Lesaka Technologies, Inc. (LSAK)
Q2 2024 Earnings Conference Call
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PARTICIPANTS

Lesaka Technologies, Inc.

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

Ali Mazanderani – Executive Chairman, Lesaka Technologies, Inc.

Rob Fink – Managing Partner, FNK IR

Other Participants

Raj Sharma – B Riley & Co.

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Rob Fink – Managing Partner, FNK IR

Hello everyone and welcome to the Lesaka Technologies webcast and conference call for the second quarter of fiscal 2024.

As a reminder the webcast is being recorded and the presentation can be accessed through the webcast link as well as dialling into the zoom conference call dial-in numbers provided. Management will address any questions you may have at the end of the presentation. For those joining us via the webcast, you can ask your questions live by "raising your hand" in zoom. For those joining via the zoom teleconference line, you cannot ask your questions live.

The webcast link, zoom conference call dial-in numbers as well as our press release and supplementary investor presentation are available on our Investor Relations website at ir.lesakatech.com. Additionally, Lesaka filed its Form 10-Q after the U.S. market close yesterday, which is also available on our Investor Relations website.

As a reminder, during this call, we will be making forward-looking statements, and I ask you to look at the cautionary language contained in our Form 10-Q regarding the risks and uncertainties associated with forward-looking statements.

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

Slide 2: AGENDA

Taking a quick look at today's agenda: Chris Meyer, Group CEO of Lesaka, will start with an overview of performance highlights for the second quarter of fiscal 2024 and a review of Lesaka's progress against its key strategic objectives.

Steve Heilbron, CEO Connect Group and Head of Merchant Division, will provide an update on the Merchant Division, followed by Lincoln Mali, CEO of Lesaka Southern Africa, who will take us through the Consumer Division's performance this quarter. Naeem Kola, Group CFO, will present a detailed overview of our financial performance for the three months ended December 31, 2023, and update you on the Q3 and full year guidance.

Chris will then provide some closing remarks after which Lesaka's incoming Executive Chairman, Ali Mazanderani will introduce himself and outline his thoughts on Lesaka's mission and strategy. Thereafter we will open the floor for any questions you may have.

I'd like to now turn the call over to Chris.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Slide 5: Mission/Values

Good morning and good afternoon, and welcome to our second quarter 2024 earnings webcast and conference call.

Today we are pleased to present another quarter of continued growth and improvement in financial performance. The second quarter is characterised by higher volumes in our Merchant and Consumer divisions over the festive season, which has buoyed performance, full marks to the whole team who have all worked so hard over this period to make sure our customer needs were met and as a result have delivered an excellent set of results.

The economic environment in South Africa remains a challenge for our merchant and consumer customers. Encouragingly, inflation has come back into SARB's target range, but interest rates are still at 14-year highs. We will hopefully see a reduction in rates during 2024 which will alleviate some pressure on consumers. Load shedding, or power cuts, which disrupt our merchants' trading, improved marginally during the past two quarters, however we cannot, as yet count on this being a long-term improvement in power supply. Overall, we do not anticipate any major change in the economic outlook for South Africa but are optimistic that our business model will remain resilient and that we will continue to deliver on both growth and profitability.

Slide 7: GAAP Income Statement

Slide 8: Positive operational momentum in both divisions translates into financial performance with revenue and profitability improving in both divisions

Naeem will talk to the numbers in more detail, but I would like to note one or two highlights in our Group performance. As noted, Q2 is typically our biggest quarter of the year, due to festive season, and we were very pleased to see a number of volume records achieved in the month of December, and for the quarter as a whole.
In particular, Kazang VAS delivered over R3 billion in VAS throughput for the first time ever in the month of December, contributing to a VAS throughput record of R8 billion for the quarter. Kazang Pay card monthly throughput volumes exceeded R1 billion for the first time in December, achieving R1.2 billion for the month, and exceeding R3 billion for the quarter for the first time.

The fundamental transformation of the Consumer division into a customer-oriented and sales-focused business is really starting to pay off, and we are seeing record number of account activations, loan disbursements and insurance policy sales since the turnaround of this business began.

We have made great strides towards our vision to build the leading fintech platform, providing cash and digital solutions to small merchants and consumers in southern Africa. M&A will play a role in achieving this vision, and we continue to evaluate opportunities that will enhance our market positioning. This includes bolt-on acquisitions that will provide scale to our existing offering as well as those that will help us broaden our product offering to our clients. Our M&A focus is primarily on our Merchant business.

During the quarter we made an interesting and exciting acquisition in the Kazang business – Touchsides - which Steve will talk to shortly, and which will broaden our offering to Merchants.

From a balance sheet perspective, leverage ratios improved as we focus on reducing debt and growing Group Adjusted EBITDA. I am pleased to report that we continue to see improvement in our net debt to EBITDA ratio, which reduced to 2.7 times at quarter-end, compared to 3.6 times a year ago, and 3.1 times at the end of Q1 2024.

