

**Action Summary – 1 November 2023**

Analyst Theodore R. O'Neill F1Q24 Preview and update – **Reiterate buy and \$8 price target.**

- Company reporting F1Q24 results after the close on November 7, 2023, and host an earnings call the next morning, November 8, 2023, at 8AM EST.
- The company had previously given F1Q24 guidance for revenue between ZAR 2.50B to ZAR 2.55B and Group adjusted EBITDA between ZAR 160MM and ZAR 165MM. At the current exchange rate, the midpoint of the range is ~\$135MM.
- Updating our estimates for the FX change to maintain the midpoint of the range. F1Q24 revenue is now \$135.5mm, down from \$142MM and FY24 is now \$576.5MM down from \$579.0MM. FY24 EPS is now (\$0.12), down (\$0.01) to (\$0.11).
- **Completed a solid NDR.** Subsequent to the end of F4Q23, the company conducted an NDR in NYC during the week of Sept. 25. It reiterated that it sees a **Cash to digital opportunity nascent in Southern Africa and is positioned to grow with it.**
- **Consumer growth.** Management is intently focused on consumer growth, including growing EasyPay Everywhere (EPE) customer accounts (+10% in YOY F4Q23 to 1.3 million). They expect to gain a fair share of the multi-million PostBank customers. Debt reduction should yield a 100bps improvement in rate and it still has the ability to monetize certain core assets.
- **Attractive Valuation.** The shares are trading at a 30% - 81% discount to peers. LSAK stock not only sells at a discount to peer averages, but it also trades near the bottom of some metrics despite having an above average 2024 EBITDA growth rate. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

<b>10/31 Closing price: \$4.08 USD</b>	<b>Market cap: \$261 million</b>	<b>Multiple of book: 1.3x</b>	<b>EV/2024 Sales: 0.76</b>
<b>Diluted shares outstanding: 64 million</b>	<b>Insider ownership: 15%</b>	<b>3-mo avg. daily trading volume: &gt;17,000</b>	<b>Dividend 2023 /Yield: NA/NA</b>

**Adjusted EPS (EPS in USD – Revenue in USD millions)**

Period	EPS	Revenue	Net Income Margin
1Q22A	(\$0.22)	\$34.5	
2Q22A	(\$0.13)	\$31.1	
3Q22A	(\$0.05)	\$35.2	
4Q22A	<u>(\$0.09)</u>	<u>\$121.8</u>	
FY22A	<u>(\$0.49)</u>	<u>\$222.6</u>	<u>(19.7%)</u>
1Q23A	(\$0.08)	\$124.8	
2Q23A	(\$0.01)	\$136.1	
3Q23A	(\$0.02)	\$134.0	
4Q23A	<u>(\$0.04)</u>	<u>\$133.1</u>	
FY23A	<u>(\$0.15)</u>	<u>\$528.0</u>	<u>(6.6%)</u>
1Q24E	(\$0.06)	\$135.5	
2Q24E	(\$0.04)	\$141.0	
3Q24E	(\$0.02)	\$147.0	
4Q24E	<u>(\$0.00)</u>	<u>\$153.0</u>	
FY24E	<u>(\$0.12)</u>	<u>\$576.5</u>	<u>(3.4%)</u>

Note: Numbers may not add due to rounding or change in share count. See our full model at the back of this report.

