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Lesaka Technologies, Inc. (UEPS)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Dara Dierks
Managing Director, ICR LLC

Hello, everyone, and welcome to the Lesaka Fiscal Fourth Quarter and Year-End 2022 Earnings Webcast and Conference Call. As a reminder to everyone, the webcast is being recorded and the presentation can be accessed through the webcast link, as well as dialing 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 webcast, you will be able to see the management team and the presentation live, and you can ask your questions live by raising your hand in Zoom. For those joining via 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, the company filed its Form 10-K after the US market close on Friday, September 9, 2022, which is also available on our IR site.

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

Also, we will discuss our results in South African rand, which is non-GAAP. We analyze our results of operations in our press release in rand to assist investors understanding the underlying trends in our business. As you know, the company's results can be significantly affected by currency fluctuations between the US dollar and the South African rand.

I would now like to turn it over to Chris Meyer, Group CEO.

Christopher Guy Butt Meyer

Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thank you, Dara. Good morning, good afternoon, and welcome to our fourth quarter and fiscal year-end 2022 earnings webcast and conference call.

Taking a quick look at today's agenda, I will start with a brief business overview and will also share a few performance highlights for our fiscal year 2022. Steve will provide an update on our merchant business and the integration of the Connect Group. Lincoln will focus on the ongoing progress we've made in transforming our Consumer business. And Naeem will present the audited consolidated performance of the group for the 12 months ended June 30, 2022, and the three months for the quarter ended June 30, 2022. I will then conclude the results presentation with a few thoughts on the outlook for Lesaka before we open up for Q&A, where we would obviously welcome any questions you may have.

So, as I reflect on our overall performance over the past four quarters, I want to recognize and thank each and every person in the Lesaka family who has remained laser focused on executing the key strategic priorities that we are committed to as a collective.

We have moved a long way over the past 12 months and the changes have been profound. They've been bold, sometimes difficult, but undoubtedly transformational as we've laid the foundation for establishing a leading fintech focused on providing innovative digital solutions to merchants and consumers in Southern Africa.

So as Lesaka, our core purpose is to improve people's lives by bringing financial inclusion to South Africa's underserved consumers, by helping small businesses access the financial services they need to prosper. And we achieve this through our ability to efficiently digitize the last mile of financial inclusion and by providing a full-service fintech platform across cash and digital serving the needs of both, while also facilitating the secular shift to digital that is currently taking place.

So there are real challenges to delivering financial inclusion and digitization in South Africa. And some of this is a product of our history and is manifested in a deep distrust in and a lack of understanding of cash alternatives.

And this is driven by low levels of financial literacy in our country, and adding to this challenge of the relatively high connectivity cost in South Africa around airtime and data, which are expensive and prized commodities, as well as smartphone penetration, which remains relatively low, where many South Africans still use older style feature phones.

So taken together, this all means that although over 80% of South Africans may have a bank account, many treat them as post boxes withdrawing their money in one transaction, and this is a real implication for both merchants and consumers.

On the merchant side, less than 8% of merchants have access to formal credit, and less than 4% of informal merchants can accept digital payments. And for consumers, approximately 20% of South African consumers in LSM 1 to 6, which are lower income groups, have access to credit and savings. And around 90% of the approximately 12 million permanent grant recipients require immediate cash withdrawal of their grant.

So these sources of friction and challenges present a significant market opportunity for Lesaka to provide innovative solutions to both merchants and consumers and, more importantly, to facilitate wider financial inclusion and digitization.

So, our dual-sided financial ecosystem has two overlapping segments, merchants and consumers. In our Merchant business, we serve over 50,000 micro and small businesses with an offering that covers cash digitization, card acquiring, working capital, value-added services or VAS, bill payment and supplier payments.

And in our merchant enterprise business, we operate one of the largest non-bank financial switches in the country, and we provide bill payment solutions via most of the large retailers across the country. And we also distribute and service POS devices, and we manufacture and distribute SIM cards.

And in our Consumer business, where the focus is on the lower income groups in South Africa, many of whom, as I said, rely on social grants, we serve just over 1 million customers, just over 1.1 million customers; and with an offering that covers banking, credit, and insurance.

And it is important to recognize that many of our merchants and consumers operate in the same space, which gives us the opportunity to create a mutually reinforcing business model that incentivizes and rewards both the merchants and the consumers for interacting in our dual-sided financial ecosystem.

So, the Lesaka platform serves micro and small merchants together with consumers who typically shop in these stores. And it is within this context that we think about our target addressable market, our TAM.

So, first on the Merchant side, we divide the TAM into the informal and the formal sector. The informal sector is a large and highly cash-driven economy. We estimate there to be over 1.4 million informal merchants in our target market, which is largely unpenetrated by the traditional banks. And although we have a leading proposition, our 45,000, informal merchants represent less than 4% market share, which presents a significant and ongoing growth opportunity for Lesaka.

