750; June 2023: $750	250	-
Current portion of total held to maturity investments	-	-
Investment in 7.625% of Cedar Cellular Investment 1 (RF) (Pty) Ltd 8.625% notes	-	-
Other receivables	17,458	14,628
Total accounts receivable, net and other receivables	$ 27,939	$ 25,665

Trade receivables include amounts due from customers which generally have a very short-term life from date of invoice or service provided to settlement. The duration is less than a year in all cases and generally less than 30 days in many instances. The short-term nature of these exposures often results in balances at month-end that are disproportionately small compared to the total invoiced amounts. The month-end outstanding balance are more volatile than the monthly invoice amounts because they are affected by operational timing issues and the fact that a balance is outstanding at month-end is not necessarily an indication of increased risk but rather a matter of operational timing.

Credit risk in respect of trade receivables are generally not significant and the Company has not developed a sophisticated model for these basic credit exposures. The Company determined to use a lifetime loss rate by expressing write-off experience as a percentage of corresponding invoice amounts (as opposed to outstanding balances). The allowance for credit losses related to these receivables has been calculated by multiplying the lifetime loss rate with recent invoice/origination amounts. Management actively monitors performance of these receivables over short periods of time. Different balances have different rules to identify an account in distress but, generally speaking, account balances in distress are identified very early and specific allowances are immediately created. Subsequent recovery from distressed accounts are generally limited.

2. Accounts receivable, net and other receivables and finance loans receivable, net (continued)

Accounts receivable, net and other receivables (continued)

Current portion of amount outstanding related to sale of interest in Carbon represents the amount due from the purchaser related to the sale of the Company's interest in Carbon Tech Limited ("Carbon"), an equity-accounted investment of \$0.25 million, net of an allowance for doubtful loans receivable of \$0.25 million as of June 30, 2023, and an amount due related to the sale of the loan, with a face value of \$3.0 million, which was sold in September 2022 for \$0.75 million, net of an allowance for doubtful loans receivable of \$0.75 million, refer to Note 5 for additional information. The Company received the outstanding \$0.25 million related to the sale of the equity-accounted investment in October 2023, and has reversed the allowance for doubtful loans receivable of \$0.25 million during the three months ended September 30, 2023.

Investment in 7.625% of Cedar Cellular Investment 1 (RF) (Pty) Ltd 8.625% notes represents the investment in a note which was due to mature in August 2022 and forms part of Cell C's capital structure. The carrying value as of each of September 30, 2023, and June 30, 2023, respectively was \$0 (zero).

Other receivables includes prepayments, deposits, income taxes receivable and other receivables.

Contractual maturities of held to maturity investments

Summarized below is the contractual maturity of the Company's held to maturity investment as of September 30, 2023:

	Cost basis	Estimated fair value(1)
Due in one year or less	$ -	$ -
Due in one year through five years(2)	-	-
Due in five years through ten years	-	-
Due after ten years	-	-
Total	$ -	$ -

(1) The estimated fair value of the Cedar Cellular note has been calculated utilizing the Company's portion of the assets held by Cedar Cellular, namely, Cedar Cellular's investment in Cell C.

(2) The cost basis is zero (\$0.0 million).

2. **Accounts receivable, net and other receivables and finance loans receivable, net (continued)**

Finance loans receivable, net

The Company's finance loans receivable, net, as of September 30, 2023, and June 30, 2023, is presented in the table below:

	September 30, 2023	June 30, 2023
Microlending finance loans receivable, net	$ 20,877	$ 20,605
Microlending finance loans receivable, gross	22,328	22,037
Allowance for doubtful finance loans receivable, end of period	1,451	1,432
Beginning of period	1,432	1,394
Reversed to statement of operations	(27)	-
Charged to statement of operations	416	1,452
Utilized	(364)	(1,214)
Foreign currency adjustment	(6)	(200)
Merchant finance loans receivable, net	14,858	16,139
Merchant finance loans receivable, gross	17,800	18,289
Allowance for doubtful finance loans receivable, end of period	2,942	2,150
Beginning of period	2,150	297
Reallocation from allowance for doubtful accounts receivable	-	418
Reversed to statement of operations	(202)	(1,268)
Charged to statement of operations	1,394	3,068
Utilized	(376)	-
Foreign currency adjustment	(24)	(365)
Total finance loans receivable, net	$ 35,735	$ 36,744

Total finance loans receivable, net, comprises microlending finance loans receivable related to the Company's microlending operations in South Africa as well as its merchant finance loans receivable related to Connect's lending activities in South Africa. Certain merchant finance loans receivable have been pledged as security for the Company's revolving credit facility (refer to Note 8).

Allowance for credit losses

Microlending finance loans receivable

Microlending finance loans receivable related to the Company's microlending operations in South Africa whereby it provides unsecured short-term loans to qualifying customers. Loans to customers have a tenor of up to six months, with the majority of loans originated having a tenor of six months. The Company analyses this lending book as a single portfolio because the loans within the portfolio have similar characteristics and management uses similar processes to monitor and assess the credit risk of the lending book. Refer to Note 4 related to the Company risk management process related to these receivables.

The Company has operated this lending book for more than five years and uses historical default experience over the lifetime of loans in order to calculate a lifetime loss rate for the lending book. The allowance for credit losses related to these microlending finance loans receivables is calculated by multiplying the lifetime loss rate with the month end outstanding lending book. The lifetime loss rate as of each of July 1, 2023 and September 30, 2023, was 6.50%. The performing component (that is, outstanding loan payments not in arrears) of the book exceeds more than 99% of outstanding lending book as of September 30, 2023.

Merchant finance loans receivable

Merchant finance loans receivable related to the Company's Merchant lending activities in South Africa whereby it provides unsecured short-term loans to qualifying customers. Loans to customers have a tenor of up to twelve months, with the majority of loans originated having a tenor of approximately seven months. The Company analyses this lending book as a single portfolio because the loans within the portfolio have similar characteristics and management uses similar processes to monitor and assess the credit risk of the lending book. Refer to Note 4 related to the Company risk management process related to these receivables.

2. Accounts receivable, net and other receivables and finance loans receivable, net (continued)

Finance loans receivable, net (continued)

Allowance for credit losses (continued)

Microlending finance loans receivable (continued)

The Company has recently (in the past two years) commenced lending to merchant customers and uses historical default experience over the lifetime of loans generated thus far in order to calculate a lifetime loss rate for the lending book. The allowance for credit losses related to these merchant finance loans receivables is calculated by adding together actual receivables in default plus multiplying the lifetime loss rate with the month-end outstanding lending book. The lifetime loss rate as of each of July 1, 2023 and September 30, 2023, was approximately 1.18%. The performing component (that is, outstanding loan payments not in arrears), under-performing component (that is, outstanding loan payments that are in arrears) and non-performing component (that is, outstanding loans for which payments appeared to have ceased) of the book represents approximately 84%, 11% and 5%, respectively, of the outstanding lending book as of September 30, 2023.

3. Inventory

The Company's inventory comprised the following categories as of September 30, 2023, and June 30, 2023:

	September 30, 2023	June 30, 2023
Raw materials	$ 2,642	$ 2,819
Work-in-progress	230	30
Finished goods	24,882	24,488
	$ 27,754	$ 27,337

As of September 30, 2023 and June 30, 2023, finished goods includes \$8.5 million and \$8.6 million, respectively, of Cell C airtime inventory that was previously classified as finished goods subject to sale restrictions. In support of Cell C's liquidity position and pursuant to Cell C's recapitalization process, the Company limited the resale of this airtime to its own distribution channels. On September 30, 2022, Cell C concluded its recapitalization process and the Company and Cell C entered into an agreement under which Cell C agreed to repurchase, from October 2023, up to ZAR 10 million of Cell C inventory from the Company per month. The amount to be repurchased by Cell C is calculated as ZAR 10 million less the face value of any sales made by the Company during that month. The Company's ability to sell this airtime has increased significantly since the acquisition of Connect because Connect is a significant reseller of Cell C airtime. As a result, the Company has sold higher volumes of airtime through this channel than it did prior to the Cell C recapitalization, however, continued sales at these volumes is dependent on prevailing conditions continuing in the airtime market. If the Company is able to sell at least ZAR 10 million a month through this channel from October 1, 2023, then Cell C would not be required to repurchase any airtime from the Company during any specific month. The Company has agreed to notify Cell C prior to selling any of this airtime, however, there is no restriction placed on the Company on the sale of the airtime.

4. Fair value of financial instruments

Initial recognition and measurement

Financial instruments are recognized when the Company becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs.

Risk management

The Company manages its exposure to currency exchange, translation, interest rate, credit, microlending credit and equity price and liquidity risks as discussed below.

Currency exchange risk

The Company is subject to currency exchange risk because it purchases components for its safe assets, that the Company assembles, and inventories that it is required to settle in other currencies, primarily the euro, renminbi, and U.S. dollar. The Company has used forward contracts in order to limit its exposure in these transactions to fluctuations in exchange rates between the South African rand ("ZAR"), on the one hand, and the U.S. dollar and the euro, on the other hand.

Translation risk

Translation risk relates to the risk that the Company's results of operations will vary significantly as the U.S. dollar is its reporting currency, but it earns a significant amount of its revenues and incurs a significant amount of its expenses in ZAR. The U.S. dollar to the ZAR exchange rate has fluctuated significantly over the past three years. As exchange rates are outside the Company's control, there can be no assurance that future fluctuations will not adversely affect the Company's results of operations and financial condition.

Interest rate risk

As a result of its normal borrowing activities, the Company's operating results are exposed to fluctuations in interest rates, which it manages primarily through regular financing activities. Interest rates in South Africa are trending upwards and the Company expects higher interest rates in the foreseeable future which will increase its cost of borrowing. The Company periodically evaluates the cost and effectiveness of interest rate hedging strategies to manage this risk. The Company generally maintains surplus cash in cash equivalents and held to maturity investments and has occasionally invested in marketable securities.

Credit risk

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies in respect of its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as the Company's management deems appropriate. With respect to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with South African and European financial institutions that have a credit rating of "B" (or its equivalent) or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

Consumer microlending credit risk

The Company is exposed to credit risk in its Consumer microlending activities, which provides unsecured short-term loans to qualifying customers. Credit bureau checks as well as an affordability test are conducted as part of the origination process, both of which are in line with local regulations. The Company considers this policy to be appropriate because the affordability test it performs takes into account a variety of factors such as other debts and total expenditures on normal household and lifestyle expenses. Additional allowances may be required should the ability of its customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including ongoing evaluation of the creditworthiness of each customer.

Merchant lending

The Company maintains an allowance for doubtful finance loans receivable related to its Merchant services segment with respect to short-term loans to qualifying merchant customers. The Company's risk management procedures include adhering to its proprietary lending criteria which uses an online-system loan application process, obtaining necessary customer transaction-history data and credit bureau checks. The Company considers these procedures to be appropriate because it takes into account a variety of factors such as the customer's credit capacity and customer-specific risk factors when originating a loan.

4. Fair value of financial instruments (continued)

Risk management (continued

Equity price and liquidity risk

Equity price risk relates to the risk of loss that the Company would incur as a result of the volatility in the exchange-traded price of equity securities that it holds. The market price of these securities may fluctuate for a variety of reasons and, consequently, the amount that the Company may obtain in a subsequent sale of these securities may significantly differ from the reported market value.

Equity liquidity risk relates to the risk of loss that the Company would incur as a result of the lack of liquidity on the exchange on which those securities are listed. The Company may not be able to sell some or all of these securities at one time, or over an extended period of time without influencing the exchange-traded price, or at all.

Financial instruments

The following section describes the valuation methodologies the Company uses to measure its significant financial assets and liabilities at fair value.

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology would apply to Level 1 investments. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments would be included in Level 2 investments. In circumstances in which inputs are generally unobservable, values typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Investments valued using such techniques are included in Level 3 investments.

Asset measured at fair value using significant unobservable inputs – investment in Cell C

The Company's Level 3 asset represents an investment of 75,000,000 class "A" shares in Cell C, a significant mobile telecoms provider in South Africa. The Company used a discounted cash flow model developed by the Company to determine the fair value of its investment in Cell C as of September 30, 2023 and June 30, 2023, respectively, and valued Cell C at $0.0 (zero) and $0.0 (zero) as of September 30, 2023, and June 30, 2023, respectively. The Company incorporates the payments under Cell C's lease liabilities into the cash flow forecasts and assumes that Cell C's deferred tax assets would be utilized over the forecast period. The Company has increased the marketability discount from 10% to 20% and the minority discount from 15% to 24% due to the reduction in the Company's shareholding percentage from 15% to 5% as well as current market conditions. The Company utilized the latest revised business plan provided by Cell C management for the period ended December 31, 2025, for the September 30, 2023, and June 30, 2023, valuations. Adjustments have been made to the WACC rate to reflect the Company's assessment of risk to Cell C achieving its business plan.

