Lesaka FY24 Q3 earnings transcript

Rob Fink

Hello everyone and welcome to the Lesaka Technologies webcast and conference call for the third 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

Taking a quick look at today's agenda: Ali Mazanderani, Chairman of Lesaka, will give an update of key developments and progress on strategic objectives. Steve Heilbron, Head of Merchant Division and Corporate Development, 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 March 31, 2024, and update you on the Q4 and full year guidance.

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

ALI MAZANDERANI

Slide 5: Overview

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

Slide 6: FY24 Q3 | Continuation of our strong & consistent performance

Today we report another quarter of growth and improvement in financial performance. Lesaka is not recognisable from 2 years ago when we announced the closing of the Connect acquisition and introduced our Consumer turnaround plans. Our 9-month YTD revenue of R7.8 billion ($418.2 million) is up 14% YoY in constant currency terms and our EBITDA of R501 million ($26.7 million) is up 69% in constant currency terms. In the last quarter we have achieved Revenue of R2.6 billion ($138.2 million) and EBITDA of R183 million ($9.7million). We have reduced our net debt to group adjusted EBITDA to 2.6x this quarter from 4.2x in Q3 2023, and we now have two successive quarters of positive fundamental EPS. We have consistently delivered on the expectations set and indeed exceeded our EBITDA guidance for the period and revised upwards that guidance for the full financial year.

With the signing and announcement of the Adumo transaction yesterday, which remains subject to shareholder vote and regulatory approvals, we anticipate continuing to consolidate the market and cement our position as the leading independent fintech platform in Southern Africa.

Slide 7: Our operations and immediate opportunity are greater than just South Africa

Our primary market is currently South Africa with its c.62 million population and $381 billion economy, but with Adumo we augment our presence in Namibia, Botswana and Zambia and expand into Kenya. Together this represents a 140 million population addressable market, larger than that of Mexico or Japan.

Slide 8: The Lesaka platform serves consumers and merchants across the spectrum

Post completion, Lesaka will be a company with over 3 300 employees across these 5 countries. We will be processing more than R40 billion in card, R100 billion in VAS and R110 billion in cash throughput. We will have over 1.7 million active consumers, 89,000 micro-merchants (or informal traders as they have previously been referred to), 29,000 traditional merchants along with 100 enterprise clients.

We have developed a rich and broad product suite that provides us with a distinctive competitive advantage in serving each of our customer segments. Indeed, it is through the lens of building out the customer value proposition that we will be representing the business going forward. We see the business as having four broad customer types: Consumers, Micro-Merchants, Merchants, and Enterprise clients. The businesses leadership will be organised around those verticals, and it is through the lens of the unit economics of those customers that we will guide our capital allocation decisions. Each vertical operates different brands with their own value proposition, although there is overlap and mutually reinforcing dynamics. We are unique in the market in addressing this range of customers and that position will allow us to take advantage of economies of scale and deliver not just best in class product but also value, through the fly wheel of our platform and interconnected product offering.

The economic environment in Southern Africa remains a challenge and we do not anticipate any major change in the economic outlook, however Lesaka is not an index on the economy and, we are not bound by national economic growth forecasts. We are an index on disruption. Inefficiency is our competitor, and inefficiency is rife in our markets, with most service providers targeting narrow segments with mono-line products. We have under-serviced merchants and consumers, poor and legacy provision to corporates, and expensive and unreliable transaction processing. Through innovation, we will continue to pioneer and deliver growth in both revenue and profitability.

This is exciting times for Lesaka.

I will now handover to Steve to take you through the merchant segment

STEVEN HEILBRON

Slide 9: Merchant Intro slide

Thank you, Ali.

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 10: 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 third quarter with over 80,250 devices deployed in the micro merchant market, representing a 12% year-on-year growth rate. Core to our device placement strategy is the decision to focus on quality business by retaining high volume and profitable clients, and optimizing our existing fleet, which is reflected in a healthy throughput and margin per device.

