

ASX Announcement

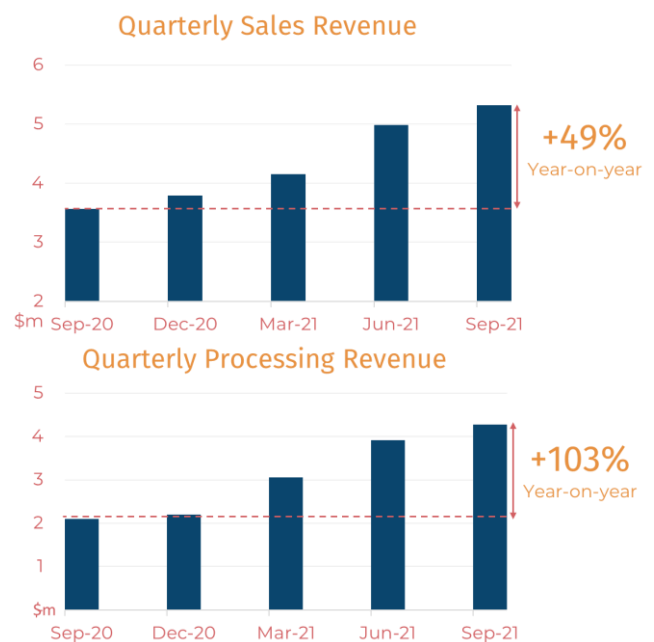
29 October 2021

September Quarter FY22 Activities Report and Appendix 4C¹

Quarterly revenue breaks through \$5m mark in another record result

Highlights

- \$5.3m in quarterly sales revenue – new record and up 49% year-on-year
- Processing revenue up 100%+ year-on-year – marks 10 straight record quarters
- \$19.9m - cash balance at the end of the quarter
- \$40m+ capital raise completed
- Agreed terms for acquisition of leading SE Asian fintech ATX, with further acquisitions being assessed
- Continued international expansion with Verv in the EU and Ripple in South East Asia
- Discussions commenced with Reckon on servicing their customer needs following strategic investment
- \$10.5m committed in Series A funding round for new banking business – working with regulator for final approval
- Acquiring business live and generating revenue



Novatti Group Limited (ASX:NOV) (Novatti or Company), a leading fintech enabling businesses to pay and be paid, is pleased to provide an update on its September FY22 quarter performance.

Commenting on the results, Novatti Managing Director, Peter Cook, said:

“The September quarter saw Novatti take another leap forward on its growth journey. Our existing business operations continue to generate strong growth, with quarterly sales revenue of \$5.3m, up 49% year-on-year and breaking through the \$5m mark for the first time. These results continue to be supported by the strength of Novatti’s processing business, which recorded year-on-year quarterly growth of more than 100%.”

“The completion of Novatti’s \$40m plus capital raising during the September quarter has enabled the launch a new, expanded growth strategy, which we are now delivering on. We have expanded our presence in the EU market with the launch of Verv, providing new payment services. We expanded our partnership with Ripple into Thailand, having launched in the Philippines earlier in the year. We announced the agreement to acquire leading South East Asian fintech, ATX, creating a platform for further expansion in the region. We went live with our new payment acquiring business with revenue being generated, while we also commenced

¹ All figures throughout this document related to the September quarter remain unaudited unless stated otherwise.

integration testing for our Visa and Mastercard acquiring licences. And we've begun discussions with Reckon on servicing the needs of their customers following our strategic investment."

"We also closed a Series A funding round for our new banking business, with \$10.5m committed. This will enable this business to operate under a restricted banking licence."

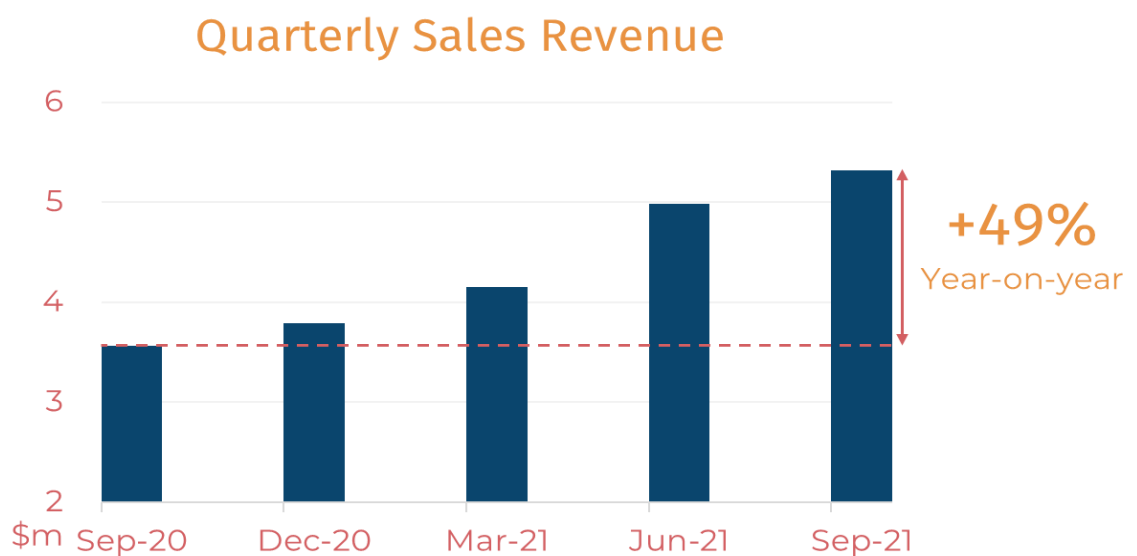
"It's been an incredibly busy quarter but we remain absolutely focused on fulfilling our growth strategy going forward to deliver long-term growth for our shareholders."