In the formal merchant space, we estimate around 700,000 merchants to be in our target market and we currently serve over 6,500 merchants mainly by having one of our smart vaults in the store or a card acceptance of us in the business.

The formal market is more competitive, but our leading cash digitization offering, which essentially places the bank in the merchant store means we are highly embedded in their business and as a result, are very well placed to grow our offering through innovating and solving pain points, such as with our merchant offering, Capital Connect.

On the Consumer side, the TAM is 26 million people in the low LSMs 1 to 6, which really represents the lower income groups in our country. And within that, we estimate, as I said, there to be approximately 12 million people reliant on permanent grants.

And so, our strategy is to build our ecosystem wherever our customers are located, and this often means in the townships and the rural areas of South Africa, creating points of presence that are convenient and accessible. And as such, Lesaka has over 58,500 touchpoints with our consumer and merchant customers in the form of branches, retailer pay points, ATMs, satellite kiosks, and merchant devices.

So, in setting our vision for Lesaka, we looked across the globe at companies such as Block, PagSeguro, and [ph] Fari (00:09:24), and we observed that despite South Africa displaying many of the same characteristics as countries such as Brazil and Egypt, there is no dual-sided financial ecosystem for merchants and consumers akin to the likes of a PagSeguro or a [ph] Fari (00:09:38).

And so today, with the combination of two complementary fintech platforms, we have created a unique dual-sided ecosystem in Southern Africa powered by our proprietary technology and coupled with proprietary data and insights. Our platform focus on cash and digitization, as I said, serving the needs of both, but at the same time facilitating the secular shift to digital that is taking place.

And in essence, Lesaka is a self-reinforcing business model, whereby the ecosystem creates the conditions for us to continuously spot our customer pain points and to address their challenges by designing innovative products and solutions, which in turn allows us to deepen our customer relationships, incentivize and reward loyalty, and ultimately create a flywheel effect in terms of growing our ecosystem and generating improved returns for our business and for our customers' business.

So, a recent example of innovation and strategic distribution is the pilot we are running to enable our Kazang merchants to take deposits and process withdrawals for our consumer customers. And this should mean that our consumer can walk into a Kazang store and withdraw their grant at the merchant's till, their pay point, which is highly convenient for the consumer and has obvious benefits for the merchant in terms of increased spend in store.

So turning to the synergies we expect to capture from creating our unique dual-sided ecosystem. As I've explained, both the Merchant and the Consumer businesses have large addressable markets and significant growth opportunities in their own right. However, taken together, we also have the opportunity to develop the self-reinforcing ecosystem I've spoken about. And this creates synergies and further opportunities to accelerate growth and to expand the Lesaka's value proposition.

It's important to remind everyone that the Connect acquisition is about bringing together two complementary and mutually reinforcing businesses This is a growth story, more so than a cost optimization opportunity.

Connect fills the gaps in our MSME offering and completes the end-to-end financial ecosystem I've been describing. And as such, our Merchant and Consumer businesses should both scale and grow in their target markets, while at the same time benefit from the synergies and opportunities created by this dual-sided ecosystem.

And we have taken a number of important synergistic steps already. For example, by merging EasyPay and Kazang under a single leadership team, which has already started to deliver positive results, one of which is the launch of our EasyPay Money Market, which is in pilot stage to become a VAS offering in the formal market, similar to Kazang in the informal market. And separately, we are also piloting cash deposit and withdrawal functionality with our Kazang merchants, as I previously mentioned.

And in addition, we are combining our cash vault and ATM businesses, creating a complete cash solution proposition for key merchants. And we believe this will create exciting synergies as we look to develop our merchant partnership model on the consumer side of the business.

So, turning to the Consumer business, we have reinvented our distribution model with a focus on building in-store partnerships with merchants, both the national and independent players, which brings our consumer proposition to where our customers want to be, and it also drives footfall into the merchant stores. So our mindset is to shift from traditional bricks and mortar towards in-store kiosks wherever possible.

So, turning to our group financial and operational highlights for fiscal year 2022 and the fourth quarter. We have successfully executed on our objectives for the year, which is demonstrated by the closing of the Connect acquisition and the progress made on the Consumer turnaround.

We reported total revenue of $223 million for the year, which increased from $131 million in the prior year. This is driven by the inclusion of the Connect Group for part of the fourth quarter, which was from April 14, 2022 to June 30, 2022. And the Connect Group added $86 million to the group's revenue, while at the same time existing merchant business grew revenues by 13%.

Group segment adjusted EBITDA improved significantly, reducing from a $32 million loss in 2021 to a $5 million loss this year. And on a quarterly basis, we reported a segment adjusted EBITDA profit of $6 million for Q4 compared to a $7 million loss in Q4 of FY 2021. This evidences the substantial progress in our turnaround strategy.

