

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 2022 Results

Highlights:

- Continued momentum in Easy Pay Everywhere (“EPE”), ending the quarter with just under 1.1 million EPE accounts as of December 31, 2021;
- At December 31, 2021, unrestricted cash of \$182.4 million;
- Revenue of \$31.1 million, a decrease of 4% from Q2 2021;
- 38% recovery in operating loss to \$(9.4) million in Q2 2022, reflecting the direct cost reductions in our Consumer business;
- GAAP EPS of \$(0.22) and Fundamental EPS of \$(0.13); and
- 42% improvement in adjusted EBITDA loss to \$(7.1) million, underpinned by the turnaround in our Consumer business.

“I am pleased with the progress we made in Q2, towards our strategic goal of returning our consumer financial services business to breakeven and then profitability as soon as possible. During the quarter we continued to grow active accounts, improved average revenue per customer and delivered on our cost savings initiatives. We have seen this positive momentum translate into a marked improvement in the operational performance of our consumer business compared to Q1.” said Chris Meyer, Group CEO of Net1. “We are looking forward to finalizing the Connect Group acquisition in Q3, which will transform our Merchant business, once all the regulatory approvals are in place. We also made key enhancements to our management team, positioning us with the right leadership to successfully execute our long-term growth strategy and advance our key initiatives. However, we know there is still a lot more work to be done as we continue our journey of building the leading South African FinTech platform for underserved consumers and merchants.”

Summary Financial Metrics

Three months ended

	Three months ended						
	Dec 31, 2021	Dec 31, 2020	Sep 30, 2021	Q2 '22 vs Q2 '21	Q2 '22 vs Q1 '22	Q2 '22 vs Q2 '21	Q2 '22 vs Q1 '22
(All figures in USD '000s except per share data)	USD '000's (except per share data)			% change in USD		% change in ZAR	
Revenue	31,114	32,305	34,504	(4%)	(10%)	(4%)	(5%)
GAAP operating loss	(9,427)	(15,205)	(11,225)	(38%)	(16%)	(38%)	(12%)
Adjusted EBITDA (loss) ⁽¹⁾	(7,059)	(12,132)	(10,087)	(42%)	(30%)	(42%)	(26%)
GAAP (loss) earnings per share (\$)	(0.22)	(0.08)	(0.23)	171%	(5%)	170%	(0%)
Fundamental loss per share (\$) ⁽¹⁾	(0.13)	(0.23)	(0.22)	(43%)	(41%)	(44%)	(38%)
Fully-diluted shares outstanding ('000's)	57,204	56,641	56,809	1%	1%	nm	nm
Average period USD/ ZAR exchange rate	15.38	15.47	14.61	(1%)	5%	nm	nm

Six months ended

	Six months ended		F2022 vs F2021	F2022 vs F2021
	December 31, 2021	December 31, 2020		
	USD ‘000’s (except per share data)		% change in USD	% change in ZAR
(All figures in USD ‘000s except per share data)				
Revenue	65,618	67,441	(3%)	(9%)
GAAP operating loss	(20,652)	(25,980)	(21%)	(25%)
Adjusted EBITDA (loss) ⁽¹⁾	(17,146)	(21,876)	(22%)	(26%)

GAAP loss per share (\$)	(0.45)	(0.59)	(24%)	(29%)
Fundamental loss per share (\$) ⁽¹⁾	(0.35)	(0.45)	(22%)	(27%)
Fully-diluted shares outstanding ('000's)	57,093	56,880	0%	nm
Average period USD/ ZAR exchange rate	15.47	16.47	(6%)	nm

(1) 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 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.

Factors impacting comparability of our Q2 2022 and Q2 2021 results

- **Lower revenue:** Our revenues decreased 4% in ZAR primarily due to lower hardware sales as a result of the global chip shortage and fewer prepaid airtime sales. The benefit of the increase in active accounts was offset by lower ATM transactions as the number of active ATMs decreased as we go through a relocation process;
- **Lower operating losses:** Operating losses decreased, delivering an improvement of 38% in ZAR compared with the prior period primarily due to the closure of IPG and the implementation of various cost reduction initiatives in our Consumer business;
- **Significant transaction costs:** We expensed \$1.5 million of transaction costs related to the Connect Group acquisition; and
- **Foreign exchange movements:** The U.S. dollar was 1% stronger against the ZAR during Q2 2022, which impacted our reported results.

Results of Operations by Segment and Liquidity

During November 2021, our chief operating decision maker (“CODM”) changed our operating and internal reporting structures following the establishment of a new management team and our decision to focus primarily on the South African market. Our CODM has decided to analyze our operating performance primarily based on operational lines which group financial services provided to customers (consumers) into the Consumer operating segment and goods and services provided to corporate and other juristic entities into the Merchant operating segment.

