

Action Summary – 12 May 2023

Analyst Theodore R. O'Neill **Mixed quarter F3Q23 – Reiterate buy and \$8 price target**

- **Mixed results in the quarter.** The Company reported F3Q23 revenue and adjusted EPS loss of \$134MM and \$0.02, respectively. Consensus estimates were for revenue and an EPS loss of \$144.7MM and \$0.02, respectively for a shortfall of sales but a match on EPS. The shortfall in sales relative to consensus was primarily in the Merchant segment, however, we would caution investors that this is only the fourth quarter there have been Merchant sales from the Connect Group acquisition, we don't yet understand if there may be a seasonal component, and lastly, on a rolling basis, Merchant revenue is rising.
- **Small change to estimates.** To match FY23 guidance, we are lowering our F4Q23 revenue to \$134MM from \$141MM. We have added additional expenses to SG&A to account for an increase in headcount. Therefore, adjusted FY23 EPS goes to a loss of \$0.19 from a loss of \$0.13. For FY24, no change to revenue, but additional SG&A expense takes adjusted EPS to a loss of \$0.11 from a loss of \$0.05.
- **Attractive Valuation.** Based on our discounted future earnings model, the value of all future earnings is \$8/share. The shares are trading at a 42% - 88% discount to peers. LSAK stock not only sells at a discount to peer averages, but it also trades near the bottom of all metrics despite having a 2024E EBITDA growth rate 150% of its peer average. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

5/11 Closing price: \$3.26 USD	Market cap: \$209 million	Multiple of book: 1.0x	EV/2024 Sales: 0.70
Diluted shares outstanding: 64 million	Insider ownership: 34%	3-mo avg. daily trading volume: <20,000	Dividend 2023 /Yield: NA/NA

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	(\$0.09)	\$121.8	
FY22A	(\$0.49)	\$222.6	(19.7%)
1Q23A	(\$0.08)	\$124.8	
2Q23A	(\$0.01)	\$136.1	
3Q23A	(\$0.02)	\$134.0	
4Q23E	(\$0.08)	\$132.0	
FY23E	(\$0.19)	\$526.8	(5.9%)
1Q24E	(\$0.04)	\$142.0	
2Q24E	(\$0.03)	\$144.0	
3Q24E	(\$0.02)	\$146.0	
4Q24E	(\$0.02)	\$147.0	
FY24E	(\$0.11)	\$579.0	(3.3%)

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
• 2023E	• \$51.9
• 2024E	• \$18.6

LT Borrowings (in USD millions)

• 2021A	• \$0.0
• 2022A	• \$134.8
• 2023E	• \$130.0
• 2024E	• \$125.0

Adjusted EBITDA (in USD millions)

source: FactSet.

