Lesaka Technologies – Q1 FY2027 Results Webcast Transcript

Idris Dungarwalla - Head of Investor Relations

Welcome to Lesaka Technologies' results webcast for the first quarter of fiscal 2027. As a reminder this webcast is being recorded. Management will address any questions you have at the end of the presentation.

To ask a question LIVE, participants are requested to join the Chorus Call line by registering via the link provided. Alternatively, please enter your questions into the questions tab of this webcast.

Our press release and investor presentation are available on our Investor Relations website at ir.lesakatech.com.

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

As a domestic filer in the United States, we report results in U.S. dollars, under US GAAP. However, it is important to note that our operational currency is South African rand and as such we analyze our performance in South African rand, which is non-GAAP. This assists investors in understanding the underlying trends in our business.

I will now turn the webcast over to Ali.

Ali Mazanderani - Executive Chairman

Slide: Our FY27 Priorities

Good morning and good afternoon, and thank you for joining us for Lesaka's first quarter results for fiscal 2027.

In Q1 we met our guidance on all three measures. Our 17th consecutive quarter of meeting our profitability guidance. The Consumer and Enterprise businesses continued to perform well with Merchant having an irregular quarter, due to a number of exceptional items as we indicated in our guidance last quarter. Before Dan and Lincoln take you through the numbers, I'll briefly summarize where we are and where we are going across each segment.

Consumer has a proven product market fit. We are growing faster than any other provider in our core segment, and doing so with better unit economics. We expect that to continue for some time to come. Going forward we will continue to expand our digital engagement, including through our new banking app, as well as creating network effects from our consumers transacting more at our merchants, improving the value proposition for both.

Enterprise is now a meaningful profit contributor to the group having scaled above the inflection point of its fixed costs. Growth is primarily focused on increasing market share by increasing share of spend from existing contracted customers. I believe that like in Consumer, our value proposition is best in class for the customers we address.

In Merchant, Net revenue was roughly flat YoY when we exclude business units we shut down, with net merchant growth flat and ARPU in both community and corporate largely flat. Segment Adjusted EBITDA however was materially down due to exceptional items. Run-rate EBITDA in Merchant is currently closer to c.ZAR120m that the ZAR77m reported. We are currently seeing, and over the coming months we expect to see, a material increase in net new merchants, as the new team and

strategy take hold. Indeed in October we have seen the fastest monthly growth in net new merchants we have had in the last 12 months. In Q2 our outlook for Merchant is Segment Adjusted EBITDA >ZAR130m implying c.70% QoQ growth. By Q4 FY27 we expect Merchant to have is best ever performing quarter from a segment adjusted EBITDA perspective.

On Bank Zero, we believe we are in the final stage of approvals. We believe all outstanding submissions to the Prudential Authority has been provided. We could still complete the transaction by the end of this calander year, but it may be more prudent to expect by the end of January 2027. That being the case, between the third and fourth quarter, we expect to start funding our lending books with Bank Zero's deposits rather than borrowed money, and early in FY28 to move our bank sponsorship across. As we indicated in our last investor presentation the consequence would materially reduce our net debt to group adjusted EBITDA.

Against the backdrop of these priorities, we are almost complete with our main office consolidations and the brand rollout is happening at pace.

Slide: Our FY27 Priorities and the FY29 Ambition

As we consolidate offices and the brand we are continuing our investment in people.

At a board level we welcomed Carolina Lacerda and James Oates. Carolina is currently on the board of PagSeguro, one of Brazil's largest payment businesses for micro-merchants. She also has strong Africa experience through her roles at IHS Towers. Jim was previously the Global Head of Compliance and operational Risk at UBS, and is currently on the supervisory board of European fintech Raisin.

At an executive level, we appointed Kerin Wood as the Head of Risk and Compliance. Kerin has joined the group exco and brings excellent relevant experience from PwC and Standard Chartered. I am also delighted to welcome Atang Matebesi to Lesaka. Atang joins as Consumer COO, having achieved great things at Santam and Sanlam previously. I am looking forward to working with Atang again having had the privilege of working with him in private equity at Actis a number of years ago.