At a throughput level, excluding International Money Transfers, we experienced a 36% year-on-year growth rate. We saw pleasing growth in our traditional VAS products of electricity, airtime and gaming, and strong growth driven by continued momentum in the uptake of our supplier payments platform by micro-merchants. As we continue to populate our supplier platform, we should see these volumes continue to out-perform. Whilst a lower margin product, it is a key value-add to our merchants and their suppliers as it significantly reduces their cash risks. Further, it drives our Kazang Vaults cash business as merchants use their cash to top up their wallets to pay their suppliers. We are now processing over R2 billion per quarter on our supplier payment platform. Supplier payment throughput volumes increased approximately 100% in the third quarter compared to a year ago and now accounts for approximately 35% of our VAS throughput volumes, compared to approximately 25% a year ago.

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. This is a very low margin product for us, limiting the impact on profitability.

Our card-acquiring business is operated through Kazang Pay in the micro-merchant market, and through Card Connect in the merchant market. Our installed card-enabled devices increased by 20% year-on-year to over 50 200, primarily driven by Kazang Pay and demonstrates the continued adoption of card payments in the informal economy.

Kazang Pay accounts for the majority of card acquiring throughput, which grew 22% year-on-year to R3.9 billion for the quarter, implying an improved average revenue per device as our clean-up of the installed base, addressed in the last two results, takes effect.

These growth rates are excellent and should be seen in the context of the economic challenges our merchants and their customers are facing.

Slide 11: Merchant credit and cash

Our digital cash management offerings, Cash Connect and Kazang Vaults, effectively "puts the bank" in approximately 4,455 merchants' stores. This cash digitalization business saw a 3% year-on-year increase in throughput, with the number of cash vaults increasing by 2%. This business is primarily exposed to the mid-market SMEs, a sector which has experienced challenges over the past 24 months. Our research shows that power outages have been the single biggest challenge for the retail sector. Significant numbers of retailers see high price inflation, a slowdown in consumer spending and rand-dollar volatility as major challenges for their businesses. This impacts the merchants we serve in this sector resulting in increased bankruptcies and hence vault upliftments which effected the net growth in the vault estate.

Our Kazang Vaults business servicing micro-merchants continues to see good growth in throughput, and we anticipate this momentum to continue. We believe we can make a real difference in our micro merchants' operations as we build Kazang merchant communities, enhance risk management and facilitate immediate cash availability for working capital.

Our cash business remains a Vital product in our merchant offering and is a key differentiator for us in the digitisation of cash. Whilst there is trend towards digital payments, cash remains as the most significant portion of retail transactions especially in informal markets. Having a wholistic offering through which we can deepen our customer relationship is key to our strategy.

Over the past two years our credit business has been impacted by higher interest rates and a challenging economic environment. There is demand for our credit product from our merchants, and our credit proposition is an important component in enabling the merchants we serve to compete and grow. Quick access to affordable and flexible opportunity capital is vital in every stage of a retailer's lifecycle, enabling them to never miss an opportunity. Many merchants find that traditional lenders are reluctant to approve loans for business growth and that the underwriting processes take so long that the opportunity is often gone by the time a retail loan is approved.

As a Fintech lender we are addressing this gap by offering fast access to capital. Our Connected App and leading data-driven fintech platform enables our retail merchants to access capital and expect funds in their bank accounts within 24 hours.

The tough economic environment has resulted in many more of our merchants not meeting our pre-determined credit criteria during this period. While this has led to marginal growth since 2022, it has protected us from credit losses with our book performing better than expected. We are cautiously optimistic that we may see a resumption in credit growth later this year. This is supported by the fact that Capital Connect disbursed R219 million during this quarter, compared to R194 million in the comparable period last year, representing a 13% increase.

In both these offerings – cash and capital we are innovating at a product level with exciting solutions planned and aimed at solving for our merchants pain points.

