Novatti

Quarterly update

Appendix 4C

September quarter – FY21

26 October 2020



For personal use only

For personal use only

Novatti is a leading digital banking and payments company.

Through our innovative technology, and a global network, we enable every person to transact from any device, anywhere.

In doing so, we position our customers to thrive as we shift to a digital, cashless society.

PERFORMANCE HIGHLIGHTS

Novatti

For personal use only

$2.3b+
Annualised gross transaction value

$3.56m
Highest ever quarterly revenue

+46%
Increase in quarterly revenue year-on-year

+81%
Increase in quarterly payment processing revenue year-on-year

$11m+
Cash available at end of September quarter



QUARTERLY UPDATE

ASX Announcement

26 October 2020

For personal use only

New record revenue and transaction volumes

Highlights

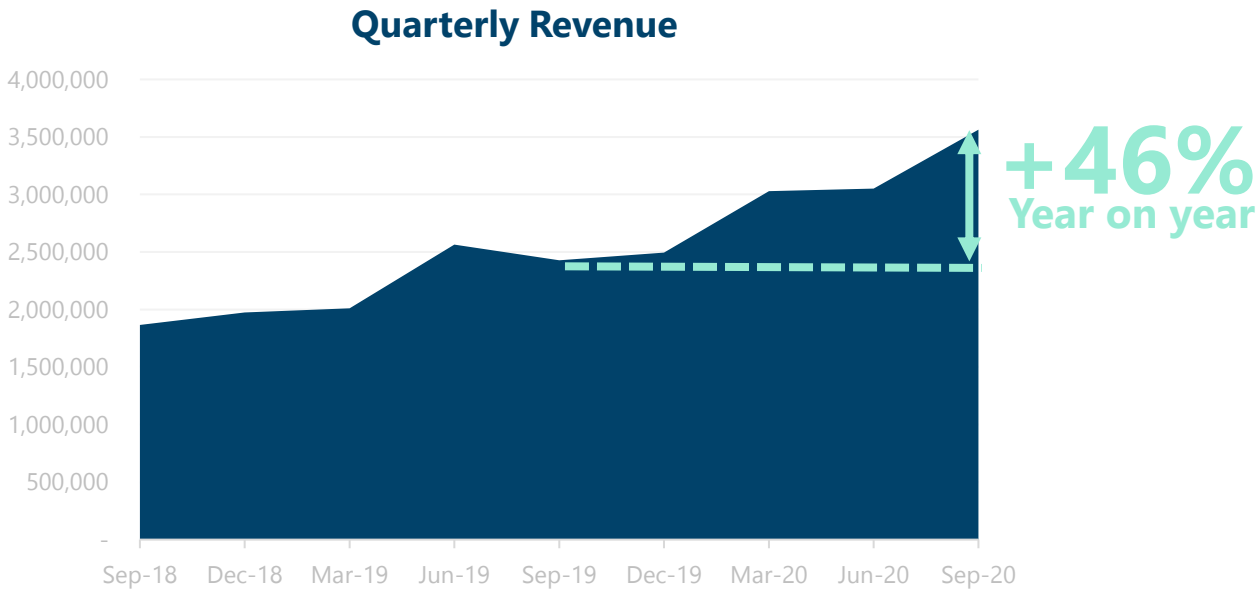
- Annualised gross transaction value hits more than $2.3b, up from $2b
- Cost controls from FY 2020 resulted in positive earnings as normalised EBITDA hits +$101k for the quarter; focus now on investing for growth
- New record quarterly revenue of $3.56m, up more than 16% on previous quarter and 46% year-on-year
- Continuing trend of average annual revenue growth of around 44% across each of the past 3 years
- Major partnerships, including with Visa, driving growth with very strong sales funnel
- High growth strategy rapidly accelerated as cash balance exceeds $11m following capital raising

Novatti Group Limited (ASX:NOV) (**Novatti** or **Company**), a leading digital banking and payments company, is pleased to provide an update on its activities for the September FY21 quarter.