The following key valuation inputs were used as of September 30, 2023 and June 30, 2023:

Weighted Average Cost of Capital ("WACC"):	Between 20% and 31% over the period of the forecast
Long term growth rate:	4.5% (4.5% as of June 30, 2023)
Marketability discount:	20% (20% as of June 30, 2023)
Minority discount:	24% (24% as of June 30, 2023)
Net adjusted external debt - September 30, 2023:(1)	ZAR 8 billion ($0.4 billion), no lease liabilities included
Net adjusted external debt - June 30, 2023:(2)	ZAR 8.1 billion ($0.4 billion), no lease liabilities included

(1) translated from ZAR to U.S. dollars at exchange rates applicable as of September 30, 2023.
(2) translated from ZAR to U.S. dollars at exchange rates applicable as of June 30, 2023.

The following table presents the impact on the carrying value of the Company's Cell C investment of a 1.0% increase and 1.0% decrease in the WACC rate and the EBITDA margins respectively used in the Cell C valuation on September 30, 2023, all amounts translated at exchange rates applicable as of September 30, 2023:

Sensitivity for fair value of Cell C investment	**1.0% increase**	**1.00% decrease**
WACC rate	$ -	$ 621
EBITDA margin	$ 1,954	$ -

The fair value of the Cell C shares as of September 30, 2023, represented 0% of the Company's total assets, including these shares. The Company expects to hold these shares for an extended period of time and that there will be short-term equity price volatility with respect to these shares particularly given that Cell C remains in a turnaround process.

4. Fair value of financial instruments (continued)

Financial instruments

Derivative transactions - Foreign exchange contracts

As part of the Company's risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are over-the-counter derivative transactions. Substantially all of the Company's derivative exposures are with counterparties that have long-term credit ratings of "B" (or equivalent) or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value (Level 2). The Company has no derivatives that require fair value measurement under Level 1 or 3 of the fair value hierarchy.

The Company had no outstanding foreign exchange contracts as of September 30, 2023, and June 30, 2023.

The following table presents the Company's assets measured at fair value on a recurring basis as of September 30, 2023, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investment in Cell C	$ -	$ -	$ -	$ -
Related to insurance business:				
Cash, cash equivalents and restricted cash (included in other long-term assets)	251	-	-	251
Fixed maturity investments (included in cash and cash equivalents)	3,661	-	-	3,661
Foreign exchange contracts	-	-	-	-
Total assets at fair value	$ 3,912	$ -	$ -	$ 3,912

The following table presents the Company's assets measured at fair value on a recurring basis as of June 30, 2023, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investment in Cell C	$ -	$ -	$ -	$ -
Related to insurance business				
Cash and cash equivalents (included in other long-term assets)	258	-	-	258
Fixed maturity investments (included in cash and cash equivalents)	3,119	-	-	3,119
Total assets at fair value	$ 3,377	$ -	$ -	$ 3,377

There have been no transfers in or out of Level 3 during the three months ended September 30, 2023 and 2022, respectively.

There was no movement in the carrying value of assets measured at fair value on a recurring basis, and categorized within Level 3, during the three months ended September 30, 2023 and 2022.

4. Fair value of financial instruments (continued)

Summarized below is the movement in the carrying value of assets and liabilities measured at fair value on a recurring basis, and categorized within Level 3, during the three months ended September 30, 2023:

	Carrying value
Assets	
Balance as of June 30, 2023	$ -
Foreign currency adjustment[(1)]	-
Balance as of September 30, 2023	$ -

(1) The foreign currency adjustment represents the effects of the fluctuations of the South African rand against the U.S. dollar on the carrying value.

Summarized below is the movement in the carrying value of assets and liabilities measured at fair value on a recurring basis, and categorized within Level 3, during the three months ended September 30, 2022:

	Carrying value
Assets	
Balance as of June 30, 2022	$ -
Foreign currency adjustment[(1)]	-
Balance as of September 30, 2023	$ -

(1) The foreign currency adjustment represents the effects of the fluctuations of the South African rand against the U.S. dollar on the carrying value.

Assets measured at fair value on a nonrecurring basis

The Company measures equity investments without readily determinable fair values at fair value on a nonrecurring basis. The fair values of these investments are determined based on valuation techniques using the best information available and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the asset exceeds its fair value and the excess is determined to be other-than-temporary. Refer to Note 5 for impairment charges recorded during the reporting periods presented herein. The Company has no liabilities that are measured at fair value on a nonrecurring basis.

5. Equity-accounted investments and other long-term assets

Refer to Note 9 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023, for additional information regarding its equity-accounted investments and other long-term assets.

Equity-accounted investments

The Company's ownership percentage in its equity-accounted investments as of September 30, 2023, and June 30, 2023, was as follows:

	September 30, 2023	June 30, 2023
Finbond Group Limited ("Finbond")	27.8 %	27.8 %
Sandulela Technology (Pty) Ltd ("Sandulela")	49.0 %	49.0 %
SmartSwitch Namibia (Pty) Ltd ("SmartSwitch Namibia")	50.0 %	50.0 %

Finbond

As of September 30, 2023, the Company owned 220,523,358 shares in Finbond representing approximately 27.8% of its issued and outstanding ordinary shares. Finbond is listed on the Johannesburg Stock Exchange ("JSE") and its closing price on September 29, 2023, the last trading day of the month, was ZAR 0.41 per share. The market value, using the September 29, 2023, closing price, of the Company's holding in Finbond on September 30, 2023, was ZAR 90.4 million ($4.8 million translated at exchange rates applicable as of September 30, 2023).

5. Equity-accounted investments and other long-term assets (continued)

Equity-accounted investments (continued)

Finbond (continued)

August 2023 agreement to sell entire stake in Finbond

On August 10, 2023, the Company, through its wholly owned subsidiary Net1 Finance Holdings (Pty) Ltd, entered into an agreement with Finbond to sell its remaining shareholding to Finbond for a cash consideration of ZAR 64.2 million ($3.4 million using exchange rates applicable as of September 30, 2023), or ZAR 0.2911 per share. The transaction is subject to certain conditions, including regulatory and shareholder approvals, and all conditions are required to be fulfilled on or before December 31, 2023, otherwise the transaction will lapse.

Sale of Finbond shares during the three months ended September 2022

The Company sold 81,935 shares in Finbond for cash during the three months ended September 30, 2022, and recorded a loss of $0.002 million which is included in the caption net gain on disposal of equity-accounted investments in the Company's unaudited condensed consolidated statements of operations.

The following table presents the calculation of the loss on disposal of Finbond shares during the three months ended September 30, 2022:

		Three months ended September 30, 2022
Loss on disposal of Finbond shares:		
Consideration received in cash	$	3
Less: carrying value of Finbond shares sold		(3)
Less: release of foreign currency translation reserve from accumulated other comprehensive loss		(2)
Add: release of stock-based compensation charge related to equity-accounted investment		-
Loss on sale of Finbond shares	$	(2)

Finbond impairments recorded during the three months ended September 30, 2023

As noted earlier, the Company has entered into an agreement to exit its position in Finbond and the Company considered this an impairment indicator. The Company is required to include any foreign currency translation reserve and other equity account amounts in its impairment assessment if it considers exiting an equity method investment. The Company performed an impairment assessment of its holding in Finbond, including the foreign currency translation reserve and other equity account amounts, as of September 30, 2023. The Company recorded an impairment loss of $1.2 million during the quarter ended September 30, 2023, which represented the difference between the determined fair value of the Company's interest in Finbond and the Company's carrying value, including the foreign currency translation reserve (before the impairment). The Company used the price of ZAR 0.2911 referenced in the August 2023 agreement referred to above to calculate the determined fair value for Finbond.

Finbond impairments recorded during the three months ended September 30, 2022

The Company considered the combination of the ongoing losses incurred and reported by Finbond and its lower share price as impairment indicators. The Company performed an impairment assessment of its holding in Finbond as of September 30, 2022. The Company recorded an impairment loss of $1.1 million during the quarter ended September 30, 2022, related to the other-than-temporary decrease in Finbond's value, which represented the difference between the determined fair value of the Company's interest in Finbond and the Company's carrying value (before the impairment). The Company observed continued limited trading in Finbond shares on the JSE during the three months ended September 30, 2022, because a small number of shareholders owned approximately 80% of its issued and outstanding shares between them. The Company calculated a fair value per share for Finbond by applying a liquidity discount of 25% to the September 30, 2022, Finbond closing price of ZAR 0.49. The Company increased the liquidity discount from 15% (used in the previous impairment assessment) to 25% as a result of the ongoing limited trading activity observed on the JSE.

5. Equity-accounted investments and other long-term assets (continued)

Equity-accounted investments (continued)

Carbon

In September 2022, the Company, through its wholly-owned subsidiary, Net1 Applied Technologies Netherlands B.V. ("Net1 BV"), entered into a binding term sheet with the Etobicoke Limited ("Etobicoke") to sell its entire interest, or 25%, in Carbon to Etobicoke for $0.5 million and a loan due from Carbon, with a face value of $3.0 million, to Etobicoke for $0.75 million. Both the equity interest and the loan had a carrying value of $0 (zero) at June 30, 2022. The parties have agreed that Etobicoke pledge the Carbon shares purchased as security for the amounts outstanding under the binding term sheet.

The Company received $0.25 million on closing and the outstanding balance due by Etobicoke is expected to be paid as follows: (i) $0.25 million on September 30, 2023 (the amount was received in October 2023), and (ii) the remaining amount, of $0.75 million in March 2024. Both amounts are included in the caption accounts receivable, net and other receivables in the Company's unaudited condensed consolidated balance sheet as of September 30, 2023. The Company has allocated the $0.25 million received to the sale of the equity interest and will allocate the funds received first to the sale of the equity interest and then to the loans.

The Company currently believes that the fair value of the Carbon shares provided as security is $0 (zero), which is in line with the carrying value as of June 30, 2022, and has created an allowance for doubtful loans receivable related to the $1.0 million due from Etobicoke. The Company did not incur any significant transaction costs. The Company has included the gain of $0.25 million related to the sale of the Carbon equity interest in the caption net gain on disposal of equity-accounted investments in the Company's unaudited condensed consolidated statements of operations.

The following table presents the calculation of the gain on disposal of Carbon in September 2022:

	Three months ended September 30, 2022
Gain on disposal of Carbon shares:	
Consideration received in cash in September 2022	$ 250
Less: carrying value of Carbon	-
Gain on disposal of Carbon shares:(1)	$ 250

(1) The Company does not expect to pay taxes related to the sale of Carbon because the base cost of its investment exceeds the sales consideration received. The Company does not believe that it will be able to utilize the loss generated because Net1 BV does not generate taxable income.

Summarized below is the movement in equity-accounted investments and loans provided to equity-accounted investments during the three months ended September 30, 2023:

	Finbond	Other(1)	Total
Investment in equity			
Balance as of June 30, 2023	$ 3,040	$ 131	$ 3,171
Stock-based compensation	14	-	14
Comprehensive income:	(956)	40	(916)
Other comprehensive income	489	-	489
Equity accounted (loss) earnings	(1,445)	40	(1,405)
Share of net (loss) earnings	(278)	40	(238)
Impairment	(1,167)	-	(1,167)
Foreign currency adjustment(2)	(14)	(2)	(16)
Balance as of September 30, 2023	$ 2,084	$ 169	$ 2,253

(1) Includes Sandulela, and SmartSwitch Namibia;

(2) The foreign currency adjustment represents the effects of the fluctuations of the ZAR and Namibian dollar, against the U.S. dollar on the carrying value.

5. Equity-accounted investments and other long-term assets (continued)

Other long-term assets

Summarized below is the breakdown of other long-term assets as of September 30, 2023, and June 30, 2023:

	September 30, 2023	June 30, 2023
Total equity investments	$ 76,297	$ 76,297
Investment in 5% of Cell C (June 30, 2023: 5%) at fair value (Note 4)	-	-
Investment in 10% of MobiKwik (June 30, 2023: 10%)(1)	76,297	76,297
Investment in 87.5% of CPS (June 30, 2023: 87.5%) at fair value(1)(2)	-	-
Policy holder assets under investment contracts (Note 7)	251	257
Reinsurance assets under insurance contracts (Note 7)	1,274	1,040
Total other long-term assets	$ 77,822	$ 77,594

(1) The Company determined that MobiKwik and CPS do not have readily determinable fair values and therefore elected to record these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

(2) On October 16, 2020, the High Court of South Africa, Gauteng Division, Pretoria ordered that CPS be placed into liquidation.

