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Lesaka Technologies, Inc. (LSAK)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Rob Fink

Managing Partner, FNK IR

Hello everyone and welcome to Lesaka's Fiscal Second Quarter 2023 Earnings Webcast and Conference Call. My name is Rob Fink and I am part of the newly appointed IR team here in the US. As we get started, I just want to remind everyone that this webcast is being recorded and the presentation can be accessed through the webcast link as well as by dialing into the Zoom conference call dial-in numbers provided.

Management will address any questions you may have at the end of the presentation. To ask a question, you must be logged into the webcast and you can use the Raise your Hand button on the bottom of your screen to indicate your interest in participating in the Q&A session. If you have joined via the Zoom teleconference line, you cannot ask a question live, but we would encourage you to reach out to the IR team if you have questions following the completion of this call. The webcast link, Zoom conference call dial-in numbers as well as the earnings press release and supplementary investor presentation are available on Lesaka's Investor Relations website at ir.lesakatech.com. Additionally, Lesaka filed its Form 10-Q after the US market close yesterday Tuesday, February 7, 2023, which is also available on the Investor Relations website.

As a reminder, during this call, management will be making forward-looking statements. And I ask you to look at the cautionary language contained in Lesaka's Form 10-Q regarding the risks and uncertainties associated with forward-looking statements. Also, as a domestic filer in the United States, Lesaka reports results in US dollars under US GAAP. However, it is important to note that the company's operational currency is South African rand and, as such, management analyzes their performance in South African rand. In this presentation, we will discuss results in South African rand, which is non-GAAP. Doing so assist investors understanding the underlying trends in the business. As you know, the company's results can significantly be affected by currency fluctuations between the US dollar and the South African rand.

Taking a quick look at today's agenda: Chris Meyer, Group CEO of Lesaka, will begin today's call with performance highlights for the second quarter of fiscal year 2023 and review Lesaka's progress against its key strategic objectives. Steve Heilbron, CEO-Connect and Head of the Merchant Division, will provide an update on the Merchant Division, which has produced just stellar set of results this quarter. Lincoln Mali, CEO of Lesaka South Africa, will then provide an update on Consumer Division, which has passed a key milestone this quarter. And then Naeem Kola, Group CFO, will present an overview of Lesaka's financial performance for the three months ended December 31, 2022. Chris will then conclude the results presentation with a discussion on Lesaka's outlook before opening the call for Q&A where we welcome any questions you may have.

Christopher Guy Butt Meyer

Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thank you, Rob. Good morning, good afternoon, and welcome to our second quarter 2023 earnings webcast and conference call. Our FY 2023 Q2 results represent a significant milestone for Lesaka in a number of ways.

Our performance this quarter provides clear evidence of the successful turnaround in our Consumer Division, which has delivered its first adjusted EBITDA profitable quarter in years. At the same time, the strong outperformance in our Merchant Division is testament to the robust growth fundamentals underpinning the Connect acquisition and the overall momentum we are seeing in our Merchant Division. The Merchant Division has delivered an excellent set of results this quarter, topping our guidance and showing growth of 19% compared to a quarter ago being FY 2023 Q1. This has been driven by the Connect Group, which has become the cornerstone of our Merchant Division as we rapidly expand our merchant customer base in Southern Africa.

The Merchant Division is at the forefront of our mission of providing financial inclusion through our full service offering across cash and digital, serving the use of both, while also facilitating the shift towards digital that is taking place. We are seeing this play out in a number of areas. For example, in our card acceptance business, where we've seen card payments through our merchants in the informal sector, more than double compared to a year ago. And also, in terms of the growth in our credit offering to MSMEs, including Capital Connect and Kazang Pay/Advance where we've advanced ZAR 262 million this quarter, an increase of 16% compared to a quarter ago being FY 2023 Q1.

The Merchant Division has performed ahead of our expectations. The growth drivers and secular trends underpinning financial inclusion, cash management and digitization for MSMEs are clear. We therefore believe the conditions for continued growth remain firmly intact.

So turning to the performance of the Consumer Division. We are very pleased to be able to deliver the first adjusted EBITDA positive quarter for the Consumer Division in years. The Consumer Division delivered segment adjusted EBITDA of ZAR 10.1 million for Q2 FY 2023 compared to a segment adjusted EBITDA loss of ZAR 23.9 million for Q1 FY 2023. This is a watershed moment for the business. And in reflecting on the work of the last 18 months, where we have been very clear on how we plan to return the Consumer Division to profitability, we view the set of results as testament to the successful implementation of a rigorous plan that was based on the complete transformation and optimization of our branch and distribution footprint, and driven by a mission of delivering financial inclusion to our customers across South Africa.

Consumer Division has been fundamentally transformed. And we have built a strong and stable foundation to grow our customer base and deepen our product offering. We will achieve our growth objectives through a combination of: firstly, shifting our points of presence to where our customers want to be, which is in retailers; secondly, by improving the customer journey through digitization and streamlining our processes; and thirdly, by further enhancing our value proposition as we shift our product and pricing proposition to recognize and reward our most loyal customer base. Lincoln will provide more on these focus areas later in our presentation.

And so the third area I would like to highlight is how our improved operating performance has also meant we are generating positive cash flow in the business and have been able to further optimize Lesaka's capital structure. Our banking partners have agreed to further extend the group's lending facilities on more favorable terms, increasing flexibility, adding further liquidity and providing greater capacity to fund growth.

For FY 2023 Q2, we saw ZAR 60 million of cash generated from operations and we ended the quarter with ZAR 722 million in unrestricted cash compared to ZAR 543 million a quarter ago. We continue to focus on reducing our net debt to EBITDA ratio in step with the growth of the business and with our net debt to EBITDA ratio reducing to 3.3 times from 5.9 times in FY 2023 Q1. And Naeem will address this in greater detail later in the presentation.

So, given the momentum in our Merchant Division and the strong foundation for growth in the Consumer Division, we are reaffirming our guidance which we provided for FY 2023. We believe the growth drivers remain intact and we are confident the momentum will continue. In September 2022, we provided further earnings guidance for the first time since the transformation and repositioning of Lesaka began. Our guidance was for group revenue to be in the range of ZAR 2 billion to ZAR 2.3 billion for FY 2023 Q2. We are pleased to be able to report revenue of ZAR 2.4 billion, which exceeds the upper end of our guidance. Revenue growth was driven predominantly by the stellar performance in the Merchant Division, primarily the Connect Group.

