

Net 1 UEPS Technologies, Inc.
Registered in the state of Florida, USA
(IRS Employer Identification No. 98-0171860)
Nasdaq share code: UEPS
JSE share code: NT1
ISIN: US64107N2062
("Net1" or "the Company")

Short-Form Announcement: Net 1 UEPS Technologies, Inc. Reports Second Quarter 2021 Results

Q2 2021 Highlights and Recent Developments:

- Net increase of 44,000 EasyPay Everywhere (EPE) account holders, the first quarterly increase in eight quarters;
- IPG exit process at an advanced stage, which should result in reduced operating losses and cash burn going forward;
- Non-cash increase of \$15.1 million, before tax effect, in the fair value of investment in MobiKwik;
- Sale of entire interest in Bank Frick after quarter-end;
- At December 31, 2020, unrestricted cash of \$206 million and no debt;
- Revenue of \$32.3 million, a constant currency decrease of 12% from Q2 2020, and a decrease of 15% from Q1 2021;
- Operating loss of \$(15.2) million;
- GAAP EPS of \$(0.08) and Fundamental EPS of \$(0.24); and
- Adjusted EBITDA loss of \$(12.8) million, a sequential increase from a loss of \$(10.8) million in Q1 2021.

"We have made strong operational progress this quarter, which should result in improved financial performance going forward. In South Africa, our consumer bank account offering, EasyPay Everywhere, added approximately 44,000 net accounts during the quarter - the first quarterly increase in eight quarters," said Alex Smith, Net1's interim CEO and CFO. "In addition, we saw another sequential increase in the utilization of our ATM infrastructure. Internationally, we made significant progress on the exit from IPG. While once-off closure costs from IPG have impacted this quarter's results, the operational losses and cash burn should reduce materially going forward due to the decisive actions taken this quarter. We are actively working to resolve our Investment Company Act status in order for us to effect a partial return of capital as soon as we are able to do so. We are fully focused on executing our strategy to grow Net1 into the leading fintech business in South Africa."

Summary Financial Metrics

	Q2 2021	Q2 2020 (as restated) ⁽¹⁾	Q1 2021 (as restated) ⁽¹⁾	Q2 '21 vs Q2 '20	Q2 '21 vs Q1 '21	Q2 '21 vs Q2 '20	Q2 '21 vs Q1 '21
	USD '000's (except per share data)			% change in USD		% change in ZAR	
<i>(All figures in USD '000s except per share data)</i>							
Revenue	32,305	38,918	35,136	(17%)	(8%)	(12%)	(15%)
GAAP operating loss	(15,205)	(10,420)	(10,775)	46%	41%	55%	30%
Adjusted EBITDA (loss)(2)	(12,792)	(7,476)	(9,822)	71%	30%	81%	20%
GAAP (loss) earnings per share (\$)	(0.08)	-	(0.51)	nm	(84%)	nm	(86%)
Continuing	(0.08)	(0.05)	(0.51)	60%	(84%)	69%	(86%)
Discontinued	-	0.05	-	nm	nm	nm	nm
Fundamental loss per share \$(2)	(0.24)	(0.10)	(0.23)	140%	4%	154%	(4%)
Fully-diluted shares outstanding ('000's)	56,641	56,568	57,119	0%	(1%)	nm	nm
Average period USD/ ZAR exchange rate	15.47	14.60	16.77	6%	(8%)	nm	nm

	F2021	F2020 (as restated) ⁽¹⁾	F2021 vs F2020	F2021 vs F2020
	USD '000's (except per share data)		% change in USD	% change in ZAR
<i>(All figures in USD '000s except per share data)</i>				
Revenue	67,441	85,134	(21%)	(9%)
GAAP operating loss	(25,980)	(16,856)	54%	76%
Adjusted EBITDA (loss)(2)	(22,614)	(11,782)	92%	119%
GAAP (loss) earnings per share (\$)	(0.59)	(0.08)	638%	743%
Continuing	(0.59)	(0.18)	228%	275%
Discontinued	-	0.10	nm	nm

Fundamental loss per share (\$)(2)	(0.47)	(0.12)	292%	348%
Fully-diluted shares outstanding ('000's)	56,880	56,568	1%	nm
Average period USD/ ZAR exchange rate	16.47	14.40	14%	nm

(1) 2019 has been restated to correct an error with respect to the recognition of certain revenue and related cost of goods sold, IT processing, servicing and support. The financial information for the three and six months ended December 31, 2019, has been restated with the effect of decreasing revenue by \$1.6 million and \$3.4 million, respectively. Refer to Note 1 to our unaudited condensed consolidated financial statements.