Summarized below are the components of the Company's equity securities without readily determinable fair value and held to maturity investments as of September 30, 2023:

	Cost basis	Unrealized holding gains	Unrealized holding losses	Carrying value
Equity securities:				
Investment in MobiKwik	$ 26,993	$ 49,304	$ -	$ 76,297
Investment in CPS	-	-	-	-
Held to maturity:				
Investment in Cedar Cellular notes (Note 2)	-	-	-	-
Total	$ 26,993	$ 49,304	$ -	$ 76,297

Summarized below are the components of the Company's equity securities without readily determinable fair value and held to maturity investments as of June 30, 2023:

	Cost basis	Unrealized holding gains	Unrealized holding losses	Carrying value
Equity securities:				
Investment in MobiKwik	$ 26,993	$ 49,304	$ -	$ 76,297
Investment in CPS	-	-	-	-
Held to maturity:				
Investment in Cedar Cellular notes	-	-	-	-
Total	$ 26,993	$ 49,304	$ -	$ 76,297

6. Goodwill and intangible assets, net

Goodwill

Summarized below is the movement in the carrying value of goodwill for the three months ended September 30, 2023:

	Gross value	Accumulated impairment	Carrying value
Balance as of June 30, 2023	$ 152,619	$ (18,876)	$ 133,743
Foreign currency adjustment (1)	(664)	60	(604)
Balance as of September 30, 2023	$ 151,955	$ (18,816)	$ 133,139

(1) – The foreign currency adjustment represents the effects of the fluctuations of the South African rand against the U.S. dollar on the carrying value.

Goodwill has been allocated to the Company's reportable segments as follows:

	Consumer	Merchant	Carrying value
Balance as of June 30, 2023	$ -	$ 133,743	$ 133,743
Foreign currency adjustment (1)	-	(604)	(604)
Balance as of September 30, 2023	$ -	$ 133,139	$ 133,139

(1) The foreign currency adjustment represents the effects of the fluctuations of the South African rand against the U.S. dollar on the carrying value.

Intangible assets, net

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of intangible assets as of September 30, 2023, and June 30, 2023:

	As of September 30, 2023			As of June 30, 2023		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	$ 24,865	$ (12,005)	$ 12,860	$ 24,978	$ (11,565)	$ 13,413
Software, integrated platform and unpatented technology	110,535	(16,419)	94,116	110,906	(13,711)	97,195
FTS patent	2,025	(2,025)	-	2,034	(2,034)	-
Brands and trademarks	13,789	(3,170)	10,619	13,852	(2,863)	10,989
Total finite-lived intangible assets	$ 151,214	$ (33,619)	$ 117,595	$ 151,770	$ (30,173)	$ 121,597

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2023 and 2022, was approximately $3.6 million and $4.0 million, respectively. Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates that prevailed on September 30, 2023, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

Fiscal 2024 (three months ended September 30, 2023)	$ 10,742
Fiscal 2025	14,327
Fiscal 2026	14,328
Fiscal 2027	14,274
Fiscal 2028	14,232
Thereafter	49,692
Total future estimated annual amortization expense	$ 117,595

7. Assets and policyholder liabilities under insurance and investment contracts

Reinsurance assets and policyholder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policyholder liabilities under insurance contracts during the three months ended September 30, 2023:

	Reinsurance Assets[1]	Insurance contracts[2]
Balance as of June 30, 2023	$ 1,040	$ (1,600)
Increase in policy holder benefits under insurance contracts	378	(1,952)
Claims and decrease in policyholders' benefits under insurance contracts	(136)	1,671
Foreign currency adjustment[3]	(8)	10
Balance as of September 30, 2023	$ 1,274	$ (1,871)

(1) Included in other long-term assets (refer to Note 5);
(2) Included in other long-term liabilities;
(3) Represents the effects of the fluctuations of the ZAR against the U.S. dollar.

The Company has agreements with reinsurance companies in order to limit its losses from various insurance contracts, however, if the reinsurer is unable to meet its obligations, the Company retains the liability. The value of insurance contract liabilities is based on the best estimate assumptions of future experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The process of deriving the best estimate assumptions plus prescribed margins includes assumptions related to claim reporting delays (based on average industry experience).

Assets and policyholder liabilities under investment contracts

Summarized below is the movement in assets and policyholder liabilities under investment contracts during the three months ended September 30, 2023:

	Assets[1]	Investment contracts[2]
Balance as of June 30, 2023	$ 257	$ (241)
Increase in policy holder benefits under investment contracts	3	(3)
Foreign currency adjustment [3]	(9)	1
Balance as of September 30, 2023	$ 251	$ (243)

(1) Included in other long-term assets (refer to Note 5);
(2) Included in other long-term liabilities;
(3) Represents the effects of the fluctuations of the ZAR against the U.S. dollar.

The Company does not offer any investment products with guarantees related to capital or returns.

8. Borrowings

Refer to Note 12 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023, for additional information regarding its borrowings.

South Africa

The amounts below have been translated at exchange rates applicable as of the dates specified. The 3-month Johannesburg Interbank Agreed Rate ("JIBAR") on September 30, 2023, was 8.33%. The prime rate on September 30, 2023, was 11.75%.

RMB Facilities, as amended, comprising a short-term facility (Facility E) and long-term borrowings

Long-term borrowings - Facility G and Facility H

As of September 30, 2023, the Company's had utilized ZAR 10.0 million ($0.5 million) of its ZAR 200 million Facility G revolving credit facility. The interest rate on this facility as of September 30, 2023, was JIBAR plus 5.50%.

Available short-term facility - Facility E

As of September 30, 2023, the aggregate amount of the Company's short-term South African overdraft facility with RMB was ZAR 1.4 billion ($74.0 million). As of September 30, 2023, the Company had utilized approximately ZAR 0.4 billion ($19.8 million) of this overdraft facility. This overdraft facility may only be used to fund ATMs and therefore the overdraft utilized and converted to cash to fund the Company's ATMs is considered restricted cash. The interest rate on this facility is equal to the prime rate.

Connect Facilities, comprising long-term borrowings and a short-term facility

As of September 30, 2023, the Connect Facilities include (i) an overdraft facility (general banking facility) of ZAR 205.0 million (of which ZAR 170.0 million has been utilized); (ii) Facility A of ZAR 700.0 million; (iii) Facility B of ZAR 550.0 million (both fully utilized); and (iv) an asset-backed facility of ZAR 200.0 million (of which ZAR 152.5 million has been utilized).

CCC Revolving Credit Facility, comprising long-term borrowings

As of September 30, 2023, the amount of the CCC Revolving Credit Facility was ZAR 300.0 million (of which ZAR 205.5 million has been utilized). Interest on the Revolving Credit Facility is payable on the last business day of each calendar month and is based on the South African prime rate in effect from time to time plus a margin of 0.95% per annum.

RMB facility, comprising indirect facilities

As of September 30, 2023, the aggregate amount of the Company's short-term South African indirect credit facility with RMB was ZAR 135.0 million ($7.1 million), which includes facilities for guarantees, letters of credit and forward exchange contracts. As of September 30, 2023 and June 30, 2023, the Company had utilized approximately ZAR 33.1 million ($1.7 million) and ZAR 33.1 million ($1.8 million), respectively, of its indirect and derivative facilities of ZAR 135.0 million (June 30, 2023: ZAR 135.0 million) to enable the bank to issue guarantees, letters of credit and forward exchange contracts (refer to Note 19).

Nedbank facility, comprising short-term facilities

As of September 30, 2023, the aggregate amount of the Company's short-term South African credit facility with Nedbank Limited was ZAR 156.6 million ($8.3 million). The credit facility represents indirect and derivative facilities of up to ZAR 156.6 million ($8.3 million), which include guarantees, letters of credit and forward exchange contracts.

As of September 30, 2023 and June 30, 2023, the Company had utilized approximately ZAR 2.1 million ($0.1 million) and ZAR 2.1 million ($0.1 million), respectively, of its indirect and derivative facilities of ZAR 156.6 million (June 30, 2023: ZAR 156.6 million) to enable the bank to issue guarantees, letters of credit and forward exchange contracts (refer to Note 19).

8. Borrowings (continued)

Movement in short-term credit facilities

Summarized below are the Company's short-term facilities as of September 30, 2023, and the movement in the Company's short-term facilities from as of June 30, 2023 to as of September 30, 2023:

	RMB Facility E	RMB Indirect	RMB Connect	Nedbank Facilities	Total
Short-term facilities available as of September 30, 2023	$ 73,982	$ 7,134	$ 10,833	$ 8,273	$ 100,222
Overdraft	-	-	10,833	-	10,833
Overdraft restricted as to use for ATM funding only	73,982	-	-	-	73,982
Indirect and derivative facilities	-	7,134	-	8,273	15,407
Movement in utilized overdraft facilities:					
Restricted as to use for ATM funding only	23,021	-	-	-	23,021
No restrictions as to use	-	-	9,025	-	9,025
Balance as of June 30, 2023	23,021	-	9,025	-	32,046
Utilized	59,574	-	-	-	59,574
Repaid	(62,793)	-	-	-	(62,793)
Foreign currency adjustment(1)	(48)	-	(42)	-	(90)
Balance as of September 30, 2023	19,754	-	8,983	-	28,737
Restricted as to use for ATM funding only	19,754	-	-	-	19,754
No restrictions as to use	$ -	$ -	$ 8,983	$ -	$ 8,983
Interest rate as of September 30, 2023 (%)(2)	11.75	-	11.65	-	
Movement in utilized indirect and derivative facilities:					
Balance as of June 30, 2023	$ -	$ 1,757	$ -	$ 112	$ 1,869
Foreign currency adjustment(1)	-	(8)	-	-	(8)
Balance as of September 30, 2023	$ -	$ 1,749	$ -	$ 112	$ 1,861

(1) Represents the effects of the fluctuations between the ZAR and the U.S. dollar.

(2) Facility E interest set at prime and the Connect facility at prime less 0.10%.

8. Borrowings (continued)

Movement in long-term borrowings

Summarized below is the movement in the Company's long-term borrowing from as of as of June 30, 2023 to as of September 30, 2023:

	Facilities				
	G & H	A&B	CCC	Asset backed	Total
Included in current	$ -	$ -	$ -	$ 3,663	$ 3,663
Included in long-term	48,965	64,436	11,802	4,252	129,455
Opening balance as of June 30, 2023	48,965	64,436	11,802	7,915	133,118
Facilities utilized	1,372	-	-	1,099	2,471
Facilities repaid	(797)	-	(904)	(928)	(2,629)
Non-refundable fees paid	-	-	-	-	-
Non-refundable fees amortized	202	12	13	-	227
Capitalized interest	1,756	-	-	-	1,756
Capitalized interest repaid	(58)	-	-	-	(58)
Foreign currency adjustment(1)	(297)	(293)	(50)	(28)	(668)
Closing balance as of September 30, 2023	51,143	64,155	10,861	8,058	134,217
Included in current	-	-	-	3,630	3,630
Included in long-term	51,143	64,155	10,861	4,428	130,587
Unamortized fees	(397)	(210)	(53)	-	(660)
Due within 2 years	-	-	-	3,179	3,179
Due within 3 years	51,540	4,954	10,914	1,142	68,550
Due within 4 years	-	7,596	-	104	7,700
Due within 5 years	$ -	$ 51,815	$ -	$ 3	$ 51,818
Interest rates as of September 30, 2023 (%):	13.83	12.08	12.70	12.50	
Base rate (%)	8.33	8.33	11.75	11.75	
Margin (%)	5.50	3.75	0.95	0.75	
Footnote number	(2)	(3)	(4)	(5)	

(1) Represents the effects of the fluctuations between the ZAR and the U.S. dollar.

(2) Interest on Facility G and Facility H is calculated based on the 3-month JIBAR in effect from time to time plus a margin of, from January 1, 2023: (i) 5.50% for as long as the aggregate balance under the Facilities is greater than ZAR 800 million; (ii) 4.25% if the aggregate balance under the Facilities is equal to or less than ZAR 800 million, but greater than ZAR 350 million; or (iii) 2.50% if the aggregate balance under the Facilities is less than ZAR 350 million

(3) Interest on Facility A and Facility B is calculated based on JIBAR plus a margin, of 3.75%, in effect from time to time.

(4) Interest is charged at prime plus 0.95% per annum on the utilized balance.

(5) Interest is charged at prime plus 0.75% per annum on the utilized balance.

