



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM058Jun24

In the matter between:

Lesaka Technologies Proprietary Limited

Primary Acquiring Firm

and

Adumo (RF) Proprietary Limited

Primary Target Firm

Panel:	L Mncube (Presiding Member) I Valodia (Tribunal Member) A Ndoni (Tribunal Member)
Heard on:	02 September 2024
Decided on:	02 September 2024
Reasons issued on:	30 September 2024

REASONS FOR DECISION

Approval

1. On 02 September 2024, the Competition Tribunal (“Tribunal”) unconditionally approved the large merger, between Lesaka Technologies Proprietary Limited (“Lesaka”) and Adumo (RF) Proprietary Limited (“Adumo”). Lesaka intends to acquire 100% of the ordinary issued share capital of Adumo. Post merger Lesaka will exercise sole control of Adumo.

Parties and activities

Primary acquiring firm

2. The primary acquiring firm is Lesaka, a private company incorporated in accordance with the laws of South Africa. Lesaka is controlled by Lesaka Technologies Inc. (“Lesaka Tech”). Lesaka Tech is listed on the Nasdaq and Johannesburg Stock Exchange.¹ Lesaka Tech directly and indirectly controls numerous firms in South Africa.
3. All firms, directly and indirectly controlled by Lesaka Tech in South Africa are collectively referred to as the Acquiring Group.
4. The Acquiring Group is active in the provision of payment solutions and related services. The Acquiring Group’s activities are provided through its merchant and consumer divisions.
5. Through the consumer division, the Acquiring Group focuses on providing financial services directly to unbanked customers, through a combination of online and brick-and-mortar distribution platforms. The products and services include transactional banking, short-term loans, digital wallets, cash solutions (through ATM hardware, software, and encryption services) insurance, and value-added services to consumers.
6. Through the merchant division, the Acquiring Group provides financial switching services, value-added services (including bill payments and prepaid electricity and airtime), cash management and payment solutions, unsecured short-term business loans to merchants, point of sale (“PoS”) terminals, mobile PoS (“mPoS”) terminals, online payment systems, card payment services, organization and aggregator services.

¹ Lesaka Technologies Inc. is not controlled by any single shareholder.

Primary target firm

7. The primary target firm is Adumo, a private company incorporated in accordance with the laws of South Africa. Adumo is controlled by Crossfin APIS Transactional Solutions Proprietary Limited (“Crossfin”).
8. Adumo is active in the provision of payment solutions and related products that operate independent payments and merchant-acquiring platforms. Adumo products and services built around merchant acquiring include: embedded payments; payment integrations; reconciliations; funding (merchant advances); customer engagement (loyalty, regards, and gifting) card issuing; program management; and analytics.

Proposed transaction and rationale

Transaction

9. The proposed transaction envisages the acquisition by Lesaka of 100% of the ordinary issued share capital in Adumo from Crossfin. The purchase consideration will be paid to Crossfin by way of a combination of shares in Lesaka Tech and a cash component. Post merger Lesaka will exercise sole control of Adumo.

Rationale

10. In terms of the rationale, the Acquiring Group submits that the proposed transaction will allow it to expand into new markets that it does not currently service and increase its addressable market.
11. In terms of the rationale of Adumo, the proposed transaction will allow cross-selling of products to enhance customer value. The merged entity will gain negotiating power with banks, improving market competitiveness. Crossfin views the proposed transaction as an investment opportunity, enabling it to acquire shares in a listed company with growth potential in Southern Africa. The listed shares will offer flexibility for ongoing investment.

Competition Assessment

12. The Commission considered the activities of the merging parties and found that the proposed transaction results in a horizontal overlap as both the merging parties are active in the provision of payment solutions and services. These services include merchant acquiring services, payment card services and funding value-added services.
13. In addition, the Commission found that the proposed transaction results in a vertical overlap as the Acquiring Group is a supplier of PoS devices. Moreover, Adumo imports PoS devices and supplies these to its customers.

Product market

14. The Commission noted that the provision of payment solutions and services can be categorised into different market segments in line with guidance from various European Commission (“EC”) mergers. In the matter between *Erste Group Bank AG/Global Payments s.r.o* (“*EGB and GP*”)² the EC defined a separate market for merchant acquiring that is distinct from payment card processing. In *EGB and GP*, the EC noted that it had previously defined a distinct market for payment card processing services which is further sub-segmented at acquiring processing and card issuing processing services.
15. In the instant transaction, the merging parties are both active in the provision of payment card services. In particular, the merging parties are active in acquiring processing services.
16. The merging parties provide additional services to merchants using their payment systems, including cash advances. Adumo has an agreement with Retail Capital³ for merchant funding through Adumo's PoS devices, while the Lesaka Group offers short-term financing. Payment card services can be provided to merchants categorised into different tiers, based on transaction volume, which determines service features. Retail banks, the main competitors, also target merchants across

² M.7950 - EGB / GP,

³ Retail Capital is a division of Tyme Bank Limited which provides funding.

all tiers. Due to the absence of competition concerns, the Commission did not conclude whether the relevant market should be segmented further into services provided per merchant category.

17. In light of the above, the Commission did not definitively conclude on the relevant market but assessed the effects of the proposed transaction on the following markets, the –
 - 17.1. Market for the provision of merchant acquiring services;
 - 17.2. Market for the provision of payment card services; and
 - 17.3. Market for the provision of funding value-added services.
18. We did not receive any evidence or submissions suggesting a departure from the above approach and will therefore consider the impact of the merger in line with the above.