So, segment adjusted Merchant EBITDA for FY 2022 was significantly improved to an $11 million profit, which is underpinned by the growth in our existing merchant business and the contribution made by Connect.

And segment adjusted Consumer EBITDA improved to a reduced loss of $16 million for the year, positively impacted by cost optimization through a rightsizing of the operations via Project Spring, which we've spoken about previously.

And Project Spring has delivered cost savings in excess of our original guidance, with $13.7 million, or ZAR 208 million, realized in the financial year to June 30, 2022. This translates to approximately $19.7 million, or over ZAR 300 million, in savings on an annualized basis.

Our active EasyPay Everywhere account numbers grew 11% during the year, ending with just over 1.1 million active accounts. And we have invested in our sales and distribution network in terms of people, systems, and overall proposition.

And as such, we anticipate seeing continued growth in new contact [indiscernible] (00:16:03) and cross-selling benefits in the new financial year. It is important to note that FY 2022 includes the Connect Group from 14 April 2022, and thus does not reflect a full quarter of performance.

And with that, I'd like to turn over to Steve to provide an update on the Merchant business, as well as progress made on the integration of the Connect Group. Thank you.

Steven J. Heilbron

Chief Executive Officer-Connect Group & Director, Lesaka Technologies, Inc.

Thank you, Chris. As highlighted in our Q3 and Connect Group presentations recently, where we described our products in detail, Lesaka today has a comprehensive offering to SME merchants in South Africa, and now has a distinct dual-sided ecosystem driving financial inclusion and serving both merchants and consumers. We also have assets and technology in the enterprise space, which we are leveraging for growth across the Merchant segment.

Now the Connect Group was an obvious, attractive, and transformative acquisition for Lesaka due to the alignment of vision and the complementary product and customer sets. It also is a business unit that has managed to achieve significant growth and penetration in a fast growing and underserviced sector. We are incredibly pleased that the business has continued to grow in line with expectations and in sync with historical achievements.

The initial integration work between the pre-existing merchant business and Connect has been extremely encouraging, and we expect synergies to exceed the expectations that we had going into the acquisition. There are some exciting developments that we are working on, which will positively impact customer acquisition and operational efficiencies, as well as improve value for our merchants.

In our VAS and bill payments business, we have managed to grow our devices in the field to over 51,000 at year-end, representing a 36% year-on-year increase. Our vault business, which effectively puts the bank in the merchant store, has grown by 13% this year to approximately 4,100 sites.

Historically, we've been placing our vaults into formal SME merchant stores, but we are now also penetrating the informal sector under the Kazang Connect Vault brand. This has provided significant operational and risk benefits for our Kazang informal merchant customer base.

In our card acquiring business, we saw excellent growth rates during the year as we extended our offering into the informal market. The majority of our Kazang VAS and bill payment devices are card acquiring enabled. These devices need to be activated through an onboarding process with the merchants. So the 51,000 devices that we have in the field has presented us with a significant growth opportunity.

Actual card-enabled POS devices increased by over 100% this year to 22,600 at year-end. Our innovative offering providing merchants quick access to working capital continued to grow and showed good growth, where we dispersed over $40 million during the year, which is an increase of 49% year-on-year. We continue to anticipate strong growth in this arena.

As evident from the above figures, the Merchant business has delivered strong growth over the past year and with all the fundamentals remaining intact, we expect this performance to continue through FY 2023.

Emphasizing the point already made, the Connect acquisition was an essential building block in expanding and transforming Lesaka's merchant offering to what it is today. It has served the purpose of introducing new products, services, and customers establishing Lesaka as a leading player in South Africa's merchant sector.

We are excited about the opportunities this acquisition presents as it paves the way to scale and effectively deliver on Lesaka's vision of being a key consolidator and driver of financial inclusion through a dual-sided fintech platform.

It's important to note that going forward, merchant will be presented as one integrated business. It's just for this quarter that we are showing separately the revenue drivers of the pre-existing merchant business, and then updating you on how Connect performed since we last reported to you on it based on the auditor results to Feb 2022.

If we now turn to slide 15, you can see that the pre-existing merchant business delivered strong revenue growth in the fourth quarter of 2022. This slide consolidates the performance of Lesaka's Merchant business post the acquisition of Connect.

I would like to point out that these financials for Q4 2022 only reflect 2.5 months from the 14th of April 2022 to 30 June 2022 of revenue, costs ,and profits relating to Connect's consolidated with a full quarter of revenue, costs, and profits from the pre-existing merchant business.

For Q4 2022, the pre-existing merchant business reported total revenue of $19.5 million, growing 35% on a constant currency basis to ZAR 304 million compared to Q4 2021. I will explain the revenue drivers for the pre-existing business in more detail on the slide that follows. Connect contributed $86.2 million in revenue in the fourth quarter, bringing the total revenue for Q4 to $105.7 million, significantly higher than the fourth quarter of 2021.

