

Lenco Mobile conference call March 29th 2011

Good day Ladies and gentleman

Welcome to Lenco Mobile's second conference call which covers the financial year ended December 31st 2010.

2010 was a year of challenges and opportunities for the organization from several perspectives. During this call, I will go through each of our operating segments as reported and also take you through the steps we've taken to position the company for growth in 2011.

Historically, our business is divided into a mobile and an online segment. The mobile segment has operated primarily in South Africa to date and our online operations have been based in the United States.

We concluded two significant transactions in 2010 that impacted our online business. First we acquired Jetcast Inc., which is engaged in the online and mobile entertainment business, and secondly, we sold our lead generation business which was focused on the education vertical.

Going back to 2009, we acquired certain assets from Superfly Advertising, subsequently renamed AdMax Media, as we believed that these assets would enable us to establish a meaningful online operation in the United States which could support the ad serving, lead generation and database management for our mobile operations. At the time of the transaction, we saw the online advertising platforms as being self-sustaining while providing the back office for our mobile roll out in the United States. In hindsight, the

online business underperformed and as opposed to being self-sufficient, it required capital to support its operations.

We have now restructured our United States operations and are focused on growing our mobile business here, whether it be organically or via a corporate transaction, and we have refocused our online activities on the Jetcast business which we have now renamed Lenco Media. I'll discuss the potential significance of this strategic acquisition further along in this call.

Regarding our year end results for 2010, total consolidated Non-GAAP revenue for all of our operations was \$15.9 million, which represented organic growth of 30% over 2009. After reclassifying revenue related to the divestiture of our educational lead generation business, we reported revenue of \$8.4 million in 2010 vs. \$9.3 million in 2009 as measured by US GAAP. At an EBITDA level, after including the impact of certain non-cash items, such as the impairment of intangible assets, dividends paid in-kind, changes in fair value of derivative liabilities, and non-cash employee compensation, we had an adjusted EBITDA loss of \$1.9 million versus EBITDA profits of \$1.5 million in 2009. Having been profitable at an adjusted EBITDA level for the last few years, I am certainly not happy to report a loss, but the loss should be looked at in the context of what we are building for the future.

Historically a lack of capital constrained our ability to invest in the international expansion of our mobile phone business. In September 2010 we raised \$10 million via a private placement and management undertook to invest a further \$750,000 on the same terms and conditions as the \$10 million investor. This capital has significantly strengthened our balance sheet and at year end we had \$9.3 million in cash on hand, after paying down or converting debt to stock in the amount of \$4.1 million. Subsequent to the year end, we have paid off a further \$1.4 million of debt relating to the February 2009 Superfly Advertising

transaction, leaving us with a very low debt to equity ratio. Total assets have grown from \$19 million at the end of December 2009 to \$47.8 million at the end of December 2010. With the cash raised from the private placement, the reduction in debt and the cash raised from the sale of the online education lead generation business, our balance sheet is far healthier, putting us in a position to move forwards and execute on our business plan.

The capital which we secured at the end of September 2010 has been deployed to expand our mobile phone business into a number of markets worldwide. During 2010 we established offices and infrastructure in Mexico, Colombia, Singapore, South Korea and the United Kingdom. We have successfully established connectivity to wireless carriers in Mexico, Singapore and the United Kingdom, adding to our existing connectivity in South Africa, Australia and New Zealand. I believe that connectivity in Colombia and South Korea will also be secured in the not too distant future. As a result, we have incurred operating costs in 2010 related to the establishment of these international offices and the testing of our solutions with various carriers world-wide. This expenditure is expected to drive revenue in each of these regions, later this year.

During 2009 we started to focus the AdMax Media business on the online education lead generation market segment, here in the United States. In 2009 this business unit generated revenue of \$2.9 million and in 2010 it generated revenue of \$7.6 million. Unfortunately, the vertical where we focused our energy and resources was also a focus area for potential government intervention and towards the middle of 2010, we saw a decline in revenue from the online education lead generation business as online schools reduced their marketing spend. Having grown that business 162% year on year, we were very disappointed to see the drop off post July 2010. The drop in revenue further convinced us to sell the business and we actively began engaging with interested purchasers, resulting in the sale to an

independent party by the end of the financial year. The timing of the sale meant that we were required to reflect those operations as discontinued operations on our income statements for 2010 and 2009. The net effect was a loss in the United States operations for the business outside of the education vertical business.

Revenue from the remaining online business in the United States in 2010 was \$2.1 million versus \$4.5 million in 2009 and was generated from our list management, search engine and other lead generation verticals. Later, I will discuss how and why we strategically moved into a more attractive online market segment with the Jetcast acquisition.

Another significant development for 2010 was the enhancement of our mobile phone messaging platform, including the acquisition of Angelos Gateway Limited. This platform gives us access to the wireless carrier's network at both the SS7 and MM7 level and lets us offer wireless carriers a high speed, fully integrated SMS, MMS, USSD, WAP Gateway and Location Based Services solution, all in one single installation, at a fraction of the cost of competitive products. This addition to our platform was intended to maintain technical leadership in the mobile phone advertising segment. We are in discussions with three wireless carriers for the use of our Signalling Gateway Solution and we hope to see several installations over the next few months.