Slide 12: EasyPay enterprise

Our EasyPay enterprise market solution, which offers VAS, switching and bill payments through our retail partners experienced pressure over 2022 and 2023. We see this platform to be strategically important and continue to enhance our technology and management structures. With over 600 billers on the platform embedded into all major retail systems, EasyPay has an extensive footprint that would be very difficult to replicate. The performance of this business has improved and is contributing to our Merchant segment adjusted EBITDA. We saw a 6% year-on-year improvement in throughput overall, and throughput from Bill payments, the more profitable component of our enterprise offering, increase 13% year-on-year.

Slide 13: Merchant Division Revenue

In this slide we show the progression of the Merchant Division revenue for the past 2 years. We delivered an 8% year-on-year revenue growth which is impacted by the mix of airtime products sold in the quarter, which Naeem will explain in more detail and the change in product mix with International Money Transfers reducing due to a change in the regulatory environment.

On PIN-less airtime and data bundles, where we act in an agent capacity, only the commission earned is reported as revenue. Whereas for PIN-based airtime, where we act as principal, we recognise the total face value as revenue. At a gross profit level, we saw double digit growth year on year from airtime products sold.

As mentioned previously, international money transfer is a very low margin product for us, limiting the impact on profitability.

Also note that quarter two is our strongest quarter due to seasonality, it includes the December holiday period where trading activity is higher than in other months.

Slide 14: Merchant Division Adjusted EBITDA

Merchant adjusted EBITDA increased 7% year-on-year to R159 million. The year-on-year growth is impacted by the prior year base effect. The prior year, Q3 (2023) included R6m of EBITDA which related to hardware sales in our NUETS business, compared to R1m this quarter, this business is dependent on client capex cycles.

In addition, FY23 Q3 included R6m of EBITDA related to Kazang Pay Advance, our credit offering to micro-merchants, which remains under development with our aim to relaunch in fiscal 2025.

Excluding the impact of NUETS & Kazang Pay Advance , year-on-year Merchant Adjusted EBITDA growth is 16%.

We are pleased with the continued momentum in our Merchant Division, delivering growth in revenue and profitability. The Kazang brand is increasingly recognized and respected across the South African economy and was awarded *"the most disruptive FinTech in shaping the informal economy"* at the Absa Commercial Payments Summit in April 2024.

Last quarter I spoke about our Touchsides acquisition from Heineken, which closed on the 30th of April 2024. Touchsides is a leading data insights business with a dominant presence in the licenced tavern vertical. This is an important merchant segment targeted for growth and is highly complementary to Kazang. To date the integration plan and work between Touchsides and our Merchant Division has been extremely encouraging.

Earlier this week we announced the Adumo acquisition, which is subject to shareholder and regulatory approval, and if completed, will significantly bolsters our merchant offering. This acquisition significantly deepens our market penetration and broadens our product offering, in the Merchant division.

We are very excited by the opportunity that lies ahead of us as we leverage our fintech platform to innovate and disrupt in the pursuit of serving our targeted customer segments. The acquisition of Touchsides and the announced definitive agreement to acquire Adumo are significant milestones for Lesaka as we build the leading fintech platform in Southern Africa.

The augmentation of these product offerings allows for material cross-sell opportunities and further efficiencies in our payments eco-system.

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

<u>LINCOLN MALI</u>

<u>Slide 15:</u>

Good morning and afternoon, everyone; thank you, Steve.

<u>Slide 16: EPE Growth and deepening our relationship with our customers</u>

It has been another successful quarter for the Consumer Division as we continue to build on and benefit from the hard work during our restructuring and realignment as a customer and sales focused organisation.

We saw gross EPE account activations of 63 000, significantly improved from the 38 000 last year. We have seen a period of relative stability in the SA Post Office which has reduced the number of grant beneficiaries switching to alternative financial institutions.

After accounting for churn, which was fairly stable during the quarter, we had 28 000 new account activations. Natural churn is a factor of 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.

Our onboarding processes and activation rates are continual focus areas for our teams, as we build our EPE account base and deliver additional financial services to them.