We also guided for group adjusted EBITDA to be in the range of ZAR 116 million to ZAR 123 million for Q2 FY 2023. And we have delivered ZAR 130 million in group adjusted EBITDA for the quarter, which surpassed the upper end of the guidance provided by 6%. This represents a significant turnaround on the loss of ZAR 84 million recorded in Q2 FY 2022. Our performance, specifically in the Consumer Division, and also across the group was supported by well-controlled costs, including our group costs line.

Lesaka is a full service fintech platform serving the needs of consumers and merchants, and we are also facilitating the secular shift to digital that is currently taking place. We are increasing our points of presence across our ecosystem in the form of branches, retailer pay points, ATMs, satellite kiosks and merchant devices, and these increased to more than 72,000 by quarter-end. Building momentum in our footprint raises our standing as a player of scale in the market and creates growth opportunities across our ecosystem. Our Q2 FY 2023 results demonstrate that we have set a solid foundation for growth in this market and we are very excited about this.

And with that, I will hand over to Steve to discuss the performance and opportunities in the Merchant Division. And as a leadership team, we are very pleased that Steve has extended his contract with Lesaka for the next three years, continuing in his current role as Head of the Merchant Division and also taking on additional responsibilities at a group level. Lesaka certainly stands to benefit from his continued involvement. And Steve, over to you to take us through the Merchant Division's performance. Thank you.

Steven J. Heilbron

Chief Executive Officer-Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Thanks, Chris. At the outset, let me say that I'm very happy to have extended and broadened the scope of my activities within the group. And I'm excited to work with you and the leadership team as we continue to optimize both revenue opportunities and cost synergies across our dual-sided ecosystem.

Focusing on our Q2 FY 2023 performance in the Merchant Division, as Chris has mentioned, the Merchant Division outperformed expectations and guidance this quarter, driven largely by a very strong performance of the Connect Group of businesses. The Merchant segment compared to Q1 has grown Q2 revenues by 12% to ZAR 2.1 billion and adjusted EBITDA by 19% to ZAR 160 million. The transformative impact of the Connect acquisition is evident when compared to revenues and adjusted EBITDA of ZAR 223 million and ZAR 15 million, respectively, in FY 2022 Q2.

We have achieved growth across all products with standout performances in our Kazang VAS and Kazang Pay business units, as well as notable performance in both merchant credit businesses, Capital Connect and Kazang Pay/Advance. Focusing on the key activity drivers of revenue and EBITDA, the following lead indicators are highlighted.

Kazang VAS throughput for the quarter of ZAR 6.8 billion is up 40% year-on-year and up 17% for Q2 on Q1 for FY 2023. This is supported by solid growth in the onboarding of new merchants with circa 7,500 merchants being added in Q2, up 13% on Q1. The Kazang merchant estate closed Q2 at 64,500 merchants. This is up 47% year-on-year. Our business development team continues to focus on adding to the bouquet of products [ph] vendored (00:13:03) by our merchants from the e-wallets, as well as broadening the added value solutions targeted at solving for our merchants pain points.

In our card acquiring businesses, Card Connect and Kazang Pay, throughput for the quarter of ZAR 3.1 billion is up 106% year-on-year and up 35% for Q2 on Q1 for FY 2023. This performance is almost entirely attributable to the incredible growth achieved by our Kazang Pay solution. This is evidenced by the onboarding of circa 6,700 merchants in Q2, up 24% on Q1. The combined Card Connect and Kazan Pay merchants estate closed Q2 at 34,400 merchants. This is up 129% year-on-year. The Cash Connect business throughput for the quarter of ZAR 29.5 billion is up 9% year-on-year and up 7% for Q2 on Q1 for FY 2023. The merchants estate closed Q2 at circa 4,300 vaults. This is up 11% year-on-year.

As mentioned at our last results presentation, we have integrated the ATM business into Cash Connect. This has served to enhance our focus on the ATM business as a standalone ATM acquiring unit with a heightened focus on achieving scale and efficiencies. We continue innovating in the cash recycling space with the imminent rollout of our new ATM recyclers. This is still in pilot phase with proof-of-concept testing in a selection of our merchant clients. Lincoln will touch on this a little more later.

In our merchant credit businesses, Capital Connect and Kazang Pay/Advance, credit disbursed for the quarter of ZAR 262 million is up 71% year-on-year. We've become a key provider of capital to the vital MSME merchant segment and have grown the receivable book from ZAR 178 million to ZAR 318 million, representing a 79% growth year-on-year. We are experiencing great momentum in Kazang Pay/Advance and Capital Connect, evidenced by strong uptake from our merchants.

We are excited about the opportunities in the Merchant Division and are encouraged by our ability to scale our product sets within the respective target market. The integration of Connect Group into Lesaka serves in broadening the Merchant Division's reach into the informal market, which stands to benefit from enhanced inclusion from an underserved customer base. This broadens consumer access to a range of services as well as supporting the journey to an increasingly digitized world. As evidenced by the numbers presented, we continue to see strong demand and have achieved excellent growth in the onboarding of many new merchants as well as increased usage of our solutions by our existing merchants for the quarter and year-to-date. Both consumer and merchant clients benefit from a more secure, convenient and efficient ecosystem enabled by our proprietary technology.

Supplier payments in our Kazang VAS business continue to grow and are becoming a larger composition of the Kazang VAS throughput. This slide shows an example of our strategic partnership initiatives, which continue to drive growth. This proposition supports customer acquisition by providing more value for our merchants.

To illustrate the point, this image represents multiple points of value for our merchant customers, and thus our business, as a merchant can accept card payments from these customers at this tavern using Kazang Pay. The merchant can also sell a range of VAS products to their customers using the same device for cash or card tender. And using the same platform, the merchant can settle stock purchases like UAT, Clover, Coca-Cola, SAB and others directly from their e-wallet, reducing reliance on and the risk of holding onto cash for payments. [indiscernible] (00:17:05) scanning a unique supplier QR code when stock is delivered. This offering is quick and efficient for merchants and allows them to pay suppliers at their own convenience, reducing the need to hold cash, lowering transfer costs as well as the time taken to execute supplier payments.