Consumer

Segment revenue was \$16.6 million in Q2 2022, up 2% compared with Q2 2021, and up 2% compared with Q1 2022 on a constant currency basis. Segment revenue increased primarily due to higher insurance revenue and moderately higher account holder fees, which was partially offset by moderately lower lending revenue and lower ATM transaction volumes. Segment EBITDA loss has decreased primarily due to the implementation of various cost reduction initiatives, which was partially offset by an increase in insurance-related claims experience and an increase in our allowance for doubtful finance loans receivable recorded during the second quarter of fiscal 2022 following strong loan originations in December 2021. Our EBITDA loss margin (calculated as EBITDA loss divided by revenue) for Q2 2022 and 2021 was (27.4%) and (32.1%), respectively.

Merchant

Segment revenue was \$14.1 million in Q2 2022, down 8% compared with Q2 2021 and down 13% compared to Q1 2022 on a constant currency basis. Segment revenue decreased due to fewer hardware sales as a result of the global chip shortage and fewer prepaid airtime sales, which was partially offset by higher processing fees. The decrease in segment EBITDA is primarily due to the lower revenue. The decrease in segment EBITDA is primarily due to fewer sales. Our EBITDA margin for Q2 2022 and 2021 was 5.6% and 8.1%, respectively.

Other

Other includes the activities of IPG in fiscal 2021 and our other business outside South Africa.

Segment revenue decreased due to lower revenue following the closure of IPG in fiscal 2021. We recorded an EBITDA contribution during Q2 2022 following the closure of our loss-making activities performed through IPG. Our EBITDA (loss) margin for the Other segment was 31.1% and (494.2%) during Q2 2022 and 2021, respectively.

Corporate/Eliminations

Our corporate expenses generally include acquisition-related intangible asset amortization; expenses incurred related to corporate actions; expenditure related to compliance with the Sarbanes-Oxley Act of 2002; non-employee directors’ fees; certain employee and executive bonuses; stock-based compensation; legal fees; audit fees; directors and officer’s insurance premiums; elimination entries and from fiscal 2022 our group CEO’s compensation.

Our corporate expenses for fiscal 2022 decreased compared with fiscal 2021 due to the inclusion of an allowance on doubtful loans receivable from equity-accounted investments of \$0.7 million created during the second quarter of fiscal 2021. Our corporate expenses for fiscal 2022 includes transaction related expenses of \$1.5 million (ZAR 22.9 million) related to the Connect Group acquisition. We expect to incur additional expenses related to the Connect Group transaction in the third quarter of fiscal 2022.

Cash flow and liquidity

At December 31, 2021, our cash and cash equivalents were \$182.4 million and comprised of U.S. dollar-denominated balances of \$159.4 million, ZAR-denominated balances of ZAR 0.3 billion (\$21.0 million), and other currency deposits, primarily Botswana pula, of \$2.0 million, all amounts translated at exchange rates applicable as of December 31, 2021. The decrease in our unrestricted cash balances from June 30, 2021, was primarily due to growth in our financial loans receivable book in December 2021, and utilization of cash reserves to fund our operations, partially offset by the receipt of \$7.5 million related to the sale of Bank Frick in fiscal 2021.

Excluding the impact of income taxes, our cash used in operating activities during the first quarter of fiscal 2022 was impacted by the utilization of cash to grow our financial loans receivable book in December 2021, but partially offset by lower cash losses incurred by the majority of our continuing operations. Capital expenditures for Q2 2022 and 2021 were \$0.2 million and \$3.0 million, respectively.

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

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.

The table below presents our HEPS for Q2 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net loss used to calculate headline earnings (USD'000)	<u>(13,297)</u>	<u>(2,626)</u>
Headline loss per share:		
Basic, in USD	(0.23)	(0.05)
Diluted, in USD	(0.23)	(0.05)

The table below presents our HEPS for the first half of fiscal 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net loss used to calculate headline earnings (USD'000)	<u>(26,151)</u>	<u>(16,100)</u>
Headline loss per share:		
Basic, in USD	(0.46)	(0.28)
Diluted, in USD	(0.46)	(0.28)

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 9, 2022. This short-form announcement released on SENS is a summary of the full announcement which is available at <https://senspdf.jse.co.za/documents/2022/JSE/ISSE/NT1/Q2Res2022.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 Net1’s investor relations contact at net1IR@icrinc.com or Net1’s media relations contact at Bridget.vonholdt@bcw-global.com.

Conference Call

Net1 will host a conference call to review these results on February 10, 2022, 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 can pre-register for the February 10, 2022, conference call by navigating to <https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=4585301&linkSecurityString=825dd9610> Participants utilizing this pre-registration service will receive their dial-in number upon registration.

About Net1

Net1 is a leading financial technology company that utilizes its proprietary banking and payment technology to deliver on its mission of financial inclusion through the distribution of low-cost financial and value-added services to underserved consumers and small businesses in Southern Africa, which represents a significant segment of these economies. The Company also provides transaction processing services, including being a payment processor and bill payment platform in South Africa. Net1 leverages its strategic investments 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.

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Johannesburg

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Sponsor:

Rand Merchant Bank, a division of FirstRand Bank Limited