Financial

Revenue

The September quarter saw Novatti achieve its highest-ever quarterly revenue, at $3.56m (unaudited). This represents growth of more than 16% on the $3.05m recorded in the previous quarter, and growth of more than 46% year-on-year.



Novatti Group Ltd
ABN 98 606 556 183

Level 3, 461 Bourke St
Melbourne, Victoria
AUSTRALIA 3000

G.P.O. Box 171
380 Bourke St
Melbourne, Victoria
AUSTRALIA 3001

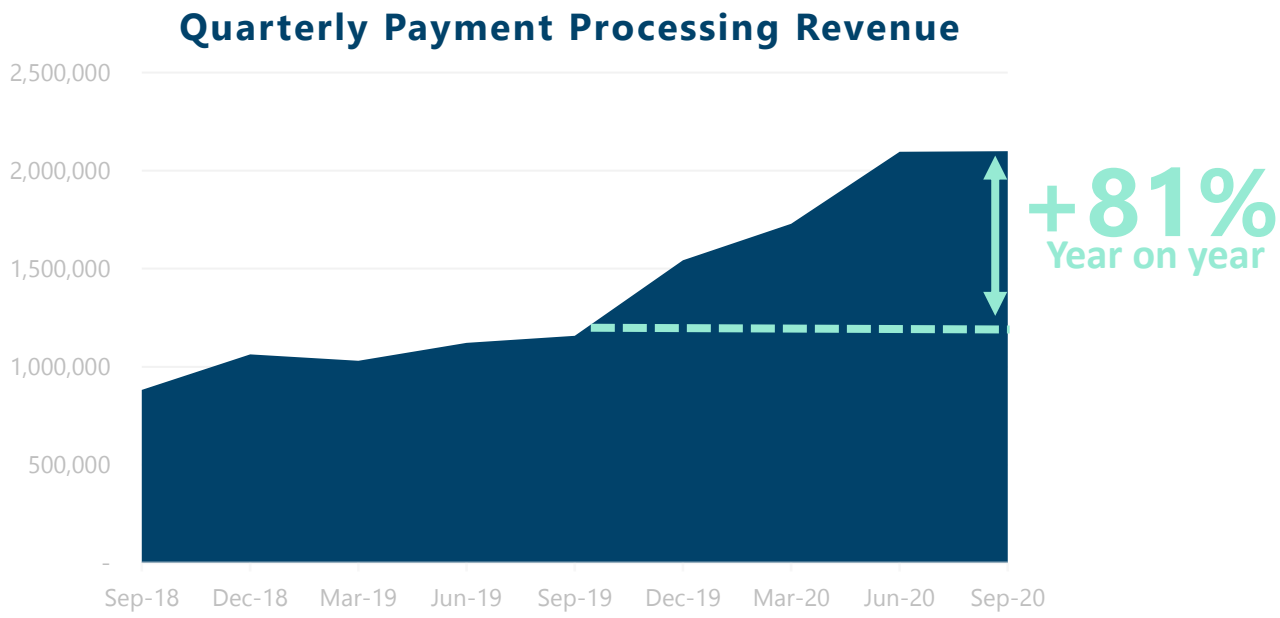
t. +61 3 9011 8490
f. +61 3 8648 0618
www.novattigroup.com

Novatti

Novatti's payment processing business delivered its sixth consecutive quarter of record revenue, at $2.1m (unaudited). This follows Novatti's annualised gross transaction value reaching more than $2.3b, up from $2b.

Despite COVID-19-related border restrictions resulting in a weakness in transaction volumes from Chinese tourists, this has been more than offset by strong growth from new markets. For example, Inovapay, Novatti's international wallet for the Brazilian market, established in the September FY20 quarter, achieved year-on-year revenue growth of more than 620%. Importantly, as COVID-19 restrictions ease, and Novatti's growth initiatives implemented this quarter start to gain traction, this should result in accelerating growth in payment processing in coming quarters.