We have seen very encouraging results from our digital channels this quarter. We have a USSD and a "voice branch" (or call centre) which are becoming more meaningful contributors in our distribution network. Our voice branch averages 12 500 calls per month and is currently responsible for over 4 000 loan initiations per month, with a record in March. Our USSD channel is delivering excellent results, processing 43 000 successful lending applications in Q3, record electricity and airtime sales in March, over 735 000 "dials" from 155 000 customers.

Our research shows that on average our account holders can spend between R100 and R200 in transport and related costs during a loan application, which is material considering the size of the loans. Interacting through our voice branch and USSD channel avoids this expense for our customers, and we will continue to invest in and improve these channels for our consumers.

With our product set, we have the ability to cross sell into the EPE account base. This is critically important as it has a material impact on our ARPU **as we deepen our relationship with our account holders**.

A year ago, approximately 409 000 EPE account holders also had an EasyPay Loan – this has increased more than 20% to almost 500 000. Account holders that also have an EasyPay Insurance policy increased more than 30% compared to last year this time.

Account holders that have an EasyPay Loan and EasyPay Insurance policy, i.e. a consumer that uses all our products went from approximately 148 000 a year ago to more than 212 000 consumers in this quarter, representing a greater than 40% improvement year-on-year.

Slide 17:

We ended the quarter with 1.5 million active EPE customers, of which approximately 1.3 million, or 87%, are core permanent grant recipients. This represents an 17% year on year growth in our permanent recipient base, with a 1% increase in the temporary grant base.

As I have discussed on previous calls, Lesaka focuses on two growth levers in our Consumer division. Firstly, growing our EPE account base which is a function of improved and more relevant distribution and efficient onboarding and activation processes. A lot of work has gone into our physical branch network and digital channels to improve the customer experience and our internal efficiencies which is reflecting in our EPE account growth rates mentioned above. Secondly, with our product set, we have the ability to cross sell into the EPE account base. This is critically important as it has a material impact on our ARPU as we deepen our relationship with our account holders.

Our cross-sell initiatives include training of sales staff, an improved technology platform, digital and print marketing initiatives, incentivisation and improved customer experience. I am very pleased with the results we are seeing which has led to a 15% increase in ARPU to approximately R90 over the past year, despite no increase in EPE account fees and a material increase in EPE account numbers.

Our EasyPay loan book increased 28% year on year to R509 million. Gross advances for the quarter of R416 million were up 30% compared to Q3 last year. Our loan loss ratio remains stable at approximately 6% on an annualized basis.

The excellent momentum in adoption of our EasyPay Insurance product continued in this quarter, with active policies increasing to 414 000 at quarter-end, a growth of 34% from last year. Our insurance book penetration increased from approximately 25% a year ago to over 30% at the end of Q3, whilst 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.

I get so excited when I see these results, as well as the quality of our books. It is evidence that all the planning and hard work of our teams across the country is paying off. Importantly, it is also evidence that our grant beneficiaries recognise the value of our offering and that we are making a real difference in their lives.

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

With our right-sized cost base and key operational metrics all improving, the Consumer Division has become a significant contributor to Lesaka's performance. Our revenues have improved 19% year on year, and with our operational leverage we have increased our segment adjusted EBITDA to R82 million, up from R30 million a year ago. I would like to congratulate the team on an excellent result.

Taking off my consumer hat for a moment, as Southern Africa CEO I would like to welcome all the employees of Adumo into the Group. We are extremely excited about joining forces with you as we build the leading fintech platform in Southern Africa. We see growth and opportunity in all our markets and look forward to capturing this as we integrate our businesses.

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

Slide 19

Thank you, Lincoln.

The third quarter of fiscal 2024 was another quarter of year-on-year growth and improvement in financial performance reflecting positive operational momentum in both divisions. This was achieved despite the challenging trading environment in South Africa. We also made strategic progress positioning Lesaka as a leading Fintech - Ali and Steve spoke about the Touchsides and Adumo acquisitions which build scale and broaden our product offering. Another key strategic objective is the reduction in net debt and leverage – with the improvement in generating positive cash flow from operating activities and significant growth in Group Adjusted EBITDA. A year ago, we were in a cash burn position, but we have moved to a position where our net cash provided by operating activities was R118 million this quarter, compared to net cash used in operating activities of R92 million last year.