We are additionally excited to foster and nurture young talent and become the recruiter of choice for the best graduates in South Africa. Our graduate program is now in its 3rd year and starting to get real momentum amongst the top performing students. This year we have received almost 5,000 applications for 20 places.

We believe investing in the highest standards of risk, controls and cyber security will be a competitive advantage for the group over the coming years, and so these are now reflected in our FY27 group costs. We will proactively manage our cyber resilience as AI sophistication increases and applications scale. Excellence in this domain will ultimately help distinguish our outcomes from those of others.

As I reflect on where we are, and the 3 year medium turn ambition we provided the market last quarter of more than 20% Net Revenue CAGR, more than 30% Group Adjusted EBITDA CAGR and more than 40% Adjusted EPS CAGR, I believe we are very well placed to achieve this.

With that, I'll hand over to Dan to go through the numbers for the quarter in more detail.

Dan Smith - Group CFO

Slide: Key Financial Highlights

Thank you, Ali. Good morning and good afternoon to everyone joining us.

FY26 marked a financial inflection point for Lesaka, with stronger earnings, improved cash generation and lower leverage. Our focus in FY27 is to build on that foundation and continue strengthening our capabilities, particularly in Merchant, banking, risk and controls, while delivering sustainable earnings growth and stronger cash generation.

In the first quarter, we delivered EBITDA at the midpoint of guidance and adjusted earnings per share above the top of our range. Consumer and Enterprise continued to grow strongly, while Merchant's performance is poised to commence delivering on its potential. I will take you through the financial results, before Lincoln covers the operating actions and Ali returns to guidance.

Slide: Group Level Financial Performance

First, a brief point on net revenue. We now deduct network fees in Corporate card acquiring, including interchange passed on to other parties, as we already do in Community. Prior periods are presented on the same basis. This reduces reported net revenue and marginally impacts Merchant ARPU, but has no impact on Group Adjusted EBITDA or adjusted earnings. It gives a clearer measure of the revenue we retain.

On that basis, net revenue grew 8% to R1.58 billion, within guidance. Group Adjusted EBITDA was R220 million, at the midpoint of our range. Adjusted earnings were R60 million, or 72 cents per share, above guidance of 40 to 60 cents.

EBITDA and adjusted EPS were nevertheless down 17% and 26% year on year. The divisional results explain that decline.

Slide: Divisional Financial Performance

Consumer net revenue increased 24% to R668 million, with lending revenue up 37% and insurance revenue up 42%. That reflects the value of deepening our customer relationships. Enterprise grew 19% to R263 million, with ADP and Utilities benefiting from higher volumes and improved take rates.

Merchant net revenue declined 7% to R675 million. The prior-year comparison included R26 million from the ATM business we exited and approximately R19 million from a data-services contract that was not renewed. Excluding these items, revenue was broadly flat year on year. ADP margin pressure and competition in Corporate continued to affect performance.

Community transaction volumes are growing strongly. The financial priority is to convert more of that activity into revenue and profit. Lincoln will take you through the actions under way.

Slide: Profitability Performance

Turning to profitability, Consumer EBITDA increased 38% to R206 million, with a margin of 31%, compared with 28% a year ago. Growth in banking, lending and insurance remains encouraging.

As explained in September, we expect Consumer's margin to average around 35% for the year, with scope to improve as the business scales. That improvement will not be a straight line, given the seasonality of lending.

Enterprise EBITDA increased 28% to R29 million, with margin improving to 10.9%. This was below the strong fourth-quarter contribution of R54 million. We continue to invest in delivery capacity, and some anticipated ADP revenue has taken longer to come through. Converting those opportunities into earnings remains a priority.