Now to our EasyPay business, where, as expected, we continue to see a decrease in VAS throughput for prepaid electricity. This is due to the impact of load shedding. And important to emphasize that it's not due to a loss of customers. VAS throughput for prepaid airtime grew 4% year-on-year. In our EasyPay bill payments business, we are connecting approximately 650 billers through payment infrastructure. Revenue earned is on a transaction fee basis. Bill payment transaction volumes declined by 5%. We continue to reposition our EasyPay business by prioritizing commercial revenue streams in relation to existing and new clients.

In NUETS, our point-of-sale payment device business, revenue generated from the sale of point-of-sale devices can be lumpy given the seasonality of bulk sales. As disclosed in our Q1 results, we have reflected a 12-month rolling average as a more meaningful metric in tracking the performance of this business. The rolling average for Q2 FY 2023 was 9,763 devices sold, an increase of over 100% on a year-on-year comparison. Rented devices have continued a steady growth trajectory at 9% year-on-year.

In conclusion then, this has been a stellar period for the Merchant Division. We are excited about the growth prospects and opportunities to derive more value from synergies across Lesaka, especially as we expand our footprint and deepen into the informal market. We continue to focus on opportunities to deliver services that offer tangible value to our merchant base. We have an excellent merchant team in place with a proven track record to continue executing against strategy and innovating in an underserved market. Lastly but not least, thank you to all the people in the business for an incredible quarter.

I would like now to hand over to Lincoln, CEO Southern Africa, to discuss the performance of the Consumer Division.

Lincoln Mali

Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

Thank you, Steven. It is so pleasing to see the growth and profitability coming out of the Merchant Division and the progress we've made on the integration.

Moving on to Consumer Division. The last 18 months have been a very busy time for everyone as we set out to transform it and return it to profitability and position it for growth. I'm extremely proud of the Lesaka team and specifically all the staff in our Consumer Division in achieving our first EBITDA profitable quarter in years. It was a critical milestone in our journey as it removes a drain on financial and human resources and allows us to focus on growth.

We are pleased to report a ZAR 10 million segment EBITDA profit for the Consumer Division in quarter two, which was slightly under our guidance, but a vast improvement from a year ago when we reported a Consumer segment EBITDA loss of ZAR 67 million. We marginally missed the guidance for Consumer segment EBITDA due to a lower growth in our EasyPay loan business that we had forecast. But we were encouraged by strong December growth, which has continued into January 2023. We do not need to change our guidance for the full year and are confident we are on track to deliver.

Over the past four quarters, I've been speaking about the three levers we have used to retain the Consumer Division to profitability, which are: cost optimization, increasing our ARPU through cross-selling, and growing active EPE account numbers. This result achieved was primarily through the first two levers. Under Project Spring, we committed to annual cost savings of approximately ZAR 350 million in the Consumer Division. Through the rightsizing and rationalizing of our infrastructure and staff complement in the consumer business, we've achieved ZAR 222 million already in the first half of 2023.

Our ARPU for our permanent client base has increased to ZAR 74 from ZAR 71 in quarter one and ZAR 69 in quarter two of last year. We implemented our strategy focused on product and efficient distribution channels, upgrading technology platforms, training staff, and we are still pulling hard on this lever. As we enhance our cross-selling initiatives and spend more time in front of our customers, we expect the upward ARPU trend to continue. The combined effect of the first two levers have got us to a point where we now have a strong and stable base from which we can grow our Consumer Division.

Lesaka is all about financial inclusion and offering affordable financial services to underserved consumers. Our products are specifically designed with permanent social grant recipients in mind where we have an opportunity to build deeper relationships through lending and insurance. We do have products for people who receive temporary grants, but we don't offer the same breadth of service as permanent grant recipients.

In the consumer market, approximately 19 million social grants are paid to 12 million grant recipients every month, of which approximately 7 million grants are paid by Postbank of South Africa. These numbers exclude the temporary SRD grants, which were instituted during COVID, which have recently been extended to the end of 2024. Social grants form an integral part of South Africa's lives. And for many, it is the only source of income to support their families.

Approximately 90% of grant recipients in South Africa currently receive their grant and withdraw it all in one transaction, and choose to transact in cash. Further, only 20% of grant recipients have access to regulated insurance and lending products.

Turning to the third lever, which is growing our active EPE account numbers. We ended quarter two with 1.2 million active EPE bank account customers, of which just over 1 million are our target permanent grant recipients. For the first time, we're separately reporting on our core permanent grant customer base from the more temporary SRD customer base. As of the end of December 2022, we increased our overall customer base by 18%. Within this result, the permanent grant account base grew by 4% on a net basis, which maintained our market share. Whilst this was slightly below what we had hoped for, it must be seen in the light of us going through a complete restructuring and cultural reset in the Consumer Division, particularly in the sales team, and an entirely new national and provincial leadership and a focus on cost optimization and cross-sell initiatives.

As a reminder, we continue to apply a rigorous approach in our measurement criteria for an active account. We only classify an account as active if we have charged a monthly account fee during that specific month. We have identified actions and strategies to now leverage off our firm base and improve our EPE growth. These include: firstly, enhance distribution model where we are moving away from branches and now have staffed kiosks and ATMs and retailers where our customer base has more convenient access and longer trading hours; secondly, marketing initiatives and incentives, encouraging account openings and switching to EasyPay; thirdly, easing the friction in the onboarding of new clients with technology interventions [indiscernible] (00:25:35) incurring travel costs and specifically having to be in a branch to open an account.

I mentioned in quarter one of our 2023 financial year that EasyPay loans, our lending product, had grown at a slower rate than expected. I'm pleased that we have seen a recovery in this quarter with 18% growth in the number of loans originated. In terms of our book size, we've grown 13% year-on-year. We're encouraged by the positive results coming through already and continued momentum on loan growth in January 2023. Again, it is pleasing to see our loss ratio at less than 4% per year. Our customers place a high value on these loans to get them through difficult months, and having the facility available to them leads to a good repayment experience.

Our EasyPay insurance product continue to outperform our expectations in quarter two, growing 15% to approximately 294,000 active insurance policies. It is encouraging that this new business is of good quality with a high premium collection rate of approximately 98% being maintained.