**Cash balance (in USD millions)**

• 2021A	• \$223.8
• 2022A	• \$104.8
• 2023A	• \$58.6
• 2024E	• \$52.3

**LT Borrowings (in USD millions)**

• 2021A	• \$0.0
• 2022A	• \$134.8
• 2023A	• \$129.5
• 2024E	• \$125.0

**Adjusted EBITDA (in USD millions)**

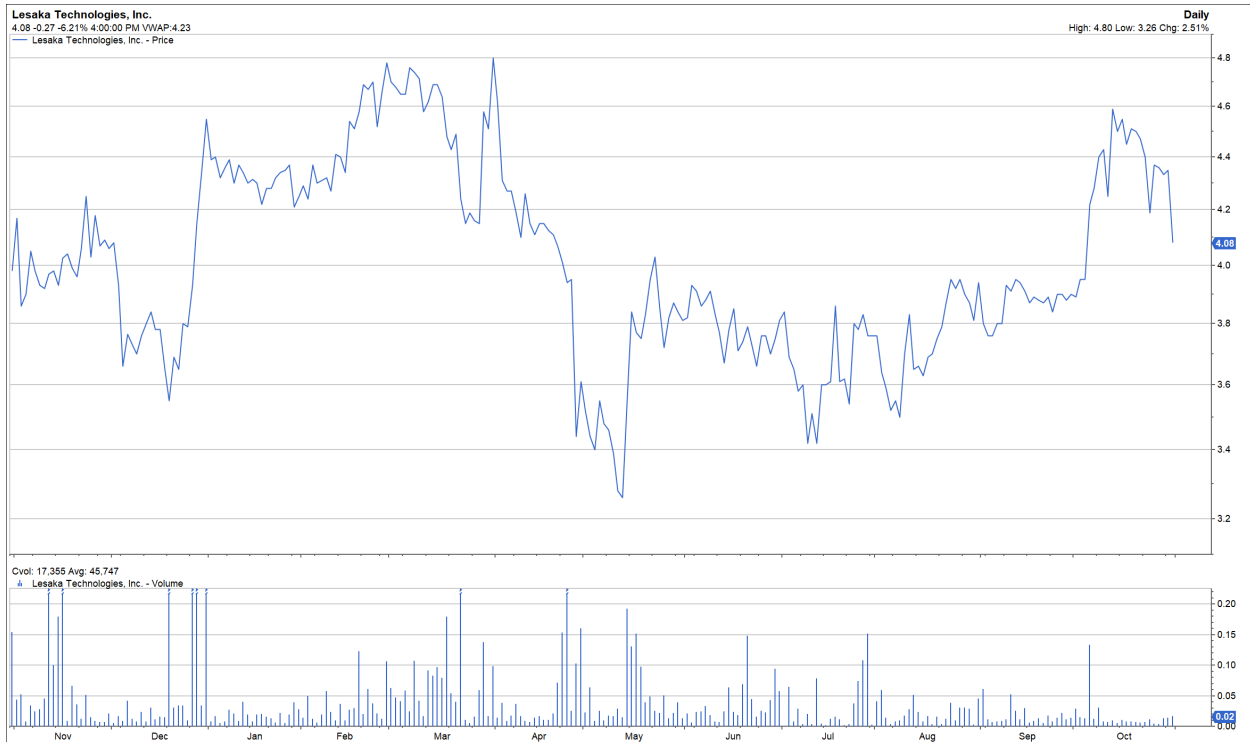
• 2021A	• (\$42.9)
• 2022A	• (\$18.6)
• 2023A	• \$27.7
• 2024E	• \$37.5

**Risks/Valuation**

- Risks: competitive marketplace, regulated business, dependence on financial partners and, currency risk
- Our \$8 price target is derived from our discounted future earnings model.

**Company description:** Lesaka Technologies is a South African fintech company that utilizes its proprietary banking and payment technologies to deliver superior financial services solutions to merchants (B2B) and consumers (B2C) in Southern Africa. The company's mission is to drive true financial inclusion for both merchant and consumer markets by offering affordable financial services to previously underserved sectors of the economy.

Figure 1 – Lesaka Technologies, Inc. – One-Year Trading snapshot



Source: FactSet

## Mid-quarter update

We believe LSAK provides an attractive way for investors to play the trend of the digitization of the economy in Southern Africa, with consistent Group Revenue and Group Adjusted EBITDA growth over the past several quarters. LSAK exited FY 2023 with strong momentum (beat & guide above consensus), and for 2024, the company is guiding to double digit constant currency revenue growth and a return to positive operating margin.

Updates from meetings

**Cash to digital opportunity nascent in Southern Africa.** Lasaka serves the informal economy where there is very poor access to financial services and is working to better quantify the opportunity, which is inherently imprecise definitionally because it is informal. While its market is approximately 4% of the estimated 1.4 million merchants in South Africa, its serviceable addressable market offering today is 15-20% where it primarily targets spazas (informal convenience shops) and spazarettes. The company outlined medium-term growth targets: revenue growth of 18% to 20% per annum is achievable over the medium term. Assuming gradual improvement in EBITDA margins, this would lead to 20% to 25% growth in Group Adjusted EBITDA over the same period.