Wireless carriers around the world are all faced with the same market dynamics. Firstly, their Average Revenue Per User for voice services is declining. In some cases the decline is dramatic and there are countries where carriers are charging for voice usage on a per second basis, leading to enormous challenges for carriers who operate in these markets. Secondly, churn is a major factor and the carriers are all looking at ways of retaining and monetizing their existing subscriber base. In some developed

countries, mobile subscriber penetration is over 130%. Thirdly, carriers are all investing in 4G networks so that they can start charging for and delivering higher value data services. And then there is the issue of network congestion. I don't think that anybody will dispute that signal quality has declined in many parts of the United States. More smart devices equal more users and more users equal more data consumption. These are the simple economics of the mobile phone industry and by default, the opportunity for Lenco Mobile.

Lenco Mobile offers services and solutions that address all of these issues. For example, our outbound customer retention MMS messages have been successfully used to significantly increase the retention levels at certain key clients. We have also launched a mobile newspaper product that in the first three months of 2011 has delivered more than 154 million MMS messages to subscribers. We also have our MMS financial statement solution (which emulates the receipt of monthly consumer statements on mobile phones as opposed to mailed versions of consumer statements) and we have acceptance from leading banks and wireless carriers for the MMS financial statement. These new solutions enhance our existing offering and over time we intend taking these solutions to all of the wireless carriers where we have a commercial relationship.

One year ago we were able to send MMS messages at scale in South Africa. Today we can send MMS messages at scale in South Africa, the United Kingdom, Australia, New Zealand, Singapore, Mexico and the United States. In the next twelve months, we would like to add at least another five countries to this list.

During 2010 we generated revenue exclusively from our mobile operations in South Africa and in Australia. We now have offices in a number of other territories and I will go through each territory individually.

South Africa

Our mobile operations in South Africa had a difficult 2010. Revenue decreased from \$7.7 million to \$6.3 million. Notwithstanding the decline in revenue, the gross profit margin increased from 65% to 73%. I believe that this is an acceptable gross profit margin and that it reflects better management of our messaging costs. The decline in net profits in the South Africa mobile business was as a result of increased overheads related to supporting our international mobile phone roll out. During 2010 we used South Africa as a back office to support our international mobile business while we developed skills in each of the new regions. If we reverse out the depreciation and amortization for the South African mobile operations, then they were profitable at an EBITDA level, despite the decline in revenue.

As I mentioned earlier, one of the major focus areas for us in South Africa has been our MMS financial statement solution. The solution is designed to deliver bulk MMS messages to mobile phones in regions where there is a lack of infrastructure. It has taken us longer than we had hoped to get our MMS financial statement solution to market because we have been waiting for regulatory approval from the South African Inland Revenue and other regulatory bodies that govern the electronics communication legislation. . These approvals have now been given and the first customer launch has successfully taken place with very high adoption rates. We have eight customers who have started to use the MMS financial statement solution and we expect to build this into an annuity income business. I think that It is worth mentioning that there are many markets where this type of solution has potential because around 73% of mobile phone subscriptions are in developing markets and for the most part, these markets do not have sophisticated land based postal infrastructure.

In November 2010, the work that we had carried out for one of our clients was awarded a global mobile marketing association award. This client has subsequently placed additional orders with us equal to the value of the whole of last year's business for that particular customer. While winning awards does not pay the bills, it is certainly acknowledgment that our products and services are acknowledged by international industry peers as being the best. We also won awards in Europe and Africa for mobile marketing campaigns which we developed and executed on behalf of our clients.

United States

Historically our United States operation was focused on providing marketing services to the online sector through our AdMax ad-serving and publishing network. We are now focusing our efforts on building our mobile business through Lenco Mobile USA and on our online entertainment business through Lenco Media. The mobile phone solutions business in the United States is very fragmented and despite the increased spend that is starting to move towards mobile advertising budgets, there is no single market dominant player. We are planning to launch our first mobile campaigns in the United States in the second quarter of this year. As of today, we have connectivity with all of the major US carriers through our OpenMarket aggregation agreement and we are able to deliver MMS messages to all of the major makes and models of handset in the United States. Some handsets are easier to work with than others, but technically we are up to the challenge.

Latin America

We established our office in Mexico City in June last year and we simultaneously initiated discussions with two of the wireless carriers in the region. We have successfully connected to one of the carriers and we are in talks with another carrier to install our Signalling Gateway Solution. We have also started talking to a number of brand owners in the Mexico and we have reached agreement in principle with a leading

television network to partner with them to provide mobile access to their extensive library of content. The Mexican market offers us access to approximately 90 million mobile subscribers. In Mexico, there are approximately 19 million fixed lines and internet penetration is less than 15%. Progress has been slower than we hoped, but we remain positive about opportunities in Mexico and we believe that over time we will be able to establish ourselves in this market. We have also established infrastructure in Bogota, Colombia and we have initiated discussions with the leading wireless carriers in the region. Once again, we believe that the market potential justifies the time and capital that we are investing in the region.