Overall, Novatti's payment processing business achieved revenue growth of more than 81% year-on-year.



Novatti is seeing particularly strong revenue being generated from its new businesses. The strategic rationale for the recent acquisition of business process automation platform, Emersion, was reaffirmed as it generated revenue of $525k for the September quarter, with more than 75% of this recurring.

The September quarter also saw the release of Novatti's full FY20 financial results. This showed that Novatti has achieved average annual revenue growth of around 50% across each of the past three years, supporting Novatti's objective of delivering long-term, sustainable revenue growth.

Cash flow

At the end of the September quarter, Novatti held more than $11m in cash and cash equivalents. This follows the $10.2m capital raising completed during the quarter, discussed below.

On a normalised basis, Novatti achieved an EBITDA of +$101k for the September quarter, as a result of cost controls implemented during FY20.

For personal use only

Novatti Group Ltd
ABN 98 606 556 183

Level 3, 461 Bourke St
Melbourne, Victoria
AUSTRALIA 3000

G.P.O. Box 171
380 Bourke St
Melbourne, Victoria
AUSTRALIA 3001

t. +61 3 9011 8490
f. +61 3 8648 0618
www.novattigroup.com

Novatti continues to focus on delivering increased processing revenue at a lower cost, with product manufacturing and operating costs as a percentage of receipts from customers improving by nearly 10% on the June quarter, to 61.3%. Novatti will continue to upgrade its processing platforms to increase this efficiency and ultimately deliver higher margins. For example, during the September quarter, Novatti acquired a previously outsourced compliance SAAS platform for around $250k that will improve EBITDA by around $200k each year going forward.

This strict focus on operating costs will help Novatti increasingly direct cashflow towards accelerating its growth strategy. In the September quarter, $1m in net cash was used for these purposes, including:

- An expansion of business development, customer care, project management and compliance functions
- Fast-tracking of international expansion, including:
  - Application fees for new licences
  - Legal fees for international agreements
  - Increased software development
  - Increased pre-paid security funds
- The creation of a Point-of-Sale financing and digital ledger platform to drive high value solutions as an extension of Novatti's Visa issuing platform

Item 6.1 of Appendix 4C provided below includes director fees and salaries paid in the quarter.

Fundraising

In the September quarter, Novatti completed a $10.2m capital raising, announced at the end of the June 2020 quarter.[1] With this raising, Novatti is fully-funded to accelerate its current growth strategy, including by:

- Increasing business development resources
- Acquiring new Visa card issuing programs
- Securing new strategic, global partnerships
- Fast-tracking Novatti's integration into other payment networks

The application of these funds is highlighted below.

[1] Novatti ASX Announcement – *Next growth phase funded with $10.2 million capital raising* – 29 June 2020

For personal use only

Operations

With the $10.2m capital raising complete, Novatti used the September quarter to rapidly accelerate the delivery of its growth strategy.

This capital raising has enabled Novatti to hire new employees, invest in new resources, fast-track new growth opportunities, and capitalise on the strong push to digital services following COVID-19. With Novatti already having the platforms to deliver these services, timing is ideal to continue Novatti's expansion and deliver high-margin, recurring revenues.

Some of Novatti's notable operational achievements during the September quarter included:

- Strengthening the Novatti team, including recruitment of senior industry leaders
- Business process automation platform, Emersion, preparing for global customer acquisition, including being cleared to launch on leading global business applications marketplace, Salesforce AppExchange[2]
- The launch of its Digital Payments Accelerator, providing innovative fintech and financial products with a fast-track to market[3]
- Successfully exiting its investment in new cross-border payments platform, SendFX, with the platform now fully established and self-funded[4]

Strengthening the Novatti team

The recent capital raising has enabled Novatti to rapidly strengthen its team, with 12 new employees joining in the past two months alone, primarily in business development and customer management.

Importantly, this expansion includes new, senior industry leaders, such as Kian Jackson, who was appointed General Manager of Acquiring. Kian was previously General Manager for the SecurePay group, an award-winning payment gateway owned by Australia Post and used by more than 90,000 Australian businesses.