**Consumer growth.** Management is intently focused on consumer growth, including growing EPE customer accounts (+10% in Q4 to 1.3 million). They expect to gain a fair share of the multi-million PostBank customers expected to be up for

grabs over the coming year, following multiple technical and management issues. With the turnaround now complete, the Consumer segment has recorded three consecutive quarters of increasing profitability with segment adjusted EBITDA of US\$2.5 million in Q4 2023.

**Capital allocation to reduce debt.** Management is focused on EBITDA growth and debt reduction with the goal of reducing leverage to 2.5x leverage by 4Q24, at which point it will qualify for a 100bps reduction in rate.

**Monetizing non-core assets.** The sale of its Finbond stake is on track with a Finbond shareholder vote expected in November 2023, and should it generate approximately R64m in after tax proceeds (~USD 0.05/share). Management also continues to expect the public listing of Mobikwik (Lesaka stake ~10%) though the timing on it is unclear.

## Valuation and Price Target

### Valuation Methodology

We believe LSAK is undervalued, and we support that belief with two valuation techniques. For the purpose of determining our price target we use a discounted future earnings model, which we then compare to its valuation relative to peers.

### Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$8 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 8%. We assume the company becomes GAAP EPS profitable in 2026 and earnings growth ramps up for another 8 years until growth eventually slows to GDP. Our valuation model is shown in Figure 2 below. Note, this model understates future new services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$7.51, which we round to \$8.00.

Figure 2 – Lesaka Technologies, Inc. – Price Target Calculation

Discounted future earnings: \$7.51		
YEAR	EPS	Discounted EPS
2024	(\$0.31)	(\$0.31)
2025	(\$0.10)	(\$0.09)
2026	0.00	\$0.00
2027	0.20	\$0.16
2028	0.30	\$0.22
Terminal Value		\$7.54

Source: Litchfield Hills Research LLC

### Valuation Relative to Peers

Figure 3 is a summary of our LSAK peer comparison. The shares are trading at a 30% to 81% discount to peers. LSAK stock not only trades at a discount to peer averages, but it also trades near the bottom of all metrics despite having an above average 2024E EBITDA growth rate. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 3 – Lesaka Technologies, Inc. – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples				2024 EBITDA Growth Rate
					LTM Revenue USD	LTM Sales / Market Cap	2024 EV / Sales	2024 EV / EBITDA	
SQ-US	Block, Inc. Class A	\$40.02	21,989	24,484	18,833	1.17	0.89	11.16	27%
KSPI-GB	Kaspi.kz JSC Sponsored GDR RegS	\$91.00	18,223	17,363	3,590	5.08	4.59	7.05	
377300-KR	kakaopay Corp.	\$25.70	3,447	1,858	401	8.60	3.64	65.63	NMF
STNE-US	StoneCo Ltd. Class A	\$9.60	2,700	2,801	895	3.02	1.12	2.21	2%
NETW-GB	Network International Holdings Plc	\$4.70	2,504	2,663			4.62	10.83	21%
EVTC-US	EVERTEC, Inc.	\$32.93	2,128	2,322	621	3.43	3.32	7.73	5%
PAGS-US	PagSeguro Digital Ltd. Class A	\$7.05	1,437	1,953	2,846	0.50	1.12	4.97	16%
MQ-US	Marqeta, Inc. Class A	\$5.03	2,394	1,514	807	2.97	2.82		
PAYO-US	Payoneer Global Inc.	\$5.62	2,019	1,741	709	2.85	1.63	7.49	24%
FWRY-EG	Fawry For Banking Technology And Electronic Pay	\$0.18	584	481	100	5.82	3.54	10.38	38%
IIIV-US	i3 Verticals, Inc. Class A	\$18.18	423	1,098	343	1.23	2.38	8.51	13%
HPS-MA	Hightech Payment Systems SA	\$61.27	454	443	120	3.77	3.44	16.47	15%
PAY-GB	PayPoint plc	\$6.27	455	380			1.68	3.66	11%
PRTH-US	Priority Technology Holdings, Inc.	\$3.12	239	1,039	680	0.35	1.21	5.68	15%
PAY-CA	Payfare, Inc.	\$3.10	148	(5)	120	1.24			
BLU-ZA	Blue Label Telecoms Limited	\$0.18	164	209					
CCRD-US	CoreCard Corporation	\$19.84	168	133	58	2.90	2.01		
0021-MY	GHL Systems Bhd.	\$0.16	186	164	92	2.03	1.55	9.46	12%
PAYS-US	PaySign, Inc. Class B	\$1.73	91	11	41	2.25	0.21	1.27	40%
ML-US	MoneyLion Inc Class A	\$17.89	182	200	367	<u>0.50</u>	<u>0.53</u>	<u>6.23</u>	<u>NMF</u>
	Average					<u>2.81</u>	<u>2.24</u>	<u>11.17</u>	<u>18%</u>
LSAK-US	Lesaka Technologies, Inc.	\$4.10	267	294	505	0.53	0.76	7.81	36%
<b>LSAK shares trading at a (discount)/premium to peers:</b>						<b>-81%</b>	<b>-66%</b>	<b>-30%</b>	