Financial performance

Revenue

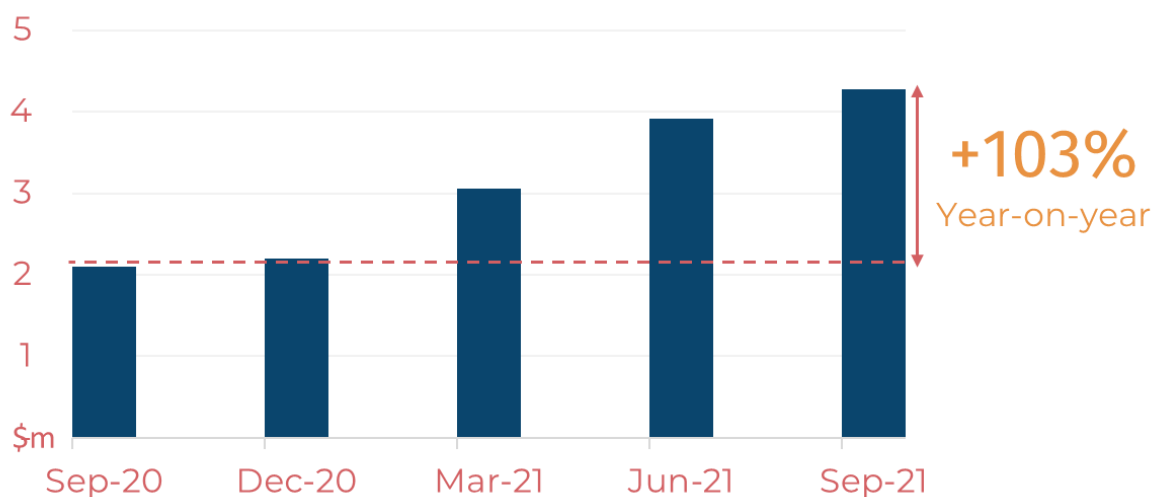
The September FY22 quarter saw Novatti continue to deliver new record results, generating more than \$5.3m in sales revenue.

This result represents growth of 49% year-on-year and more than 6% on the previous quarter.



Novatti's core payment processing business continues to deliver, with its 10th straight quarter of record sales revenue, at more than \$4.2m. This was a 9% increase on the previous quarter and 103% increase year-on-year.

Quarterly Processing Revenue



Cash flow

At the end of the September quarter, Novatti's cash balance was \$19.9m (\$8.8m at 30 June 2021). In the ASX announcement "Acquisition of ATX" on 20 October 2021, this figure was inadvertently referenced as \$18.3m. This was due to cash for float funds provided as support to Novatti's ChinaPayments business unit having been unintentionally omitted at the time of releasing that announcement.

Cash receipts for the quarter increased 47% year-on-year, from \$7.7m to \$11.3m, reflecting the growth in Novatti's business over the same period. Product costs as a percentage of cash receipts increased 12% year-on-year, reflecting additional costs associated with the Issuing and Acquiring businesses.

Staff cost increases reflect our commitment to grow the business by adding further talent to our team, including locally and through Novatti's businesses in Europe and North America. This has seen employee and contractor numbers growing nearly 100% year-on-year, from approximately 65 in the September FY21 quarter, to approximately 128 in the September FY22 quarter. This is reflected in the increase in cash cost from \$2.7m to \$4.6m.

Administration, corporate and other working capital also increased from \$1.7m in the September FY21 quarter to \$2.7m in the September FY22 quarter, also reflecting growth in business operations. This includes ancillary fees of \$458k associated with the Series A raising into Novatti's new banking business and the strategic investment in Reckon Limited.

In accordance with Listing Rule 4.7C, payments made to related parties and their associates are included in item 6.1 of the Appendix 4C incorporates directors' fees, salaries and superannuation.