We exited our shareholding in Finbond during the quarter through a specific repurchase program and received a net cash flow of R64 million in December 2023, which was used to pay down debt.

Slide 9: Positive operational momentum in both divisions achieving revenue guidance and exceeding upper end of Group Adjusted EBITDA guidance

Turning to our Revenue and Group Adjusted EBITDA for the quarter, we grew revenue at 13% year on year, from R2.4 billion to R2.7 billion, which is at the mid-point of our guidance range. On a quarterly basis revenue increased 6%, partly due to seasonality.

Group Adjusted EBITDA came in slightly ahead of our guidance at R181 million for the quarter and strongly up compared to R130 million in Q2 2023. That is a year-on-year increase of 38%. On a quarterly basis Group Adjusted EBITDA was up 11%.

In our first quarter we achieved an important milestone in delivering a profit at an Operating Income for the first time in five years. In Q2 Operating Income has continued to grow, delivering R43 million for the quarter.

This quarter saw another important milestone being achieved. Net Income before tax, but excluding the non-operational and non-cash PPA charge, turned positive for the first time since we initiated our restructure, coming in at R29 million, which we are extremely proud of. This is further evidence that our strategy is paying off and that we are quickly moving towards our goals as we deliver continued improvement in our quarterly results.

Overall, in the context of the operating environment in South Africa, I am very pleased with our Q2 results and the momentum we are taking into Q3. These are exciting times for Lesaka, with our customers continuing to demonstrate the value they see in our products and services which underpins the resilience of our business model.

With that I would like to hand over to Steve to take you through the performance of our Merchant division.

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

Slide 10: Merchant Intro slide

Thank you, Chris. Q2 is a very busy period for us and our merchants. This is driven by the increased spending during the festive season, which benefits our card acquiring, supplier payments and cash digitalisation businesses in particular.

Our portfolio covers products and services increasing consumer convenience and purchases in our merchants' stores, as well as physical and fintech solutions to assist our merchants reduce cash risks and improve working capital and business efficiencies. This comprehensive solution helps us understand our merchants' businesses and cash flows better, which in turn helps us drive an improved value proposition solving for our merchants' pain points as they grow and compete. This is the source of our competitive advantage.

Slide 11: Revenue Drivers – VAS & card

Our merchants use our Kazang devices to sell a range of Value Added Services to their customers, including data, airtime, gaming and electricity. They can also use these devices for our supplier payments platform, allowing them to make electronic payments to approximately 700 active suppliers, greatly reducing both their and their suppliers cash risks. We ended the second quarter with over 79,000 devices deployed in the informal markets, representing a 23% year-on-year and a 3% quarter-on-quarter growth rate.

As mentioned last quarter, we have seen a significant change in product mix, with International Money Transfers reducing due to a change in the regulatory environment which affected the industry and can be clearly seen in this graph. Fortunately, this is a lower margin product for us, limiting the impact on profitability.

Excluding IMT's we saw a 51% growth in throughput year-on-year, and 16% quarter-on-quarter. Our supplier payments platform continued its excellent growth on the back of partnerships with major FMCG suppliers, which we discussed at our last quarterly results briefing. We continue to bring new suppliers onto our platform.

Our card-acquiring business is operated through our Kazang Pay business in the informal markets, and through Card Connect in the formal market. Our installed card-enabled devices increased to over 48,100 representing a 40% year-on-year growth, and 3% quarter-on-quarter growth, now off a significantly higher base. This growth is primarily driven by Kazang Pay and demonstrates the continued adoption of card payments in the informal economy.

From a throughput perspective, we saw a 31% increase year-on-year (Q2 2024 compared to Q2 2023). Q2 is seasonally our best quarter and we saw throughput grow 15% compared to Q1 2024.

We are pleased with these numbers considering the economic challenges our merchants and their customers are facing.

Slide 12: Merchant credit and cash

Our cash vaults or cash digitalization business is primarily exposed to the formal SME market, which has been impacted by load shedding, interest rates, and consumer pressures more so than the informal market. Year-on-year we saw a 1% increase in throughput on our vaults, with the number of cash vaults increasing by 4% to over 4,450. On a quarterly basis we saw better growth in Q2 with throughput up 8%, primarily due to seasonality.

We had more than 30% year-on-year growth in Kazang Vaults, this is off a low base, as we extend our offering into the informal market, where we believe we can make a real difference in our informal merchants' operations as we build Kazang merchant communities, enhance risk management and facilitate immediate cash availability for working capital.