Emersion recruited more than six new employees in sales, customer service and engagement, finance and training. This will particularly assist Emersion in further developing its expanding sales pipeline.

Emersion prepares for global customer acquisition

Since being acquired in April this year, Novatti's business process automation platform, Emersion, has continued to perform strongly, with new customers on-boarded in both Australia and New Zealand and a very strong sales pipeline developed.

For personal use only

[2] Novatti ASX Announcement – *Salesforce clears Emersion for launch on global marketplace* – 4 September 2020
[3] Novatti ASX Announcement – *Digital Payments Accelerator launched to meet increasing market demand* – 29 September 2020
[4] Novatti ASX Announcement – *Further growth funds realised through SendFX investment* – 7 July 2020

During the September quarter, Emersion was cleared by customer relationship management giant, Salesforce, for launch on its global business applications marketplace, Salesforce AppExchange. This endorsement by Salesforce validates the quality of Emersion's products and services and followed the completion of extensive development and security certification. Salesforce adds to Emersion's partnerships and integrations with other leading international software platforms, including Xero and ConnectWise.

This launch puts Emersion on the global stage, providing it with a platform to scale and to be easily accessed by Salesforce's worldwide user base. It will also provide small and medium businesses with access to the sophisticated levels of automation and technology previously reserved for large-scale businesses.

FY21 is expected to be a strong year for Emersion, with plans for further international expansion beyond its existing client base in New Zealand and Singapore. Notably, preparations to launch in the US in Q3 FY21 are well underway, as announced to the ASX after the conclusion of the September quarter.[5]

Launch of new Digital Payments Accelerator

In September, Novatti launched its Digital Payments Accelerator as an extension of its Visa Issuing program.[6]

The Digital Payments Accelerator leverages Novatti's existing technology, extensive regulatory licences and agreements, delivering further value from existing assets. It will meet the needs of:

- Startups and innovators looking to bring their innovative fintech and financial products to market through an affordable, API driven, Visa card payments program
- Established businesses needing access to an affordable, off-the-shelf, Visa payments solution to meet growing market demand for these facilities

Pre-launch demand validated the need for this initiative, with current projects including a network to provide consumer digital wallets along with solutions enabling immediate payment to couriers and to provide controlled welfare payments to people in urgent need of assistance.

This launch capitalises on the recent shift within the banking sector towards providing 'banking as a service' or a 'bank in a box' solution. Novatti's Digital Payments Accelerator will likewise revolutionise the payments sector by providing access to Visa's world-class payments platform, capabilities and card issuing facilities as an affordable service, avoiding significant upfront investment.

Novatti will receive program development fees and ongoing processing fees based on transaction volumes for access to this program. Importantly, card accounts will be pre-funded by customers, alleviating Novatti from this funding obligation and credit risk.

Again, Novatti's $10.2m capital raising played an important role in delivering this new initiative.

[5] Novatti ASX Announcement – *International expansion to continue as Emersion readies for US launch* – 8 October 2020

[6] Novatti ASX Announcement - *Digital-Payments Accelerator launched to meet increasing market demand* – 29 September 2020

For personal use only

Successful exit of SendFX investment

During the September quarter, Novatti successfully exited its investment in SendFX, with $900k in further funds for its growth strategy to be unlocked.[7]

SendFX was launched in 2019 as a new cross-border payments platform, targeting individuals and small businesses. Novatti was a seed investor in SendFX, providing equity and debt funding and technology and compliance services.

This successful exit is an example of Novatti using its strong inhouse expertise to commercialise high-growth ideas.

Update on issuing of restricted banking licence

In August, Novatti was advised by the Australian Prudential Regulation Authority (APRA), the regulator of Australia's banking sector, that it will recommence the issuing of banking licences for new operations, such as Novatti's, from March 2021.[8] This followed APRA advising all licence applicants, including Novatti, that it would be placing a temporary hold on the issuing of new banking licences during COVID-19.[9]

APRA has again advised that Novatti's application will continue to be assessed during this time, minimising any potential delays.