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: Exceeded upper end of Group Adjusted EBITDA guidance

Turning to our Revenue and Group Adjusted EBITDA for the quarter, we grew revenue at 9% year on year, from R2.4 billion to R2.6 billion, which is marginally lower than our guidance range of R2.7 billion to R2.8 billion. As Steve mentioned earlier, this relates to an increased percentage of PIN-less (or direct top-up) airtime and data bundles being sold versus PIN-based (or voucher) airtime. On PIN-less airtime and data bundles we act in an agent capacity, only the commission earned is reported as revenue. For PIN-based airtime we act as principal and recognise the total face value as revenue. Our revenue is marginally lower than guidance as pin-less airtime was higher than pin-based airtime compared to the assumptions when we set our guidance last year. Revenue was also slightly impacted by the change in mix with International Money Transfers reducing due to a change in the regulatory environment. Although this impacted the revenue result; at gross profit level we exceeded forecast and Group Adjusted EBITDA (after lease expenses) exceeded the upper end of guidance.

It is important to note the change in the calculation of Group Adjusted EBITDA. Lease expenses which were previously excluded from the calculation of Group Adjusted EBITDA (i.e. below the Group Adjusted EBITDA line) have now been included in the calculation of Group Adjusted EBITDA (i.e. above the line). This change is in response to comments received from the staff of the SEC in March 2024 regarding our non-GAAP financial reporting. Comparative information has been adjusted to conform with the updated presentation.

We reported our Q3 guidance last quarter for Group Adjusted EBITDA range at R170 million to R190 million, this would have been R155 million to R175 million if we include lease expenses in the calculation of Group Adjusted EBITDA.

On this basis, Group Adjusted EBITDA of R183 million for the quarter exceeded the upper end of guidance. It was strongly up year-on-year, increasing 47% compared to R125 million in Q3 2023.

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 Group Adjusted EBITDA ratio, which reduced to 2.6 times at quarter-end, compared to 2.9 times at the end of quarter two 2024 and 4.2 times a year ago.

Slide 21: Income Statement for the quarter (FY24 Q3 and FY23 Q3)

Looking at the consolidated income statement for the quarter, we grew revenue by 9% to R2.61 billion compared to Q3 2023.

In US Dollars, consolidated revenue was $138 million for the quarter, up 3% compared to $134 million in Q3 2023, negatively impacted by the 5% depreciation of the Rand against the dollar over the period.

Operating income increased to R15 million compared to an operating loss of R33 million a year ago. Operating income for Q3 2024 includes R12 million ($0.6 million) once-off transaction costs related to the acquisition of Adumo.

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 8% to R75 million in Q3 2024 from R81 million in Q2 2024, through further cash optimisation measures across the group. The benchmark interest rate in South Africa remained unchanged over this period. Similarly, Q3 2024 versus Q3 2023 decreased 8% through further cash optimisation measures despite the increase in the benchmark interest rate in South Africa in Q3 2024 compared to Q3 2023.

Slide 22: Net income (loss) before tax - unpacking the non-cash charges & once off transaction costs

Net Income before tax, but excluding the non-operational and non-cash PPA charge, improved year-on-year to R8 million compared to a loss of R53 million in Q3 2023.

Net loss before tax narrowed to R60 million for Q3 2024, compared to a net loss of R120 million a year ago, a 50% year-on-year improvement, which would have been greater but for the R12 million ($0.6 million) of once-off transaction costs related to the acquisition of Adumo. Net loss before tax in Q2 2024, included 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. Excluding the impact of these once-off costs, net loss improved 8% in Q3 2024, compared to Q2 2024.

Net Income before income taxes, adding back R67 million related to the amortization of acquired intangibles for the quarter and R12 million of once off transaction costs, is R20 million, compared to a loss of R53 million in Q3 2023.