Our move to more retail-focused distribution strategy is paying off. Our presence in the retail stores, where our customer base shops, has provided EasyPay much more visibility and convenience for our customers, with longer trading hours and easy access to our ATMs. We've seen an 18% increase in transactions per ATM compared to three months ago, with a strong increase in other bank customers also using our ATM network now.

We are continuing to implement our retail-focused distribution strategy, and our initiatives we are exploring with Kazang will further accelerate and expand our retail presence. We see great potential in the mutual benefits for retailers and our consumers in terms of convenience and buying power for our own ecosystem.

We continue to develop our strong relationship with SASSA through proactive engagement at a local, provincial and national level. We've also made good progress on building relationships with our various key stakeholders, including Grindrod Bank and representative from its new owner, African Bank, who acquired 100% of Grindrod in May 2022.

As highlighted by Chris earlier, the Consumer Division has been fundamentally transformed, and we've built a strong and stable base to grow our consumer base and deepen our product offering. We are well-positioned for growth and, in doing so, continue to focus on establishing points of presence for our customers that are convenient and cost effective to access. We also strive to further improve the customer journey through digitization and further enhancing our value proposition, including plans that will reward and grow our loyal customer base.

Thank you. Naeem will now take you through our financial performance in more detail.

Naeem E. Kola

Chief Financial Officer, Lesaka Technologies, Inc.

Thank you, Lincoln. I'm very excited to take you through the financial performance for quarter two 2023. Before I do that, as a reminder, Lesaka as a domestic filer in the United States, we report results in US dollars under US GAAP. However, our operational currency is South African rand and, as such, we analyze our performance in

South African rand. In this presentation, we will discuss our results in South African rand, which is non-GAAP. This assist investors understanding the underlying trends of our business. As you know, our results can be significantly affected by the currency fluctuations between the US dollar and the South African rand.

Additionally, Q2 2023, similarly to Q1 2023, includes pre-existing Lesaka and Connect Group for the full quarter compared to Q2 2022 that only includes a pre-existing Lesaka business, and thus FY 2023 Q2 versus FY 2022 Q2 is not meaningful comparison as Connect was not included in FY 2022 Q2. However, FY 2023 Q1 has Connect included for the full quarter and thus is a useful sequential quarter comparison to focus on, demonstrating performance and growth rate for the quarter.

I will now turn to the financial performance overview. As you have just heard, Lesaka is making significant progress in the transformation journey. And this is coming through in our improved financial performance and a strengthened financial position across the group. We are building on the momentum that started four quarters ago for both the Merchant and the Consumer Division. And we have also made great strides to improve our capital structure, positioning us to support our growth plans.

We achieved a consolidated group revenue of ZAR 2.4 billion for the quarter compared to ZAR 479 million in Q2 2022. This exceeded the upper end of our guidance in rands. The significant uplift in revenue was mainly related to the revenue from Connect Group being consolidated for the full quarter Q2 2023. Revenue increased by 11% from ZAR 2.1 billion in fiscal Q1 2023.

We delivered a group adjusted EBITDA of ZAR 130 million compared to the group adjusted EBITDA loss of ZAR 84 million in Q2 2022 and an EBITDA profit of ZAR 72 million in Q1 2023. This is an 81% improvement in EBITDA from Q1 2023 to Q2 2023, validating the transformation of the Consumer Division to a segment adjusted EBITDA profit and continued strong growth and robustness in our Merchant Division.

Operating income before amortization of acquired assets is ZAR 29 million as compared to operating loss of ZAR 13 million in Q1 2023, directly related to the positive performance of the Consumer Division and the significant performance of the Merchant Division. In addition, the operating loss after acquired asset amortization improved by ZAR 42 million to a loss of ZAR 38 million for the quarter.

Fundamental earnings per share showed some of the trend of positive turnaround compared to the prior quarter. This is indicative of the positive EBITDA contribution from the acquisition of Connect Group, which has continued to exceed expectations as well as a turnaround of the Consumer Division. We generated ZAR 60 million operating cash flow in the quarter, another significant landmark in the Lesaka Group being cash flow generating.

I will now turn to the group income statement. Looking at the group income statement, we achieved a consolidated group revenue of ZAR 2.4 billion for the quarter compared to ZAR 2.1 billion in Q1 2023, representing a growth of 11%. In USD, consolidated group revenue was $136 million for the quarter compared to $125 million in Q1 2023, representing a growth of 9%. Operating loss for the quarter is ZAR 38 million, an improvement of ZAR 42 million as compared to the previous quarter. And fundamental loss per share is ZAR 0.22 compared to ZAR 1.36 in Q1 2023, a significant movement quarter-on-quarter.

Looking at our segments, Q2 2023 reflected a positive performance across all business divisions, validating our efforts to transform the business to deliver growth and strong profitability. Operating income before amortization of acquired intangible assets closed at ZAR 29 million as compared to a loss in Q1 2023 of ZAR 13 million, a significant turnaround in three months. Consolidated revenue for the quarter was ZAR 2.4 billion, 11% growth compared to Q1 2023, attributed to a strong performance across the Merchant business, especially in the VAS, card acquiring and merchant capital products, as highlighted earlier by Steve. In addition, we recorded ZAR 97 million in revenue from the POS devices sold to NUETS in the quarter. As previously highlighted, this business is often quite lumpy between quarters due to the nature of the underlying client order book.

In the Consumer Division, revenue growth has been mainly driven by the transactional and insurance products. We achieved a group adjusted EBITDA of ZAR 130 million as compared to ZAR 72 million in Q1 2023, an uplift of 81% quarter-on-quarter. The group adjusted EBITDA of ZAR 130 million for the quarter was above the upper end of guidance for the quarter in rands. Group cost of ZAR 40 million were consistent with guidance.

In Merchant Division, including Connect Group, continues its strong performance trajectory and achieved a revenue of ZAR 2.1 billion and a segment adjusted EBITDA of ZAR 160 million. The performance for the quarter includes ZAR 22 million EBITDA from the sale of POS devices in the quarter that is lumpy and in line with expectations. We do not see this continuing in the rest of the quarters for fiscal 2023.