Merchant EBITDA was R77 million, compared with R158 million a year ago. The decline reflects lower revenue and margin pressure, particularly in ADP, alongside higher costs. These include restructuring and duplicated costs as we bring the businesses together, and investment ahead of revenue in products such as our new prepaid voucher. Lincoln will cover the operating actions. We expect a strong sequential recovery from Q2, with further benefits from cost actions and Community monetization from Q3.

Group costs were R91 million, compared with R63 million in Q4. As outlined at our full-year results, we are strengthening the people and systems supporting the group and preparing for Bank Zero. The quarter also included project and integration expenditure. Our focus is on controlling spending and improving operating leverage as earnings grow.

The delta between adjusted and US GAAP earnings has narrowed, mainly through lower acquisition-related amortization and exit of legacy investments. We remain focused on improving the quality and sustainability of our earnings, with stronger reporting profitability and cash generation over time.

Slide: Cash Flow and Leverage Ratio Performance

Turning to cash flow, cash generated from business operations was R245 million. As a reminder, this is before working capital, loan-book funding, tax and interest.

We invested R253 million in our lending books, principally Consumer, and used R29 million in working capital. After interest of R69 million and tax of R7 million, net operating cash outflow was R113 million. After capital expenditure, the outflow was R261 million.

That is a substantial funding requirement, reflecting lending growth, the timing of collections and our investment programme. Longer loan terms and record first-quarter Consumer originations brought more of the lending requirement into Q1. We expect cash conversion to remain under pressure in Q2 and improve in the second half of the financial year. As discussed in September, cash conversion is best assessed over the full year.

Interest paid fell from R87 million a year ago to R69 million. We are benefiting from lower margins on our main term facilities following the reduction in our leverage ratio achieved in FY26.

Net debt increased from R2.46 billion in June to R2.73 billion. This took leverage from 1.9 to 2.2 times which remains below last year’s level at 2.5 times.

With the festive-season lending peak still ahead, we expect leverage to rise temporarily to around 3 times in Q2. This is well within our, and our lending banks’, risk appetites. Ensuring funding capacity keeps pace with lending growth, while optimizing the cost of funding, is a key priority for our treasury team.

Bank Zero should materially improve our funding model, but the benefit depends on completion and the subsequent migration of our lending books. As Ali outlined, transfers are expected to begin in Q4, with lower external debt and funding costs following migration. Bank Zero continues to grow its business and deposit base in line with expectations.

Slide: Capex Spend and Areas of Investment

Capital expenditure was R148 million in the quarter: R59 million for office fit-out and R89 million for operational investment, principally devices and infrastructure supporting our customers. Operational capex was broadly in line with the R90 million spent a year ago.

As set out at our full-year results, we expect R450 million of operational capex and R100 million of non-recurring office expenditure in FY27, or R550 million in total. Most remaining office expenditure is expected in Q2, with operational capex spread more evenly over the remaining three quarters.

Slide: Reinvesting in the Platform

Our Group Adjusted EBITDA margin was 13.9%, compared with 18.1% a year ago. Lower Merchant earnings and higher group costs held back the group margin, despite progress in Consumer and Enterprise.

On a last-twelve-months basis, total capex was 39% of Group Adjusted EBITDA, or 30% excluding office fit-out. As discussed in September, investment will keep the ratio elevated in the near term. Our medium-term ambition remains to bring total capex below 30%.

Our financial priorities are clear: deliver Merchant’s earnings recovery, sustain Consumer’s growth, increase Enterprise’s contribution and improve cash generation after investment. We have made progress in important parts of the group. Our focus now is to translate that into stronger group earnings through the year and lower leverage as lending migration to Bank Zero progresses.

Thank you. I will now hand over to Lincoln.

Lincoln C. Mali - CEO Southern Africa

Slide: Merchant Business Reset

Thank you, Dan. I'll start with Merchant, which is a turnaround that is now under way.

The left of this slide shows the two parts of Merchant, and they are at different stages. Community is the engine, and it is starting to turn. We are signing up more spaza shops and informal traders, they are moving more of their cash and supplier payments through us, and that activity is beginning to pull them into card acquiring and our other products. The job now is to earn more from it, and I'll show you how over the next few slides.