Slide 23 and 24: Segmental EBITDA analysis for the quarter (FY24 Q3 and FY23 Q3) and Segmental EBITDA analysis for the quarter (FY24 Q3 and FY24 Q2)

At a divisional level, Merchant delivered an 8% revenue increase year on year. Quarter-on-quarter revenue reduced 5% due to seasonality, with quarter two benefitting from the higher volumes over the main holiday and festive season.

In the Consumer division, revenues grew 19% year-on year and 8% quarter-on-quarter. We saw good momentum in EPE account activations in the last two quarters which, coupled with effective loan and insurance cross-selling initiatives, has led to a very encouraging result.

Year-on-year, the Merchant division reported a Segment Adjusted EBITDA of R159 million compared to R149 million in Q3 2023. Excluding the impact of NUETS & Kazang Pay Advance, which together contributed R12 million in the prior year versus R1 million this year, year-on-year Merchant Adjusted EBITDA growth was 16%.

The Consumer division delivered Segment Adjusted EBITDA of R82 million for Q3 2024, compared to R30 million for Q3 2023, equating to a 178% increase, benefiting from strong revenue growth and cost saving initiatives implemented in FY 2023. Quarter-on-quarter the consumer division grew segment adjusted EBITDA by 49%.

Strategic initiatives to grow the Consumer Division and deepen our relationship with consumers through cross-selling are yielding positive results.

Group costs of R42 million were flat compared to in Q3 2023.

Slide 25 and 26: Consistent execution | Continue to deliver on growth and profitability.

We experienced continued improvement in our financial performance in the third quarter of 2024 with profitability improving 9% quarter-on-quarter and 47% year-on-year. Sequential quarter-on quarter growth at a group level was achieved despite the seasonal trends that lead to a stronger quarter two in both divisions due to higher-than-average transaction volumes in December.

Slide 27 and 28: Fundamental earnings and cash from operating activities continues to improve

Fundamental Earnings per share, which excludes non-operating items, continued its strong momentum in Q3, improving 73% quarter-on-quarter to 45 cents, and up over 100% from a loss of 35 cents a year ago. In managements view this is the appropriate earnings per share measure given the adjustment for one-off, non-repeatable items, PPA amortization and other non-cash items. As an indication of the transformation of Lesaka, on a year-to-date basis fundamental earnings per share is at 64 South Africa cents, compared to a loss of R1.87 last year this time, a swing of R2.51 per share.

From a cash flow perspective we saw continued momentum, achieving positive net cash provided by operating activities. We reported R362 million in net cash provided by operating activities, however this includes R244 million related to Kazang Pay, which is unusually high given Q3 ended on Easter Sunday, so included 3 days unsettled trading. Excluding the impact thereof, net cash provided by operating activities of R118 million for the quarter compared to R75 million in quarter two and net cash used in operating activities of R92 million a year ago. On a year-to-date basis cash provided by operating activities is R190 million for the past three quarters compared to R163 million net cash used in operating activities in the first three quarters of last year. I am extremely proud of our teams' hard work in the transformational turnaround from a cash burn 12 months ago to positive cash quarter after quarter today.

Slide 29: Leverage ratio improved with focus on reducing debt and growing Adjusted EBITDA

We generated R175 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 24% compared to R141 million generated in Q3 2023.

The R70 million movement in loan book funding relates primarily to the net growth in the Capital Connect business over the quarter. As discussed earlier, our working capital was impacted by the quarter-end falling on Easter Sunday. Excluding the impact thereof net cash generated in working capital before financing activities was R62 million for the quarter compared to R30 million in net cash utilized last quarter.

As mentioned, we are pleased with the cash generation of our business and the progress we have made in this regard.

Our actual cash on hand at quarter end was R1 billion however, adjusted by R244 million related to working capital settlement on Kazang pay, net cash was R798 million.

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 Q3 2024 this improved to 2.6 times compared to 4.2 times a year ago, and 2.9 times at the end of quarter two, another very pleasing improvement.