While the segment adjusted EBITDA profit in the Consumer Division is an important landmark in our journey that we embarked on in Q2 2022 where we are now reaping the benefits of a successful turnaround strategy. Including the cost savings realized from the rightsizing of Consumer Division, we delivered a segment adjusted EBITDA of ZAR 10 million in the quarter as compared to a segment adjusted EBITDA loss of ZAR 24 million in Q1 2023. This is a ZAR 34 million positive turnaround.

Stock-based compensation charges increased in the quarter compared to Q1 2023, mainly due to a one-off award of ZAR 23 million issued to secure a longer-term contract with a key senior executive. I will further expand on how this will normalize going forward.

At the group adjusted EBITDA level, the impact of the turnaround continues to be evident and significant. We have turned around the group performance from an adjusted EBITDA loss of ZAR 84 million in Q2 2022 to an adjusted EBITDA profit of ZAR 130 million in the current quarter, a ZAR 215 million turnaround over 12 months. This performance is evidence of the significant transformation the group achieved through the acquisition of Connect Group and the cost rightsizing and restructure in the Consumer Division.

Turning to our cash flow and capital structure. You will know that we have made further progress in creating a stable and long-term capital structure for Lesaka as well as generated a positive operating cash flow. Our operational cash flow before working capital and loan book funding generated ZAR 53 million in the quarter, improving from negative ZAR 7 million in Q1 2023. From a cash flow perspective, we continue to make improvements with stable and well-managed working capital requirements and a reduced reliance on cash reserves to fund operations and customer loan book growth. Cash available in the quarter increased from ZAR 541 million to ZAR 722 million.

Net debt to EBITDA ratio on an annualized basis has improved to 3.3 times as compared to 5.9 times in Q1 2022. Working capital funding requirements are stable and we do not require significant changes to support growth. We do experience peaks and troughs which arise when taking advantage of bulk order discounts in our VAS business. We expect future loan book funding to be largely self-funded along with the banking facilities that are sized appropriately and therefore we do not envisage loan book growth to be a constraint on our cash flow.

Our capital expenditure in Q2 FY 2023 amounted to ZAR 70 million. Of this, ZAR 64 million or 91% related to growth capital expenditure and ZAR 6 million, 9% related to maintenance capital expenditure. Capital expenditure in the business is mainly driven by growth in the merchant business. This growth CapEx is mainly in the form of point-of-sale terminals in the VAS and card acquiring business as well as the manufacturing of vaults in the Cash

Connect business. In both these businesses, this growth CapEx is highly cash generative with short payback periods.

I will now move on to analyze the stock-based compensation charges. Stock-based compensation is a critical part of the overall compensation proposition that enables Lesaka to attract the best talent to execute on the transformation strategy. To enable a better understanding of the stock-based compensation charge, we have divided this cost into three categories, namely, executive sign-on, Connect Group acquisition awards and long-term incentive plans. The long-term incentive plan awards are indicative of the continued run rate costs whereas we view the sign-on awards and the Connect acquisition awards as largely one-off in nature incurred at the beginning of the transformation journey.

The increase in stock-based compensation cost between fiscal 2022 and 2023 is mainly due to fiscal 2022 only includes part year charge whereas fiscal 2023 includes a full year charge as well as a ZAR 23 million one-off for senior executive to secure a long-term commitment. We estimate that in the medium term, once the effect of sign-ons and the Connect acquisition amortize, that annual stock-based compensation charges should be in the range of ZAR 60 million to ZAR 70 million per annum. This would imply that the stock-based compensation charge should trend towards a single-digit percent of group adjusted EBITDA as benchmarked to market norms.

Overall, Q2 2023 is evident of the efforts we implemented in fiscal 2022 and we are now reaping the positive results. Our continued focus on the strategic initiatives is progressing well and we are optimistic about delivering on positive performance for the remainder of the year.

I would now like to hand over back to Chris who will address the group's outlook.

Christopher Guy Butt Meyer

Chief Executive Officer & Director, Lesaka Technologies, Inc.

Turning to the outlook for Lesaka. We wanted to provide you with guidance on the near-term performance of the group. And although we report results in US dollars and the US GAAP, our operational currency is in South African rand and we analyze our performance in South African rand and, as such, we believe that providing guidance in rand is more useful.

I am very pleased to reaffirm our prior guidance provided for financial year 2023. Our outlook for group revenue is between ZAR 8.7 billion and ZAR 9.3 billion for the 12 months ending 30 June, 2023; Merchant segment adjusted EBITDA between ZAR 550 million and ZAR 565 million; Consumer segment adjusted EBITDA between ZAR 95 million and ZAR 110 million; and adjusting for group costs, which we expect to be between ZAR 165 million and ZAR 150 million, this implies an adjusted group EBITDA of between ZAR 480 million and ZAR 525 million for FY 2023.

For Q3 FY 2023, our outlook for group revenue is between ZAR 2.5 billion and ZAR 2.8 billion for the three months ending March 31, 2023. And we expect Merchant segment adjusted EBITDA between ZAR 140 million and ZAR 145 million; Consumer segment adjusted EBITDA between ZAR 40 million and ZAR 45 million; and group costs between ZAR 45 million and ZAR 40 million for Q3 FY 2023, which taken together means group adjusted EBITDA of between ZAR 135 million and ZAR 150 million for Q3 FY 2023.

It is important to note that the Merchant segment adjusted EBITDA of ZAR 160 million for FY 2023 Q2 included ZAR 22.1 million relating to point-of-sale devices in our NUETS business and this is not forecasted to repeat in FY 2023 Q3 or Q4, given the lumpy nature of bulk sales in this business. And in addition, seasonal trends indicate that our Q2 is usually a slightly stronger quarter due to higher than average transaction volumes in December.

Looking forward, we expect the Connect Group to continue to maintain its strong growth trajectory in line with historical trends. And so, taken together, we believe that, should current trends continue, there is potential upside. And we will reevaluate this position in a few months' time when we report Lesaka's Q3 2023 results.

Before I conclude, I want to give special thanks to Alex Smith, the group's Chief Accounting Officer. In January 2023, we announced that Alex would be leaving Lesaka to pursue other opportunities outside the group. The past 18 months have been a time of significant transformation for Lesaka, and Alex has played a key role in Lesaka's growth journey and its transition from NET 1 to Lesaka. Prior to my appointment, Alex was Interim Group CEO for over a year and served as the Group Chief Financial Officer for more than four years. And I would like to thank Alex for his valuable contribution to the company.