Similarly, segment adjusted EBITDA for the Merchant business was ZAR 114 million with EBITDA from the pre-existing merchant business for Q4 increasing from ZAR 4 million in Q4 2021 to ZAR 24 million in Q4 2022 and Connect contributing ZAR 90 million for the 2.5 months that Connect was consolidated into the group results for Q4.

As mentioned, the pre-existing merchant business grew revenue by 35% on a constant currency basis in Q4 2022 compared to Q4 2021. This growth was primarily driven by key product areas, particularly the increase in our point-of-sale devices sold and terminals rented.

In our EasyPay business, we saw an increase in VAS value processed with prepaid electricity growth of 9% and prepaid airtime significantly growing at greater than 100%. Our bill payment business volumes increased by 13%.

The Connect Group presented to the market on the 1st of November 2021 and again on the 7th of July 2022, and you can refer to the Lesaka Investor Relations website for these presentations. Prior to the acquisition, Connect had a 28th Feb year-end and its performance was presented up to the 28th of February 2022. In this Connect presentation, we demonstrated the strong revenue performance based on a five-year compounded annual growth rate of 39% and a five-year compounded EBITDA growth of 41%.

This slide provides an update on Connect's performance since we last reported on its audited results to the market. This business continues to present a strong growth trajectory supported by a stellar historical performance. The cash conversion rate is strong and the business remains well-positioned for growth.

Throughput is one of the fundamental measures of how this business is performing and supports ongoing growth. We have set out the year-on-year comparative cumulative throughput of Connect's offerings for the four-month period from March 2022 to the end of June 2022. Over this period, Kazang's cumulative transactional throughput grew 29% to ZAR 7.5 billion. This continued momentum demonstrates the value that we bring to our informal merchants through our offering.

We saw robust growth in our cash settlements, which grew 14% to ZAR 35.5 billion. Our card cumulative transactional throughput had exceptional growth of 116% to ZAR 2.6 billion. This is due to further traction in penetrating the informal market through Kazang Pay, and we believe there still to be very strong growth potential in this product.

Finally, our Capital Connect solution continues to see demand with the loan capital that we advanced growing by 41% to ZAR 223 million in the four months ended June 2022. Similarly, the loan book size grew 54% to ZAR 229 million.

In conclusion then, the results reported for the Merchant business for the fourth quarter of 2022 are indicative of a great growth trajectory. We are excited about the growth prospects of our Merchant business, of which Connect is the foundation and has a proven and profitable business model and track record.

The integration process of Connect and the pre-existing merchant business has been very encouraging, with tangible results already being achieved. We now have a differentiated merchant offering that is well positioned for growth, unlocking the value for all stakeholders. This, coupled with synergistic opportunities via Lesaka's dual-sided ecosystem already outlined by Chris earlier in his presentation, further accelerates Lesaka's growth potential.

I'd like now to hand over to Lincoln, CEO of Southern Africa, to discuss the consumer business.

Lincoln Mali

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

Thank you, Steve, and good day, everyone. Moving on to our Consumer segment, the fourth quarter and indeed the last 12 months have been a very busy time for everyone, and we continue to make great progress on several fronts.

On the Consumer side, we currently provide transactional banking, short-term loans, and a digital wallet, as well as insurance and value-added services to underserved consumers in South Africa, aligning with our purpose of improving people's lives and increasing financial inclusion.

We currently have a customer base of 1.14 million active EPE accounts and approximately 200,000 policyholders of our SmartLife insurance product, which has a significantly high cash collection rate of 98%. And this has remained consistent quarter-after-quarter.

Our loan book size as at the end of June 30, 2022, was $21 million with a loss ratio of less than 4%. Our loan loss rate and our high cash collection rate in insurance emphasizes our compelling value proposition in offering fit-for-purpose solutions to millions of consumers desperately needing financial services.

Given our passion for financial inclusion, we realized that in order to design products and services that meet the needs of our customers, it is very important to gain a deeper understanding of our customers, their spending and saving trends, why they choose us and why they leave us.

It's been a year of learnings, positioning and testing to really understand our customers. Our refined value proposition is affordable and compelling, as indicated before. What inspired by what we've learned and what encouraged that market research that we conducted in this regard has solidified our understanding of this market.

Practically, we have focused our efforts into understanding what our consumers are looking for, what's the best channel to engage them, and what are the competitors offering, and where we can disrupt the space by designing the right innovative products that truly meet their needs.

Utilizing the knowledge we've gained on these customers, and the investments we've made and continue to make into improved data analytics capabilities, we've developed effective marketing campaigns and incentives to drive customer growth.