Geographic market

19. The Commission did not conclude on the relevant geographic market. However, the Commission noted that the services of the merging parties are available throughout South Africa and thus assessed the effect of the proposed transaction in South Africa.
20. We do not receive any evidence or submission suggesting a departure from the above approach and will therefore consider the impact of the merger in line with the above.

Horizontal issues

21. *In respect of the national market for the provision of merchant acquiring services*, the Commission found that the merchant acquiring market is dominated by the retail banks namely Standard Bank, First National Bank, Capitec, Absa, Mercantile Bank, and Nedbank. Accordingly, the merged entity will continue to face competition from large players such as retail banks. Post-merger, the merged entity will have an estimated market share of less than 15% with an accretion of less than 5%.

22. *In respect of the national market for the provision of payment card services, the Commission found that the merged entity will continue to face competition from market participants such as Standard Bank, Nedbank, Absa, and FNB. Further, the Commission notes that market participants also include non-retail banks such as Yoco and iKhokha. Post-merger, the merged entity will have an estimated market share of less than 5% with an accretion of less than 2%.*
23. *In respect of the national market for the provision of funding value-added services, the Commission found that the merged entity will continue to face competition from market participants such as Nedbank, Capitec, Merchant Capital, and Retail Capital. Post-merger, the merged entity will have an estimated market share of less than 10% with an accretion of less than 3%.*
24. The Commission received concerns from a competitor and a customer of Adumo. The competitor submitted that the proposed transaction would give Lesaka a competitive edge in the merchant acquiring space as they will be able to cross-subsidize products in the same basket. The competitor submitted that the acquisition of Adumo's database will also lower acquisition costs to sell services to its base. While a customer submitted that the proposed transaction would reduce the number of service providers in the marketplace thus increasing prices of the services offered.
25. The Commission considered the concerns raised and found that there are alternative market participants in each relevant market assessed. In addition, the Commission found that pre-merger, both the merging parties already provided merchant acquiring and merchant funding services. Further, pre-merger, neither of the merging parties have market power in either the market for the provision of merchant acquiring services or merchant acquiring services. The Commission found that post-merger, the merged entity will have an estimated market share of less than 15% with an accretion of less than 5%. Accordingly, the Commission found that the merged entity is unlikely to have the market power to engage in an anticompetitive portfolio effects strategy. Lastly, the Commission found that each of the relevant markets is characterised by alternative market participants.

26. Having regard to the above and given the relatively low market shares and alternative market participants, we are satisfied that the proposed transaction is unlikely to give rise to any substantial prevention or lessening of competition in any relevant market.

Vertical issues

27. The Commission assessed the likelihood of the proposed merger resulting in foreclosure concerns. As set out above, the Acquiring Group is a supplier of PoS devices while Adumo imports PoS devices and supplies them to its customers.
28. With regard to input foreclosure, the Commission concluded that the proposed transaction is unlikely to result in any significant input foreclosure concerns as the Acquiring Group will continue to face competition from alternative competitors in the supply of PoS which includes the banks. Further, the Commission notes that the Acquiring Group has an estimated market share of less than 11% in the provision of PoS devices. The estimated market shares are calculated based on the total number of PoS devices in service in South Africa as derived from Statista.
29. Therefore, the Acquiring Group would not have the ability to foreclose access to PoS devices to Adumo's competitors. Adumo's competitors will have access to alternative PoS suppliers such as retail banks, Verifone, Africa Resonance, ACS, and X Link, amongst others.
30. With regard to customer foreclosure, the Commission concluded that the proposed transaction is unlikely to result in any customer foreclosure concerns as Adumo does not procure PoS devices from any suppliers in South Africa. Adumo imports all its PoS devices from an international supplier.
31. Based on the above, we do not consider it likely that the proposed merger would result in any foreclosure concerns.

Conclusion on the competition assessment

32. In light of the above, we do not believe that the proposed transaction will give rise to a likely substantial prevention or lessening of competition in any relevant market.

Public interest

Employment

33. The merging parties submitted that the proposed transaction will not result in any retrenchments and will therefore have no adverse effect on employment.
34. The employee representatives of the merging parties did not raise any concerns.

Promotion of a greater spread of ownership by HDPs and workers in firms in the market

35. Lesaka has 11.96% shareholding held by historically disadvantaged persons (“HDPs”). Adumo has 26.09% of voting rights and 24.63% of economic rights held by HDPs. Thus, the proposed transaction will result in a dilution of ownership by HDPs.
36. Lesaka is in the process of establishing an ESOP wherein employees will participate in a trust that owns a minimum 3% of the shares in Lesaka Tech. The ESOP is the result of a remedy from a previous merger transaction before the Commission and Competition Tribunal.⁴ The employees of Adumo do not participate in any form of ESOP. Therefore, as a result of the proposed transaction, [REDACTED] Adumo employees will qualify to participate in the ESOP once implemented.
37. We concluded that the proposed merger raises no substantial issues regarding a greater spread of ownership.

⁴ NET 1 Applied Technology and Ovobix and Luxiano 227 case no LM121Nov21.

Other public interest considerations

38. The proposed transaction raises no other public interest issues.

Conclusion

39. For the reasons set out above, we are satisfied that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market and does not raise any public interest issues.

40. We, accordingly, approve the proposed transaction without conditions.

Signed by:Liberty Mncube
Signed at:2024-09-30 17:18:04 +02:00
Reason:Witnessing Liberty Mncube

L. Mncube

30 September 2024

Prof. Liberty Mncube

Date

Prof. Imraan Valodia and Ms. Andiswa Ndoni concurring.

Tribunal Case Manager:

Bobedi Seleke

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For the Commission:

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