Corporate is a business we are rebuilding. It is a competitive market, merchants now expect more from their provider than a card machine, and our product needs to do more for them. We have a clear plan for that, and it is the work of this financial year.

On the right are the three things we are doing to turn Merchant around, and when we expect each of them to show.

The first is our cost base. We are reshaping the team, moving out some roles and strengthening others, and taking out costs we have been carrying twice as we bring the businesses together. Those exceptional items impacted Merchant EBITDA this quarter, and we do not expect them to recur. We expect the impact, particularly on Merchant restructuring, to show benefit from the third quarter.

The second is lending in Corporate, which remains our most important lever there and will be a focus throughout the year. Our lending is integrated with acquiring, so a merchant repays out of their card and cash takings, or through direct debit order from the merchant’s wallet, and that keeps each loan close to a relationship we already understand. You'll see on the lending slide that originations grew strongly this quarter.

The third is wallet growth in Community, where we want more of the merchant's day to day operations running through us. Part of that is our own products, starting with the prepaid voucher we launched

through ADP on the 1st of October. Our merchants had been asking us for it, and because it is ours, it earns us a better margin than reselling someone else's. In the short term, we aim to reinvest this margin into merchant commission to increase market share. The other part is distribution. Every wholesaler we add brings more supplier payments onto our network, and those bring merchants into acquiring, where our take rate is higher. We expect the volumes to come in the second quarter, with ARPU expansion following from the third.

These projects are already in motion, and they give us confidence in the shape of the year. We expect the first quarter to be the low point for Merchant, with EBITDA stepping up from the second quarter and building from there as each of them comes through. With that, let me take you through the KPIs.

Slide: Merchant Base and Engagement

We have split our KPIs by Community and Corporate where relevant. As Dan mentioned, Merchant ARPU is now on the restated basis too, with network fees netted off in Corporate as they already were in Community, which gives a truer sense of business performance.

Active merchants were flat at 133,000. Community grew 2% to 109,000, and the work we have put into our brand and sales teams there is starting to show. Corporate fell 11% to 24,000, mostly in standalone card acquiring, where competition for new business is strong and our product needs to do more. We also exited our ATM business, as we disclosed in the third quarter of last year, which led to some expected churn.

Merchant ARPU fell 5% to R1,563 a month, largely because of mix, as more of our growth is in Community, where each merchant earns us less than in Corporate. In Corporate, ARPU rose 3%. The merchants we lost were mostly smaller ones, and, pleasingly, our higher-volume customers are engaging more with our offering. In Community, ARPU fell 3%. Part of that is a choice. We are pricing more sharply for new merchants, and paying higher commissions on prepaid products, to win share. The rest comes from the market. As competition has grown, wallet providers have stopped connecting with one another, and the fees we used to earn when money moved into our network from other wallets have largely gone.

46% of our merchants use two or more products, the same as a year ago. Those using three or more fell from 9% to 6%, because we have tightened lending in Community. When a small merchant defaults, we risk losing the device and the acquiring relationship along with the loan, so we are being more selective about who we lend to in this market.

Slide: Merchant Volumes

Community card acquiring grew 24% to R4.5 billion, while Corporate was flat at R6.8 billion. In cash, Community volumes grew 58% to R7.7 billion and Corporate fell 10% to R22.2 billion, which follows the market. Restaurants and retailers are handling less cash, demand is shifting to smaller vaults, and we have launched a smaller capacity vault offering to meet this demand. We expect Corporate cash to keep declining.

In ADP, supplier-enabled payments grew 59% to R10 billion, and prepaid grew 5% to R5.9 billion.

The Community numbers move together. A spaza shop owner who pays their wholesaler through us first needs money in our system, so their cash deposits with us increase. As they pay suppliers and benefit from instant settlement, our supplier payment volumes grow. That creates a flywheel, driving more volume into acquiring, where we earn a higher take rate, and that flow-through is beginning to

show. As we sign up more wholesalers, more of the merchant's day to day operations runs through us. We keep supplier payments and cash products priced very low for that reason, to pull merchants through into the rest of our ecosystem.