Novatti

Fundraising

During the September quarter, Novatti completed a \$40m plus capital raising, which comprised the issue of 73,180,015 Novatti fully paid ordinary shares under a placement to highly regarded institutional investors and a Share Purchase Plan offer to existing shareholders.

The funds raised enabled Novatti to launch an expanded growth strategy to:

- Increase its presence in existing markets
- Enter new markets
- Pursue a range of acquisition opportunities
- Purchase a 19.9% strategic stake in Reckon Limited

Novatti has already begun delivering on these objectives, as discussed in greater detail below.

After the completion of the September quarter, Novatti also closed a Series A funding round for its new banking business. This saw \$10.5m committed, provided that regulatory approval for this new business is obtained before the end of February 2022.

Outlook

Novatti continued its strong momentum in the first quarter of FY22, which it aims to maintain going forward by delivering on its expanded growth strategy. Progress made against the key objectives of this new strategy and key targets going forward are discussed below:

Expanding existing and entering new markets

International expansion

During the September quarter, Novatti's partnership with Ripple expanded into Thailand. This partnership is now generating revenue in two new countries - Thailand and the Philippines.

This is another example of how Novatti's ecosystem can be leveraged to enter new markets to generate revenue, a model Novatti will continue to replicate going forward. Discussions between Novatti and Ripple are already underway to launch in additional new markets across South East Asia. Novatti's ability to expand further across South East Asia will be greatly aided by its acquisition of leading South East Asian fintech, ATX, announced after the completion of the September quarter and discussed in more detail below.

In addition, Novatti continues to make great progress in expanding its EU operations having recently launched new payment services in Verv, while its application for an E-Money licence, which would enable Novatti to issue a range of financial products in the EU, continues to be assessed.

Acquiring business live and generating revenue

The September quarter saw Novatti's new payment acquiring business go live in market, with revenue now being generated. This marks yet another example of Novatti successfully moving businesses from development to monetisation.

Novatti's acquiring business enables merchants, particularly those in e-commerce, to accept payment from consumers, including through credit cards, direct debits, and other mechanisms such as Alipay and WeChat Pay.

With this business live, Novatti is focused on further strengthening its capabilities by securing full acquiring licences from both Visa and Mastercard. While merchants can already accept payment from both Visa and Mastercard through Novatti's solution, securing full acquiring licences from both providers would increase Novatti's margins for this business as well as attracting larger payment industry customers. Integration testing is now underway with both Visa and Mastercard.

New banking business

Novatti is now working with Australia's banking regulator to finalise its restricted banking licence.

After the completion of the September quarter, Novatti closed a Series A funding round for this new business in its dedicated banking subsidiary. This saw \$10.5m committed, which enables Novatti to operate under a restricted banking licence while also working towards its longer term goal of securing a full banking licence.

The \$10.5m is committed by investors provided that regulatory approval for this new business is obtained before the end of February 2022.

Novatti also acquired the existing \$2m equity stake held by BC Growth Investments Pty Ltd (**BC Invest**) in its banking subsidiary, which was first announced to the ASX as part of the seed funding round for that subsidiary in May 2021. The acquisition, for \$2m in cash, will result in Novatti increasing its interest in this subsidiary to 70% post the Series A round.

Consumers and investors alike continue to embrace fintech-led innovation and new service offerings in Australia's banking sector. This was most recently highlighted by new SME-focused lender Judo securing interest for a \$650m initial public offering, which would value the company at \$2.3b on listing.²

Acquisition opportunities

The first acquisition flowing from Novatti's expanded growth strategy was announced in ATX, recognised as a top 50 rising startup in South East Asia.³ The agreement to acquire ATX was announced after the completion of the September quarter.

² See <https://www.afr.com/street-talk/judo-bank-locks-in-650m-ipo-at-1-7-times-book-value-20211010-p58yom>

³ Source: Tech In Asia - 50 rising startups in Southeast Asia 2020.

ATX brings with it a large, established payments network, including 31,000 touch points across Malaysia.⁴ The business is well known to Novatti, having been partners since 2015.

In FY21, ATX generated normalised annual revenue of \$3.0m and EBITDA of \$0.6m.⁵ This would have represented an additional 18% annual sales revenue for Novatti in FY21 alone, increasing from \$16.5m to \$19.5m.

The minimum \$8.4m acquisition price, by way of cash and Novatti shares, sees a strong valuation multiple of 2.8x normalised annual revenue.

The acquisition enables Novatti to work with the ATX team to scale the existing business, introduce additional Novatti services, such as billing, and further expand across South East Asia.

Whilst Novatti has progressed its due diligence investigations into the proposal, the acquisition agreement remains conditional upon finalising due diligence and, among other things, ATX obtaining requisite consents and approvals required in connection with acquisition. Completion is expected to occur by the end of November 2021.