Interest expense incurred under the Company's South African long-term borrowings and included in the caption interest expense on the condensed consolidated statement of operations during the three months ended September 30, 2023 and 2022, was $4.0 million and $2.7 million, respectively. Prepaid facility fees amortized included in interest expense during the three months ended September 30, 2023 and 2022, respectively, were $0.2 million and $0.2 million, respectively. Interest expense incurred under the Company's K2020 and CCC facilities relates to borrowings utilized to fund a portion of the Company's merchant finance loans receivable and this interest expense of $0.4 million and $0.2 million, respectively, is included in the caption cost of goods sold, IT processing, servicing and support on the condensed consolidated statement of operations for the three months ended September 30, 2023 and 2022.

9. Other payables

Summarized below is the breakdown of other payables as of September 30, 2023, and June 30, 2023:

	September 30, 2023	June 30, 2023
Accruals	$ 6,619	$ 7,078
Provisions	3,282	7,429
Value-added tax payable	983	1,247
Payroll-related payables	2,125	1,038
Participating merchants' settlement obligation	39	39
Other	22,057	19,466
	$ 35,105	$ 36,297

Other includes transactions-switching funds payable, deferred income, client deposits and other payables.

10. Capital structure

The following table presents a reconciliation between the number of shares, net of treasury, presented in the unaudited condensed consolidated statement of changes in equity as of September 30, 2023 and 2022, respectively:

	September 30, 2023	September 30, 2022
Number of shares, net of treasury:		
Statement of changes in equity	63,638,912	62,522,384
Non-vested equity shares that have not vested as of end of period	2,527,492	2,518,546
Number of shares, net of treasury, excluding non-vested equity shares that have not vested	61,111,420	60,003,838

11. Accumulated other comprehensive loss

The table below presents the change in accumulated other comprehensive loss per component during the three months ended September 30, 2023:

	Three months ended September 30, 2023	
	Accumulated foreign currency translation reserve	Total
Balance as of July 1, 2023	$ (195,726)	$ (195,726)
Movement in foreign currency translation reserve related to equity-accounted investment	489	489
Movement in foreign currency translation reserve	(844)	(844)
Balance as of September 30, 2023	$ (196,081)	$ (196,081)

11. Accumulated other comprehensive loss (continued)

The table below presents the change in accumulated other comprehensive loss per component during the three months ended September 30, 2022:

	Three months ended September 30, 2022	
	Accumulated foreign currency translation reserve	Total
Balance as of July 1, 2022	$ (168,840)	$ (168,840)
Release of foreign currency translation reserve related to disposal of Finbond equity securities	2	2
Movement in foreign currency translation reserve related to equity-accounted investment	2,441	2,441
Movement in foreign currency translation reserve	(22,093)	(22,093)
Balance as of September 30, 2022	$ (188,490)	$ (188,490)

There were no reclassifications from accumulated other comprehensive loss to net (loss) income during the three months ended September 30, 2023. During the three months ended September 30, 2022, the Company reclassified $0.002 million from accumulated other comprehensive loss (accumulated foreign currency translation reserve) to net loss related to the disposal of shares in Finbond (refer to Note 5).

12. Stock-based compensation

The Company's Amended and Restated 2022 Stock Incentive Plan ("2022 Plan") and the vesting terms of certain stock-based awards granted are described in Note 17 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023.

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the three months ended September 30, 2023 and 2022:

	Number of shares	Weighted average exercise price ($)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value ($'000)	Weighted average grant date fair value ($)
Outstanding - June 30, 2023	673,274	4.37	5.14	239	1.67
Exercised	(6,793)	3.07	-	5	-
Forfeited	(175,776)	3.58	-	-	1.22
Outstanding - September 30, 2023	490,705	4.68	6.30	199	1.82
Outstanding - June 30, 2022	926,225	4.14	6.60	1,249	1.60
Exercised	(2,000)	3.07	-	1	-
Forfeited	-	-	-	-	-
Outstanding - September 30, 2022	924,225	4.14	6.36	226	1.60

No stock options were awarded during each of the three months ended September 30, 2023 and 2022. During the three months ended September 30, 2023 and 2022, respectively, the Company received approximately $0.02 million and $0.006 million from the exercise of 6,793 and 2,000 stock options. Employees and a non-employee director forfeited an aggregate of 175,776 stock options during the three months ended September 30, 2023. No stock options were forfeited during the three months ended September 30, 2022.

12. Stock-based compensation

Stock option and restricted stock activity

Options

The following table presents stock options vested and expected to vest as of September 30, 2023:

	Number of shares	Weighted average exercise price ($)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value ($'000)
Vested and expecting to vest - September 30, 2023	490,705	4.68	6.30	199

These options have an exercise price range of $3.01 to $11.23.

The following table presents stock options that are exercisable as of September 30, 2023:

	Number of shares	Weighted average exercise price ($)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value ($'000)
Exercisable - September 30, 2023	341,317	5.05	5.77	121

No stock options became exercisable during each of the three months ended September 30, 2023 and 2022. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the three months ended September 30, 2023 and 2022:

	Number of shares of restricted stock	Weighted average grant date fair value ($'000)
Non-vested – June 30, 2023	2,614,419	11,869
Total vested	(78,800)	302
Forfeitures	(8,127)	32
Non-vested – September 30, 2023	2,527,492	11,475
Non-vested – June 30, 2022	2,385,267	11,879
Total Granted	212,080	1,167
Granted – July 2021	32,582	172
Granted – August 2021	179,498	995
Total vested	(78,801)	410
Vested – July 2022	(78,801)	410
Non-vested – September 30, 2022	2,518,546	12,568

12. Stock-based compensation (continued)

Stock option and restricted stock activity (continued)

Restricted stock (continued)

Grants

No restricted stock was awarded during the three months ended September 30, 2023. In July 2022, the Company granted 32,582 shares of restricted stock to employees which have time -based vesting conditions. The Company agreed to match, on a one-for-one basis, an employee's purchase of up to $1.0 million worth of the Company's shares of common stock in open market purchases, and in August 2022, the Company granted 179,498 shares of restricted stock to the employee. These shares of restricted stock contain time-based vesting conditions.

In October 2023, the Company awarded 225,000 shares of restricted stock to an executive officer which vest on June 30, 2025, except if the executive officer is terminated for cause, in which case the award will be forfeited. The Company also awarded 310,916 shares of restricted stock to three of its executive officers which are subject to a time-based vesting condition and a market condition and vest in full only on the date, if any, that the following conditions are satisfied: (1) a compounded annual 10% appreciation in the Company's stock price off a base price of $4.00 over the measurement period commencing on September 30, 2023 through November 17, 2026, and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The Company's closing price on September 30, 2023, was $3.90.

The appreciation levels (times and price) and vesting percentages as of each period ended are as follows:

- Prior to the first anniversary of the grant date: 0%;
- Fiscal 2025, the Company's 30-day volume weighted-average stock price ("VWAP") before November 17, 2024 is approximately 1.10 times higher (i.e. $4.40 or higher) than $4.00: 33%;
- Fiscal 2026, the Company's VWAP before November 17, 2025 is 1.21 times higher (i.e. $4.84 or higher) than $4.00: 67%;
- Fiscal 2027, the Company's VWAP before November 1, 2026 is 1.33 times higher (i.e. $5.32) than $4.00: 100%.

The Company also awarded 333,080 shares of restricted stock with time-based vesting conditions to approximately 150 employees in October 2023, which are subject to the employees continued employment with the Company through the applicable vesting dates.

The Company has not yet determined the fair value of these shares of restricted stock awarded in October 2023.

As fully described in Note 17 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023, the Company granted 19,443 shares to an advisor during the three months ended September 30, 2022 which were ineligible for transfer until the earlier of December 31, 2022, or the occurrence of the agreed event.

Vesting

In July 2023, 78,800 shares of restricted stock granted to Mr. Meyer vested. In July 2022, 78,801 shares of restricted stock granted to Mr. Meyer vested and he elected for 35,460 shares to be withheld to satisfy the withholding tax liability on the vesting of these shares. The 35,460 shares have been included in the Company's treasury shares.

Forfeitures

During the three months ended September 30, 2023, employees forfeited 8,127 shares of restricted stock following their termination of employment with the Company. No shares of restricted stock were forfeited during the three months ended September 30, 2022.

12. Stock-based compensation (continued)

Stock-based compensation charge and unrecognized compensation cost

The Company recorded a stock-based compensation charge, net during the three months ended September 30, 2023 and 2022, of $1.8 million and $1.5 million, respectively, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended September 30, 2023			
Stock-based compensation charge	$ 1,768	$ -	$ 1,768
Reversal of stock compensation charge related to stock options and restricted stock forfeited	(9)	-	(9)
Total - three months ended September 30, 2023	$ 1,759	$ -	$ 1,759
Three months ended September 30, 2022			
Stock-based compensation charge	$ 1,462	$ -	$ 1,462
Total - three months ended September 30, 2022	$ 1,462	$ -	$ 1,462

The stock-based compensation charges have been allocated to selling, general and administration based on the allocation of the cash compensation paid to the relevant employees.

As of September 30, 2023, the total unrecognized compensation cost related to stock options was approximately $0.1 million, which the Company expects to recognize over approximately two years. As of September 30, 2023, the total unrecognized compensation cost related to restricted stock awards was approximately $5.8 million, which the Company expects to recognize over approximately two years.

As of September 30, 2023, and June 30, 2023, respectively, the Company recorded a deferred tax asset of approximately $0.6 million and $0.6 million, related to the stock-based compensation charge recognized related to employees of Lesaka. As of September 30, 2023, and June 30, 2023, respectively, the Company recorded a valuation allowance of approximately $0.6 million and $0.6 million, related to the deferred tax asset because it does not believe that the stock-based compensation deduction would be utilized as it does not anticipate generating sufficient taxable income in the United States. The Company deducts the difference between the market value on the date of exercise by the option recipient and the exercise price from income subject to taxation in the United States.

13. (Loss) Earnings per share

The Company has issued redeemable common stock which is redeemable at an amount other than fair value. Redemption of a class of common stock at other than fair value increases or decreases the carrying amount of the redeemable common stock and is reflected in basic earnings per share using the two-class method. There were no redemptions of common stock, or adjustments to the carrying value of the redeemable common stock during the three months ended September 30, 2023 and 2022. Accordingly, the two-class method presented below does not include the impact of any redemption. The Company's redeemable common stock is described in Note 14 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023.

Basic (loss) earnings per share includes shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic (loss) earnings per share has been calculated using the two-class method and basic (loss) earnings per share for the three months ended September 30, 2023 and 2022, reflects only undistributed earnings. The computation below of basic (loss) earnings per share excludes the net loss attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted (loss) earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted (loss) earnings per share utilizing the treasury stock method and are not considered to be participating securities, as the stock options do not contain non-forfeitable dividend rights. The Company has excluded employee stock options to purchase 41,809 and 210,530 shares of common stock from the calculation of diluted loss per share during the three months ended September 30, 2023 and 2022, because the effect would be antidilutive.

The calculation of diluted (loss) earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted (loss) earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions for all awards made are discussed in Note 17 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023.

13. (Loss) Earnings per share (continued)

The following table presents net loss attributable to Lesaka and the share data used in the basic and diluted loss per share computations using the two-class method:

	Three months ended September 30,	
	2023	**2022**
	(in thousands except percent and per share data)	
Numerator:		
Net loss attributable to Lesaka	$ (5,651)	$ (10,696)
Undistributed (loss) earnings	$ (5,651)	$ (10,696)
Percent allocated to common shareholders (Calculation 1)	96	96
Numerator for (loss) earnings per share: basic and diluted	(5,402)	(10,277)
Continuing	(5,402)	(10,277)
Denominator		
Denominator for basic (loss) earnings per share:		
Weighted-average common shares outstanding	60,990	59,996
Denominator for diluted (loss) earnings per share: adjusted weighted average common shares outstanding and assuming conversion	60,990	59,996
(Loss) Earnings per share:		
Basic	$ (0.09)	$ (0.17)
Diluted	$ (0.09)	$ (0.17)
(Calculation 1)		
Basic weighted-average common shares outstanding (A)	60,990	59,996
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)	63,805	62,445
Percent allocated to common shareholders (A) / (B)	96	96

Options to purchase 262,506 shares of the Company's common stock at prices ranging from $4.87 to $11.23 per share were outstanding during the three months ended September 30, 2023, but were not included in the computation of diluted (loss) earnings per share because the options' exercise price was greater than the average market price of the Company's common stock. Options to purchase 324,619 shares of the Company's common stock at prices ranging from $4.87 to $11.23 per share were outstanding during the three months ended September 30, 2022, respectively, but were not included in the computation of diluted (loss) earnings per share because the options' exercise price was greater than the average market price of the Company's common stock. The options, which expire at various dates through February 3, 2032, were still outstanding as of September 30, 2023.