We've also streamlined our onboarding processes, including tech-enabled mobile sign-ups. These efforts are beginning to yield expected results. We made great progress towards implementing our revised consumer strategy focused on product and efficient distribution channels. I continue to be encouraged by the continued progress being made in the turnaround of our Consumer business.

We achieved significant cost savings whilst growing our active account base and maintaining transaction volumes and revenues.

We saw good momentum in the rate of new account openings, resulting in 11.4% increase in total EPE consumer accounts for fiscal year 2022, driven by performance-driven sales initiatives and our refined customer-centric focus mentioned earlier.

We achieved approximately 59,000 EPE account activations in quarter four of 2022 and our churn rate for the fourth quarter of 2022 was well below 5%, evidencing traction in our focused consumer strategy mentioned above.

Churn predominantly relates to the impact of reactivations and deactivations in the SRD grant space. I think it's also important to highlight that we apply a rigorous approach in our measurement criteria for an active account. We only classify an account as active if there was activity on that account during that specific month.

We maintained our ARPU within our target range, reporting a $4.74 for FY 2022, mostly driven by our stable lending book. However, this result was slightly lower than expected, given the impact of onboarding SRD grant recipients, as they do not qualify for our lending product. We remain committed to being a prominent provider in the grant recipient space by developing a value proposition that delivers competitive products and drives higher ARPU.

The last lever in returning the Consumer business to profitability is cost optimization and restructuring the operations of the Consumer business in 2022.

A definite financial highlight for us in the Consumer segment was the progress made in our cost cutting efforts under Project Spring. These initiatives delivered cost savings in excess of original expectations set out at the start of the year, with approximately $19.7 million in costs removed from the Consumer business cost base on an annualized basis, of which $13.7 million was realized in this year ended June 30, 2022.

To provide some color on the cost optimization outcomes achieved in FY 2022, this included rightsizing of our staff complement and encouragingly, this performance optimization is yielding better results and higher productivity.

In optimizing our distribution model, as we transform to a more sales-focused organization, we sold more than 200 vehicles, decommissioned more than 350 ATMs, relocated 56% of our ATMs to retailers being more productive locations, and we closed approximately 30 branches.

This graph on the right shows the impact on the cost saving initiatives over the past 12 months, resulting in a significant contraction in the operating expense line, which includes staff costs in the Consumer segment. And a very encouraging trend in our cost-to-income ratio at 58% in Q4 2022, compared to a greater than 100% in Q4 2021.

While we've achieved a great deal in fiscal year 2022 from refining our value proposition, repositioning our offering to a customer-centric sales culture, I want to remind everyone that we are still early in our transformation journey, and there's still a lot of work to be done.

We have taken more stringent measures to grow our active EPE consumers and now with the right team in place, the right products, and having rightsized the business, we will focus our efforts on reaching breakeven in the Consumer business by the second quarter of this financial year 2023.

I will now hand over to Naeem, our Group CFO, to discuss our financial performance.

Naeem E. Kola

Chief Financial Officer, Treasurer, Secretary & Director, Lesaka Technologies, Inc.

Thank you, Lincoln. As we close out the fiscal 2022 year, I continue to be very pleased with our overall performance and the progress made over the past three quarters and what has been achieved in the fourth quarter or the ongoing positive trends in revenue, cost and EBITDA being reported.

With the close of the Connect Group acquisition on the 14th of April, I'm delighted to be able to provide fully audited consolidated financials for the Lesaka Group that includes Connect performance in the fourth quarter.

We achieved a consolidated group revenue of $222.6 million for the year, $86.2 million related to the revenue from Connect Group brought in for the fourth quarter. Positive turnaround of adjusted EBITDA loss of $20.7 million compared to EBITDA loss for the financial year 2021 of $49.5 million, resulting in a $29 million turnaround.

We released the pro forma Connect Group numbers in June for the period ending 28 February 2022. The consolidated Lesaka Group performance includes 12 months of performance for Lesaka excluding Connect Group, and we have included Connect Group for the full month of May and June and 17 days of April from the 14th of April.

I will now walk you through the details of the combined entity financial performance and provide more detail on the financial contribution of the Connect Group on our business.

The fourth quarter is clearly characterized by strong performance again in our Merchant business, both on the revenue and profitability, and the continued focus on the turnaround of our Consumer segment, consistently showing improvements over the past four quarters.

Total combined revenue for the quarter was $121.8 million. This includes $86.2 million contribution from Connect. We achieved a segment adjusted fourth quarter EBITDA profit of $6.1 million as compared to an EBITDA loss of $6.7 million in the fourth quarter of 2021. And a normalized EBITDA profit of $1.3 million. This performance is evident of the significant performance turnaround the group has achieved through the cost reductions in the Consumer business and the inclusion of the Connect Group performance.