So, in conclusion, this past quarter represents a real milestone for Lesaka. Our results were a testament to the progress made since the transformation began, and we will continue building on the momentum created across the business to drive growth, including by realizing the benefits and synergies of our unique dual-sided ecosystem. We believe there is tremendous scope for both our Merchant and Consumer divisions to grow and scale in their respective target markets in their own rights, supported by the self-reinforcing business model we are building as part of Lesaka's unique value proposition.

And with that, we'd like to open up the Q&A session and take your questions. Thank you.

QUESTION AND ANSWER SECTION

Rob Fink
Managing Partner, FNK IR

A

Thanks, Chris. The Q&A session will now begin. As a reminder, to ask a question, please use the Raise your Hand button at the bottom of your screen or click on the Q&A icon to submit a question. We will call on those who have requested to participate. And if you're asking a live question, just know your line will remain muted until you're called on. We're going to take a minute to build the queue. And while we do, we're going to read two questions that were submitted by [ph] Spence Thornton (00:45:00) of Anchor Securities. Chris, [ph] Spence (00:45:04) wants to know what the impact of load shedding has been on the business and specifically in the Merchant Division?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Thanks, everybody. Good afternoon. [indiscernible] (00:45:18-00:45:26) ask Steve maybe just to comment on it, Steve, if you wouldn't mind.

Steven J. Heilbron
Chief Executive Officer-Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

A

Yeah. Sure. Thanks, Chris. I mean, I think the reality is we delivered a very strong set of results despite the load shedding. So, the question really is, how much worse could it actually get. Now, we believe, as we move into Q3, we have a strong momentum and our business has been stress tested from Stage 3 to Stage 6 and at times even Stage 8. So, the numbers speak for themselves.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Thanks, Steve. I think we're very pleased with our results. You've heard that through the messaging. We've been pleased with the performance in the Merchant business and the growth that we've seen quarter-on-quarter despite the load shedding impact that our Merchant customer base has. So I think for us it's about getting on with things and focusing on the growth within our business.

Rob Fink
Managing Partner, FNK IR

A

Great. [ph] Spence's (00:46:30) second question is about guidance. And he wants to know, given the strong performance and guidance beat in the second quarter, why your outlook is being reaffirmed and not raised? Chris, can you unpack your thoughts on the full year outlook and overview, your expectations for growth in the second half of the fiscal year?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Sure. So we decided to leave our guidance unchanged, as I explained. We exceeded guidance in the Merchant business last quarter. The Merchant business grew by 19%. And I think the two things within those numbers to think about. One is we saw a large bulk order in our NUETS business, POS device business which had around a ZAR 22 million impact on EBITDA. And that's a lumpy business – lumpy order cycle when you look at it quarter-on-quarter. You need to look at it over a longer period. So, sort of taking that out of the picture firstly is important.

And then secondly, December for us is a big month. We see increased volumes across the business seasonally as an expectation. So, again, we want to factor that into our thinking. So, we believe that the – as I've said, the growth drivers that underpin our business remain intact. And most importantly, we believe that the growth trajectory that we've seen, particularly within the Connect Group, we expect that to continue into the future. So, we'll look at it again in a few months' time when we present Q3 and if necessary, if the conditions and the momentum are continuing the way they are, we may look at that point in terms of revising guidance. But for now, we wish to remain and reaffirm.

Rob Fink
Managing Partner, FNK IR

A

Great. Thank you. And Chris, just saying, there may maybe a little issue with your mic. So I'm going to give tech a minute to address it. And while I do, we did have a question from David Garrity of GCA (sic) [GVA] (00:48:41). How does Lesaka recognize revenue from hardware terminal sales contemporaneously or over an expected period of use?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

I hope you can hear me and hopefully my previous answer came through. If you need me to repeat that, I'm happy to. But just picking up on the question regarding revenue recognition on our POS device, I'll ask Naeem maybe just [ph] to reset (00:49:10) if that's okay.

Naeem E. Kola
Chief Financial Officer, Lesaka Technologies, Inc.

A

Thanks, Chris. So, just to understand the question, if we are referring to the hardware terminal sales that we sell to our NUETS business, these are sales that we do to customers, and ownership of these terminals are taken over by the customer. So we recognize our revenue on the time of delivery. And the way that is treated from an accounting perspective is that on the time of sale, because the risk is transferred and we do not have any underlying ownership, we recognize the revenue as a gross number in our income statement and the related inventory that is sold is then recognized in our cost of sales.

Christopher Guy Butt Meyer A
Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thanks, Naeem.

Rob Fink A
Managing Partner, FNK IR

Okay. Great. Our next question is a live question from Frank Geng. Frank, your line is going to be unmuted.

Frank Geng Q
Analyst, Briarwood Chase Management LLC

Hi guys. Thanks again and congrats on the quarter. Just a few questions from me. They're somewhat related. Maybe first Naeem or Lincoln. Can you provide some rough commentary on how much working capital before the loan book funding you would expect to invest per year? And how much that's to maintain the business versus growing it? Second, I guess, how should we think about the usage of cash going forwards? And third, Naeem, now that you've extended the lending facilities, are there any other levers to continue to optimize capital structure, reduce debt repayments, reduce interest expense? And I guess, what's the new maturity on the debt? Thanks.

Christopher Guy Butt Meyer A
Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thanks, Frank. So I'm going to put those questions to Naeem to respond to and just maybe help you deal with it. I think the first question was around our working capital requirements in the business and our requirements to invest in working capital [indiscernible] (00:51:12).

Naeem E. Kola A
Chief Financial Officer, Lesaka Technologies, Inc.

So, look, I think, Frank, from a working capital perspective, it's quite important to understand that the majority of our working capital is really in our VAS and the card acquiring business. If you look at our cash management business as well as the business related to the consumer, the working capital requirements are not that significant because we receive the funds from the customer upfront. So those are held on a wallet.