(2) Adjusted EBITDA (loss), fundamental loss and fundamental loss per share are non-GAAP measures and are described below under "Use of Non-GAAP Measures—EBITDA and Adjusted EBITDA, and —Fundamental net (loss) income and fundamental (loss) earnings per share." See Attachment B in our full announcement for a reconciliation of GAAP operating loss to EBITDA loss and Adjusted EBITDA loss, and GAAP net loss to fundamental net loss and loss per share.

Business update related to COVID-19 pandemic

The COVID-19 pandemic did not impact our South African operations as severely during the three and six months ended December 31, 2020, compared to the last four months of the year ended June 30, 2020. However, on December 28, 2020, the country moved back to Level 3 restrictions which remain in place at the date of this report. South Africa operates with a five-level COVID-19 alert system, with Level 1 being the least restrictive and Level 5 being the most restrictive. The country went into lockdown (Level 5) towards the end of March 2020 and gradually eased restrictions for the remainder of the 2020 calendar year (to Level 4 from May 1, to Level 3 from June 1, to Level 2 from August 18 and to Level 1 from September 21). The increase at the end of December 2020 back to Level 3 was in response to a second wave of infections, which has been more severe than the first wave. While all our businesses continue to operate, we have increased preventive measures and it is unclear to what extent business activity levels will be affected. We have already seen an increase in claims in our life insurance business, which we believe is linked to the second wave and there is a risk of increased credit losses in our micro lending business as a result of increased mortality rates. Over the course of the pandemic to date, it is estimated that 2.2 million jobs have been lost in South Africa.

Factors impacting comparability of our Q2 2021 and Q2 2020 results

- **Lower revenue:** Our revenues decreased 12% in ZAR primarily due to fewer prepaid airtime sales and lower account fee revenue;
- **Ongoing operating losses:** Operating costs are largely in line with the prior period in ZAR due to the largely fixed cost nature of the costs base. As a result, we continue to experience operating losses as a result of depressed revenues; and
- **Adverse foreign exchange movements:** The U.S. dollar was 6% stronger against the ZAR during the second quarter of fiscal 2021, which adversely impacted our reported results.

Results of Operations by Segment and Liquidity

Processing

Segment revenue, excluding IPG, was \$19.5 million in Q2 2021, down 16%, compared with Q2 2020 and Q1 2021 on a constant currency basis. Excluding IPG, segment revenue decreased primarily due to fewer prepaid airtime sales and a modest reduction in volume-driven transaction fees. Excluding IPG, Processing operating loss has been impacted by lower revenue and by an increase in transaction-based costs. IPG incurred an operating loss but is in the process of being closed down. Our operating loss margin for Q2 2021 and 2020 was (51.9%) and (23.4%), respectively. Excluding IPG, our operating loss margin for the Processing segment was (29.4%) and (11.9%) during Q2 2021 and 2020, respectively.

Financial services

Segment revenue was \$9.7 million in Q2 2021, down 16% on a constant currency basis compared with Q2 2020 and up from \$8.3 million compared to Q1 2020. Segment revenue decreased due to lower account fee revenue whilst lending and insurance revenues increased modestly, in ZAR, compared to the prior period. The reduction in operating loss is primarily due to an improvement of operating margin on certain products offered. Our operating loss margin for Q2 fiscal 2021 and 2020 was (11.0%) and (10.2%), respectively.

Technology

Segment revenue was \$4.6 million in Q2 2021, flat on a constant currency basis compared with Q2 2020 but lower than the \$6.2 million in Q1 2021 due to lower hardware sales. Operating income for Q2 2021 improved compared with fiscal 2020 due to improved margins on various product lines within the segment. Our operating income margin for the Technology segment was 23.4% and 12.0% during the second quarter of fiscal 2021 and 2020, respectively.

Corporate/eliminations

Our corporate expenses increased primarily due to an allowance on doubtful loans receivable from equity-accounted investments created during the second quarter of fiscal 2021, and higher legal and consulting fees, which were partially offset by lower audit fees.

Cash flow and liquidity

At December 31, 2020, our cash and cash equivalents were \$206.3 million and comprised U.S. dollar-denominated balances of \$156.8 million, ZAR-denominated balances of ZAR 0.7 billion (\$45.5 million), and other currency deposits, primarily Botswana pula, of \$3.9 million, all amounts translated at exchange rates applicable as of December 31, 2020. The decrease in our unrestricted cash balances from June 30, 2020, was primarily due to the payment of Federal income taxes, weak trading activities and an increase in our lending book, which was partially offset by the receipt of the outstanding proceeds related to the sale of our Korean business and the receipt of the outstanding loan related to the disposal of our remaining interest in DNI.