Slide: Merchant Lending and Software

Lending had a strong quarter in Merchant too. Originations grew 67% to R272 million, and the portfolio grew 29% to R483 million. Most of this came from Corporate, where we restructured the sales team earlier in the year and the effect is starting to translate to performance. The bulk is repeat lending to clients we know well, and new clients are starting to come through. In Community, as I said, we are lending more selectively.

Software sites fell 2% to 9,716. Unity, our cloud-based point-of-sale platform, continues to gain ground. It integrates software directly with acquiring, and 19% of our software base now runs on it.

Slide: Merchant Product Engagement & ARPU

This slide shows why we keep pushing cross-sell. A Community merchant using one product earns us R525 a month, and with three or more it is R1,099. In Corporate, a second product takes ARPU from R5,024 to R8,373. Merchants on two products grew to 53,000, from 50,000 a year ago.

In Corporate, that means integrating acquiring with point-of-sale software, ours and third-party, because an integrated merchant is much harder to move on price. That remains our strategy, but Corporate needs work before it grows again. Merchants now expect more than a card machine. They want basic point-of-sale, invoicing and access to working capital on the same device. Building that, and making our integrated product easy to sell and service at scale, will take this financial year. We don't expect Corporate to return to growth before FY2028 as a result.

Community is also where the group comes together. From next month, EasyPay customers will be able to withdraw cash at our Community merchants. That brings more people through the merchant's door and more cash into our network.

So the work for the rest of the year is to get the reset costs out and turn Community's volumes into revenue. Corporate will take longer, and we will keep you updated on our progress each quarter.

Slide: Consumer Base and Engagement

Turning to Consumer, which continues to lead the group's growth.

Active consumers grew 11% to 2.1 million, and our share of the SASSA grant beneficiary market rose to 15.6%, from 14.9% a year ago. Q1 is normally a quieter quarter for us, so this is a good result, and it comes from our footprint. Our branches and frontline teams are in the communities where our customers live, and we can open a fully working account in a matter of minutes.

Our ARPU grew 15% to R101 per month. Most of that still comes from cross-sell, as more customers take a loan or a funeral policy with us, and we are also starting to see recent pricing adjustments come through. Today, just over half of our active consumers have two or more products with us, and 20% have all three, up from 17% a year ago. What has not changed is how we do it. We sign our customers up in person, and we serve them digitally. That model keeps working for us.

Slide: Lending Origination Driven by Channel and Product Innovation

Lending had an exceptional quarter. Originations grew 39% to R1.14 billion, above R1 billion in what is typically a seasonally quieter quarter. This growth is not just bigger loans. We disbursed 411,000

loans in the quarter, up 16%, which is around 4,500 loans every day. The outstanding portfolio grew 41% to R1.58 billion.

Our nine-month product now represents 67% of the portfolio, up from 54% a year ago. For our customers, the decision to borrow is driven by the size of the monthly instalment far more than by price. A longer term lets us offer larger loans, including the R5,000 advance we introduced last quarter, while keeping the repayment affordable.

Channel is the other part of the story. Our customers can borrow in a branch, through our field teams, or on their own phone through USSD. For a repeat borrower, USSD means funds in minutes without travelling to a branch, and for us it lowers our cost to serve.

Longer terms are also changing the shape of our lending year. December and June remain our peak months, but with loans now maturing across a wider spread of the year, we expect more activity in quieter quarters like this one, and a less pronounced December peak than in the past.

The quality of the book remains sound. We lend only to active Lesaka customers, most of them repeat borrowers whose transaction history we know well, and we monitor credit performance at the vintage level, where it remains in line with our expectations.

