

Discovery Group

Earnings Preview: Connect to Deliver Consistent Growth and Results as Consumer Stabilizes and Recovers; Maintain Buy, \$8 PT

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STOCK DATA				
Market Cap (mil)				\$234.2
52-Week Range				\$3.02–\$5.39
3-Month ADTV				30,122
Shares Outstanding (mil)				61.6
Float (%)				67.0
Short Interest				136,662
Beta				1.56
Enterprise Val. (mil)				\$234.0
Fiscal Year-End				June
FINANCIAL DATA				
Rev. (mil) Operating	2022A	2023E	2024E	
1Q	\$34.5	\$124.8A	\$131.2	
2Q	\$31.1	\$136.0A	\$138.7	
3Q	\$35.2	\$133.9A	\$145.8	
4Q	\$121.8	\$128.8	\$152.3	
FY	\$222.6	\$523.7	\$567.9	
EBITDA (mil)	2022A	2023E	2024E	
1Q	\$(10.6)	\$4.2A	\$8.7	
2Q	\$(7.6)	\$7.4A	\$9.2	
3Q	\$(7.9)	\$7.6A	\$9.8	
4Q	\$(2.6)	\$8.4	\$10.4	
FY	\$(28.7)	\$27.7	\$38.2	
Quarterly numbers may not sum to Annual due to rounding				
BALANCE SHEET DATA				
Cash & Equivalents				4Q22 \$49.4
Total Liabilities				\$147.0
Total Stockholder Equity				\$200.9
\$ in millions except for per share data.				

Summary and Recommendation

Buy-rated Lesaka Technologies, Inc. (LSAK; \$8 PT) will report its 4Q23/FY23 (Jun) earnings results on Tuesday, 9/12 AMC, with a conference call on 9/13 at 8 a.m. ET, and is expected to deliver consistent results and be in line with revs/adj. EBITDA of \$128.8M/\$8.4M. It should mark LSAK's full year of overall EBITDA-positive quarters and the third time the legacy Consumer Group becomes adj. EBITDA positive—the beleaguered legacy Consumer segment has become growing and profitable after more than two years of restructuring, realignment, and cost cuts. Lesaka continues to expand its TAM by acquiring Connect Group, a sizable new addition serving medium and small-scale businesses in South Africa. Connect's strong revenue and profit growth and its strong business traction in the last five years should continue, we believe. For 3Q, Connect had kept its strong pace in the quarter with \$118M in revs, up 500%+ Y/Y, and \$8.3M in segment EBITDA. Management expects the strong Merchant group results to continue, driven by underlying trends of financial inclusion, cash management, and digitization. Management's actions to revamp the legacy Consumer group, change infrastructure, improve sales performance along with integrating Connect into its fold have taken hold. We expect LSAK to have met its FY23E guidance, revs of ZAR8.7B—ZAR9.3B (our estimate of ZAR9.2B or \$523.7M), ZAR480M—ZAR525M (our estimate of ZAR490M or \$27.7M) in annual EBITDA. With Consumer at positive EBITDA and Merchant to keep up its robust growth, we expect Consumer to generate \$4.1M in segment EBITDA and Merchant to generate ~\$33M in segment EBITDA for FY23E. Expected overall EBITDA of ~\$28M in FY23E, LSAK has come a long way from its FY22 \$28.6M loss. We believe Lesaka's turnaround and growth remain on track with an ability to gain more accounts, improve revs, and show continued profitability given a reduced cost structure. With a current valuation of ~0.5x FY24E EV/revenue (and ~8x EV/EBITDA), Lesaka's story is changing from an unprofitable, in-turnaround-mode company to one that is profitable, larger, and growing both consumers and merchants with good EBITDA growth. We reiterate a Buy with \$8 PT, based on ~1x rev.

Key Points

- **Consumer segment profitable and growing.** Legacy Consumer Group has been cutting costs and lowering operating losses to inch closer to profitability, which it achieved in 2Q. It has been leading a strong marketing push in local markets, brand-building with various stakeholders, and hiring new salesforce personnel, up-skilling them to cross-sell products, which has boosted efforts to positive new account growth experienced in the last several quarters. Going forward, Consumer group performance will likely be helped mostly by revenue growth rather than cost cuts. EasyPay accounts ended 3Q at 1.3M, up 16% Y/Y. EasyPay loans issued in 3Q of R397M were up 11% Y/Y. EasyPay insurance has penetrated a greater 28% of the active permanent client base, as ARPU in 3Q grew from ZAR70 to ZAR78 Y/Y. Management insists the large opportunity to gain significant new EasyPay Everywhere (EPE) accounts with permanent grants/SASSA money in them is still viable as it improves its brand and relationships in South Africa.
- **Connect Group should continue to shine with strong growth rates & profits.** Connect, the Merchant group, has kept its strong pace of growth in quarters past, with 3Q coming in at \$118.1M in revs, up 540% Y/Y, and \$8.3M in segment EBITDA, up from \$1.3M in 2Q22. Connect Group is a leading high-growth and profitable SA fintech platform that services 52k + formal and informal merchants with revenues growing at 30% CAGR for the last 3 years. Serving micro, small, and medium-sized (MSME) merchants with cash management, payment solutions, bill payment, payment acceptance, and merchant lending solutions, Lesaka has increased its total addressable market (TAM) 3x to \$11B by acquiring Connect. For the

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last quarter, Connect's Kazang (POS and cards to sell prepaid products and services on) throughput was up 40% Y/Y, with merchant credit up 71% Y/Y. For FY23E, we expect the Merchant group to continue its strong growth with \$462.7M in revs and ~\$33M in segment EBITDA, though we expect these estimates for Connect may prove to be conservative.

- **Low valuation.** Lesaka currently trades at an EV of \$266M, less than what it paid for its acquisition of Connect. Connect wasn't an expensive acquisition either—0.7x revs and 10x EBITDA, considering that Connect has been profitable and growing robustly, even more so, since it was acquired. But the legacy group that was losing money and customers for a while is now growing and profitable! The legacy group is now for free—noteworthy given its potential to add significantly to its existing customer base over the next few years. Lesaka trades at 0.5x FY24E revs and ~8x EBITDA, while its comps around the world trade at an average of ~3x revs, though its growth and profitability are comparable to the group. Our \$8 PT assumes a 1x revs/14x EBITDA multiple.