

ASX Announcement

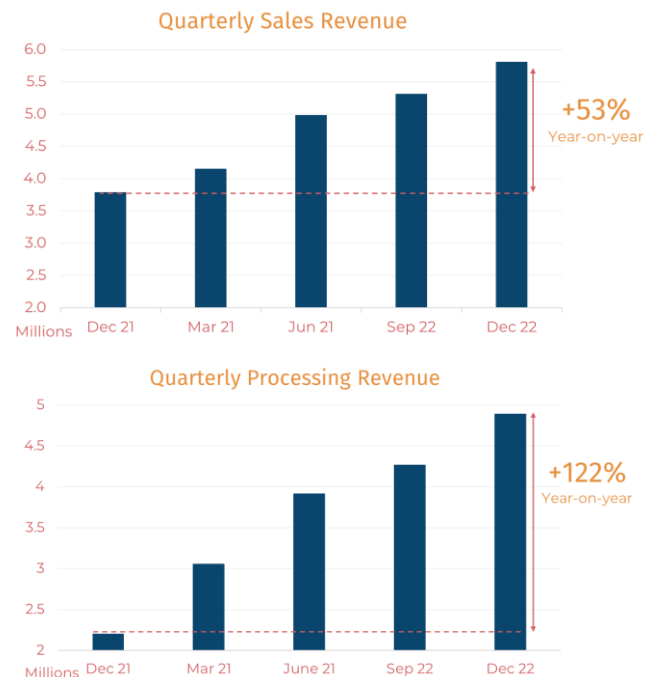
31 January 2022

December Quarter FY22 Activities Report and Appendix 4C<sup>1</sup>

## Strategy delivering results as quarterly sales revenue grows 53% year-on-year

### Highlights

- 53% year-on-year growth in quarterly sales revenue to \$5.8m – new record
- 122% year-on-year growth in quarterly processing revenue to \$4.9m – 11 straight record quarters
- \$12.94m - cash balance at the end of the quarter
- Acquisition of leading SE Asian fintech ATX now complete and further acquisitions being assessed
- Visa and Mastercard acquiring licences announced as acquiring business seeing strong growth
- \$10.5m in funding commitments for new banking business – working with regulator for final approvals
- Appointment of new non-executive director Abigail Cheadle bringing strong international experience



**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 December FY22 quarter performance.

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

“The December quarter saw Novatti continue to deliver record results, with quarterly sales revenue increasing 53% year-on-year to \$5.8m. This means we have now reached the halfway point of FY22 with two straight quarters of record revenue, as we continue to build on the momentum set across FY21.”

“Importantly, Novatti’s processing business continues to go from strength to strength, with 122% year-on-year growth in its quarterly revenue. Novatti has now grown its quarterly processing revenue from just over \$2.2m for the same period a year ago to approaching \$5m today.”

“These strong results highlight that Novatti’s long term strategy is delivering. Following many years of investment, Novatti has now established a business that has global scale. This scale is underpinned by a payments ecosystem that can be leveraged by businesses big and small to pay and be paid.”

<sup>1</sup> All figures throughout this document related to the December quarter remain unaudited unless stated otherwise.

“Having started in Australia, we now have operations in Asia, North America, and Europe with more regions to come. Within this, we see the opening of new markets and expansion of our presence in existing markets as being key to our growth strategy. This was strengthened during the quarter as we announced the acquisition of ATX, a leading payments fintech based in Malaysia. This acquisition further extends Novatti’s reach into the rapidly growing payments demand centre that is South East Asia, as ATX brings with it a network of 30,000 plus payments touch points. Importantly, with Novatti now having completed this transaction, ATX revenue will be a strong addition within Novatti’s reporting going forward.”

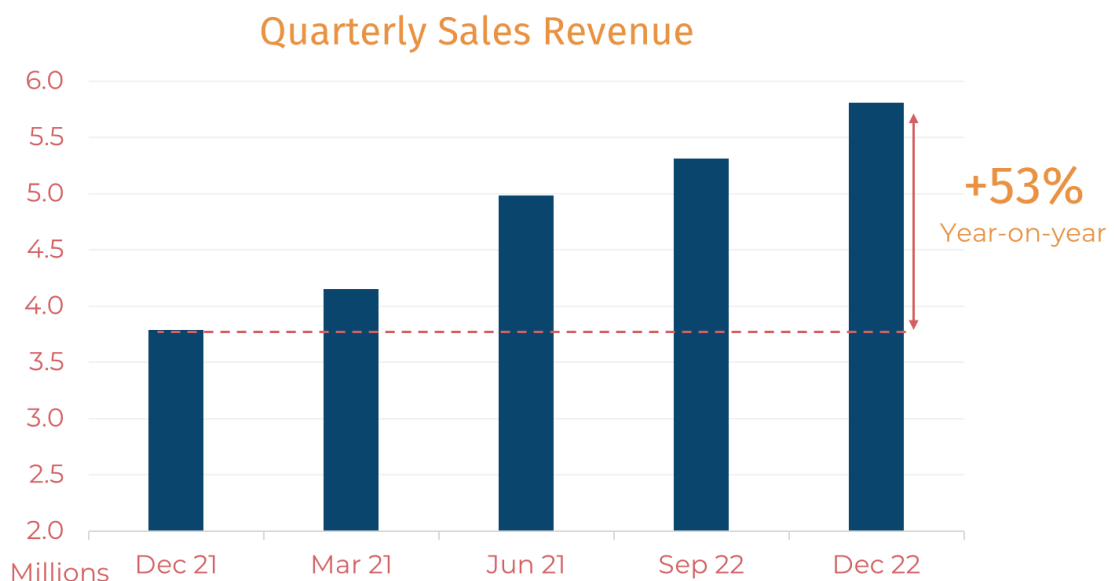
“Our acquiring business is gaining excellent momentum and creating long term reliable revenues and strong growth. The acquiring business is complemented by acquiring licences from both Visa and Mastercard, enabling Novatti to deploy additional services and gain greater margins from further vertical integration.”