Excluding the impact of income taxes, cash used in operating activities during the second quarter of fiscal 2021 was impacted by the cash losses incurred by the majority of our continuing operations and an unwind in our lending book. Net cash used in operating activities during the second quarter of fiscal 2020 includes the contribution from our Korean operations. Capital expenditures for Q2 2021 and 2020 were \$3.0 million and \$0.8 million, respectively.

Use of Non-GAAP Measures

US 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 directly comparable GAAP measures in our full announcement. The presentation of negative EBITDA, adjusted negative EBITDA, fundamental net (loss) income and fundamental (loss) earnings per share and headline (loss) earnings per share are non-GAAP measures.

Headline (loss) earnings per share (“HEPS”)

The inclusion of HEPS in this press release is a requirement of our listing on the JSE. HEPS basic and diluted is calculated using net loss 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.

The table below presents our HEPS for Q2 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Net loss used to calculate headline earnings (USD'000)	<u>(2,626)</u>	<u>(9,983)</u>
Headline loss per share:		
Basic, in USD	(0.05)	(0.18)
Diluted, in USD	(0.05)	(0.18)

The table below presents our HEPS for the year to date fiscal 2021 and 2020:

	<u>F2021</u>	<u>F2020</u>
Net loss used to calculate headline earnings (USD'000)	<u>(16,100)</u>	<u>(14,486)</u>
Headline loss per share:		
Basic, in USD	(0.28)	(0.26)
Diluted, in USD	(0.28)	(0.26)

Short-form announcement

This short-form announcement is the responsibility of the Net1 Board of Directors (“Board”) and the contents have been approved by the Board on February 4, 2021. This short-form announcement released on SENS is a summary of the full announcement which is available at <https://senspdf.jse.co.za/documents/2021/JSE/ISSE/NT1/Q2Res2021.pdf> and has been published on Net1’s website at www.net1.com. This short-form announcement does not contain the complete or full announcement details. Any investment decision by investors and/or shareholders should be based on consideration of the full announcement. The short-form announcement has not been audited or reviewed by Net1’s external auditors. The full announcement is available upon request through enquiries directed to either Dara Dierks, Net1’s investor relations contact, at net1IR@icrinc.com or Net1’s media relations contact at Bridget.vonholdt@bcw-global.com.

Conference Call

We will host a conference call to review these results on February 5, 2021, at 8:00 a.m. Eastern Time. To participate in the call, dial 1-508-924-4326 (US and Canada), 0333-300-1418 (U.K. only) or 010-201-6800 (South Africa only) ten minutes prior to the start of the call. Callers should request “Net1 call” upon dial-in. The call will also be webcast on the Net1 homepage, www.net1.com. Please click on the webcast link at least ten minutes prior to the call. A webcast of the call will be available for replay on the Net1 website.

Participants are now able to pre-register for the February 5, 2021, conference call by navigating to <https://www.diamondpass.net/5478772>. Participants utilizing this pre-registration service will receive their dial-in number upon registration.

About Net1

Net1 is a South African-focused financial technology company with a presence in Africa, Asia and Europe. Net1 utilizes its proprietary banking and payment technology to distribute low-cost financial and value-added services to underserved consumers and small businesses. The Company also provides transaction processing services, including being a payment processor and bill payment platform in South Africa. Net1 leverages its strategic investments in banks, telecom and mobile payment technology companies to further expand its product offerings or to enter new markets.

Net1 has a primary listing on NASDAQ (NasdaqGS: UEPS) and a secondary listing on the Johannesburg Stock Exchange (JSE: NT1). Visit www.net1.com for additional information about Net1.

Forward-Looking Statements

This announcement contains forward-looking statements that involve known and unknown risks and uncertainties. A discussion of various factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed in such forward-looking statements are included in our filings with the Securities and Exchange Commission. We undertake no obligation to revise any of these statements to reflect future events.

Investor Relations Contact:

Dara Dierks
Managing Director – ICR
Email: net1IR@icrinc.com

Media Relations Contact:

Bridget von Holdt
Business Director – BCW
Phone: +27-82-610-0650
Email: Bridget.vonholdt@bcw-global.com

Johannesburg
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Sponsor:
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