Our credit business has been negatively impacted by high interest rates and the challenging economic environment. There is demand for this credit product from our merchants, however the deteriorating performance and financial strength of many of our merchants means they do not meet our credit criteria, resulting in fewer and smaller extensions. Whilst strict application of our credit criteria has led to negative growth, it has protected and maintained the quality of our book through this cycle. We are cautiously optimistic that we may have reached the bottom of this cycle, and we anticipate a more favourable operating and trading environment for our merchants, which may allow for a resumption in credit growth later in the year.

In February we announced the acquisition of Touchsides from Heineken, which we anticipate closing in March 2024. Touchsides is a leading data analytics and insights merchant services business, and is highly complementary to Kazang. It has a client base of over 10,000 active point-of-sale terminals across South Africa's informal licensed taverns, and processes more than 1.5 million transactions per day. The business provides platform-as-a-service (PaaS) and software-as-a-service (SaaS) solutions to licensed tavern outlets, enabling the measurement of sales activity in real-time, management of stock levels and informed commercial decisions, such as pricing and promotional offers. The rich data and insights amassed from these terminals carry substantial value and can be monetized through relationships with a range of clients, including FMCG companies, retailers, wholesalers, route-to-market suppliers, and financiers.

Touchsides is an exciting acquisition and aligns with our strategy of adding scale and broadening our service offering in our Merchant division.

Slide 13: EasyPay enterprise

Our EasyPay enterprise market solution, which offers VAS, switching and bill payments in the formal merchant market through our retail partners, experienced pressure over 2022 and 2023. Despite this, we deem this platform to be strategically important and we are investing in the technology and have improved our management structures. With over 600 billers on the platform which are embedded into all major retail systems, EasyPay has an extensive footprint that would be very difficult to replicate. The recent performance of this business is encouraging, and it is becoming a meaningful contributor to our Merchant Group Adjusted EBITDA as our interventions start paying off. We saw a 9% year-on-year improvement in throughput and 14% quarter-on-quarter. We strengthened our market position in formal market VAS distribution, with throughput increasing more than 30% year-on-year, driven mainly by electricity sales volumes.

Slide 14: Merchant Division Revenue and Adjusted EBITDA

The Merchant division revenue for the quarter was R2.4 billion, representing a 13% increase year-on-year, and 6% quarter on quarter. This reflects the seasonality in our business in Q2. Considering the headwinds our merchants and their customers faced over this period we are very pleased with this result.

From a segment adjusted EBITDA perspective, we reported a 2% increase year on year, with an 8% increase quarter on quarter.

We mentioned in our Q2 results last year that Merchant Group Adjusted EBITDA included R22.1 million related to a bulk order, not expected to repeat, in our terminal hardware sales business, NUETS. Excluding the impact thereof, our Merchant division year-on-year revenue growth is 17%, and Adjusted EBITDA growth is 18%.

In conclusion, we are very pleased with both the top line growth and profitability achieved in Q2 especially considering the challenging environment we are operating in and the strong comparative quarter last year.

I would like to hand over to Lincoln to take you through the Consumer division results and strategy.

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

Slide 15: Consumer Intro Slide

Good morning and afternoon, everyone. Thank you, Steve.

Slide 16: EPE Growth

I am very proud as I report on the results for the second quarter today. We started our efforts to transform the Consumer division in 2021 and it has been a very difficult journey. Notwithstanding the hard yards that we have had to walk, the team's dedication and commitment to execute our strategy is not only making a real difference in people's lives, but also delivering stronger growth and profitability each quarter.

As the only financial service provider focused exclusively on grant recipients, we dedicate 100% of our resources to understanding and servicing their needs as effectively as possible, through product design, fit-for-purpose distribution networks and service channels. At the last two quarters I spoke in some detail about our initiatives to grow our EPE customer base and how we are positioning ourselves to take advantage of changes in the grant distribution market.

Our gross account activations continued the upward trend, from approximately 60,000 in Q4 2023, to 76,000 in Q1, and now 122,000 for Q2. This also compares very favourably to our gross account activations a year ago of 43,000, a year-on-year increase of 188%.

Churn also improved this quarter which resulted in net account activations of over 92,000, compared to approximately 42,000 in Q1 2024 and 10,000 in Q2 2023. Natural churn is a factor in the grant space as child support grants cease when a child turns 18 and as mortality impacts old age grants. We estimate the net impact to be approximately 10 to 12% per annum.

It is very exciting to see the growth coming through after all the hard work and enthusiasm with which our teams have approached this task. Our EPE account base is a crucial number for us, as we only provide our additional products and services to active EPE account holders, and we are very encouraged by the trends we are seeing.

Slide 17: EPE Account/loan/insurance overview

We ended the quarter with over 1.4 million active EPE customers, of which approximately 85% are core permanent grant recipients, representing a 14% year on year and 7% quarter on quarter growth. It is important to maintain our EPE growth and momentum and further increase activations to provide us with the base to cross sell and grow ARPU.