Source: Litchfield Hills Research LLC and FactSet

Figure 4 – Lesaka Technologies, Inc. – Income Statement (\$000 except per share)

June ending year	2021A	2022A				2022A	2023A				2023A	2024E				2024E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1E	Q2E	Q3E	Q4E	Year
<b>Total revenue</b>	\$130,786	\$34,504	\$31,114	\$35,202	\$121,789	\$222,609	\$124,786	\$136,068	\$133,968	\$133,149	\$527,971	\$135,500	\$141,000	\$147,000	\$153,000	\$576,500
Growth	162%	-2%	-4%	22%	253%	70%	262%	337%	281%	9%	137%	9%	4%	10%	15%	9%
Cost of Goods	96,248	24,207	20,580	23,008	100,522	168,317	100,528	108,824	105,299	102,893	417,544	107,045	111,390	116,130	120,870	455,435
<b>Gross Profit</b>	<b>34,538</b>	<b>10,297</b>	<b>10,534</b>	<b>12,194</b>	<b>21,267</b>	<b>54,292</b>	<b>24,258</b>	<b>27,244</b>	<b>28,669</b>	<b>30,256</b>	<b>110,427</b>	<b>28,455</b>	<b>29,610</b>	<b>30,870</b>	<b>32,130</b>	<b>121,065</b>
<b>Gross Margin</b>	<b>26.4%</b>	<b>29.8%</b>	<b>33.9%</b>	<b>34.6%</b>	<b>17.5%</b>	<b>24.4%</b>	<b>19.4%</b>	<b>20.0%</b>	<b>21.4%</b>	<b>22.7%</b>	<b>20.9%</b>	<b>21.0%</b>	<b>21.0%</b>	<b>21.0%</b>	<b>21.0%</b>	<b>21.0%</b>
SG&A	\$84,063	\$20,442	\$17,746	\$15,184	\$21,663	\$74,993	\$22,931	\$23,517	\$24,547	\$24,055	\$95,050	\$24,000	\$24,000	\$24,000	\$24,000	\$96,000
% of total revenue	64.3%	59.2%	57.0%	43.1%	17.8%	33.7%	18.4%	17.3%	18.3%	18.1%	18.0%	17.7%	17.0%	16.3%	15.7%	16.7%
Depreciation and amortization	4,347	895	726	463	5,491	7,575	5,998	5,919	5,975	5,793	23,685	6,000	6,000	6,000	6,000	24,000
Transaction costs	-	185	1,489	116	4,235	5,894	-	-	-	-	-	-	-	-	-	-
Reorigination costs	-	-	-	5,852	-	6,025	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	88,411	21,523	19,962	21,615	31,389	94,487	28,929	29,436	30,522	29,848	118,735	30,000	30,000	30,000	30,000	120,000
<b>Operating Income</b>	<b>(53,873)</b>	<b>(11,226)</b>	<b>(9,428)</b>	<b>(9,421)</b>	<b>(10,122)</b>	<b>(40,195)</b>	<b>(4,671)</b>	<b>(2,192)</b>	<b>(1,853)</b>	<b>408</b>	<b>(8,308)</b>	<b>(1,545)</b>	<b>(390)</b>	<b>870</b>	<b>2,130</b>	<b>1,065</b>
<b>Operating Margin</b>	<b>-41.2%</b>	<b>-32.5%</b>	<b>-30.3%</b>	<b>-26.8%</b>	<b>-8.3%</b>	<b>-18.1%</b>	<b>-3.7%</b>	<b>-1.6%</b>	<b>-1.4%</b>	<b>0.3%</b>	<b>-1.6%</b>	<b>-1.1%</b>	<b>-0.3%</b>	<b>0.6%</b>	<b>1.4%</b>	<b>0.2%</b>