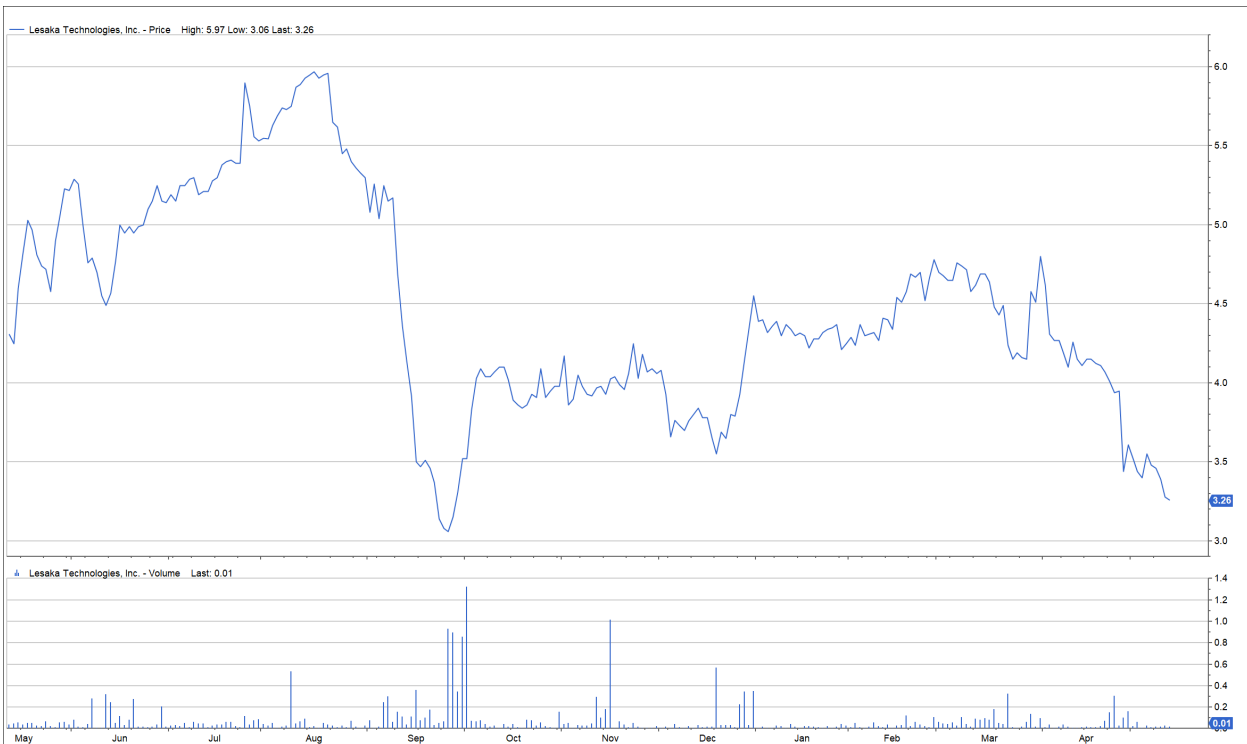
• 2021A	• (\$42.9)
• 2022A	• (\$18.6)
• 2023E	• \$28.8
• 2024E	• \$39.2

Risks/Valuation

- Risks: competitive marketplace, highly 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

Quarterly Results

As shown in Figure 2 (below), the Company reported F3Q23 revenue and adjusted EPS loss of \$134MM and \$0.02, respectively. Consensus estimates were for revenue and an EPS loss of \$144.7MM and \$0.02, respectively for a shortfall of sales but a match on EPS. The shortfall in sales relative to consensus was primarily in the Merchant segment, however, we would caution investors that this is only the fourth quarter there have been Merchant sales from the Connect Group acquisition, we don't yet understand if there may be a seasonal component, and lastly, on a rolling basis, Merchant revenue is rising. On a GAAP basis, there was no EPS consensus, however, we forecast a loss of \$0.06, and the company reported a loss of \$0.09. The \$0.03 unfavorable variance to our estimates was due to lower sales and higher expenses, partially offset by higher margins and a small tax credit.

Figure 2 – Lesaka Technologies, Inc. – Quarterly Variance Analysis (\$'000)

	FY23 Q3E	FY23 Q3A	Better (Worse) than estimates
Income Statement			
Consumer	16,000	15,876	(124)
Merchant	123,000	118,092	(4,908)
Other	0	0	0
Corp./eliminations	0	0	0
Total Revenue	139,000	133,968	(5,032)
Total cost of products sold	109,810	105,299	4,511
Total Gross Profit	29,190	28,669	(521)
GP%	21.0%	21.4%	
Operating expenses:			
SG&A	22,000	24,547	(2,547)
Depreciation and amortization	6,000	5,975	25
Transaction costs	0	0	0
Reorgination costs	0	0	0
Total Expenses	28,000	30,522	(2,522)
Earnings (loss) from Operations	1,190	(1,853)	(3,043)
Total Other income/(expense)	(5,000)	(4,827)	173
Earnings before taxes	(3,810)	(6,680)	(2,870)
Tax expense/(benefit)	191	(860)	1,051
Net income from continuing ops	(4,001)	(5,820)	(1,820)
Net income from disc. ops.			0
Net income	(\$4,001)	(\$5,820)	(\$1,820)
EPS from disc. Ops.			
Total GAAP EPS	(\$0.06)	(\$0.09)	(\$0.03)
Adjusted EPS	(\$0.02)	(\$0.02)	(\$0.00)
Diluted common shares	63,000	63,854	854

Source: Litchfield Hills Research LLC and Company filings

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 3 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 \$7.52, which we round to \$8.00.