Our EasyPay loan book increased 26% year on year to R503 million. Gross advances for the quarter of R447 million were up 32% compared to Q2 last year. Our loan loss ratio remains stable at approximately 6% on an annualized basis.

The excellent momentum in the adoption of our EasyPay Insurance product continued in this quarter, with active policies increasing to 384,000 at quarter-end, a growth of 31% from last year and 7% over Q1 2024. Our insurance book penetration increased from approximately 25% a year ago to over 30% at the end of Q2, retaining its very high premium collection rate of 96% and low annual lapse rate of approximately 7%, compared to the industry reported annual lapse rate of over 22% per year - an indication that our clients retain their policies for longer and are less likely to replace our policies with those offered by our competitors.

I get very excited when I see the quality of our loan and insurance books. For me it confirms that our 100% focus on servicing the grant recipients of South Africa and designing relevant, well-priced products is making an impact on their lives. As we expand our EPE account base we will continue to have a meaningful impact on financial inclusion in South Africa.

On the back of our excellent loan and insurance performance, our ARPU has improved from approximately R74 per month a year ago, to over R85 per month at the end of this quarter.

With the success of our cross selling and cost optimisation efforts, we are now dedicating much of our energy into enhancing our financial service solutions to attract further EPE account holders. A key focus going forward will be the addition of relevant products and services as well as the continuous improvement of service delivery which will also include enhancing our digital capabilities. We are also advancing initiatives with Kazang to further enhance our merchant and consumer ecosystem.

Slide 18: EPE Growth strategy yielding encouraging results | Revenue and EBITDA

The improvement in the above KPIs across the board is leading to a continual improvement in quarterly performance of the Consumer division.

Revenue for the quarter is R313 million, representing a 16% year-on-year growth and an 8% quarter-on-quarter growth.

Consumer segment Adjusted EBITDA for Q2 was R55 million, compared to R46 million last quarter and R10 million last year. This represents a 450% year-on-year growth and a 19% quarter-on-quarter growth.

We see the impact of positive jaws here as our EPE account base growth and cross-selling initiatives take effect off our right-sized cost base and improved activation processes.

In conclusion, we are extremely excited about the momentum we are building in the in the Consumer division, and the opportunity that lies ahead of us to bring true financial inclusion to South Africa's grant beneficiaries. It is at the heart of our purpose, and to be able to do this in a profitable and sustainable manner, is very rewarding for us all.

On behalf of the consumer team, I would like to say a huge thank you to Chris Meyer for his support and dedication as we turned around the consumer business. And we now look forward to a new growth path under the leadership of Ali Mazanderani.

I would like to hand over to Naeem now who will take you through the income statement and balance sheet in more detail and address the outlook for Q3 and the full year results.

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

Slide 19

Thank you, Lincoln. As Chris said, the second quarter of fiscal 2024 year reflects positive operational momentum in both divisions, translating into improved financial performance, despite the challenging trading environment. We again delivered against what we set out to do with revenue reported within our guidance range and Group Adjusted EBITDA exceeding the upper end of the guidance range for the quarter.

As a reminder, Lesaka is a domestic filer in the United States, we report results in U.S. dollars, under US GAAP. However, our operational currency is South African rand and as such we analyse our performance in South African rand.

Slide 20: Income Statement for the quarter (FY24 Q2 and FY23 Q2) and Slide 21: Income Statement for the quarter (FY24 Q2 and FY24 Q1)

Looking at the consolidated income statement for the quarter, we grew revenue by 13% to R2.7 billion compared to Q2 2023. Revenue increased by 6% compared to Q1 2024, partly due to seasonality.

In US Dollars, consolidated revenue was $144 million for the quarter, up 6% compared to $136 million in Q2 2023, negatively impacted by the 7% depreciation of the Rand against the dollar over the period.

Operating income increased to R43 million compared to R4 million in Q1, and an operating loss of R38 million a year ago. Operating income for Q2 2024, includes an R18 million ($1.0 million) non-cash gain related to the release of a foreign currency translation reserve upon liquidation of a dormant subsidiary.

Depreciation and amortization of R109 million includes R67 million related to the amortization of acquired intangibles from the Connect Group acquisition. Acquired assets amortization is both a non-operational and a non-cash charge.

Our net interest expense decreased 2% to R81 million in Q2 2024 from R83 million in Q1 2024, through further cash optimisation measures across the group. Q2 2024 versus Q2 2023 is mainly impacted by the increase in the benchmark interest rate in South Africa in Q2 2024 compared to Q2 2023.

Net income before income taxes, adding back R67 million related to the amortization of acquired intangibles for the quarter, is R29 million, compared to loss of R7 million in previous quarter and loss of R43 million in Q2 2023.