14. Supplemental cash flow information

The following table presents supplemental cash flow disclosures for the three months ended September 30, 2023 and 2022:

	Three months ended September 30,	
	2023	**2022**
Cash received from interest	$ 445	$ 409
Cash paid for interest	$ 2,925	$ 4,011
Cash paid for income taxes	$ 604	$ 677

14. Supplemental cash flow information (continued)

Leases

The following table presents supplemental cash flow disclosure related to leases for the three months ended September 30, 2023 and 2022:

	Three months ended September 30, 2023	Three months ended September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 693	$ 805
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ 1,543	$ 61

15. Revenue recognition

Disaggregation of revenue

The following table presents the Company's revenue disaggregated by major revenue streams, including a reconciliation to reportable segments for the three months ended September 30, 2023:

	Merchant	Consumer	Total
Processing fees	$ 28,760	$ 5,733	$ 34,493
South Africa	27,400	5,733	33,133
Rest of world	1,360	-	1,360
Technology products	2,037	19	2,056
South Africa	1,986	19	2,005
Rest of world	51	-	51
Telecom products and services	87,313	41	87,354
South Africa	82,559	41	82,600
Rest of world	4,754	-	4,754
Lending revenue	-	5,373	5,373
Interest from customers	1,520	-	1,520
Insurance revenue	-	2,611	2,611
Account holder fees	-	1,368	1,368
Other	879	435	1,314
South Africa	830	435	1,265
Rest of world	49	-	49
Total revenue, derived from the following geographic locations	120,509	15,580	136,089
South Africa	114,295	15,580	129,875
Rest of world	$ 6,214	$ -	$ 6,214

15. Revenue recognition (continued)

The following table presents the Company's revenue disaggregated by major revenue streams, including a reconciliation to reportable segments for the three months ended September 30, 2022:

	Merchant	Consumer	Total
Processing fees	$ 27,297	$ 6,535	$ 33,832
South Africa	26,028	6,535	32,563
Rest of world	1,269	-	1,269
Technology products	3,897	37	3,934
South Africa	3,830	37	3,867
Rest of world	67	-	67
Telecom products and services	76,120	-	76,120
South Africa	72,029	-	72,029
Rest of world	4,091	-	4,091
Lending revenue	-	4,711	4,711
Interest from customers	1,223	-	1,223
Insurance revenue	-	2,181	2,181
Account holder fees	-	1,411	1,411
Other	1,245	129	1,374
South Africa	1,201	129	1,330
Rest of world	44	-	44
Total revenue, derived from the following geographic locations	109,782	15,004	124,786
South Africa	104,311	15,004	119,315
Rest of world	$ 5,471	$ -	$ 5,471

16. Leases

The Company has entered into leasing arrangements classified as operating leases under accounting guidance. These leasing arrangements relate primarily to the lease of its corporate head office, administration offices and branch locations through which the Company operates its consumer business in South Africa. The Company's operating leases have remaining lease terms of between one and five years. The Company also operates parts of its consumer business from locations which it leases for a period of less than one year. The Company's operating lease expense during the three months ended September 30, 2023 and 2022 was $ 0.7 million and $ 0.8 million, respectively.

The Company has also entered into short-term leasing arrangements, primarily for the lease of branch locations and other locations, to operate its consumer business in South Africa. The Company's short-term lease expense during the three months ended September 30, 2023 and 2022, was $0.9 million and $ 1.1 million, respectively.

The following table presents supplemental balance sheet disclosure related to the Company's right-of-use assets and its operating lease liabilities as of September 30, 2023 and June 30, 2023:

	September 30, 2023	**June 30, 2023**
Right of use assets obtained in exchange for lease obligations:		
Weighted average remaining lease term (years)	3.71	1.77
Weighted average discount rate (percent)	10.1	9.7

The maturities of the Company's operating lease liabilities as of September 30, 2023, are presented below:

Maturities of operating lease liabilities	
Year ended June 30,	
2024 (excluding three months to September 30, 2023)	$ 1,699
2025	1,638
2026	1,305
2027	1,239
2028	1,159
Thereafter	120
Total undiscounted operating lease liabilities	7,160
Less imputed interest	1,357
Total operating lease liabilities, included in	5,803
Operating lease liability - current	1,722
Operating lease liability - long-term	$ 4,081

17. Operating segments

Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 21 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2023.

The Company analyzes its business and operations in terms of two inter-related but independent operating segments: (1) Consumer Division ("Consumer") and (2) Merchant Division ("Merchant").

17. Operating segments (continued)

Operating segments (continued)

The reconciliation of the reportable segment's revenue to revenue from external customers for the three months ended September 30, 2023 and 2022, is as follows:

	Revenue		
	Reportable Segment	Inter-segment	From external customers
Merchant	$ 121,361	$ 852	$ 120,509
Consumer	15,580	-	15,580
Total for the three months ended September 30, 2023	$ 136,941	$ 852	$ 136,089
Merchant	$ 109,782	$ -	$ 109,782
Consumer	15,004	-	15,004
Total for the three months ended September 30, 2022	$ 124,786	$ -	$ 124,786

The Company evaluates segment performance based on segment earnings before interest, tax, depreciation and amortization ("EBITDA"), adjusted for items mentioned in the next sentence ("Segment Adjusted EBITDA"). The Company does not allocate once-off items, stock-based compensation charges, certain lease charges ("Lease adjustments"), depreciation and amortization, impairment of goodwill or other intangible assets, other items (including gains or losses on disposal of investments, fair value adjustments to equity securities), interest income, interest expense, income tax expense or loss from equity-accounted investments to its reportable segments. Group costs generally include: employee related costs in relation to employees specifically hired for group roles and related directly to managing the US-listed entity; expenditures related to compliance with the Sarbanes-Oxley Act of 2002; non-employee directors' fees; legal fees; group and US-listed related audit fees; and directors and officer's insurance premiums. Once-off items represents non-recurring expense items, including costs related to acquisitions and transactions consummated or ultimately not pursued. Unrealized loss FV for currency adjustments represents foreign currency mark-to-market adjustments on certain intercompany accounts. The Lease adjustments reflect lease charges and the Stock-based compensation adjustments reflect stock-based compensation expense and are both excluded from the calculation of Segment Adjusted EBITDA and are therefore reported as reconciling items to reconcile the reportable segments' Segment Adjusted EBITDA to the Company's loss before income tax expense.

The reconciliation of the reportable segments' measures of profit or loss to loss before income tax expense for the three months ended September 30, 2023 and 2022, is as follows:

	Three months ended September 30,	
	2023	2022
Reportable segments measure of profit or loss	$ 10,541	$ 6,499
Operating loss: Group costs	(1,822)	(2,300)
Once-off costs	(78)	(598)
Unrealized Loss FV for currency adjustments	(102)	-
Lease adjustments	(696)	(812)
Stock-based compensation charge adjustments	(1,759)	(1,462)
Depreciation and amortization	(5,856)	(5,998)
Reversal of allowance of EMI doubtful debt	250	-
Gain on disposal of equity-accounted investments	-	248
Interest income	449	411
Interest expense	(4,909)	(4,036)
Loss before income tax expense	$ (3,982)	$ (8,048)

17. Operating segments (continued)

Operating segments (continued)

The following tables summarize segment information that is prepared in accordance with GAAP for the three months ended September 30, 2023 and 2022:

		Three months ended September 30,	
		2023	2022
Revenues			
Merchant		$ 121,361	$ 109,782
Consumer		15,580	15,004
Total reportable segment revenue		136,941	124,786
Segment Adjusted EBITDA			
Merchant	(1)	8,061	7,893
Consumer	(1)	2,480	(1,394)
Total Segment Adjusted EBITDA		10,541	6,499
Depreciation and amortization			
Merchant		2,078	1,825
Consumer		169	245
Subtotal: Operating segments		2,247	2,070
Group costs		3,609	3,928
Total		5,856	5,998
Expenditures for long-lived assets			
Merchant		2,763	3,873
Consumer		46	628
Subtotal: Operating segments		2,809	4,501
Group costs		-	-
Total		$ 2,809	$ 4,501

(1) Segment Adjusted EBITDA for Merchant includes retrenchment costs of $0.2 million (ZAR 4.6 million) and Consumer includes retrenchment costs of $0.1 million (ZAR 1.5 million) for the three months ended September 30, 2023.

The segment information as reviewed by the chief operating decision maker does not include a measure of segment assets per segment as all of the significant assets are used in the operations of all, rather than any one, of the segments. The Company does not have dedicated assets assigned to a particular operating segment. Accordingly, it is not meaningful to attempt an arbitrary allocation and segment asset allocation is therefore not presented.

18. Income tax

Income tax in interim periods

For the purposes of interim financial reporting, the Company determines the appropriate income tax provision by first applying the effective tax rate expected to be applicable for the full fiscal year to ordinary income. This amount is then adjusted for the tax effect of significant unusual items, for instance, changes in tax law, valuation allowances and non-deductible transaction-related expenses that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate, if and when applicable, on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three months ended September 30, 2023, the Company’s effective tax rate was impacted by the tax expense recorded by the Company’s profitable South African operations, non-deductible expenses, the on-going losses incurred by certain of the Company’s South African businesses and the associated valuation allowances created related to the deferred tax assets recognized regarding net operating losses incurred by these entities.

For the three months ended September 30, 2022, the Company’s effective tax rate was impacted by the tax expense recorded by the Company’s profitable South African operations, non-deductible expenses, the on-going losses incurred by certain of the Company’s South African businesses and the associated valuation allowances created related to the deferred tax assets recognized regarding net operating losses incurred by these entities.

18. Income tax (continued)

Uncertain tax positions (continued)

The Company had no significant uncertain tax positions during the three months ended September 30, 2023, and therefore, the Company had no accrued interest related to uncertain tax positions on its balance sheet. The Company does not expect changes related to its unrecognized tax benefits will have a significant impact on its results of operations or financial position in the next 12 months.

The Company has no unrecognized tax benefits. The Company files income tax returns mainly in South Africa, Botswana and in the U.S. federal jurisdiction. As of September 30, 2023, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2019. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations.

19. Commitments and contingencies

Guarantees

The South African Revenue Service and certain of the Company's customers, suppliers and other business partners have asked the Company to provide them with guarantees, including standby letters of credit, issued by South African banks. The Company is required to procure these guarantees for these third parties to operate its business.

RMB has issued guarantees to these third parties amounting to ZAR 33.1 million ($1.7 million, translated at exchange rates applicable as of September 30, 2023) thereby utilizing part of the Company's short-term facilities. The Company pays commission of between 3.42% per annum to 3.44% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

Nedbank has issued guarantees to these third parties amounting to ZAR 2.1 million ($0.1 million, translated at exchange rates applicable as of September 30, 2023) thereby utilizing part of the Company's short-term facilities. The Company pays commission of between 0.47% per annum to 1.84% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these guarantees in its consolidated balance sheet as of September 30, 2023. The maximum potential amount that the Company could pay under these guarantees is ZAR 35.2 million ($1.9 million, translated at exchange rates applicable as of September 30, 2023). As discussed in Note 8, the Company has ceded and pledged certain bank accounts to Nedbank as security for the guarantees issued by them with an aggregate value of ZAR 2.1 million ($0.1 million, translated at exchange rates applicable as of September 30, 2023). The guarantees have reduced the amount available under its indirect and derivative facilities in the Company's short-term credit facilities described in Note 8.

Contingencies

The Company is subject to a variety of insignificant claims and suits that arise from time to time in the ordinary course of business. Management currently believes that the resolution of these other matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2023, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

U.S. securities laws require that when we publish any non-GAAP measures, we disclose the reason for using these non-GAAP measures and provide reconciliations to the most directly comparable GAAP measures. We discuss why we consider it useful to present these non-GAAP measures and the material risks and limitations of these measures, as well as a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measure below at "—Results of Operations—Use of Non-GAAP Measures" below.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A.—"Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2023. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we do not know whether we can achieve positive future results, levels of activity, performance, or goals. Actual events or results may differ materially. We undertake no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this Form 10-Q and the documents that we reference herein and the documents we have filed as exhibits hereto and thereto and which we have filed with the United States Securities and Exchange Commission completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Recent Developments

We experienced continued improvement in our financial performance in the first quarter of fiscal 2024 as a result of positive operational momentum in both of our Merchant and Consumer divisions.

Revenue of $136.1 million (ZAR 2.5 billion) was at the upper end of our revenue guidance despite prevailing negative macroeconomic and socio-political conditions in South Africa.