Slide: Insurance Offering Continues to Scale

Insurance continues to scale. Gross written premiums grew 46% to R167 million, and in-force policies grew 36% to 799,000. This step-up comes from sharper execution, with our teams engaging customers on funeral cover earlier in the relationship. Our collection ratio was 94%, compared with 97% a year ago. As we have signposted over recent quarters, we expect this to moderate towards 90% as the book broadens, and it remains an exceptionally high rate for this end of the market. We still see room to grow insurance penetration within our existing base.

Consumer had a strong start to FY2027, and we enter the festive season, our busiest period of the year, with good momentum. I will now move to Enterprise.

Slide: Enterprise ADP and Utilities TPV

Enterprise had a good quarter. ADP volumes grew 15% to R13.8 billion. Bill payments grew to R10.2 billion, from R9.4 billion a year ago, and prepaid grew to R3.5 billion, from R2.5 billion, helped by the business we have added and more partners coming onto the platform.

This quarter we brought on a national retailer and two of the major banks, and more recently one of the nation's largest insurers. Every new collector gives the billers on our platform more places for their customers to pay, and brings more volume onto it.

In prepaid solutions, we have brought all of the group's airtime buying into Enterprise, so we now procure in one place. We have also connected directly to the mobile network operators, which gives us redundancy and means we rely less on any single supplier. Enterprise also runs the prepaid voucher I mentioned in Merchant, which our merchants sell to their customers.

Separately, our digital voucher, a different product that we distribute through partners, continues to grow. We have signed several new content providers for it, and it is now sold through leading fintechs and one of the major banks, with a major grocery retailer to follow shortly.

Utilities volumes grew 10% to R537 million, and active meters rose to 380,000 from 358,000 following continued strong sales performance.

That concludes my section. I'll hand back to Ali, who will take you through our guidance.

Ali Mazanderani - Executive Chairman

Slide: FY27 and Q2 FY27 Guidance

Thank you, Lincoln. Turning to guidance. For the second quarter of FY27, we are guiding to net revenue of R1.62 billion to R1.72 billion, Group Adjusted EBITDA of R280 million to R320 million, and adjusted EPS of R1.00 to R1.40.

The second quarter is a step up from the first, as Consumer moves into the festive season and Merchant comes off its low point. Against a year ago, as mentioned earlier, we are carrying higher group costs as we invest in risk and control capabilities ahead of Bank Zero which becomes less of a drag in the later quarters of the year.

For the full year, we reiterate our guidance of net revenue of R7.0 billion to R7.7 billion, Group Adjusted EBITDA of R1.45 billion to R1.60 billion, and adjusted EPS of R7.50 to R8.50, inclusive of Bank Zero.

Last year we saw increasing Group Adjusted EBITDA from Q1 through to Q4 and we expect to see the same this year. This is exacerbated by the Merchant businesses reset costs which fall away from the end of the second quarter, and the growth of merchants and volumes that we have being experiencing over the last month filters through into the P&L.

We expect that the next time we present to the market the Bank Zero transaction has been completed, and we are demonstrating strong growth in net new merchants and profitability within the Merchant business alongside a continuation of the excellent performance in Consumer and Enterprise. Thank you for your time, and we will now take your questions.

Question and Answer Session

Idris Dungarwalla - Head of Investor Relations

Thank you, operator. Could you please open the line for our first question from Ross Krige at Investec Securities?

Ross Krige - Investec Securities

Good afternoon, everyone. Thanks very much for the call. I'll start with three questions, please. I'll read them all out. Just on the first one, on Merchant performance and the improvement that you are expecting from Q3, it sounds like that's when the culmination of a lot of the work you're doing will come through. Are you able to give a sense of where net revenue growth run rates and EBITDA margin may land in H2, or if you want to refer to Q4, whatever you think is the best reflection? Then secondly, in terms of lending in Merchant, just two parts to this: one, what drove the increase in the proportion of loans in arrears in Q1 FY27, and then how has your lending strategy changed in Merchant versus a year ago? And finally, just on Consumer, if you could possibly elaborate on the increase in the simple interest rate from 12% to 15%, just in terms of the reason for that and which products and loan terms that applies to. Thank you.