Turning to our business segments, I want to again remind everyone that this segmental disclosure was initiated in our fiscal second quarter. We manage our business from a customer-centric perspective and have split it into a B2C Consumer segment and a B2B Merchant segment. I will start with the Merchant segment, which was the main driver of higher revenue and EBITDA numbers for the quarter.

Merchant business revenue and segment adjusted EBITDA performance change was transformational with the inclusion of Connect Group results. We achieved a revenue of $105.7 million and a segment adjusted EBITDA profit of $7.4 million. This included $86.2 million of revenue and adjusted EBITDA profit of $5.8 million related to the Connect Group.

Consumer business delivered a segment adjusted EBITDA loss of $1.4 million as compared to the EBITDA loss of $6.9 million in the fourth quarter of 2021, mainly coming from a reduction and rightsizing of the consumer cost base. We expect to deliver more than $19 million of cost savings on a full-year basis.

We have included the performance of Lesaka pre-Connect consolidation for reference purposes. The consistent turnaround theme was delivered in the fourth quarter again, achieving a normalized EBITDA loss of $4.5 million compared to an EBITDA loss of $12.1 million in fourth quarter 2021. This is a positive contribution of $7.6 million.

I will now unpack the underlying revenue components and explain the significant revenue contribution of Connect Group on the business. I will provide this for both the Merchant and Consumer business segments as the Connect Group contribution only impacts the Merchant business.

Revenue increased from $34.5 million to $121.8 million when compared to Q4 2021. On a like-for-like basis, revenue increased by 4% to $35.6 million for the quarter. Merchant revenue from external customers was $105.6 million, contributing 87% of the group's revenue. Revenue increased primarily due to the combining of the Connect Group revenue under the Merchant business segment.

Telecom products and services includes all the VAS products and bill collection we do across the group. This increased to $63.4 million, mainly from contribution from the Kazang products. Processing fees increased by $22 million, mainly from the inclusion of the processing fees earned through the Cash Connect business. Interest from customers represents revenue earned from merchant advances.

Turning to the Consumer business, in the revenue line we saw a 14% decrease in revenue. This was due to the rightsizing of our branch and ATM network by closing unprofitable branches and significantly underutilized ATMs. Although revenue decreased, the rightsizing exercise resulted in a better performance from a profitability perspective. The initiative launched and the Project Spring has resulted in a significant rightsizing of our cost base, mainly in the Consumer business segment.

In addition, we continue to look at cost saving initiatives using the vast Connect Group merchant base for our Consumer business. As is very evident on the slide, our OpEx ratio has consistently decreased quarter-on-quarter from 75% to 45%, resulting in real cost saving for fiscal 2022. We achieved ZAR 208 million of cost savings. We indicated expected savings of ZAR 150 million in our Q3 presentation. We are expecting for fiscal 2023, this to be more than ZAR 300 million coming from initiatives already achieved.

At an EBITDA level, the impact of the turnaround is becoming very evident with a consistent improvement in our EBITDA since the fourth quarter of fiscal 2021. As Chris eluded earlier, we achieved a normalized EBITDA adjusted for one-off items of $1.3 million in the fourth quarter. This is an improvement as compared to the normalized EBITDA loss of $3.1 million in the third quarter, evidencing the continued EBITDA positive evolution. This was achieved mainly through the cost initiatives delivered in the Consumer business, higher revenue in the pre-existing merchant business, and contribution from the consolidating the Connect Group in our fourth quarter.

Our operational cash flow utilization has decreased from $63 million in FY 2021 to $26.7 million for FY 2022. From a cash flow perspective, we continue to make improvements with a reduced reliance on our cash reserves to fund operations. This has been achieved through cost reductions and improved revenue.

We have a net debt position at the end of the quarter of $103 million. This includes unrestricted cash reserves of $105 million and a total debt of $208 million. The acquisition debt of $64 million was provided through a short-term bridge facility that falls due in April 2024. We continue to review our capital structure, and working with our bankers and advisors to ensure we achieve an efficient, long-term, sustainable capital structure for our business.

As is the last quarter, we continue to hold our MobiKwik investment at $76 million, in-line with the last capital raise. Our Cell C investment is held at zero and Finbond investment at $5.8 million. These investments remain as noncore.

Overall, I am very pleased with our Q4 achievement and excited at building onto this positive momentum as we continue to focus on rightsizing our consumer cost base and driving revenue across the organization. Our strategic initiatives are progressing well and delivering on a positive performance.

I would now like to hand over back to Chris, who will address the group's outlook.

Christopher Guy Butt Meyer

Chief Executive Officer & Director, Lesaka Technologies, Inc.

Thank you, Naeem. So, looking ahead to FY 2023, our principal focus continues to be growing our merchant and consumer customer base. We've set out the overall market opportunity, emphasizing the degree of under-penetration in our market and the differentiators in our proposition that position us for growth.