We reached an important milestone this quarter, with operating income turning positive to $0.2 million (ZAR 4.2 million), compared with an operating loss of $4.7 million (ZAR 80.0 million) during the first quarter of fiscal 2023. We delivered Group Adjusted EBITDA, a non-GAAP measure, of ZAR 162.5 million ($8.7 million) this quarter, compared to Group Adjusted EBITDA of ZAR 71.9 million ($4.2 million) in fiscal 2023. The continued resilience of our business model in a challenging environment for our merchant and consumer customers demonstrates the value they place on our services.

Our mission at Lesaka is to enable 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 achieve this through our vision to build and operate the leading full-service fintech platform in Southern Africa, offering cash management, payment processing, Value Added Services ("VAS"), capital and financial services to merchants and underserved consumers.

Merchant Division

The year-on-year growth achieved by our Merchant Division is supported by the robust secular trends underpinning financial inclusion, cash management and digitalization for micro, small and medium enterprises ("MSMEs"), especially in the informal markets of South Africa, where we have a leading market position.

Performance in our Merchant division has been driven by:

- Kazang, our VAS and supplier payments business, continues to see adoption by MSMEs in the informal sector, with a 34% year-on-year growth in the number of devices deployed. We had approximately 77,000 devices deployed as of September 30, 2023, compared to approximately 57,000 devices one year ago. We experienced a slight slowdown in net device growth during our current quarter, growing by just over 2,000 devices.
    - The reason for the slight slowdown in net growth is attributed to a more selective device placement strategy that followed the six month period to March 31, 2023, during which we installed a significant number of devices at informal merchants to support their supplier payments to three major FMCG companies in South Africa. Following that accelerated roll out program we have prioritised deployment at merchants where we can sell more products and services through the channel and earn higher margins. Therefore, during the fourth quarter of fiscal 2023 and the first quarter of fiscal 2024 we focused on optimising this new fleet and removing sub-optimal devices.
    - As communicated in the fourth quarter of fiscal 2023, our product mix for VAS sales has changed with low-margin money transfers reducing significantly, currently approximately 5% of VAS throughput is money transfers, compared to approximately 30% a year ago. The impact on overall profitability has not been material.

- We provide card acquiring solutions in the informal sector via Kazang Pay and in the formal sector we provide this service through Card Connect. Card-enabled POS devices increased to approximately 46,600 as of September 30, 2023, compared to approximately 27,700 a year ago, a growth of 68% in deployed devices;
- Our Merchant Credit offering includes Capital Connect in the formal market and Kazang Pay Advance in the informal market. We disbursed ZAR 196 million during this quarter, compared to approximately ZAR 226 million in the comparable period last year, representing a 13% decrease. In the formal market we continue to see demand for our merchant credit offering but as previously disclosed, we experienced a slight pullback in credit extension in this business since March 2023 as we tightened our credit criteria in response to the higher interest rate and inflationary pressures in the South African economy. In the informal market, as we innovate and execute quickly in the Merchant Division, we have decided the current Kazang Pay Advance credit product is not suitable to continue with, especially in the high interest rate environment, and have suspended it, while we explore other options with respect to our Kazang Pay Advance offering. Overall, Kazang Pay Advance has generated positive returns despite recent losses incurred being greater than expected. A reduction in origination of new loans, loan book and disbursements is primarily a result of the decision to suspend Kazang Pay Advance during the period but was also partially impacted by the slight pull back in credit extension in Capital Connect.
- Our automated cash management offering, Cash Connect, effectively puts the "bank" in approximately 4,400 merchants' stores, compared to approximately 4,200 merchants' stores a year ago. Cash Connect is a provider of robust cash vaults in the formal sector and is building a presence in the informal sector. Cash Connect enables our merchant customer base to significantly mitigate their operational risks pertaining to cash management and security. Our new ATM recycler is generating strong interest, and this business has been transferred to our Merchant Division, where it has been fully integrated into our Cash Connect proposition as an alternative to vaults for our merchant customers.

Consumer Division

Over the past five quarters we have consistently referenced the three levers underpinning our strategy of returning the Consumer Division to profitability – (i) growing active EasyPay Everywhere ("EPE") account numbers, (ii) increasing average revenue per user ("ARPU") through cross-selling and (iii) cost optimization.

The progress on our three key initiatives is as follows:

- *Driving customer acquisition*

    - Our total active EPE transactional account base stood at more than 1.3 million at the end of September 2023, of which more than 1.1 million (or more than 85%) are permanent grant recipients. The balance comprises Social Relief of Distress ("SRD") grant recipients, which was introduced during the COVID pandemic and extended in calendar 2023.
    - Our priority is to grow our permanent grant recipient customers base, where we can build deeper relationships by offering other products such as insurance and lending. We do not offer the same breadth of service to the SRD grant base due to the temporary nature of the grant. Gross EPE account activations, for the permanent base, during our current quarter showed significant improvement due to various strategic initiatives. We achieved approximately 76,000 gross account activations in the first quarter, compared to approximately 45,000 in the first quarter of fiscal 2023. After adjusting for account churn, net active account growth for the quarter was approximately 42,000 accounts, compared to approximately 2,700 in first quarter of fiscal 2023

- *Progress on cross selling*

EasyPay Loans

- o We originated approximately 222,000 loans during the quarter with our consumer loan book, before allowances, increasing 20% to ZAR 423 million as at September 30, 2023, compared to ZAR 351 million as of September 30, 2022.
- o We have not amended our credit scoring or other lending criteria to grow our Consumer lending book.
- o The loan conversion rate continues to improve following the implementation of a number of targeted consumer lending campaigns during the current quarter.
- o The portfolio loss ratio, calculated as the loans written off during the period as a percentage of the total loan book, remains flat at approximately 6% on an annualized basis, compared to the fourth quarter of fiscal 2023.

EasyPay Insurance

- o Our insurance product sales continue to grow and is a material contributor to the improvement in our overall ARPU. We have been able to improve customer penetration to more than 30% of our active permanent grant account base as of September 30, 2023, compared to below 25% as of September 30, 2022. Approximately 37,500 new policies were written in the quarter, compared to approximately 25,000 in the comparable period in fiscal 2023. The total number of active policies has grown by 34% to approximately 359,000 policies as of September 30, 2023, compared to September 30, 2022.

ARPU

- o ARPU for our permanent client base has increased to above ZAR 83 for the first quarter of fiscal 2024, from approximately ZAR 74 in the first quarter of fiscal 2023.

Economic Environment and Impact of loadshedding

Overall, we have seen no significant change in the operating environment during the quarter. The trading environment remains challenging in South Africa with interest rates, inflation and unemployment remaining at elevated levels. These factors are compounded by daily power cuts (known as load-shedding in South Africa), although we did see a reduction in load shedding during this quarter. Power disruptions adversely impact our customers, especially in our Merchant Division, where they lose valuable trading hours if they do not have access to alternative power supplies and back-up facilities to process electronic payments and value-added services. The negative impact is, however, to some extent mitigated as our customer base is geographically diversified, and the rotational nature of load-shedding results in localized power cuts over shorter time periods, allowing merchants to make up for lost trading hours.

Notwithstanding the challenging operating environment, our Merchant and Consumer Divisions continue to demonstrate the resilience of our business model, which is firmly underpinned by the relevance and value of our offering to our target market.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities. As future events and their effects cannot be determined with absolute certainty, the determination of estimates requires management's judgment based on a variety of assumptions and other determinants such as historical experience, current and expected market conditions and certain scientific evaluation techniques. Critical accounting policies are those that reflect significant judgments or uncertainties and may potentially result in materially different results under different assumptions and conditions. We have identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2023:

- Business Combinations and the Recoverability of Goodwill;
- Intangible Assets Acquired Through Acquisitions;
- Revenue recognition – principal versus agent considerations;
- Valuation of investment in Cell C;
- Recoverability of equity securities and equity-accounted investments;
- Deferred Taxation;
- Stock-based Compensation;
- Accounts Receivable and Allowance for Doubtful Accounts Receivable; and
- Lending.

Recent accounting pronouncements adopted

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of accounting pronouncements adopted, including the dates of adoption and the effects on our unaudited condensed consolidated financial statements.

Recent accounting pronouncements not yet adopted as of September 30, 2023

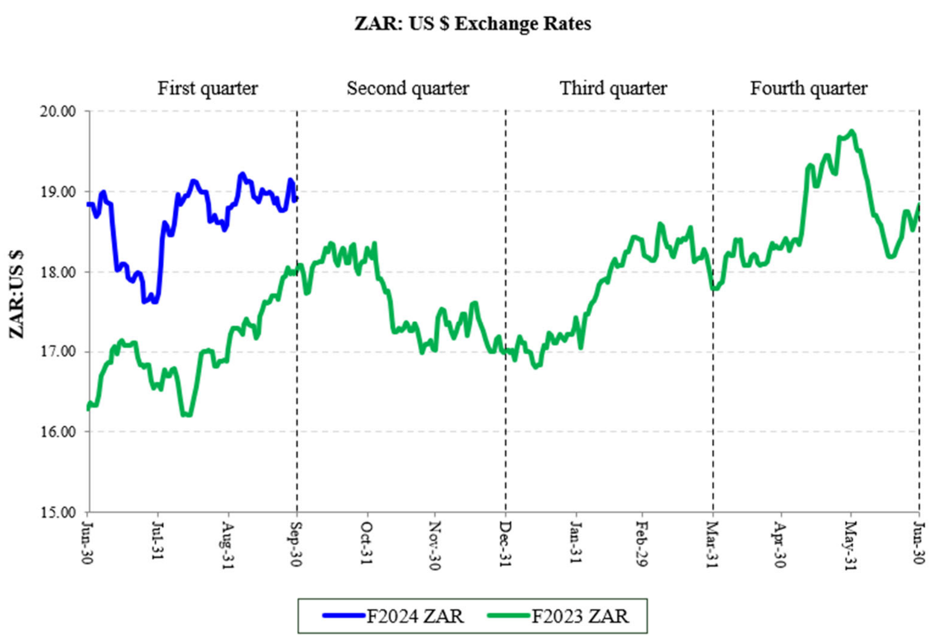
Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of September 30, 2023, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

The actual exchange rates for and at the end of the periods presented were as follows:

Table 1	Three months ended September 30, 2023	Three months ended September 30, 2022	Year ended June 30, 2023
ZAR : $ average exchange rate	18.6457	17.0201	17.7641
Highest ZAR : $ rate during period	19.2202	18.0545	19.7558
Lowest ZAR : $ rate during period	17.6278	16.2035	16.2034
Rate at end of period	18.9236	18.0126	18.8376



Translation exchange rates for financial reporting purposes

We are required to translate our results of operations from ZAR to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the three months ended September 30, 2023 and 2022, vary slightly from the averages shown in the table above. Except as described below, the translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 2	Three months ended September 30, 2023	Three months ended September 30, 2022	Year ended June 30, 2023
Income and expense items: $1 = ZAR	18.7088	17.1307	17.9400
Balance sheet items: $1 = ZAR	18.9236	18.0126	18.8376

We have translated the results of operations and operating segment information for the three months ended September 30, 2023, provided in the tables below using the actual average exchange rates per month (i.e. for each of July 2023, August 2023, and September 2023) between the USD and ZAR in order to reduce the reconciliation of information presented to our chief operating decision maker. The impact of using this method compared with the average rate for the quarter is not significant, however, it does result in minor differences. We believe that presentation using the average exchange rates per month compared with the average exchange rate per quarter improves the accuracy of the information presented in our external financial reporting and leads to fewer differences between our external reporting measures which are supplementally presented in ZAR, and our internal management information, which is also presented in ZAR.

Results of Operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in our unaudited condensed consolidated financial statements which are prepared in accordance with U.S. GAAP. We analyze our results of operations both in U.S. dollars, as presented in the unaudited condensed consolidated financial statements, and supplementally in ZAR, because ZAR is the functional currency of the entities which contribute the majority of our results and is the currency in which the majority of our transactions are initially incurred and measured. Presentation of our reported results in ZAR is a non-GAAP measure. Due to the significant impact of currency fluctuations between the U.S. dollar and ZAR on our reported results and because we use the U.S. dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business.

Our operating segment revenue presented in "—Results of operations by operating segment" represents total revenue per operating segment before intercompany eliminations. A reconciliation between total operating segment revenue and revenue, as well as the reconciliation between our segment performance measure and net loss before tax (benefits) expense, is presented in our unaudited condensed consolidated financial statements in Note 17 to those statements. Our chief operating decision maker is our Group Chief Executive Officer and he evaluates segment performance based on segment earnings before interest, tax, depreciation and amortization ("EBITDA"), adjusted for items mentioned in the next sentence ("Segment Adjusted EBITDA") for each operating segment. We do not allocate once-off items (as defined below), stock-based compensation charges, depreciation and amortization, impairment of goodwill or other intangible assets, certain lease charges ("Lease adjustments"), other items (including gains or losses on disposal of investments, fair value adjustments to equity securities, fair value adjustments to currency options), interest income, interest expense, income tax expense or loss from equity-accounted investments to our reportable segments. Once-off items represents non-recurring expense items, including costs related to acquisitions and transactions consummated or ultimately not pursued. The Lease adjustments reflect lease charges and the Stock-based compensation adjustments reflect stock-based compensation expense and are both excluded from the calculation of Segment Adjusted EBITDA and are therefore reported as reconciling items to reconcile the reportable segments' Segment Adjusted EBITDA to our loss before income tax expense.