Figure 3 – Lesaka Technologies, Inc. – Price Target Calculation

Discounted future earnings: \$7.52		
YEAR	EPS	Discounted EPS
2024	(\$0.30)	(\$0.30)
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 4 is a summary of our LSAK peer comparison. The shares are trading at a 42% to 88% 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 a 2024E EBITDA growth rate of nearly 150% of the average. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 4 – 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	\$57.53	31,311	35,145	17,848	1.75	1.38	17.50	33%
377300-KR	kakaopay Corp.	\$43.02	5,766	4,191	396	14.55	7.13	68.27	NMF
STNE-US	StoneCo Ltd. Class A	\$13.40	3,768	4,354	807	4.67	1.69	3.34	11%
NETW-GB	Network International Holdings Plc	\$4.73	2,521	2,678			4.71	10.95	21%
EVTC-US	EVERTEC, Inc.	\$34.59	2,251	2,499	604	3.73	3.79	8.87	7%
PAGS-US	PagSeguro Digital Ltd. Class A	\$11.65	2,374	3,561	2,796	0.85	1.52	6.73	22%
MQ-US	Marqeta, Inc. Class A	\$4.23	2,046	964	769	2.66	0.96		
PAYO-US	Payoneer Global Inc.	\$4.73	1,701	1,381	656	2.59	1.32	7.32	16%
FWRY-EG	Fawry For Banking Technology And Electronic Pay	\$0.19	629	471	100	6.27	3.47	10.16	38%
IIIV-US	i3 Verticals, Inc. Class A	\$22.59	522	1,235	332	1.57	2.52	9.00	13%
HPS-MA	Hightech Payment Systems SA	\$598.95	421	404	120	3.50	2.95	13.74	17%
PAY-GB	PayPoint plc	\$5.43	394	422			1.77	3.94	11%
PRTH-US	Priority Technology Holdings, Inc.	\$3.66	289	1,101	631	0.46	1.31	5.85	16%
PAY-CA	Payfare, Inc.	\$5.03	240	101	100	2.41	0.27	1.78	
BLU-ZA	Blue Label Telecoms Limited	\$0.22	197	232					
CCRD-US	CoreCard Corporation	\$23.37	199	172	58	3.43	2.36	6.81	61%
0021-MY	GHL Systems Bhd.	\$0.17	200	168	89	2.25	1.49	9.06	10%
PAYS-US	PaySign, Inc. Class B	\$3.36	176	99	38	4.59	1.61	9.56	36%
ML-US	MoneyLion Inc Class A	\$13.53	119	1,326	351	0.34	0.80	13.30	NMF
	Average					3.48	2.28	12.13	22%
LSAK-US	Lesaka Technologies, Inc.	\$2.99	202	316	497	0.41	0.70	6.98	36%
	LSAK shares trading at a (discount)/premium to peers:					-88%	-69%	-42%	62%

Source: Litchfield Hills Research LLC and FactSet

According to Statista, assets under management (AUM) and average AUM per user in the fintech industry of South Africa are predicted to grow positively in the upcoming years. All the above factors indicate a compelling opportunity for Lesaka to showcase and implement its full-fledged portfolio of fintech services and attract additional consumers and merchants.

Financial Projections and Guidance

Our projections assume Lesaka makes steady progress toward profitability and becomes profitable at the operating income line sometime in fiscal 1H 2024. There are three or more possible routes to achieving profitability and our forecast assumes it will come with increased revenue, but it also could be achieved through higher gross profit margins or improved operational efficiency or a combination of all three. Our model holds margins flat, assumes an increase in revenue and some operational improvement. Margin improvement would be incremental to our model.

In addition to its core operating business, the company has some investments in non-core assets that it may seek to monetize. If successful, these core assets could bring sufficient cash to pay down the bulk of its long-term debt. We have made no assumptions about any disposition, but were that to happen, it would provide an upside to our estimates.