In the meantime, Novatti continues to make great progress in developing its customer and partner base in readiness for launch of this new business.

Board updates

During the September quarter, Novatti advised that Brandon Munro had resigned as a director to focus on his other business interests.[10]

The Novatti Board again thanks Mr Munro for his efforts over recent years and wishes him well with his future endeavours.

For personal use only

[7] Novatti ASX Announcement – *Novatti exits SendFX investment* – 8 July 2020
[8] Novatti ASX Announcement – *APRA to recommence issuing banking licences* – 11 August 2020
[9] Novatti ASX Announcement – *Guidance received on banking licencing processing during COVID-19* – 9 April 2020
[10] Novatti ASX Announcement – *Director Resignation* – 5 August 2020

Outlook

Novatti is focused on delivering ongoing revenue growth, consolidation of its EBITDA, and improved quarterly cashflow. Further, with cash in the bank, Novatti is rapidly accelerating its growth strategy to capitalise on the strong push to digital services following COVID-19.

This shift is gathering substantial support from both business and government. Australia's Prime Minister, Scott Morrison, noted that the Australian Government is 'mandating e-invoicing for government agencies by July 22 and looking at options to mandate the invoicing for business as well.'[11] This followed the Australian Government's recent announcement of an investment of nearly $800m in enabling business to take advantage of digital technologies.[12]

Novatti already has the platforms to deliver in-demand digital services. Coupled with the support of its tier-one partners, including Visa, and further macro-level demand, the timing is ideal to accelerate Novatti's growth and international expansion.

In addition to pursuing new opportunities, Novatti expects its existing businesses to continue to perform strongly across FY21. While strong growth is expected from newer businesses, such as Emersion, Novatti sees its payments processing business continuing to drive long-term sustainable growth.

At the same time, Novatti will continue to upgrade its platforms to increase efficiency, ensuring that future growth is accompanied by higher margins.

Novatti invites investors to keep up to date with company news, events and industry research by joining the Novatti mailing list at: https://www.novattigroup.com/subscribe

For further information, contact:

Peter Cook
Managing Director
Novatti Group Limited
peter.cook@novatti.com
+61 411 111 153

This announcement has been approved for release to the ASX by Peter Cook, Managing Director.

For personal use only

[11] Prime Minister of Australia speech – *The Australian E-Commerce Virtual Summit* – 21 October 2020
[12] Australian Government media release - *Digital business plan to drive Australia's economic recovery* – 6 October 2020

About Novatti Group Limited (ASX:NOV)

Novatti is a leading digital banking and payments company. Its fintech, billing, and business automation platforms make payments fast, simple, and secure. Payments services include card issuing, merchant acquiring, payment processing and settlements, and enable our customers to thrive as we shift to a cashless economy. Novatti holds all necessary regulatory licences, including an Australian Financial Services Licence (No 448066) through its subsidiary Flexewallet Pty Ltd, registration with the New Zealand Companies Office FSP613789 through subsidiary Flexewallet (NZ) Limited, is registered with AUSTRAC as a Remittance Network Provider, and has applied to APRA for a restricted banking licence through its subsidiary Novatti IBA Pty Ltd.