This quarter saw another important milestone being achieved. Fundamental Loss per share which excludes non-operating items, turned positive for the first time in over five years at 26 South Africa cents per share, compared to a loss of 8 South Africa cents per share in Q1 and a loss of 22 South Africa cents per share a year ago.

Slide 22: Net loss before tax continued to improve

Net Income before tax, but excluding the non-operational and non-cash PPA charge, turned positive for the first time since the turnaround of Lesaka began, coming in at R29 million.

Net loss before tax narrowed to R39 million for Q2 2024, compared to a net loss of R110 million a year ago, representing a 65% year-on-year improvement, and a 48% improvement on the net loss of R74 million in Q1 2024.

Slide 23 and 24: Segmental EBITDA analysis for the quarter (FY24 Q2 and FY23 Q2) and Segmental EBITDA analysis for the quarter (FY24 Q2 and FY24 Q1)

At a divisional level, Merchant delivered a 13% revenue increase year on year, and 6% quarter on quarter. We mentioned in our Q2 results last year that the Merchant division included a bulk order in our terminal hardware sales business, NUETS. Excluding the impact thereof, our Merchant division year-on-year revenue growth is 17%, a robust result given the challenging operating environment for the merchants we serve.

In the Consumer division, revenues grew 16% year-on year. We are seeing very good momentum in EPE account activations which is the foundation for building further annuity income in our consumer revenue base. Our lending and insurance businesses performed exceptionally well contributing to this very encouraging result.

Year-on-year, the Merchant division reported a Segment Adjusted EBITDA of R163 million compared to R160 million in Q2 2023. Excluding the NUETS bulk order impact of R22.1 million, we would have recorded a growth of 18% in segment Adjusted EBITDA.

The Consumer division delivered Segment Adjusted EBITDA of R55 million for Q2 2024, compared to R10 million for Q2 2023, benefiting from strong growth and cost saving initiatives implemented in FY 2023. Compared to Q1 2024 the consumer division has grown segment Adjusted EBITDA by 19%.

Group costs of R38 million reduced by 5% compared to R40 million in Q2 2023.

Slide 25: Segmental EBITDA analysis for the half-year (HY24 and HY23)

Looking briefly at our half year results for the six months to 31 December 2023, the transformation in Lesaka's financial performance is clear. Consumer Segment Adjusted EBITDA for the half-year was R102 million, compared to a loss of R14 million last year, with Merchant Segment Adjusted EBITDA of R313 million. Group costs reduced 9% year-on-year, resulting in a 71% improvement in Group Adjusted EBITDA to R343 million.

The Group's operating income has turned positive on a half-year basis to R47 million compared to a loss of R118 million a year ago. Adjusting for the non-operational and non-cash PPA adjustment, we delivered a positive net income before tax of R22 million for the six months.

Slide 26: Consistent execution achieving financial turnaround

We experienced continued improvement in our financial performance in Q2 2024 with the sequential quarterly revenue and profitability improving in both Consumer and Merchant divisions.

As a reminder, seasonal trends lead to a slightly stronger Q2 in both divisions due to higher-than-average transaction volumes in December.

Consumer revenue increased 8% quarter-on-quarter to R313 million, from R291 million in Q1 2024 and Merchant revenue increased 6% quarter-on-quarter, attributable to growth in both divisions.

Similarly, Merchant Segment Adjusted EBITDA of R163 million increased 8% quarter-on-quarter and Consumer Segment Adjusted EBITDA of R55 million increased 19% quarter-on-quarter.

Slide 27: Fundamental earnings per share turns positive, Delivering positive cash from business operations at Group level

Fundamental Earnings per share which excludes non-operating items, turned positive in the quarter for the first time in over five years to 26 South Africa cents, compared to a loss of 8 South Africa cents per share in Q1, and a loss of 22 South Africa cents per share a year ago. In management's view this is the appropriate earnings per share measure given the adjustment for one-off, non-repeatable items, and PPA amortization and other non-cash items.

From a cash flow perspective, we saw continued momentum in achieving positive net cash provided by operating activities at R11 million for the quarter, which includes an additional R64 million in interest payments using the Finbond proceeds. Adjusting for this, our net cash provided by operating activities would have been approximately R75 million.

Slide 28: Leverage ratio improved with focus on reducing debt and growing Adjusted EBITDA

We generated R207 million operating cash flow before interest paid, tax paid, working capital related items and movement in loan book funding. We define this as cash generated from business operations and consider it an appropriate indicator of our conversion of EBITDA to cash. This is an increase of 41% or R60 million compared to R147 million generated in Q2 2023.

The R54 million movement in loan book funding relates primarily to the net growth in the Consumer book over the quarter. Our working capital was impacted by the quarter-end falling on a public holiday and having to fund an additional two days receivables in our Merchant business.

We have exited our shareholding in Finbond during the quarter through a specific repurchase program and received a net cash flow of R64 million in December 2023, which was used to pay down capitalised interest.