Guidance

It expects the following for the year ending June 2023:

- Revenue between ZAR 8.7 billion and ZAR 9.3 billion.



Lesaka Technologies, Inc.

LSAK-US/LSK-ZA - Buy \$8 PT

- Merchant Segment Adjusted EBITDA between ZAR 580MM – ZAR 595MM, up from ZAR 550MM -ZAR 565MM.
- Consumer Segment Adjusted EBITDA between ZAR 65MM – ZAR 80MM, down from ZAR 95MM - ZAR 110MM.
- Normalized Group costs expected to be between ZAR 165MM - ZAR 150MM.
- Adjusted EBITDA between ZAR 480MM - ZAR 525MM.

Figure 5 – Lesaka Technologies, Inc. – Income Statement (\$000 except per share)

June ending year	2021A Year	2022A				2022A Year	2023E				2023E Year	2024E				2024E Year
		Q1A	Q2A	Q3A	Q4A		Q1A	Q2A	Q3A	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$130,786	\$34,504	\$31,114	\$35,202	\$121,789	\$222,609	\$124,786	\$136,068	\$133,968	\$132,000	\$526,822	\$142,000	\$144,000	\$146,000	\$147,000	\$579,000
<i>Growth</i>	162%	-2%	-4%	22%	253%	70%	262%	337%	281%	8%	137%	14%	6%	9%	11%	10%
Cost of Goods	96,248	24,207	20,580	23,008	100,522	168,317	100,528	108,824	105,299	104,280	418,931	112,180	113,760	115,340	116,130	457,410
Gross Profit	34,538	10,297	10,534	12,194	21,267	54,292	24,258	27,244	28,669	27,720	107,891	29,820	30,240	30,660	30,870	121,590
Gross Margin	26.4%	29.8%	33.9%	34.6%	17.5%	24.4%	19.4%	20.0%	21.4%	21.0%	20.5%	21.0%	21.0%	21.0%	21.0%	21.0%
SG&A	\$84,063	\$20,442	\$17,746	\$15,184	\$21,663	\$74,993	\$22,931	\$23,517	\$24,547	\$24,500	\$95,495	\$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%	18.6%	18.1%	16.9%	16.7%	16.4%	16.3%	16.6%
Depreciation and amortization	4,347	895	726	463	5,491	7,575	5,998	5,919	5,975	6,000	23,892	6,000	6,000	6,000	6,000	24,000
Transaction costs	-	185	1,489	116	4,235	5,894	-	-	-	-	-	-	-	-	-	-
Reorgination 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	30,500	119,387	30,000	30,000	30,000	30,000	120,000
Operating Income	(53,873)	(11,226)	(9,428)	(9,421)	(10,122)	(40,195)	(4,671)	(2,192)	(1,853)	(2,780)	(11,496)	(180)	240	660	870	1,590
Operating Margin	-41.2%	-32.5%	-30.3%	-26.8%	-8.3%	-18.1%	-3.7%	-1.6%	-1.4%	-2.1%	-2.2%	-0.1%	0.2%	0.5%	0.6%	0.3%
Total Other Items	23,375	(1,583)	(2,881)	6,564	(5,454)	(3,354)	(5,994)	(4,093)	(4,827)	(5,000)	(19,914)	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Pre-Tax Income	(30,498)	(12,809)	(12,309)	(2,857)	(15,576)	(43,549)	(10,665)	(6,285)	(6,680)	(7,780)	(31,410)	(5,180)	(4,760)	(4,340)	(4,130)	(18,410)
Pre-Tax Margin	-23.3%	-37.1%	-39.6%	-8.1%	-12.8%	-19.6%	-8.5%	-4.6%	-5.0%	-5.9%	-6.0%	-3.6%	-3.3%	-3.0%	-2.8%	-3.2%
Taxes (benefit)	7,560	186	98	470	(427)	327	31	364	(860)	389	(76)	259	238	217	207	921
Tax Rate	-24.8%	-1.5%	-0.8%	-16.4%	2.7%	-0.8%	-0.3%	-5.8%	12.9%	-5.0%	0.2%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Net income from continuing ops	(38,057)	(12,994)	(12,406)	(3,327)	(15,149)	(43,876)	(10,696)	(6,649)	(5,820)	(8,169)	(31,334)	(5,439)	(4,998)	(4,557)	(4,337)	(19,331)
Net income from disc. ops.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income	(38,057)	(12,994)	(12,406)	(3,327)	(15,149)	(43,876)	(10,696)	(6,649)	(5,820)	(8,169)	(31,334)	(5,439)	(4,998)	(4,557)	(4,337)	(19,331)
Net Margin	-29.1%	-37.7%	-39.9%	-9.5%	-12.4%	-19.7%	-8.6%	-4.9%	-4.3%	-6.2%	-5.9%	-3.8%	-3.5%	-3.1%	-3.0%	-3.3%
Adjusted EPS	(0.87)	(0.22)	(0.13)	(0.05)	(0.09)	(0.49)	(0.08)	(0.01)	(0.02)	(0.08)	(0.19)	(0.04)	(0.03)	(0.02)	(0.02)	(0.11)
Total GAAP EPS	(0.67)	(0.23)	(0.22)	(0.06)	(0.25)	(0.75)	(0.17)	(0.11)	(0.09)	(0.13)	(0.50)	(0.08)	(0.08)	(0.07)	(0.07)	(0.30)
Diluted Shares Outstanding	56,898	56,678	57,204	57,791	61,619	58,364	62,445	62,763	63,854	64,000	63,266	64,000	64,000	64,000	64,000	64,000