Total Other Items	23,375	(1,583)	(2,881)	6,564	(5,454)	(3,354)	(5,994)	(4,093)	(4,827)	(14,161)	(29,075)	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
<b>Pre-Tax Income</b>	<b>(30,498)</b>	<b>(12,809)</b>	<b>(12,309)</b>	<b>(2,857)</b>	<b>(15,576)</b>	<b>(43,549)</b>	<b>(10,665)</b>	<b>(6,285)</b>	<b>(6,680)</b>	<b>(13,753)</b>	<b>(37,383)</b>	<b>(6,545)</b>	<b>(5,390)</b>	<b>(4,130)</b>	<b>(2,870)</b>	<b>(18,935)</b>
<b>Pre-Tax Margin</b>	<b>-23.3%</b>	<b>-37.1%</b>	<b>-39.6%</b>	<b>-8.1%</b>	<b>-12.8%</b>	<b>-19.6%</b>	<b>-8.5%</b>	<b>-4.6%</b>	<b>-5.0%</b>	<b>-10.3%</b>	<b>-7.1%</b>	<b>-4.8%</b>	<b>-3.8%</b>	<b>-2.8%</b>	<b>-1.9%</b>	<b>-3.3%</b>
Taxes (benefit)	7,560	186	98	470	(427)	327	31	364	(860)	(1,844)	(2,309)	327	270	207	144	947
Tax Rate	-24.8%	-1.5%	-0.8%	-16.4%	2.7%	-0.8%	-0.3%	-5.8%	12.9%	13.4%	6.2%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
<b>Net income from continuing ops</b>	<b>(38,057)</b>	<b>(12,994)</b>	<b>(12,406)</b>	<b>(3,327)</b>	<b>(15,149)</b>	<b>(43,876)</b>	<b>(10,696)</b>	<b>(6,649)</b>	<b>(5,820)</b>	<b>(11,909)</b>	<b>(35,074)</b>	<b>(6,872)</b>	<b>(5,660)</b>	<b>(4,337)</b>	<b>(3,014)</b>	<b>(19,882)</b>
Net income from disc. ops.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net income</b>	<b>(38,057)</b>	<b>(12,994)</b>	<b>(12,406)</b>	<b>(3,327)</b>	<b>(15,149)</b>	<b>(43,876)</b>	<b>(10,696)</b>	<b>(6,649)</b>	<b>(5,820)</b>	<b>(11,909)</b>	<b>(35,074)</b>	<b>(6,872)</b>	<b>(5,660)</b>	<b>(4,337)</b>	<b>(3,014)</b>	<b>(19,882)</b>
<b>Net Margin</b>	<b>-29.1%</b>	<b>-37.7%</b>	<b>-39.9%</b>	<b>-9.5%</b>	<b>-12.4%</b>	<b>-19.7%</b>	<b>-8.6%</b>	<b>-4.9%</b>	<b>-4.3%</b>	<b>-8.9%</b>	<b>-6.6%</b>	<b>-5.1%</b>	<b>-4.0%</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>-3.4%</b>
Adjusted EPS	(0.87)	(0.22)	(0.13)	(0.05)	(0.09)	(0.49)	(0.08)	(0.01)	(0.02)	(0.04)	(0.15)	(0.06)	(0.04)	(0.02)	(0.00)	(0.12)
<b>Total GAAP EPS</b>	<b>(0.67)</b>	<b>(0.23)</b>	<b>(0.22)</b>	<b>(0.06)</b>	<b>(0.25)</b>	<b>(0.75)</b>	<b>(0.17)</b>	<b>(0.11)</b>	<b>(0.09)</b>	<b>(0.19)</b>	<b>(0.56)</b>	<b>(0.11)</b>	<b>(0.09)</b>	<b>(0.07)</b>	<b>(0.05)</b>	<b>(0.31)</b>
Diluted Shares Outstanding	56,898	56,678	57,204	57,791	61,619	58,364	62,445	62,763	63,854	63,805	63,134	64,000	64,000	64,000	64,000	64,000