Group Adjusted EBITDA represents Segment Adjusted EBITDA after deducting group costs. Refer also "Results of Operations—Use of Non-GAAP Measures" below.

Fiscal 2024 and 2023 includes Connect for the entire quarter.

We analyze our business and operations in terms of two inter-related but independent operating segments: (1) Merchant Division and (2) Consumer Division. In addition, corporate activities that are impracticable to allocate directly to the operating segments, as well as any inter-segment eliminations, are included in Group costs. Inter-segment revenue eliminations are included in Eliminations.

First quarter of fiscal 2024 compared to first quarter of fiscal 2023

The following factors had a significant impact on our results of operations during the first quarter of fiscal 2024 as compared with the same period in the prior year:

- ***Higher revenue:*** Our revenues increased 19% in ZAR, primarily due to an increase in low margin prepaid airtime sales and other value added services, as well as higher transaction, insurance and lending revenues, which was partially offset by lower hardware sales revenue in our POS hardware distribution business given the lumpy nature of bulk sales;
- ***Operating income generated:*** Operating income was achieved following years of operating losses as a result of the various cost reduction initiatives in Consumer implemented in prior periods as well as the contribution from Connect;
- ***Higher net interest charge:*** The net interest charge increased to $4.5 million (ZAR 83.1 million) from $3.6 million (ZAR 62.1 million) primarily due to higher interest rates; and
- ***Foreign exchange movements:*** The U.S. dollar was 9% stronger against the ZAR during the first quarter of fiscal 2024 compared to the prior period, which adversely impacted our U.S. dollar reported results.

Consolidated overall results of operations

This discussion is based on the amounts prepared in accordance with U.S. GAAP.

The following tables show the changes in the items comprising our statements of operations, both in U.S. dollars and in ZAR:

Table 3

	In United States Dollars		
	Three months ended September 30,		
	2023 $ ’000	2022 $ ’000	% change
Revenue	136,089	124,786	9%
Cost of goods sold, IT processing, servicing and support	107,490	100,528	7%
Selling, general and administration	22,515	22,931	(2%)
Depreciation and amortization	5,856	5,998	(2%)
Operating income (loss)	228	(4,671)	nm
Reversal of allowance of EMI doubtful debt receivable	250	-	nm
Net gain on disposal of equity-accounted investments	-	248	nm
Interest income	449	411	9%
Interest expense	4,909	4,036	22%
Loss before income tax expense	(3,982)	(8,048)	(51%)
Income tax expense	264	31	752%
Net loss before loss from equity-accounted investments	(4,246)	(8,079)	(47%)
Loss from equity-accounted investments	1,405	2,617	(46%)
Net loss attributable to us	(5,651)	(10,696)	(47%)

Table 4

	In South African Rand		
	Three months ended September 30,		
	2023 ZAR ’000	2022 ZAR ’000	% change
Revenue	2,537,659	2,137,671	19%
Cost of goods sold, IT processing, servicing and support	2,004,465	1,722,115	16%
Selling, general and administration	419,861	392,824	7%
Depreciation and amortization	109,166	102,749	6%
Operating income (loss)	4,167	(80,017)	nm
Reversal of allowance of EMI doubtful debt receivable	4,741	-	nm
Net gain on disposal of equity-accounted investments	-	4,248	nm
Interest income	8,368	7,041	19%
Interest expense	91,429	69,140	32%
Loss before income tax expense	(74,153)	(137,868)	(46%)
Income tax expense	4,825	532	807%
Net loss before loss from equity-accounted investments	(78,978)	(138,400)	(43%)
Loss from equity-accounted investments	26,657	44,831	(41%)
Net loss attributable to us	(105,635)	(183,231)	(42%)

Revenue increased by $11.3 million (ZAR 0.4 billion), or 9.1% (in ZAR, 18.7%), primarily due to the increase in low margin prepaid airtime sales and other value-added services, as well as higher transaction, insurance and lending revenues, which was partially offset by lower hardware sales revenue in our POS hardware distribution business given the lumpy nature of bulk sales.

Cost of goods sold, IT processing, servicing and support increased by $7.0 million (ZAR 0.3 billion), or 6.9% (in ZAR, 16.4%), primarily due to the increase in low margin prepaid airtime sales, which were partially offset by the benefits of various cost reduction initiatives in Consumer and lower insurance-related claims.

Selling, general and administration expenses decreased by $0.4 million, or 1.8%, and in ZAR increased by ZAR 27.0 million, or 6.9%. In ZAR, the increase was primarily due to higher employee-related expenses related to the expansion of our senior management team, the year-over-year impact of inflationary increases on employee-related expenses and the inclusion of expenses related to Connect’s operations, which were partially offset by the benefits of various cost reduction initiatives in Consumer.

Depreciation and amortization expense decreased by $0.1 million, or 2.4%, and in ZAR increased by ZAR 6.4 million or 6.2%. In the ZAR, the increase was due to an increase in depreciation expense related to additional POS devices deployed.

Our operating income (loss) margin for the first quarter of fiscal 2024 and 2023 was 0.2% and (3.7%), respectively. We discuss the components of operating loss margin under “—Results of operations by operating segment.”

We did not record any changes in the fair value of equity interests in MobiKwik and Cell C during the first quarter of fiscal 2024 or 2023, respectively. We continue to carry our investment in Cell C at $0 (zero). Refer to Note 4 for the methodology and inputs used in the fair value calculation for Cell C.

We recorded a gain of $0.3 million related to the disposal of our entire interest in Carbon during the first quarter of fiscal 2023. Refer to Note 5 to our unaudited condensed consolidated financial statements for additional information regarding this disposal.

Interest on surplus cash increased to $0.4 million (ZAR 8.4 million) from $0.4 million (ZAR 7.0 million), primarily due to higher interest rates.

Interest expense increased to $4.9 million (ZAR 91.4 million) from $4.0 million (ZAR 69.1 million), primarily as a result of higher overall interest rates and higher overall borrowings during the first quarter of fiscal 2024 compared with comparable period in the prior quarter, which was partially offset by lower interest expense incurred on certain of our borrowing for which we were able to negotiate lower rates of interest during the latter half of fiscal 2023.

Fiscal 2024 tax expense was $(0.3) million (ZAR (4.8) million) compared to $0.0 million (ZAR 0.5 million) in fiscal 2023. Our effective tax rate for fiscal 2024 was impacted by the tax expense recorded by our profitable South African operations, a deferred tax benefit related to acquisition-related intangible asset amortization, non-deductible expenses, the on-going losses incurred by certain of our South African businesses and the associated valuation allowances created related to the deferred tax assets recognized regarding net operating losses incurred by these entities.

Our effective tax rate for fiscal 2023 was impacted by the tax expense recorded by our profitable South African operations, a deferred tax benefit related to acquisition-related intangible asset amortization, non-deductible expenses, the on-going losses incurred by certain of our South African businesses and the associated valuation allowances created related to the deferred tax assets recognized regarding net operating losses incurred by these entities.

Finbond is listed on the Johannesburg Stock Exchange and reports its six-month results during our first quarter and its annual results during our fourth quarter. The table below presents the relative (loss) earnings from our equity-accounted investments:

Table 5	Three months ended September 30,		
	2023 $ '000	2022 $ '000	$ % change
Finbond	(1,445)	(2,631)	(45%)
Share of net loss	(278)	(1,521)	(82%)
Impairment	(1,167)	(1,110)	5%
Other	40	14	186%
Total loss from equity-accounted investments	(1,405)	(2,617)	(46%)

Results of operations by operating segment

The composition of revenue and the contributions of our business activities to operating loss are illustrated below:

Table 6	***In United States Dollars***				
	Three months ended September 30,				
Operating Segment	**2023 $ '000**	**% of total**	**2022 $ '000**	**% of total**	**% change**
Consolidated revenue:					
Merchant	121,361	89%	109,782	88%	11%
Consumer	15,580	11%	15,004	12%	4%
Subtotal: Operating segments	136,941	100%	124,786	100%	10%
Eliminations	(852)	-	-	-	nm
Total consolidated revenue	**136,089**	**100%**	**124,786**	**100%**	**9%**
Segment Adjusted EBITDA:					
Merchant(1)	8,061	92%	7,893	188%	2%
Consumer(1)	2,480	28%	(1,394)	(33%)	nm
Group costs	(1,822)	(21%)	(2,300)	(55%)	(21%)
Group Adjusted EBITDA (non-GAAP)(2)	8,719	100%	4,199	100%	108%

(1) Segment Adjusted EBITDA for Merchant includes retrenchments costs of $0.2 million and Consumer includes retrenchment costs of $0.1 million for the three months ended September 30, 2023.

(2) Group Adjusted EBITDA is a non-GAAP measure, refer to reconciliation below at "—Results of Operations—Use of Non-GAAP Measures".

Table 7

Operating Segment	In South African Rand				
	Three months ended September 30,				
	2023 ZAR '000	% of total	2022 ZAR '000	% of total	% change
Consolidated revenue:					
Merchant	2,263,001	89%	1,880,642	88%	20%
Consumer	290,629	11%	257,029	12%	13%
Subtotal: Operating segments	2,553,630	100%	2,137,671	100%	19%
Eliminations	(15,971)	-	-	-	nm
Total consolidated revenue	**2,537,659**	**100%**	**2,137,671**	**100%**	**19%**
Segment Adjusted EBITDA:					
Merchant(1)	150,181	92%	135,212	188%	11%
Consumer(1)	46,302	28%	(23,880)	(33%)	nm
Group costs	(33,980)	(21%)	(39,400)	(55%)	(14%)
Group Adjusted EBITDA (non-GAAP)(2)	162,503	100%	71,932	100%	126%

(1) Segment Adjusted EBITDA for Merchant includes retrenchments costs of ZAR 4.6 million and Consumer includes retrenchment costs of ZAR 1.5 million for the three months ended September 30, 2023.

(2) Group Adjusted EBITDA is a non-GAAP measure, refer to reconciliation below at "—Results of Operations—Use of Non-GAAP Measures".

Merchant

Segment revenue increased due to the increase in low margin prepaid airtime sales and other value-added services, which was partially offset by lower hardware sales revenue given the lumpy nature of bulk sales. The increase in Segment Adjusted EBITDA is primarily due to the higher sales activity, which was partially offset by lower hardware sales. Connect records a significant proportion of its airtime sales in revenue and cost of sales, while only earning a relatively small margin. This significantly depresses the Segment Adjusted EBITDA margins shown by the business.

Our Segment Adjusted EBITDA margin (calculated as Segment Adjusted EBITDA divided by revenue) for the first quarter of fiscal 2024 and 2023 was 6.6% and 7.2%, respectively.

Consumer

Segment revenue increased primarily due to more transaction fees generated from the higher EPE account holders base, higher insurance revenues, and an increase in lending revenue as a result of an increase in loan originations. This increase in revenue, together with the cost reduction initiatives initiated in fiscal 2022 and through fiscal 2023, have translated into a turnaround in the Consumer Division and the realization of sustained positive Segment Adjusted EBITDA for four consecutive quarters.

Our Segment Adjusted EBITDA (loss) margin for the first quarter of fiscal 2024 and 2023 was 15.9% and (9.3%), respectively.

Group costs

Our group costs primarily include employee related costs in relation to employees specifically hired for group roles and costs related directly to managing the US-listed entity; expenditures related to compliance with the Sarbanes-Oxley Act of 2002; non-employee directors' fees; legal fees; group and US-listed related audit fees; and directors' and officers' insurance premiums.

Our group costs for fiscal 2024 decreased compared with the prior period due to lower external audit, legal and consulting fees and lower provision for executive bonuses, which was partially offset by higher employee costs.

Use of Non-GAAP Measures

U.S. securities laws require that when we publish any non-GAAP measures, we disclose the reason for using these non-GAAP measures and provide reconciliations to the most directly comparable GAAP measures. The presentation of Group Adjusted EBITDA is a non-GAAP measure. We provide this non-GAAP measure to enhance our evaluation and understanding of our financial performance.