In addition, Novatti will continue to assess a number of opportunities as part of its pipeline of potential acquisitions.

Strategic investment in Reckon Limited

During the quarter, Novatti acquired a strategic stake in leading ASX-listed accounting software provider, Reckon Limited. Reckon has annual revenue of more than \$75 million, EBITDA of more than \$32 million, and a rapidly growing pool of more than 100,000, cloud-based customers. Novatti has begun discussions with Reckon on servicing the needs of their customers following this strategic investment.

Ends

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

Novatti Managing Director, Peter Cook, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on **Friday, 29 October 2021, at 11am** (AEST). Investors can register at: <https://www.novatti.com/investor-briefing>

⁴ Data provided by ATX management and subject to final due diligence.

⁵ Normalised Revenue is an estimate of Sales Revenue that best aligns with Novatti's Revenue Recognition policy. Normalised revenue and EBITDA are based on FY21 (July 20 – June 21). AUD\$ conversion based on RM:AUD0.33.



For further information, contact:

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

About Novatti Group Limited (ASX:NOV)

Novatti is a leading fintech that enables businesses to pay and be paid, from any device, anywhere. From corner stores and startups to global organisations, our solutions will unlock your ambitions. Solutions include issuing, acquiring, processing, and billing, while Novatti has also applied to APRA for a restricted banking licence through its subsidiary Novatti IBA Pty Ltd. Novatti holds all necessary regulatory licences and registrations, including an Australian Financial Services Licence (No 448066) through its subsidiary Flexewallet Pty Ltd, registration in New Zealand as a Financial Services Provider (FSP613789) through subsidiary Flexewallet (NZ) Limited, and is registered with AUSTRAC as a Remittance Network Provider.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Novatti Group Limited

ABN

98 606 556 183

Quarter ended ("current quarter")

30 September 2021

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	11,332	11,332
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(7,772)	(7,772)
(c) advertising and marketing	(150)	(150)
(d) leased assets	(65)	(65)
(e) staff costs	(4,587)	(4,587)
(f) administration and corporate costs	(1,661)	(1,661)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	5
1.5 Interest and other costs of finance paid	(151)	(151)
1.6 Income taxes (paid)/refund	(13)	(13)
1.7 Government grants and tax incentives	256	256
1.8 Other – Working Capital	(1,057)	(1,057)
1.9 Net cash from / (used in) operating activities	(3,863)	(3,863)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(66)	(66)
(d) investments	(22,517)	(22,517)
(e) intellectual property	(42)	(42)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other assets (provide detail if required)	-	-
2.6 Net cash from / (used in) investing activities	(22,625)	(22,625)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	40,477	40,477
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	(2,221)	(2,221)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	(524)	(524)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	37,732	37,732

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	8,798	8,798
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,863)	(3,863)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(22,625)	(22,625)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	37,732	37,732
4.5	Effect of movement in exchange rates on cash held	(110)	(110)
4.6	Cash and cash equivalents at end of period	19,932	19,932

5. Reconciliation of cash and cash equivalents		Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
5.1	Bank balances	19,932	8,798
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)	19,932	8,798

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	(39)
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

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify) – Convertible Note

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
320	320
320	320

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.

Finance facilities including Convertible Notes

On 8 November 2019, it was announced that a 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) had been executed. \$1.1m was raised from the issue of one converting note.

On the 9th April 2021 Novatti announced the buy back of the outstanding converting note from AFIG. The buy-back was conducted via an assignment of the converting note from AFIG to the Company, effective immediately, for the \$1.1 million face value of the note. Payment for the assignment will be finalised in the FY22 year and is secured by Novatti's interest in LifePay. No interest is payable except in the case of payment default. During the first quarter of FY 22, a total of \$380k was paid down on the note leaving a balance of \$320k as at 30 September 2021 repayable to AFIG.

Convertible note facilities of \$3.5m issued to sophisticated investors of Novatti was announced on 7 November 2019 and 24 February 2020. The funds were 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 were secured over Novatti's share capital in its wholly-owned subsidiary, Novatti Inc, which owns the basis2 business. On 2 August 2021 the remaining balance of \$97,500 was paid out on the Convertible Note facility from Novatti Group.

As announced on 3 May 2021, BC Investment Group Holdings Ltd had invested \$2m into Novatti's dedicated banking subsidiary, Novatti B Holding Co Pty Ltd, as part of a seed funding round to acquire 19.9% share of Novatti B Holding Co Pty Ltd. As subsequently announced on October 2021, Novatti Group had acquired BC Investment Group Holdings Ltd's \$2m investment in Novatti B Holding Co Pty Ltd.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(3,863)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	19,932
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	19,932
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	5.16

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?

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

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Date: 29 October 2021



Authorised by: The Disclosure Committee

Notes

- 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.
- 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.

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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.
-