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Lesaka Technologies, Inc. – Balance Sheet (\$000)

June ending year	FY2024E	FY2023E	FY2022A	FY2021A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$18,585	\$51,915	\$104,800	\$223,765
Accounts receivable	38,000	35,000	28,898	26,583
Inventories	37,000	36,000	34,226	22,361
Other assets	60,000	60,000	49,808	21,608
Total Current Assets	153,585	182,915	217,732	294,317
Net PP&E	30,000	28,000	24,599	7,492
Other non-current assets	90,000	90,000	94,875	97,011
Total Assets	\$571,585	\$607,915	\$656,565	\$428,330
Current Liabilities				
Accounts and other payables	\$62,000	\$59,000	\$55,074	\$34,957
Short term borrowings	73,000	73,000	73,022	14,245
Other current liabilities	10,000	10,000	17,774	3,288
Total current liabilities	145,000	142,000	145,870	52,490
Long-term debt net of current	125,000	130,000	134,842	0
Other non-current	57,000	57,000	61,504	14,881
Total Liabilities	327,000	329,000	342,216	67,371
Redeemable common stock	79,429	79,429	79,429	84,979
Stockholders' Equity				
Preferred stock				
Total stockholders' equity	165,156	199,486	234,920	275,980
Total Liabilities and equity	\$571,585	\$607,915	\$656,565	\$428,330

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Lesaka Technologies, Inc. – Cash Flow (\$000)

	2024E	2023E	2022A
Net Income	(\$19,331)	(\$31,334)	(\$43,876)
Accounts receivable	(3,000)	(6,102)	(2,315)
Inventories	(1,000)	(1,774)	(11,865)
Other assets	0	(10,192)	(28,200)
Net PP&E	(2,000)	(3,401)	(17,107)
Goodwill and intangibles	9,000	12,359	(289,849)
Other non-current	0	4,875	2,136
Accounts and other payables	3,000	3,926	20,117
Short term borrowings	0	(218)	51,973
Current portion LTD	0	196	6,804
Other current liabilities	0	(7,774)	14,486
Long-term debt net of current	(5,000)	(4,842)	134,842
Other non-current	0	(4,504)	46,623
Redeemable common stock	0	0	(5,550)
Common stock	0	0	3
Capital in excess of par	0	7,109	25,932
Accumulated other comp. income	(15,000)	(11,160)	(23,119)
Treasury stock and note	0	(49)	0
Dividend/Financing/Adj. Other			
Total Cash Flow	(\$33,331)	(\$52,885)	(\$118,965)

Source: Litchfield Hills Research LLC

Disclosures:

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