Asia

Our office in Singapore opened in the last quarter of 2010. Since then we have successfully tested connectivity to two of the leading wireless carriers in Singapore and are in the process of preparing campaigns for both of them. We will soon be testing connectivity with a third carrier in Singapore. We have also agreed to test our Signalling Gateway solution at one of the leading Asian carriers. Two of the leading emerging market banks in Asia are in discussions to use our mobile marketing solutions. From a timing perspective, dealing with international banks is a medium term opportunity, but we believe one well worth pursuing. Successfully offering our solutions to large banks provides critical mass and annuity income. It also enables us to take solutions developed in one region and to deploy them in another region. Lenco Mobile has also started discussions to offer our mobile solutions in partnership with a leading sports management organization that has extensive involvement in the Asian region. We are focused on strategic partnerships with organizations that can actively develop the market for our solutions. We will continue to work on the Korean and Chinese markets and over time expect to see progress here. In 2010 we appointed a chief executive officer to oversee the establishment of our operations in South Korea and we will consider investing further when market conditions warrant the allocation of capital and people.

United Kingdom.

Our new office in the United Kingdom will be open by the middle of April. We already have connectivity with Vodafone in the UK and we expect to be generating revenue there by the end of the second quarter. We have appointed an excellent management team who knows the UK market very well and we believe that this team will soon establish a presence in the UK market.

Australia and New Zealand

We currently have a master license arrangement in place in both Australia and New Zealand. Lenco Mobile has supported these operations out of our South African office and to date we have successfully connected to Optus and delivered MMS messages for them in the Australian market. We intend to invest time and resources in this region and will also look at ways to improve our commercial arrangements with our master licensee in Australia.

Lenco Media (Formerly known as "Jetcast"):

According to eMarketer, the display advertising market is worth somewhere in the region of \$7.9 billion annually. In February this year, Pandora filed to go public and with an estimated valuation of approximately \$1.2 billion. The reason that we concluded the Jetcast transaction in September last year was because we can clearly see the importance of converged media platforms, both in the United States and internationally. In January 2011, Jetcast, which we have renamed Lenco Media was ranked #1 by comScore in Entertainment Radio category, in total minutes, total page views and potential reach with 37.9 million unique listeners. This category includes Pandora, CBS Radio, AOL Radio, Yahoo Radio, Westwood One and Clear Channel. Our focus as a management team is to now monetize the 37.9 million US based listeners and the significant listenership that we have in other regions as well. Lenco Media continues to expand its distribution by signing up both terrestrial and online radio stations. We have

signed up over 1,400 terrestrial and online radio stations that are now making use of the Lenco Media platform to manage their ad-serving and rich media content delivery, and we are in the process of deploying our UniversalPlayer™ to these stations. Lenco Media offers investors significant upside exposure to the same market segment as YouTube and Pandora. I am optimistic about the future of this business and the benefits it offers for our online and mobile operations.

Corporate costs

I would now like to talk about corporate costs and the costs related to operating as a public company. Preparing to take accompany public on a major exchange is an expensive exercise. As noted in our Form 10K filing, we incurred corporate costs for legal, accounting and professional services totaling approximately \$1.6 million. As a percentage of total revenue this is too high. Going forwards it is our intention to reduce these costs and as we increase revenue, so these corporate costs will decrease as an overall percentage of total revenue.

With the acquisition of the Jetcast business and Angelos Gateway Limited, our depreciation and amortization costs increased by 75% to \$3.9 million. While these are non-cash items, there is an obvious effect on our income statement. We also took a decision to be as conservative as possible by impairing goodwill and other intangibles on selected assets related to the online education vertical to the value of \$876,000.

We continued to invest in our technical capabilities to maintain market leadership in technology and increased our R&D spending here by 103% to \$533,000 in 2010. So, while we have a budget for R&D, the entire organization is focused on improving our platforms. We have set up a “innovation committee “ to review all new technical ideas and we should see the benefits of that going forward into the latter half of 2011.

I presume that shareholders have seen that on March 2nd of 2011 we announced some changes to our board of directors. These changes were designed to provide management with recognized experts in the fields of mobile technology, online businesses and investment banking. We also wanted the board to be in a position to provide management with independent counsel who could add value at a strategic level. I am pleased to report that this process is already underway. Our outside directors have actively engaged with management to identify ways of improving operational performance and to identify carefully selected strategic opportunities. Once again, it is my pleasure to welcome Jim Liang and Phil Harris to our board. Thank you for your faith in our young company.

During February 2011, we submitted an application to the NYSE Amex to have our shares listed on the NYSE Amex exchange. The listings committee at NYSE Amex has asked us to make our 2010 Form 10-K available to them, which we have done. As soon as we hear back from the NYSE Amex regarding our listing application, we will advise shareholders accordingly; however, we cannot provide any assurance that NYSE Amex will approve our shares for listing.

That concludes this part of the investor call and I would now like to hand back to Denise for a few questions and answers.