Our focus is on execution. And alongside client growth, we will focus on developing the merchant/consumer ecosystem by developing incentives and rewards for our customers for transacting in the ecosystem, and thereby developing the self-reinforcing business model and flywheel effect that I laid out earlier in this presentation.

And thirdly, we will continue to develop new offerings for our clients as we identify and continue to solve for their pain points and needs. And this has been a key element of the Connect growth story and is focused on a culture of continuous innovation, which is based on data insights.

And so, in closing, we wanted to provide some guidance on the near-term performance of the group. We have previously communicated to the market that we would start providing guidance once we had stabilized the Consumer business and fully integrated the Connect acquisition. And we believe that now, we are able to start providing you with high level guidance of what we expect to see in the new financial year.

I mentioned earlier that the group delivered $6 million in segment adjusted EBITDA for the fourth quarter of FY 2022. And we believe that this is a reasonable indicator of the EBITDA run rate that should be achieved in the near term excluding growth, but noting that the Connect Group was included for 2.5 months of Q4 FY 2022, and also noting that in Q4 we saw significant outperformance in our POS sales division.

And as mentioned earlier, the Consumer monthly EBITDA breakeven position is close, and we expect this to occur by the end of Q2 FY 2023. And within that context, Lesaka expects revenue between $130 million and $133 million for the first quarter of fiscal 2023, which is to 30 September 2022, and total segment adjusted EBITDA of between $6.1 million and $6.5 million for this period.

And so, with that, we'd like to turn to the Q&A session to answer your questions. Thank you.

QUESTION AND ANSWER SECTION

Dara Dierks
Managing Director, ICR LLC

A

Thank you. We will now begin our Q&A session. Again for those joining us via the webcast, you can ask your question live by raising your hand in Zoom. First, we will take Raj Sharma from B. Riley. Raj, please unmute yourself and ask your question. Thank you.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Hi. Good morning. I wanted to ask you about just in terms of the guidance, could you clarify the segment EBITDA before corporate – is that before corporate allocations? I think it seems it is. It is hard – is it hard to predict corporate allocations a quarter ahead?

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Thank you for your question. Thanks for being on the call.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

[ph] That's (00:45:56) – yeah.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

I'm going to ask Naeem maybe to respond to that. Have you got any other questions you want to put to us before Naeem respond...

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Yeah.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

...or should we just take...

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Yeah. Sure. Just – and also just the Merchant is doing pretty well. If you can talk a little bit about the contribution going forward to the EBITDA between Consumer and Merchant. That's my next question. And then, I'd like to talk about the purpose behind the shelf that was just filed this morning.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Okay. Thank you. Naeem, if you want to take those first two questions. I'll take the last one here.

Naeem E. Kola
Chief Financial Officer, Treasurer, Secretary & Director, Lesaka Technologies, Inc.

A

Hi, Raj. Thank you for the question. So, Raj, we decided to put out the segment adjusted EBITDA as guidance. I mean, the corporate eliminations is fairly fixed and fairly steady, because those are the costs that we mainly incur as part of the US consolidation and the US listing. So, from a business operations perspective, we felt that the segment adjusted EBITDA is most closely reflects the run rate and really reflects the position of the business from a forecast perspective.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Got it. Thank you. And then, just a little bit of the breakdown between Consumer and Merchant going forward in terms of the EBITDA performance.

Naeem E. Kola
Chief Financial Officer, Treasurer, Secretary & Director, Lesaka Technologies, Inc.

A

Yeah. Look, I think in terms of the forecasted guidance that we've given with regards to the Consumer business, as Chris has highlighted, is that we're getting very close to a breakeven position. I mean, our long-term view on this would be to have a much more balanced contribution between the Consumer and the EBITDA going forward. And I think that would most probably be in the range of between 70% – 70/30. But I think the first goal for us is to deliver on the breakeven, and then build up on that as part of the cost savings and the revenue growth.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.

Q

Yeah. Thank you. And so, just wanted to sort of clarify, the guidance shows higher revenues, but flat EBITDA, given that Connect is going to be three months instead of two and a half. And then, you're also seeing progress in cost cutting on the Consumer group. So, is it fair to assume that the EBITDA guidance seems a little conservative.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

If I could respond to that, and Naeem will probably come in. So, Raj, what we were trying to convey to you is that Q4, the $6.1 million is a reasonable run rate if you adjust for a number of things. We spoke about, yes, the Connect Group is not in there for a full period, so that would be maybe a positive adjustment to that number. But we also spoke about [indiscernible] (00:49:06), which is our POS sales and servicing business, had a very strong quarter, which we wouldn't expect to repeat.