For personal use only

Novatti Group Ltd
ABN 98 606 556 183

Level 3, 461 Bourke St
Melbourne, Victoria
AUSTRALIA 3000

G.P.O. Box 171
380 Bourke St
Melbourne, Victoria
AUSTRALIA 3001

t. +61 3 9011 8490
f. +61 3 8648 0618
www.novattigroup.com

For personal use only

APPENDIX 4C

QUARTERLY CASH FLOW REPORT FOR ENTITIES SUBJECT TO LISTING RULE 4.7B

Name of entity

Novatti Group Limited

ABN	**Quarter ended ("current quarter")**
98 606 556 183	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	7,727	7,727
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(4,740)	(4,740)
	(c) advertising and marketing	(48)	(48)
	(d) leased assets	(78)	(78)
	(e) staff costs	(2,685)	(2,685)
	(f) administration and corporate costs	(734)	(734)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	10	10
1.5	Interest and other costs of finance paid	(46)	(46)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	584	584
1.8	Other	-	-
	- Other Working Capital	(997)	(997)
1.9	**Net cash from / (used in) operating activities**	**(1,007)**	**(1,007)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	(135)	(135)
	(c) property, plant and equipment	(14)	(14)
	(d) investments	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	-	-
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(149)**	**(149)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	10,200	10,200
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(660)	(660)
3.5	Proceeds from borrowings	200	200
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(63)	(63)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**9,677**	**9,677**

For personal use only

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	2,600	2,600
4.2	Net cash from / (used in) operating activities (item 1.9 above)	**(1,007)**	**(1,007)**
4.3	Net cash from / (used in) investing activities (item 2.6 above)	**(149)**	**(149)**
4.4	Net cash from / (used in) financing activities (item 3.10 above)	**9,677**	**9,677**
4.5	Effect of movement in exchange rates on cash held	(67)	(67)
4.6	**Cash and cash equivalents at end of period**	**11,054***	**11,054**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	11,054	2,600
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**11,054**	**2,600**

6.	Payments to related parties of the entity and their associates	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(40)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

For personal use only

7. Financing facilities *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify) – Convertible Note	4,600	4,600
7.4 **Total financing facilities**	**4,600**	**4,600**

7.5 **Unused financing facilities available at quarter end**	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Convertible note facility of $1.1m into Novatti's dedicated banking subsidiary, Novatti B Holding Company Pty Ltd (NBH) for the provision of its working capital by Australian Fintech Investment Group Pty Ltd (AFIG). $1.1m was raised from the issue of one converting note. The documented maturity date is 31 March 2020, and in light of APRA's temporary hold on issuing licences for up to six months (see ASX announcement on 9 April 2020), NBH and AFIG remain in discussions for the extension of the convertible note. The note will convert into NBH shares automatically upon confirmation by the Australian Regulation Authority (APRA) that a Restricted Authorised Deposit-taking Institution (RADI) licence will be raised on terms and conditions acceptable to NBHC, or the new extended date, whichever is the earlier. Converts into 1.1m NBH shares. The note is unsecured and no interest is payable on the note.

Convertible note facility of $3.5m issued to sophisticated investors of Novatti Group Ltd. The funds will be used to continue Novatti's growth in its core payments units. The primary terms are: a) Aggregate funds raised amount to $3.5m from the issue of 3.5m notes, b) Conversion price at lower of 25 cents or the lowest capital raising price prior to maturity c) Convertible at the election of noteholders at any time prior to maturity, 30 July 2021, d) 9% coupon, which may be capitalised at the election of noteholders, e) One free attaching option to be issued for each $1 note with a 25 cent exercise price expiring 30 October 2022 and f) The notes are secured over Novatti's share capital in its wholly-owned subsidiary, Novatti Inc, which owns the basis2 business. $175k of the $3.5m of the Novatti Group Limited convertible notes have been converted to shares.

8. **1.1** Estimated cash available for future operating activities	**$A'000**
8.1 Net cash from / (used in) operating activities (Item 1.9)	**(1,007)**
8.2 Cash and cash equivalents at quarter end (Item 4.6)	**11,054**
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	11,054
8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	**10.97**

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

For personal use only

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 26 October 2020



Authorised by: The Disclosure Committee

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

For personal use only

For personal use only

Novatti Group Ltd
ABN 98 606 556 183

Level 3, 461 Bourke St
Melbourne, Victoria
AUSTRALIA 3000

G.P.O. Box 171
380 Bourke St
Melbourne, Victoria
AUSTRALIA 3001

t. +61 3 9011 8490
f. +61 3 8648 0618
www.novattigroup.com