Ali Mazanderani - Executive Chairman

Thanks, Ross. I might ask you to just repeat parts of that. I'll say back the three questions as I understood them. The first one was on Merchant, on our expectations of net revenue growth, EBITDA growth and EBIT growth. We've been explicit in saying two data points. I guess the one data point is that next quarter we should have an EBITDA of north of 130 million rand, and the other thing that I said in the presentation was that we expect the EBITDA we achieve in the fourth quarter of this year to be the highest ever EBITDA that we have achieved in the Merchant business. If you look through the history, the previous high, I think, was north of 180 million. So we are expecting a material step up. I do expect the margins over the course of the year to revert initially to where they previously were, which is sort of north of 20%, and to evolve from there. And obviously, the consequence of that is you'd have to have reasonably robust net revenue growth. We're not breaking out the net revenue growth of Merchant, Consumer and Enterprise here, but given that the lower point of our guidance for the collective net revenue growth of the business is 15%, and the first quarter was at 8%, you have to assume that the business as a whole will have net revenue growth of north of 20% in the second half of the year. I don't know if that answers the first question.

Ross Krige - Investec Securities

Thanks, Ali. Yes, that's helpful.

Ali Mazanderani - Executive Chairman

Okay. Then on the second one, on Merchant lending. Can you just repeat a little bit? It was about what we're doing differently, and I missed the other part.

Ross Krige - Investec Securities

Sure. So yes, what you're doing differently strategically versus previously, and then the first part was just on the increase in loans in arrears in Q1.

Ali Mazanderani - Executive Chairman

Okay. At the moment, I would say our Merchant lending proposition is still maturing. It's still at a fairly early stage. The vast majority of that lending growth is with repeat customers. So really, at the moment, what we're doing differently is just being more efficient in the execution associated with it. The strategic evolution of that business is obviously for the growth to come either from repeat customers or from prospecting existing customers who use our other products. But we are still evolving that capability. We've augmented the team associated with it, and I think we're seeing some green shoots. But I do think it's too early to declare victory in that construct. I don't know, Dan, if you want to answer the second part.

Dan Smith - Group CFO

So we did provide some enhanced disclosure in our 10-Q around how we provision for our Consumer and Merchant books. I'd just note, Ross, that our Merchant book includes a runoff book, and so we specifically provide against that book. It's a small portion of the overall book, but it is in runoff. And then for the rest of the book that Ali mentioned, which we are growing, we have recalibrated our overall models and tightened our provisioning around that. So you would have seen that about 85% of the book is classified as performing. I'd just note that our provisions include expected credit losses. So even though a loan may be performing, our models tell us that in due course some may not. And so

overall provisioning on the Merchant book as a whole is roughly 19%. So it is a tightening of provisioning policy relative to what we've applied in the past.

Ali Mazanderani - Executive Chairman

And then your question on the Consumer business, Ross.

Ross Krige - Investec Securities

Sorry, just searching for the mute button. So on Consumer, it was just on the increase in the simple interest rate from 12% to 15%, in terms of the reason for that and whether that applies to all or certain products and loan terms.

Ali Mazanderani - Executive Chairman

I'll ask Lincoln to take that.

Lincoln C. Mali - CEO Southern Africa

Thanks, Ross. As you will remember, we introduced a new loan, which was 5,000 rand over nine months. We did see a modest uptick in the risk, and we decided to price for that risk. So it only applies to that loan, the 5,000 rand over nine months. We're still comfortable that overall the risk profile and the performance of the book is good, but we did decide to price for the risk that we expected.

Ali Mazanderani - Executive Chairman

Just to add, it is obviously a slightly larger quantum and duration, and in actual fact I think the blended fee that customers pay would actually be less as a consequence, so the price increase doesn't fully account for that.

Ross Krige - Investec Securities

Okay, thanks, all. I'll hand over.