Source: Company reports and Litchfield Hills Research LLC

Figure 5 – Lesaka Technologies, Inc. – Balance Sheet (\$000)

June ending year	FY2024E	FY2023A	FY2022A	FY2021A	FY2020A
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	\$52,293	\$58,632	\$104,800	\$223,765	\$118,506
Accounts receivable	28,000	25,665	28,898	26,583	12,975
Inventories	29,000	27,337	34,226	22,361	9,787
Other assets	55,000	52,002	49,808	21,608	22,781
<b>Total Current Assets</b>	<b>164,293</b>	<b>163,636</b>	<b>217,732</b>	<b>294,317</b>	<b>164,049</b>
Net PP&E	28,000	27,447	24,599	7,492	9,762
Other non-current assets	95,000	95,811	94,875	97,011	30,761
<b>Total Assets</b>	<b>\$527,293</b>	<b>\$542,234</b>	<b>\$656,565</b>	<b>\$428,330</b>	<b>\$204,572</b>
Current Liabilities					
Accounts and other payables	\$52,000	\$48,677	\$55,074	\$34,957	\$4,952
Short term borrowings	37,000	35,709	73,022	14,245	5,223
Other current liabilities	15,000	17,526	17,774	3,288	32,818
<b>Total current liabilities</b>	<b>104,000</b>	<b>101,912</b>	<b>145,870</b>	<b>52,490</b>	<b>42,993</b>
Long-term debt net of current	125,000	129,455	134,842	0	3,700
Other non-current	57,000	51,960	61,504	14,881	2,837
<b>Total Liabilities</b>	<b>286,000</b>	<b>283,327</b>	<b>342,216</b>	<b>67,371</b>	<b>49,530</b>
<b>Redeemable common stock</b>	<b>79,429</b>	<b>79,429</b>	<b>79,429</b>	<b>84,979</b>	<b>21,500</b>
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	161,864	179,478	234,920	275,980	133,542
<b>Total Liabilities and equity</b>	<b>\$527,293</b>	<b>\$542,234</b>	<b>\$656,565</b>	<b>\$428,330</b>	<b>\$204,572</b>

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Lesaka Technologies, Inc. – Cash Flow (\$000)

	2024E	2023A	2022A	2021A
Net Income	(\$19,882)	(\$35,074)	(\$43,876)	(\$38,057)
Accounts receivable	(2,335)	3,233	(2,315)	(13,608)
Inventories	(1,663)	6,889	(11,865)	(12,574)
Other assets	(2,998)	(2,194)	(28,200)	1,173
Net PP&E	(553)	(2,848)	(17,107)	2,270
Goodwill and intangibles	15,340	64,019	(289,849)	(29,510)
Other non-current	811	(936)	2,136	(66,250)
Accounts and other payables	3,323	(6,397)	20,117	30,005
Short term borrowings	(2,046)	(34,172)	51,973	11,206
Current portion LTD	3,337	(3,141)	6,804	(2,184)
Other current liabilities	(2,526)	(248)	14,486	(29,530)
Long-term debt net of current	(4,455)	(5,387)	134,842	(3,700)
Other non-current	5,040	(9,544)	46,623	12,044
Redeemable common stock	0	0	(5,550)	63,479
Common stock	0	0	3	80
Capital in excess of par	304	7,805	25,932	152,816
Accumulated other comp. income	726	(26,886)	(23,119)	(145,721)
Treasury stock and note	1,238	(1,287)	0	(281,223)
Dividend/Financing/Adj. Other	0	0	0	5,948
Total Cash Flow	(\$6,339)	(\$46,168)	(\$118,965)	(\$343,336)

Source: Litchfield Hills Research LLC

#### Disclosures:

##### Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

##### FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA, and the report has been reviewed by a Supervisory Analyst.

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##### Litchfield Hills Research LLC Rating System

**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

##### Other Disclosures

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