Slide 30: CAPEX primarily driven by growth

Capital expenditure for the quarter amounted to R56 million, with R46 million relating to growth capex primarily in the merchant division relating to Kazang devices and cash vaults, both of which deliver strong IRRs.

We are very encouraged by 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 continuing its growth on key KPI metrics. We have an exciting journey ahead of us, building on this platform and accelerating our growth through the opportunities from Touchsides and Adumo.

Side 32: Outlook / guidance

For the full financial year 2024, we reaffirm our revenue guidance of between R10.7 and R11.7 billion. However, due to the mix of PIN and Pin-less data and airtime sales differing from our forecasts, and the resultant impact on revenue due to the accounting treatment of each, we anticipate coming in at the lower end of the guidance range. This only impacts the revenue recognition of data and airtime sales, not the profitability thereof.

Turning to Group Adjusted EBITDA guidance: For FY24 we are raising our Group Adjusted EBITDA guidance.

Previously we excluded lease expenses from the calculation of Group Adjusted EBITDA, and we guided that our Group Adjusted EBITDA excluding the impact of leases expenses for FY24 would be between R680 million to R740 million. On the same basis, i.e. excluding the impact of lease expenses, our Group Adjusted EBITDA is now expected to be higher at between R740 million to R760 million.

As mentioned, we received a comment from the SEC during Q3 regarding our non-GAAP reporting, specifically relating to Group Adjusted EBITDA. It is important to note comparative information for our Group Adjusted EBITDA has been adjusted to conform with the updated presentation and going forward group Adjusted EBITDA and the guidance thereof will include the impact of lease expenses.

On this basis, **Group Adjusted EBITDA, including lease expenses**: we expect it to be between R685 million to R705 million for FY24, compared to R446 million for FY23. This represents more than 50% growth year-on-year.

This guidance excludes the impact of the anticipated completion of the Adumo transaction.

We will provide our guidance for FY25 in September, when we report our results for the year-ended 30 June 2024.

Thank you for attending our Q3 results presentation, we will now address any questions you may have for the team.

Questions and answers

Thank you. Naeem. We're now going to open up the Q&A session from zoom. There are two ways you can participate. The first is to use the raise your Hand icon, which is at the bottom of your screen. Clicking this will alert the operator that you want to be called on to ask a live question, and so you'll be placed in a queue and called on.

Just note you're going to be on mute until your call. You are called on. The second way to participate in Q&A is to use the Q&A widget, which will allow you to type in and text the question, and we'll take questions from there as well. But just note, if we run into a time constraint, someone from the IR team will get back to you.

Question 1: Frank Geng of Briarwood

Congrats on the quarter, everyone. On the Adumo transaction - any indications on the valuation of the deal? And historical growth rates on the asset? When will the deal be done and what is the process from here.

Ali Mazanderani

Thanks a lot Frank. The purchase consideration implies an EV/EBITDA multiple of approximately nine times. The business acquired, has a standalone growth profile of circa 20% normalized year on year EBITDA growth, in Rand (ZAR) terms.

In terms of process, the transaction is subject to shareholder approval. There is a process that needs to be gone through in that respect. We've commenced the process to prepare for the shareholder meeting. It's expected to culminate in a meeting in August with proxy materials expected to be circulated in late June.

These materials will contain substantially more details regarding Adumo's business and will include its historical financial statements and the required unaudited pro forma financial statements.

Frank Geng

Got it. Thanks a lot.

<u>Question 2:</u>

Our next question comes from Raj Sharma of Be Riley Securities.

Raj Sharma

I'd like to ask a few questions about, on the Adumo deal. Firstly, what is the strategic rationale for doing the deal?

Ali Mazanderani

The presentation outlined, aspects of that. I think there is clearly benefits, associated with the augmentation of, the talent pool benefits associated with, the scale benefits associated with, reinforcing our position, also in neighbouring geographies. But the core benefits is that are the augmentative qualities in both the consumer and the merchant divisions.

I would like to ask, Lincoln, in that respect to talk on the consumer side and, and Steve to talk on the merchant side.