Overall, we are pleased with the cash generation in our business this quarter.

Our Net debt to EBITDA ratio, is calculated as the net debt at specific date divided by the Annualized Group Adjusted EBITDA for the quarter. For Q2 2024 this improved to 2.7 times compared to 3.6 times a year ago, and 3.1 times at the end of Q1.

Our new funding arrangement, in which our lenders have agreed to reduce the margin on Facilities G and H on the basis of the improvement in our Net Debt/EBITDA ratio, was finalized effective from October 2023. Reducing our Net Debt remains a strategic objective for the Group.

Slide 29: CAPEX primarily driven by growth

Capital expenditure in Q2 2024 amounted to R41 million. As we previously highlighted this is mainly growth capex related to the Merchant division. Our growth Capex delivers a strong IRR on the capital invested.

We are very excited with the overall performance this quarter, as we are seeing the full potential of the consumer division benefitting from revenue growth and margin expansion from expense reductions we did in FY 2023, and the merchant division continues growth on key KPI metrics. This is a base we will continue to grow on.

Side 31: Outlook / guidance

Turning to our guidance for the third quarter, we expect revenue of R2.7 to R2.8 billion.

Our guidance range for Group Adjusted EBITDA of R170 to R190 million for Q3 is broad, given seasonal trends indicate that Q2 is usually a slightly stronger quarter than Q3. This is due to higher-than-average transaction volumes in December. However, we currently expect to be closer to the upper end of this range of R190 million in Q3.

I would also like to re-affirm our full year 2024 revenue guidance of R10.7 to R11.7 billion, and Group Adjusted EBITDA of R680 to R740 million.

We anticipate Group Adjusted EBITDA to come in at the top end of our full year guidance range. However, we expect full year revenue to be at the lower end of our guidance range. This is primarily due to a change in mix between pinned and pinless airtime sales during the year, primarily in our Kazang business. Accounting standards require that for pinless airtime sales we recognise only our commission as revenue (net), but for pinned airtime sales we recognise the full value of airtime as revenue (gross), with our purchase price of the airtime as a cost of sale. Pinless airtime sales have made up larger percentage of airtime sales than we expected when our guidance was set at the beginning of the year, which is having a material impact on revenue recognition.

Our outlook provided does not include the impact of the acquisition of Touchsides or any other M&A transactions that we conclude.

Thank you. I will hand over to Chris for his closing comments.

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thank you Naeem. As detailed in our public filing in December 2023, I will be stepping down as Group CEO on 29 February 2024. I have dedicated all my energy over the past two and a half years to the turnaround and rebuilding of the Lesaka platform, and in doing so spending the majority of that time apart from my family who live in the UK. I believe I have achieved what we set out to do when we started this journey, and I will be leaving Lesaka as a strong platform poised for further growth and scale. The time is right for me to return to my family and hand over to a new leader who will take this extraordinary group of people into an exciting future at Lesaka.

Ali Mazanderani has assumed the role of Executive Chairman as of 1 February 2024. Ali has been integrally involved in Lesaka since 2020 when he presented his vision and the strategy at our results in Q4 2020. I would like to welcome Ali and give him the opportunity to share a few thoughts.

Ali Mazanderani – Executive Chairman, Lesaka Technologies, Inc.

Thank you, Chris. I would like to take this opportunity to thank Chris for the excellent job he has done. He joined when the company had significant cash burn, uncertainty in the outlook of the consumer division and the need to quickly achieve scale in the merchant division. He leaves behind a cash-generating business with scale and further potential. On top of this, Lesaka has strong corporate governance, excellent leadership, and people passionate about our purpose of bringing financial inclusion to underserved communities. Under Chris's leadership, we have come a long way in a short period. Chris is remaining on our board as a non-executive director, and I'm delighted he is available to support me during the handover phase. I look forward to working with him in that capacity.

I am excited to take on the role of Chairman of Lesaka. And I am very much looking forward to working with Lincoln, Steve, Naeem and the rest of the leadership team in executing our strategy. I believe they have already created the leading fintech in South Africa and we have the potential to build on that foundation and truly establish Lesaka as the leading fintech on the continent.

In 2020 I outlined our vision for Lesaka. That vision was colored by my personal and professional experience. I was brought up in South Africa on a farm in the east of the country, in Mpumalanga, the place where the sun rises. That is my emotional home. After completing economics degrees at University of Pretoria, I got postgraduate scholarships at Oxford University and the London School of Economics. These were subsequently augmented by an MBA at Insead in France and a Master's in Business Law at St Gallen in Switzerland. I have lived and worked in many countries, experiences that have given me a global perspective, but Africa has always been close. Whether that be through my time at First National Bank, a prominent banking group in the country, or as a private equity investor, where I was intimately involved in creating the country and continents leading credit bureau.