If we look at the current facilities, you will see as well that as we highlighted, between quarters, we can have quite a swing in terms of the working capital requirements in the Kazang business depending on when the month end or when the quarters end. And that is managed through adequate facilities that we have at the moment in terms of cash as well as an overdraft facility. We do also take advantage of opportunities where we can earn higher margins, specifically on our value-added services business in terms of airtime and electricity. And in those circumstances, we would fund upfront, and that's done specifically through cash reserves. So I think we do those only in circumstances where we can earn a higher margin. And it's a cost effective way of increasing the margin in the business.

In terms of going forward, we do not envisage a significant increase in working capital requirements. We are experiencing quite a significant growth in our card acquiring business. But the capital requirements in terms of working capital are well-managed and within our facilities that we would be able to do on our overdraft. So I think that that our longer-term view in terms of working capital is that we don't believe there is a significant increase anticipated.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Thanks. I think the question on debt and [indiscernible] (00:53:08) opportunities and the levers that we [indiscernible] (00:53:11).

Naeem E. Kola
Chief Financial Officer, Lesaka Technologies, Inc.

A

Yeah. Sure. Look, I think for us, firstly, we're super excited about the fact that we've been able to renegotiate a position with our bankers. Number one, over the last six to nine months, it's very indicative of the confidence that the bank is already seeing in the performance. And the extension of the facility to three years, taking us up to 31 December 2025, gives us the ability to really focus on making the right kind of decisions in terms of capital management. And in addition to that, the potential upsizing of that facility that will help us fund our loan book growth, mainly on the Consumer side of the business. So that is quite a significant change for us.

In terms of levers, as we've highlighted in a number of our presentations, the focus for us in the business is really the Consumer and the Merchant business in South Africa. We have the non-core investments such as MobiKwik and Finbond. And we will be looking at means and ways to exit those positions in a responsible way and that would result in quite a significant cash inflow for us to manage. In addition to that, I think we would be also looking at the right time in the market in terms of adjusting the structure of our capital position.

Frank Geng
Analyst, Briarwood Chase Management LLC

Q

Okay. Thanks.

Rob Fink
Managing Partner, FNK IR

A

Great. Our next question is coming in from Raj Sharma of B. Riley.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Yeah. Hi. Thank you for taking my question. I wanted to ask maybe perhaps directed towards Lincoln. If you can talk a little bit about the Consumer Division, talk about the lower transaction, the ATM transaction fees and the higher insurance fees, and also what's happening in the ARPU and how you are able to push it up and what should we see that going forward in terms of the traction and the conversion of the accounts.

Lincoln Mali
Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

A

First of all, thank you so much. I think firstly I want to say how pleased we are with the turnaround of the Consumer business. I think that we've spoken over the last few months about the work we've done to get our staff to understand the importance of cross-selling, and all of that work is starting to come through. You're starting to see more of our clients taking our insurance business and – sorry, our insurance products and our lending products. Those two things helped to drive our ARPU. As long as we've got quality clients and those clients are able to take more of our lending products and our insurance products, we want to see that ARPU increasing. And we think that if we maintain that, you'll start to see some upside on that ARPU even further. So we're quite confident on the trajectory of our ARPU as we improve our business, as we improve our cross-sell to our existing clients. So we've been quite pleased with how our customers have responded on the lending side and the insurance side.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

And on the ATM transaction fees, was that just primarily because of reducing your infrastructure?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Can you just clarify the question specifically on ATM? Are you asking about...

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

On the ATM transaction fees, they were lower, and was that because of the reduction in the infrastructure? I know that the ATMs have become far more efficient and productive. So...

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Yeah. So let me comment on just the macro points around it, the ATMs in the business and then we can talk about some of the macro movements quarter-on-quarter as well. I think the important to highlight is we've taken the ATM estate down from around 1,500 devices just over a year ago to around 80 at the moment. And approximately 60% of those are now in retailers. Previously, all of them were in our branches. And what we are seeing is a significant increase in volumes on those ATMs in what we would call [indiscernible] (00:57:47) transactions, which means other banks – the clients of other banks using our ATM. So, with an estate that is essentially [indiscernible] (00:57:57) we're protecting our volumes and in fact growing [indiscernible] (00:58:03). And that really is coming from a much more efficient per ATM activity than what we saw previously. So I think we're very happy with the strategy that's playing out on the ATM side in terms of driving productivity and throughput per device.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Yeah. Thank you. And then just a question on Connect. Just wanted to understand how is it better than initial expectations when Connect was acquired. Has Connect surprised you in any particular segment – surprised you positively?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

So I think on the whole, the Connect Group for us has delivered, let's say, exactly what was laid out in terms of the vision and the opportunity for the business and has seamlessly integrated into Lesaka. So, we believe it's been a successful transaction in every way. Areas where it's outperformed would be, for example, in the card acquiring – in the card payments space, we had forecasts around growing volumes and growth in that business have been exceeded. And that's positive upside. So that's been a big positive.

We've seen growth in our merchant numbers ahead of our business cases. So, in terms of rollout of VAS devices, that is being ahead of our original expectations. So, hugely positive. But I think what it's saying to us is it's just underlying rather the market opportunity particularly in the informal space. And we've spoken about the fact that 1.4 million informal merchants out there as a target addressable market, we've got something like 65,000 devices. We've spoken about the fact that 4% or thereabouts of merchants in the informal space are, [ph] can I say (01:00:27), card payments. We've seen our volumes double – our card payment volume has doubled over the last six months in the informal space. So, those teams are well understood or have been identified and I think of the particular teams that drive the Connect Group. Maybe the pace of growth has been a little bit more than we've built into our original plans.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Got it. Got it. Thank you so much for taking my questions. I'll take it offline. Thanks.

Rob Fink
Managing Partner, FNK IR

A

Great. Our next question were submitted by Jud Traphagen of Plough Penny Partners. His first question is for Steve. Steve, you have a stellar growth rate in the Merchant Division, even quarter-on-quarter. Can we expect this type of momentum on a quarterly basis going forward?

Steven J. Heilbron
Chief Executive Officer-Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

A

So maybe let me just circle back quickly to the earlier question raised around [indiscernible] (01:01:26) and maybe what I want to remind everybody about is retailers in this country, particularly the MSME sector and, more broadly, if you look at the last three years, we've had COVID, we've had in the – in the KZN area, we had significant flooding, we've had riots. And of course, now, we've got this perpetual load shedding. So, merchants have been stress tested. I think one of the things that we'll have to watch as we go into Q3 is the perpetual nature of this has some form of exhaustive effect on the retail merchants.