Lincoln Mali

Thank you Ali. If you if you think about our consumer business, we have been laser focused on the consumer, where we've got more than 1.5 million active customers. We have been asked a number of times as to when will we start to think of a broader market outside the grant space? What this does is, it starts to give us an eye into that, base, an ability to do more payouts. Adumo has about 145,000 active, there is an opportunity to extend our credit, insurance and VAS solutions into this base.

So it starts to move our customer base from the 1.5 million, active customers that we have to now, to 1.7 billion customers. Additionally, it provides opportunities beyond the social grant space while we still have the engine to serve our grant base, a core focus. This is an opportunity to broaden our business offering in the Consumer Division. Over to Steve.

Steve Heilbron

I think Ali touched on the fact that this is exciting from a formal merchant perspective - it gives us much deeper penetration in terms of that particular segment that takes us now to servicing in the formal segment, north of 29 000 merchants. It significantly bolsters our card acquiring capability in the formal merchant space, and it takes us into the software point of sales business.

Further to that, it allows the opportunity for us to take our cash and credit offering across the channel, further broadening our product offering. This will enhance our unit economics, both in terms of our cost of client acquisition (CAC), as well as our lifetime value from a customer (LTV: CAC) perspective. So from a merchant perspective, historically, we've had higher growth in our micro merchant space. This now bolsters growth in our formal merchant offering, meaning real strength in the card and software space, which when added to our cash and credit offerings, gives us a comprehensive bundled, and allows us to be more competitive in terms of pricing and more.

Raj Sharma

Thank you, that's great color. How will you be funding the cash portion of proceeds with, internal financing?

Naeem Kola

Hey, Raj. In terms of the cash funding internally, we are in the process of selling down our position, as you aware, on the cell C stock that we hold. And we are confident we would be able to use that to fund the cash portion of the proceeds.

in terms of the debt position –we do not expect any increase in cost of funding, we see this acquisition to be beneficial to us from an overall leverage ratio perspective.

Rob Fink

Our next question comes from Sven Thorsen of Anchor.

He submitted a question in the Q&A widget: Consumer has seen remarkable growth in full year 24, with margins widening significantly. Loan insurance penetration rates are up considerably. How much scope is there to increase these penetration rates?

Lincoln Mali

I think there are still opportunities to increase penetration - we have well trained staff, continuously engaging with our customers.

And looking at our cross-selling momentum recently, there is more opportunity to penetrate the base. We are only at 30% of the base on the insurance side - there is space to do much more.

And we have focused on t. And I this aspect of growth a lot – for the first time we shared the increase in the number of customers who have all three products – EPE account, loan and insurance policy, there is more scope for that to grow in the short and medium term.

Rob Fink

And our final question today comes from Theo O'Neill of Hills Research.

Theo O'Neill

Lincoln mentioned cross-selling a couple of times on the call. And I was wondering, did you see anything surprising in the cross-selling success? And what do you see is critical for continuing success in cross-selling?

Lincoln Mali

No, we're not surprised. It's part of our stated strategic objectives.

What we continue to implement from a marketing point of view, has created momentum. We have invested in our digital channel capabilities that enable people now to get a loan through our USSD channel, as well as call centre originations. And thirdly, our capacity for lead generation continues to grow.

Training our staff is also very important - customers are giving each other feedback about the benefits that they're getting from the offering being "We can be able now to give you a loan, we can give you an insurance".

We have also added value added services - we continue to broaden our solution set. And so we see more opportunities going forward.

Theo O'Neill

In the prepared remarks you identified inflation hitting certain expenses. I was wondering if you could give us some more detail on your thoughts there, what you're seeing.

Steve Heilbron

So the context of our comment on inflation was really just the impact it has on the retail merchant. And it does lead to the formal market where we've seen those merchants have been through the challenges of Covid. We had other disruptions in South Africa a year ago dampening demand.

Rob Fink

Thank you. That that concludes, the Q&A session. We thank everybody for participating and look forward to our next quarterly update.