In the payments space I have distinct privilege of helping to build multi-billion dollar fintechs on four continents, leaders in their respective areas: these include in Brazil StoneCo, in India PineLabs, in Africa and the Middle East Network International and in Europe Teya, a business which I co-founded. Over the past two decades I have been fortunate to be at the forefront of the digitization of commerce, an investment theme that I believe to be the most exciting of our generation.

It is therefore a delight for me to be able to come back to the country I was shaped by and have the opportunity to serve in the industry I know best. This is an opportunity for me and us to once more build the leading fintech on the continent, taking the lessons of the past and forging a singular future. The space is open.

We have a steady ship, we have the flagship, and the demographic tide is at our back, taken on the flood it will lead to fortune. I hope you will join us on the journey. Together I believe we will be able to look back and say we helped make a new world, we made a better future, and we did it for the people and places that needed it most.

And with that I will open it up if there are any questions.

Question-and-Answer Session

Rob Fink – Managing Partner, FNK IR

The first question is going to be a live question from Raj Sharma of B. Riley.

Raj Sharma – B Riley & Co.

Hi, thank you for taking my questions. Congratulations on ongoing good results. My first question is for Lincoln and a couple other questions for Steve and then am overall question. Lincoln, the pace of adding the EPE accounts has picked up well, any specific new initiatives that you've implemented? And can we determine if we are making inroads into the SASSA account acquisition?

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

Thank you, Raj. This is a continuation of all the plans we've been talking about, vetting in our people, training them, guiding them, building their relationship with SASSA, strong marketing presence on the ground, better customer service, improved digitization in how we engage our customers. All of those things have given us a competitive edge. And we now have the fastest-growing unit as compared to other banks, except for one. So we think that process will continue, and we think that we can make even more in growth into that base.

Raj Sharma – B Riley & Co.

Thank you. And then can you talk about the impact of load shedding? Any color on its impact going forward?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Lincoln, I'm happy to take that question. Raj, thank you for the question. Nice to hear your voice. Welcome. Load shedding has become very much a part of life in South Africa. It's something that has been built into the business model, both ours and more broadly, our merchant customer base. And we've learned a lot. South Africa is an adaptable place, a resilient place. As we said over the last couple of quarters, we've seen a reduction in the number of hours of load shedding. So there has been an improvement in the availability factor, which measures electricity supply in the country, but it's still a significant constraint in the country. At this point feel it's too early to predict any long-term improvement. But as I say, I think it's very much built into the way of life, into the operating model for both ourselves and our customer base. And we always learn to adapt.

Raj Sharma – B Riley & Co.

Thank you. And then I just had a question on the new acquisition. Is it reasonable to expect more? How did this opportunity come about? Are you hunting for little acquisitions like these? Are there more opportunities like these? And also, can you give a sense on the contribution to the top line and sort of the valuation metric?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

Raj, I'll take that question as well as its broad in nature around strategy. So as we mentioned earlier in my opening remarks, M&A is an important aspect for us of building and scaling our business. We look at it broadly two buckets. One is around adding scale, and the other is around adding to our proposition for our customer base. And largely, we see it in the merchant space, most often, the Touchsides acquisition falls into the latter. It's about broadening our proposition. We're active. We look at things all the time. We're evaluating opportunities in a number of different areas. And we feel that it's an important aspect of the future growth for our business. Ali, I don't know if you want to comment at all or I think you've covered it. All right. Thanks, Raj.

Raj Sharma – B Riley & Co.

Thanks. And then for Steve, can you talk a little bit about the credit business deterioration of the merchants? What is your outlook on the strategy going forward, are you going to change credit standards? Or what are your expectations for this business going forward and ongoing contribution?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

At the outset, let me say actually in January this year, the month has just passed, we probably had one of our most active months from a credit perspective. As I said in our reflection on the results, we felt that things were starting to improve to some extent. Our retailers had been through a tough period we thought that credit extension could start to improve, and we're starting to see some of that come through. We didn't change our credit criteria over the last period. We simply became a lot more stringent so that we could protect any potential loss. But I'm glad to say that our retailers are resilient and our strategy remains, which is to continue to add participants to our platform, create the leverage network effect and credit is a very important part of that aspect, both in the formal and informal markets.

Raj Sharma – B Riley & Co.

Thank you for taking my questions. Again, excellent results and congratulations. I'll take it offline.

Rob Fink – Managing Partner, FNK IR

Thank you, Raj. Our next question is a live one from Theodore O'Neill from Hills research. Theo, unmute your line and you can go ahead.