So, we produced a very good set of results, as you can see, in Q2. Our momentum going into Q3, we are through January, we have very strong momentum, and that has continued. But perhaps some of that slowdown which we may see in some of those areas relating to load shedding are offset by some of the innovation that sits within the business. And Chris touched on it already. So as I've mentioned before, Kazang Pay was a spinoff of Kazang and our Kazang Pay/Advance is a spinoff of Kazang Pay, and some of these ideas and businesses which we were pregnant with including our supplier payments businesses and our Capital Connect businesses are starting now to see much strong momentum than we initially anticipated.

So I think whilst we – so I think the answer is we have a well-balanced offering. We are solving and having a lot of fun solving for the pain points of our merchants, and the business is underpinned with very good momentum. So I think Chris's – we've given guidance for Q3 and I think we are relatively confident that that is – it's solid and, if anything, potentially a little bit conservative.

Rob Fink
Managing Partner, FNK IR

A

Great. Another question from Jud and this is for Lincoln. Congrats at returning the Consumer Division to profitability. How should we look at the growth outlook of the Consumer Division over the medium term? Would you say that you now have fixed the cost structure in place to drive operating leverage from here? How do you think about the long-term stable margins in the Consumer business?

Lincoln Mali
Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

A

I think that if you look at the guidance that Chris has given, we can now see that this business is stable, that this business now is planning for growth, and that all the cost initiatives that we've taken, we will now reap those benefits. And then all of the work we've done in preparing our clients for new propositions, we will now be able to kind of build on that. And I think that in terms of the guidance, you now will have a business that is growing profitably quarter-on-quarter to be in line with the guidance. So we've done a lot on the costs in terms of the bulk of what we need to do. But obviously, there are still some tweaks that we need to do. But on the whole, I think that those phases of firefighting are gone. We now can start to think about what are the innovative things that we can do with our clients, what value propositions can offer them, and what can we do to compete with other players in the market. So that's how we look at the future from the Consumer Division.

Rob Fink
Managing Partner, FNK IR

A

Well, great. Thanks. We're running short on time, but we do have three more questions that I'd like to run through before we close up. Has there been a notable increase in SASSA beneficiaries after the major glitches experienced with Postbank since November 2022? Have you guys planned, set up aggressive acquisition of customers currently served by Postbank?

Steven J. Heilbron
Chief Executive Officer-Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

A

Yeah.

Lincoln Mali
Chief Executive Officer-Southern Africa & Director, Lesaka Technologies, Inc.

A

Yes. We have great plans around that. We are actively encouraging customers to join us. We are also making sure that we have more presence in terms of marketing, telling people what we offer and what alternative we have. But what we are trying to think about going forward is not just the mistakes of the Postbank or challenges that they have, but to work on our value proposition and make sure that our value proposition is quite competitive and enticing for customers to join us. And those are some of the things that we're working on, what can we put on the table that makes customers excited to join us regardless of the challenges that SASSA and them are facing.

Rob Fink
Managing Partner, FNK IR

A

Great. Thank you. This next question is for Steve. Steve, there are a couple players in the merchant credit provision space, such as Retail Capital, Habitat who have been in the space longer. Have large dataset provided by Yoco and others or large balance sheets, how do you plan to differentiate yourselves from them?

Steven J. Heilbron
Chief Executive Officer-Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

A

So, at the outset, let me say I'm just so impressed with some of our young folk in the business who just perpetually innovate and bring good solutions to the market. So, if we look at the Capital Connect business, I mean, the differentiator in that space is hassle-free credit. Between the time of applying, and it's all preloaded, our customers can have credit approved and money in their account within a few minutes. So I think that in itself is a major differentiator. Remember, we are well-positioned in that business. We process close to ZAR 10 billion a month through our vaulting infrastructure and we process close to – if you look at Q2 – well, Q2 and in fact December we did about ZAR 1.3 billion – just under ZAR 1.3 billion in our card processing business. All of that data is attached to an algorithm which allows us to allow our retailers to take advantage of an opportunity when it knocks.

Now there's an old saying, opportunity doesn't knock, it whispers. And if you're an entrepreneur, you've got to take advantage of it immediately. So, the intrinsic advantage we have is really the speed and our ability to turn that around within minutes. So, the conventional approach, which is, I need management accounts, audited accounts, a credit committee and we'll revert within a few days is not a model that really is appropriate for the type of retailers that we're dealing with. And then, of course, on the back of that, we continue to innovate in terms of added value beyond simply the speed to market.

Rob Fink
Managing Partner, FNK IR

A

Well, great. And guys, we're at our last question, and this is another question from David Garrity, and it's for Chris. Chris, do you have an authorization to repurchase shares in the market – in the open market? If so, what is the size of the repurchase facility and what are your plans there to exercise the authorization, if any?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Thanks for the question. Yes, we do have a capacity or a facility rather to repurchase shares in the market. I'll confirm the exact size – I don't have the numbers with me here. But yes, the business does have that authority or ability to repurchase. I think the broader question around share buybacks, for us, as I've said before, our focus has been around stabilizing the business. It's been about – on the consumer side and it's been about integrating the Connect acquisition and focusing on delivering the growth journey that you've been hearing about here today. So, as our first quarter of actually generating cash in the business at an operational level, we feel we've turned a real milestone, and our focus continues to be to reduce that debt-to-EBITDA ratio on a net debt basis, as we said, the net debt to EBITDA, we're now at 3.3 times. We'd like to see that come down a little bit more.

So, all of these things are our sort of immediate focus areas around our cash and our resources in the business. And we believe we are producing and delivering now a business that has excellent returns, excellent returns to shareholders, return on your capital, and we'd hope to start to see that coming through and continue coming through in the quarters ahead. So, yeah, we'll monitor the situation. We'll continue to focus on where we are. And we're very alive to this question, we get it quite a lot.

Rob Fink
Managing Partner, FNK IR

Well, Chris, everyone, thank you for your time. Thank you, everybody, for joining us today. We've run out of time. That concludes the call. I would encourage any investors who didn't get a chance to ask a question or have more questions to reach out to the IR team. We are here 24/7. Thank you.