Non-GAAP Measures

Group Adjusted EBITDA is earnings before interest, tax, depreciation and amortization ("EBITDA"), adjusted for non-operational transactions (including loss on disposal of equity-accounted investments, gain related to fair value adjustments to currency options), (earnings) loss from equity-accounted investments, stock-based compensation charges, lease adjustments and once-off items. Lease adjustments reflect lease charges and once-off items represents non-recurring expense items, including costs related to acquisitions and transactions consummated or ultimately not pursued.

The table below presents the reconciliation between GAAP net loss attributable to Lesaka to Group Adjusted EBITDA:

Table 8	**Three months ended September 30,**	
	2023	**2022**
	$ '000	**$ '000**
Loss attributable to Lesaka - GAAP	**(5,651)**	**(10,696)**
(Earnings) loss from equity accounted investments	1,405	2,617
Net loss before (earnings) loss from equity-accounted investments	(4,246)	(8,079)
Income tax (benefit) expense	264	31
Loss before income tax expense	(3,982)	(8,048)
Interest expense	4,909	4,036
Interest income	(449)	(411)
Reversal of allowance for doubtful EMI loan receivable	(250)	-
Net gain on disposal of equity-accounted investment	-	(248)
Operating income (loss)	228	(4,671)
PPA amortization (amortization of acquired intangible assets)	3,608	3,928
Depreciation and amortization	2,248	2,070
Stock-based compensation charges	1,759	1,462
Lease adjustments	696	812
Once-off items(1)	78	598
Unrealized Loss FV for currency adjustments	102	-
Group Adjusted EBITDA - Non-GAAP	**8,719**	**4,199**

(1) The table below presents the components of once-off items for the periods presented:

Table 9	**Three months ended September 30,**	
	2023	**2022**
	$ '000	**$ '000**
Transaction costs	78	203
Expenses incurred related to closure of legacy businesses	-	395
Total once-off items	**78**	**598**

Once-off items are non-recurring in nature, however, certain items may be reported in multiple quarters. For instance, transaction costs include costs incurred related to acquisitions and transactions consummated or ultimately not pursued. The transactions can span multiple quarters, for instance in fiscal 2022 we incurred significant transaction costs related to the acquisition of Connect over a number of quarters, and the transactions are generally non-recurring.

Expenses incurred related to close of legacy businesses represents costs incurred related to subsidiaries which we are in the process of deregistering/ liquidation and therefore we consider these costs non-operational and ad hoc in nature.

Liquidity and Capital Resources

As of September 30, 2023, our cash and cash equivalents were $35.1 million and comprised of U.S. dollar-denominated balances of $2.2 million, ZAR-denominated balances of ZAR 586.7 million ($31.0 million), and other currency deposits, primarily Botswana pula, of $1.9 million, all amounts translated at exchange rates applicable as of September 30, 2023. The increase in our unrestricted cash balances from June 30, 2023, was primarily due to a positive contribution from our Merchant and Consumer operations, which was partially offset by the utilization of cash reserves to fund certain scheduled repayments of our borrowings, purchase ATMs and safe assets, and to make an investment in working capital.

We generally invest any surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and any surplus cash held by our non-South African companies in U.S. dollar-denominated money market accounts.

Historically, we have financed most of our operations, research and development, working capital, and capital expenditures, as well as acquisitions and strategic investments, through internally generated cash and our financing facilities. When considering whether to borrow under our financing facilities, we consider the cost of capital, cost of financing, opportunity cost of utilizing surplus cash and availability of tax efficient structures to moderate financing costs. For instance, in fiscal 2022, we obtained loan facilities from RMB to fund a portion of our acquisition of Connect. Following the acquisition of Connect, we now utilize a combination of short and long-term facilities to fund our operating activities and a long-term asset-backed facility to fund the acquisition of POS devices and safe assets. Refer to Note 12 to our consolidated financial statements for the year ended June 30, 2023, for additional information related to our borrowings.

Available short-term borrowings

Summarized below are our short-term facilities available and utilized as of September 30, 2023:

Table 10	**RMB Facility E**		**RMB Indirect**		**RMB Connect**		**Nedbank**	
	$ ’000	**ZAR ’000**	**$ ’000**	**ZAR ’000**	**$ ’000**	**ZAR ’000**	**$ ’000**	**ZAR ’000**
Total short-term facilities available, comprising:								
Overdraft	-	-	-	-	10,833	205,008	-	-
Overdraft restricted as to use(1)	73,982	1,400,014	-	-	-	-	-	-
Total overdraft	73,982	1,400,014	-	-	10,833	205,008	-	-
Indirect and derivative facilities(2)	-	-	7,134	134,992	-	-	8,273	156,552
Total short-term facilities available	**73,982**	**1,400,014**	**7,134**	**134,992**	**10,833**	**205,008**	**8,273**	**156,552**
Utilized short-term facilities:								
Overdraft	-	-	-	-	8,983	169,981	-	-
Overdraft restricted as to use(1)	19,754	373,811	-	-	-	-	-	-
Indirect and derivative facilities(2)	-	-	1,749	33,100	-	-	112	2,119
Total short-term facilities available	**19,754**	**373,811**	**1,749**	**33,100**	**8,983**	**169,981**	**112**	**2,119**
Interest rate, based on South African prime rate		11.75%				11.65%		

(1) Overdraft may only be used to fund ATMs and upon utilization is considered restricted cash.

(2) Indirect and derivative facilities may only be used for guarantees, letters of credit and forward exchange contracts to support guarantees issued by RMB and Nedbank to various third parties on our behalf.

Long-term borrowings

We have aggregate long-term borrowing outstanding of ZAR 2.5 billion ($134.2 million translated at exchange rates as of September 30, 2023) as described in Note 8. These borrowings include outstanding long-term borrowings obtained by Lesaka SA of ZAR 1.0 billion, including accrued interest, which was used to partially fund the acquisition of Connect. The Lesaka SA borrowing arrangements were amended in March 2023 to include a ZAR 200 million revolving credit facility. We used this revolving credit facility during the three months ended September 30, 2023, and ZAR 10.0 million was drawn as of September 30, 2023, with the remaining balance available for utilization in the future. In contemplation of the Connect transaction, Connect obtained total facilities of approximately ZAR 1.3 billion, which were utilized to repay its existing borrowings, to fund a portion of its capital expenditures and to settle obligations under the transaction documents, and which has subsequently been upsized for its operational requirements and has an outstanding balance as of September 30, 2023, of ZAR 1.2 billion, We also have a revolving credit facility, of ZAR 300.0 million which is utilized to fund a portion of our merchant finance loans receivable book.

Restricted cash

We have credit facilities with RMB in order to access cash to fund our ATMs in South Africa. Our cash, cash equivalents and restricted cash presented in our consolidated statement of cash flows as of September 30, 2023, includes restricted cash of approximately $19.8 million related to cash withdrawn from our debt facility to fund ATMs. This cash may only be used to fund ATMs and is considered restricted as to use and therefore is classified as restricted cash on our consolidated balance sheet.

We have also entered into cession and pledge agreements with Nedbank related to our Nedbank indirect credit facilities and we have ceded and pledged certain bank accounts to Nedbank. The funds included in these bank accounts are restricted as they may not be withdrawn without the express permission of Nedbank. Our cash, cash equivalents and restricted cash presented in our consolidated statement of cash flows as of September 30, 2023, includes restricted cash of approximately $0.1 million that has been ceded and pledged.

Cash flows from operating activities

First quarter

Net cash provided by operating activities during the first quarter of fiscal 2024 was $3.4 million (ZAR 63.1 million) compared to net cash used in operating activities of $7.7 million (ZAR 131.2 million) during the first quarter of fiscal 2023. Excluding the impact of income taxes, our cash provided by operating activities during the first quarter of fiscal 2024 was positively impacted by the contribution from Merchant and Consumer, which was partially offset by growth in our consumer and merchant finance loans receivable books and temporary working capital movements within our merchant business as a result of quarter-end transaction processing activities closing on a Saturday and settled in the following week.

During the first quarter of fiscal 2024, we paid first provisional South African tax payments of $0.6 million (ZAR 10.9 million) related to our 2023 tax year. During the first quarter of fiscal 2023, we paid first provisional South African tax payments of $0.5 million (ZAR 8.2 million) related to our 2023 tax year, and additional second provisional South African tax payments of $0.2 million (ZAR 3.4 million) related to our 2022 tax year.

Taxes paid during the first quarter of fiscal 2024 and 2023 were as follows:

Table 11	**Three months ended September 30,**			
	2023 $ '000	**2022 $ '000**	**2023 ZAR '000**	**2022 ZAR '000**
First provisional payments	-	492	-	8,216
Second provisional payments	-	191	-	3,371
Taxation paid related to prior years	572	-	10,859	-
Tax refund received	(31)	(57)	(640)	(970)
Total South African taxes paid	541	626	10,219	10,617
Foreign taxes paid	63	51	1,196	886
Total tax paid	604	677	11,415	11,503

Cash flows from investing activities

First quarter

Cash used in investing activities for the first quarter of fiscal 2024 included capital expenditures of $2.8 million (ZAR 52.6 million), primarily due to the acquisition of safe assets and POS devices.

Cash used in investing activities for the first quarter of fiscal 2023 included capital expenditures of $4.5 million (ZAR 77.1 million), primarily due to the acquisition of safe assets, POS devices and computer equipment. During the first quarter of fiscal 2023, we received proceeds $0.25 million related to the first tranche (of two) from the disposal of our entire interest in Carbon. The second tranche, of $0.25 million, was received in October 2023.

Cash flows from financing activities

First quarter

During the first quarter of fiscal 2024, we utilized approximately $59.6 million from our South African overdraft facilities to fund our ATMs and our cash management business through Connect, and repaid $62.8 million of those facilities. We utilized approximately $2.5 million of our long-term borrowings to fund the acquisition of certain capital expenditures and for working capital requirements. We repaid approximately $2.6 million of long-term borrowings in accordance with our repayment schedule as well as to settle a portion of our revolving credit facility utilized.

During the first quarter of fiscal 2023, we utilized approximately $146.1 million from our South African overdraft facilities to fund our ATMs and our cash management business through Connect, and repaid $136.9 million of those facilities. We utilized approximately $1.1 million of our long-term borrowings to fund our merchant finance loans receivable business and to fund the acquisition of certain capital expenditures. We repaid approximately $1.6 million of long-term borrowings in accordance with our repayment schedule. We paid $0.2 million to repurchase shares from an employee in order for the employee to settle taxes due related to the vesting of shares of restricted stock.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We expect capital spending for the second quarter of fiscal 2024 to primarily include spending for acquisition of POS devices, safe assets, computer software, computer and office equipment, as well as for our ATM infrastructure and branch network in South Africa. Our capital expenditures for the first quarter of fiscal 2024 and 2023 are discussed under "—Liquidity and Capital Resources—Cash flows from investing activities." All of our capital expenditures for the past three fiscal years were funded through internally generated funds, or, following the Connect acquisition, our asset-backed borrowing arrangement. We had outstanding capital commitments as of September 30, 2023, of $0.7 million. We expect to fund these expenditures through internally generated funds and available facilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In addition to the tables below, see Note 4 to the unaudited condensed consolidated financial statements for a discussion of market risk.

We have short and long-term borrowings in South Africa which attract interest at rates that fluctuate based on changes in the South African prime and 3-month JIBAR interest rates. The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of September 30, 2023, as a result of changes in the South African prime and 3-month JIBAR interest rates, using our outstanding short and long-term borrowings as of September 30, 2023. The effect of a hypothetical 1% (i.e. 100 basis points) increase and a 1% decrease in the interest rates applicable to the borrowings as of September 30, 2023, are shown. The selected 1% hypothetical change does not reflect what could be considered the best- or worst-case scenarios.

Table 12	**As of September 30, 2023**		
	Annual expected interest charge ($ ’000)	**Hypothetical change in interest rates**	**Estimated annual expected interest charge after hypothetical change in interest rates ($ ’000)**
Interest on South African borrowings	20,667	1%	22,304
		(1%)	19,033

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our group chief executive officer and our group chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of September 30, 2023. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the group chief executive officer and the group chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

See “Item 1A RISK FACTORS” in Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, for a discussion of risk factors relating to (i) our business, (ii) operating in South Africa and other foreign markets, (iii) government regulation, and (iv) our common stock. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act	X			
32	Certification pursuant to 18 USC Section 1350	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X			
104	Cover page formatted as Inline XBRL and contained in Exhibit 101				

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 7, 2023.

LESAKA TECHNOLOGIES, INC.

By: /s/ Chris G.B. Meyer

Chris G.B. Meyer

Group Chief Executive Officer

By: /s/ Naeem E. Kola

Naeem E. Kola

Group Chief Financial Officer, Treasurer and Secretary