And there are a couple of other smaller things. So, we don't believe that it's overly conservative. We think that's a right – it's the right range to express. And I think if you adjust it on the whole for the – these examples that I've just given, we would have come in slightly below the ZAR 6 million, probably closer to about ZAR 5.8 million. Is that...

Naeem E. Kola
Chief Financial Officer, Treasurer, Secretary & Director, Lesaka Technologies, Inc.

A

Mid-5s.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.
A

Mid-5s. Yeah.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.
Q

Got it. Thank you. And then I wanted to...

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.
A

And then you asked a question about the shelf...

Rajiv Sharma
Analyst, B. Riley Securities, Inc.
Q

Yeah.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.
A

Sorry, the shelf registration. That's just a very, if I can call it, standard renewal of an existing shelf. It's the shelf that's always in place for any potential capital issuance. So, nothing untoward or new or different. It's just – it comes up every – I think it's every three years or so that we have to just renew a pre-existing mechanism for capital issuance.

Rajiv Sharma
Analyst, B. Riley Securities, Inc.
Q

Got it. Thank you for answering my questions. Great clarity on the results.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.
A

Thanks, Raj.

Dara Dierks
Managing Director, ICR LLC
A

Thank you, Raj. Next, we'll take Jarred Houston from All Weather Capital. Jarred, please unmute yourself and ask your question. Thank you. And, Jarred, you just have to unmute yourself.

Jarred Houston
Analyst, All Weather Capital (Pty) Ltd.
Q

Hi, guys. Sorry, I just got a couple of questions with regard to your selling and administration expenses. So, I notice that it was quite high. What percentage of your sales is commission-based for new businesses? And what do you expect the trend to be?

And then on top of the commission based, I'm guessing there's [indiscernible] (00:51:17) that was included in one line item. How do you recognize the commission expense? Is that recognized as a payment cash outflow to [ph] guys (00:51:30) once-off to your sales staff and then you recognize it on the books separately over the contract period? Or am I not understanding something here? I hope that sort of makes sense.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

A

Hi, Jarred. I think – and I'll pass on to Steve just to give a bit more understanding of how the remuneration of the Connect Group is, but largely for the Consumer business there isn't a significant amount of commission. There are incentive targets and performance targets that are in place for the sales staff in terms of delivery and performance management. But a very small percentage is paid as a commission. It's more incentive account, which is a fairly small amount. And these are generally once-off amounts that are paid.

I think broadly speaking, if you're looking at the SG&A or the OpEx ratio that we've showed, the benefit and the saving coming through, as I've highlighted, is really from the rightsizing of our Consumer business and the elimination of the significant amount of cost related to the branch and the ATM network that we are now starting to see the benefits come through, and that's really reducing the costs on that side. Steve, in terms of the Connect remuneration.

Steven J. Heilbron
Chief Executive Officer-Connect Group & Director, Lesaka Technologies, Inc.

A

So again, I think commissions are expensed when a sale is actually made, so they're not deferred. So when a sale is made, the individuals are paid their commissions. And right across all the product sets, the commissions are nowhere near the fixed costs of individuals. Hopefully that answers the question.

Jarred Houston
Analyst, All Weather Capital (Pty) Ltd.

Q

Yeah.

Steven J. Heilbron
Chief Executive Officer-Connect Group & Director, Lesaka Technologies, Inc.

A

Generally, commissions would not make up a very big portion of the reward mechanism.

Jarred Houston
Analyst, All Weather Capital (Pty) Ltd.

Q

So just from understanding then...

Steven J. Heilbron
Chief Executive Officer-Connect Group & Director, Lesaka Technologies, Inc.

A

And again, it would – I had just one last point, it would obviously correlate. So we've had a very strong – if you remember, we showed you a March to June cumulative performance for the business, and clearly you can see if the sales – the sales have ramped quite significantly, and then the correlative commissions for those sales would obviously have gone up proportionately.

Jarred Houston
Analyst, All Weather Capital (Pty) Ltd.

Q

Okay. No, that's fine. I just wanted to understand the [indiscernible] (00:53:55) new businesses, there might be a lot of sales staff and that might be quite high, but, yeah, that helped a lot.

Dara Dierks
Managing Director, ICR LLC

A

And I do not believe we have any more questions in the queue, so I will turn it over to Chris to wrap up.

Christopher Guy Butt Meyer
Chief Executive Officer & Director, Lesaka Technologies, Inc.

Great. Thank you, Daro. Thank you very much. And yeah, just to conclude, I would like to say thank you to everybody for joining us on the call today, and thank you for the questions and thank you for the interest shown in our business.

In many ways, it's been a watershed year for us at Lesaka, a lot of change, but we're very proud of what we've achieved over the last 12 months and we remain entirely committed and focused to building the leading fintech platform in South Africa focused on the underserved consumers and the merchants.

So, thank you once again, and look forward to interact with you all in the near future. Thank you.