Theo O'Neill – Litchfield Hills Research

Thank you very much. First question for Steve is about the Touchside acquisition. Is there opportunity to leverage the analytics that come with that acquisition across the platform, across the entire merchant division? And is AI part of that?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

As Chris covered, we're very excited about this opportunity for a variety of reasons. Firstly, it introduces a whole new vertical for us. The tavern space and specifically the licensed tavern space is a critical vertical in the South African informal markets. It's not an area that we have real traction in. We've been playing there for a relatively short period of time and are making good progress, but we believe this will allow us to scale significantly. We will drive very hard our card acquiring, our VAS offering as well as what this now enables us to do is to play in the Platform as a Service, Software as a Service and data monetization. Critical to this product is the fact that we see close to ZAR17 billion of value going through these terminals. We provide the merchants with a mechanism through the software to be able to track inventory, sales and promotional activity. That data is hugely valuable, and we bought it really for the data insights capability as well as to extend into the vertical with everything else that we do. And to your point, it is very much within our gun sights to take that particular offering across our other verticals as well. It helps us to bring in the FMCG links and monetize that data both from the consumer and to the business.

Theo O'Neill – Litchfield Hills Research

Thanks. And for Lincoln, the year-over-year quarterly ARPU was up 15%. And I was wondering if there's any particular reason that's favorable?

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

I think that if you look at both our growth in our EPE accounts, growth in our lending and growth in our insurance, all of those have been market improvements. And you've seen that a lot in December. We had a very, very good December. This quarter really represents as Chris pointed out earlier, record numbers of sales in our EPE, in our insurance and in our loans. And that augurs very well for our ARPU growth.

Rob Fink – Managing Partner, FNK IR

Thank you, Theo. We now are going to take a question from Myles Fourie submitted over the chat. Myles asks: does the recent acquisition of Touchsides earn merchant collaboration with AB InBev?

Steve Heilbron – CEO Connect Group, Head-Merchant Business & Director, Lesaka Technologies, Inc.

I actually believe it should significantly enhance our relationship with AB InBev. The reality is we are now the Switzerland of the market. Previously, Touchsides would have been owned by Heineken. You can understand this is a data insights business and the data analytics in our hands as an independent is probably very much enhancing in terms of what we can offer in that vertical to all suppliers into the tavern space. So we actually are enthusiastic about the opportunity in our hands in relation to what we can now achieve with the likes of SAB, et cetera.

Theo O'Neill – Litchfield Hills Research

That’s helpful. Next one is a strategic question. Can I just expect more acquisitions as EBITDA increases. And as you think about your M&A strategy, are you thinking bolt-on or transformational?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

You question is fairly similar to the one we received from Raj. I don't want to repeat, but we described the two sort of broad areas that we would focus on from an M&A perspective. M&A being an important aspect of our strategy to scale the business and build relevance with our customer base. So yes, I think it's fair to say you should expect to see further activity in those buckets. The bucket is being around scale and then relevance and we are active. We are evaluating things, but we evaluate things against a very clear set of criteria with a very disciplined approach. We want to make sure we make the right choices that can enhance this business and build the platform. Ali, I don't know if you would like to comment, give you the opportunity to maybe say something.

Ali Mazanderani – Executive Chairman, Lesaka Technologies, Inc.

No, thanks, Chris. I need to echo what you say and say that there are opportunities in both subsectors that are represented there, and each will be assessed on a case-by-case basis.

Rob Fink – Managing Partner, FNK IR

Great. Last question right now, and this comes from Jared Houston of All Weather Capital. Can you provide an outlook for net debt-to-EBITDA post Touchside acquisition?

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

Thanks, Chris. We're not seeing any material impact on our net debt-to-EBITDA ratio because of the Touchside acquisition. As we mentioned, the acquisition has been fully funded from our current resources, and we don't see an impact on that material impact coming from that.

Rob Fink – Managing Partner, FNK IR

Raj and Theo both asked about M&A. But Jared wants to know, as you think about M&A, will equity be a part of that? How will you fund M&A? How are you thinking about that strategically?

Chris Meyer – Chief Executive Officer & Director, Lesaka Technologies, Inc.

And one of the aspects will be how to fund a particular transaction. Equity would play into that. So as much as debt or any other form of financing of transactions. Where it's appropriate, we would consider it, and we consider it against a number of metrics that we need to think about in that regard.

Rob Fink – Managing Partner, FNK IR

And here's the last question from Jared. Can you provide any updates on the potential of Mobikwik and a status update on where that stands?

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

As we mentioned, and it's public information that they've now submitted a rate hearing and the way to come through for an IPO in the Indian market. Where it stands at the moment is that, obviously, we're watching it very closely, and we're in close contact with management to ascertain how they're looking at this. And I think in terms of performance of MobiKwik, the performance of the business has been strong. And going forward, we would keep a watchful eye in terms of valuations as it comes closer to them doing and launching an IPO.

Rob Fink – Managing Partner, FNK IR

Thank you for that update. That concludes the Q&A. Those are all the questions. We appreciate everybody for participating. Thank you, management.