Idris Dungarwalla - Head of Investor Relations

Thank you. We have a few questions from James Slabbert at Standard Bank Securities. Firstly, why were agency costs, such as prepaid airtime, so much higher in Enterprise? This seems to have an effect on net revenue relative to gross revenue.

Ali Mazanderani - Executive Chairman

I think, Dan.

Dan Smith - Group CFO

Afternoon, James. So this is really a function of the direct integrations we now have with the MNOs in how we source and procure airtime. We bring it on as a principal and onto our balance sheet, and therefore the accounting treatment requires us to recognize it and record it as revenue, with obviously a large concomitant cost of sale. So it doesn't change our overall margin, but it does change our gross revenue. It is all eliminated in net revenue, hence the big step down between gross and net revenue in Enterprise.

Idris Dungarwalla - Head of Investor Relations

Thanks, Dan. A few more. How much of the brand refresh expenses and the office moves do you expect to be reflected in the remaining quarters of the year?

Dan Smith - Group CFO

So on the rebrand, we budgeted roughly 100 million rand. We spent about half of it in quarter one, and I expect the bulk of the rest to be incurred in quarter two, with maybe a small tail into quarter three. Then with regards to the office moves for our Cape Town and Durban offices, we guided you last time that it would be roughly 100 million rand. We've spent just under 60 million rand, and so the other 40 million will come through mostly in quarter two of this financial year.

Idris Dungarwalla - Head of Investor Relations

Thank you. We have two related questions, both from James. Are you able to give a view on your coverage of past due loans in both Consumer and Merchant? And to add on, are you able to say what percentage of the books are past due?

Dan Smith - Group CFO

Sure, I'll pick that up. So on the coverage of our two books, our Consumer book we provide at five and a half percent, and in our Merchant book our blended coverage is just under 20%, at 19.3%. Your second question, around the percentage of the books past due. In our Consumer book it's less than 1%, so more than 99% of that book is performing. In our Merchant book, about 85% is performing, 14% is underperforming and roughly 1% is non-performing.

Idris Dungarwalla - Head of Investor Relations

Thanks, Dan. And a last question from our webcast before we turn back to the line. Has the team made any progress in deciding what its overall provision coverage should be within Consumer?

Dan Smith - Group CFO

Yes. So it's five and a half percent at our full year. We did revise our provision, which for the last couple of years was six and a half percent. That revision was based on our actual experience and the models we've run. Our actual experience is slightly less than five and a half, but because our book is evolving, we have included a management overlay on top of that to get us to the five and a half percent. So I expect it will stay stable at that rate, certainly for the next few quarters.

Idris Dungarwalla - Head of Investor Relations

Thanks, Dan. Operator, could you open the line to see if there are any more questions in our live Q&A session?

Operator

Yes, sir. We have a follow-up question from Mr. Krige. Your line is open, sir.

Ross Krige - Investec Securities

Thank you. Just a couple more from me since there's time. Just on Bank Zero and the timeline of the acquisition, is there a need to extend the long stop date, just in case the process takes longer? And

then secondly, just on the competitive dynamics in Merchant, and where you're pushing strategically into the wholesalers and buying groups that presumably, in many cases, would have another provider. Just wondering what levers you pull to gain share there, and what sort of incentives are in play for that wholesaler to engage with Lesaka rather than competitors.

Ali Mazanderani - Executive Chairman

Okay. So on the Bank Zero transaction, we are expecting and hoping that the approval happens prior to the long stop date. I think we'll cross the bridge of addressing the long stop date should we need to get there, but it isn't currently our base case. In terms of the Merchant market dynamic, what I would say is that historically we were not a particularly relevant player in that segment of the market, and our major competitors were able to monetize that effectively. As an insurgent in that environment, we don't really risk cannibalizing existing revenue. So candidly, we can profitably provide an incentive that is a far better deal for those wholesalers than any competitor should be able to provide.

Ross Krige - Investec Securities

Thanks. Thanks, Ali.

Idris Dungarwalla - Head of Investor Relations

Operator, that concludes our webcast. Thank you all for joining.