“Novatti’s many years of investment and development are seeing results, with growth in both global operations and revenues. We remain very excited about the future growth potential of our business and what lies ahead in the coming quarters.”

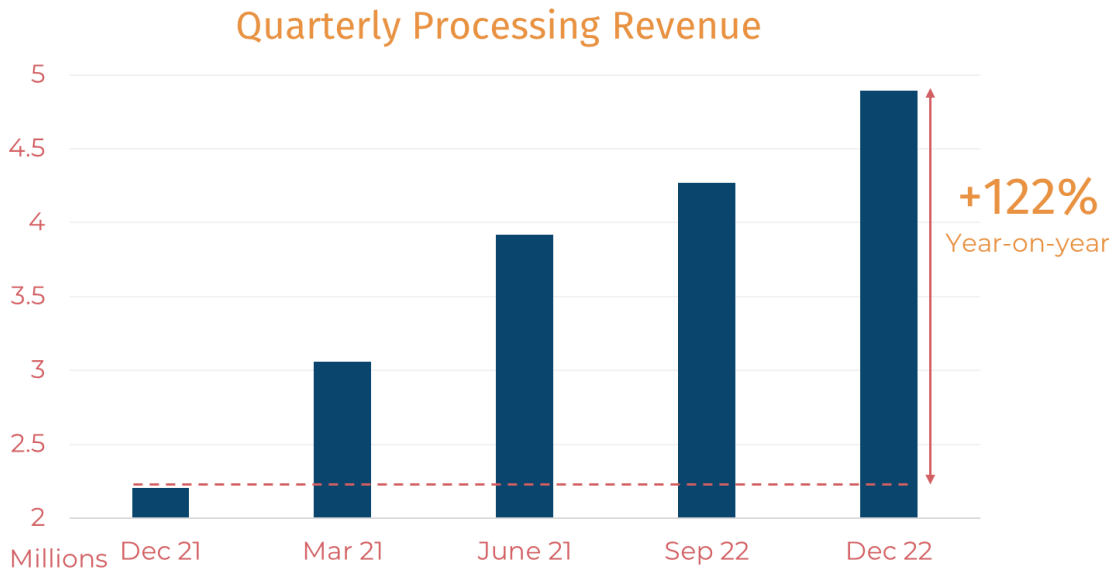
## Financial performance

### Revenue

The December FY22 quarter saw Novatti continue to deliver new record results, with year-on-year growth of 53% in quarterly sales revenue to more than \$5.8m.



Novatti's payment processing business continues to make a particularly strong contribution to these overall results, with 122% year-on-year growth in quarterly processing revenue to \$4.9m. Notably, this marks 11 straight quarters of record revenue for this business.



## Cash flow

At the end of the December quarter, Novatti's cash balance was \$12.94m (\$19.9m at 30 September 2021).

Novatti received \$13.3m in cash receipts from customers for the December quarter. Across the first half, this figure stood at \$24.7m, an increase of 61% on the same period last year. This is reflective of the overall growth in Novatti's business during this time.

During the December quarter, Novatti received nearly \$1.4m as proceeds from the exercise of options, the highest conversion of options to date, while also receiving a \$676k dividend from its investment in Reckon Limited.

A substantial portion of Novatti's cash use during the quarter was for investing activities, including the acquisition of ATX and the acquisition of an increased stake in Novatti's new banking business holding company, both discussed below.

Staff cost increases continue to reflect Novatti's commitment to grow the business by adding further talent to the team, including locally and through Novatti's businesses internationally. Administration, corporate and other working capital decreased on the previous quarter from \$2.7m to \$2m.

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, which incorporates directors' fees, salaries and superannuation.

## Fundraising

During the quarter, Novatti received commitments to a Series A funding round for its new banking business. This saw an investment of \$10.5m committed into the Company's dedicated banking subsidiary, provided that regulatory approval for this new business is obtained before the end of February 2022.

## Outlook

Novatti has started FY22 with two straight quarters of record revenue, continuing the momentum set across the previous financial years. For the second half of FY22, Novatti will continue to focus on delivering on its growth strategy with the aim of realising further growth.

Progress made against the key objectives of Novatti's growth strategy during the December quarter and key targets going forward are discussed below:

### New and expanded markets

#### **Strengthening acquiring business**

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. The business has a rapidly growing customer base, including a number of financial services and business customers of Novatti's other business units, who have sought additional services.

The December quarter saw Novatti announce Principal Acquiring licences from both Visa and Mastercard, adding to the strength of this business and expanding its reach within the Australasian market.

Importantly, these new licences will result in increased margins and the ability to bring through larger business opportunities, while any revenue to be generated from the acquiring licenses will depend on take-up of services.

#### **Proposed new banking business**

Novatti continues to progress its ambitions to enter Australia's banking market, including working proactively with Australia's banking regulator for the final approvals of its restricted banking licence.

During the December quarter, Novatti closed a Series A funding round for this new banking business through its dedicated banking subsidiary. This saw an investment of \$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. This funding 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 in its banking subsidiary. The acquisition, for \$2m in cash, will result in Novatti increasing its interest in this subsidiary to 70% post the Series A round.

## Expansion of Ripple partnership

Discussions are continuing between Novatti and Ripple to launch services in further new markets across South East Asia, following the launch of services in Thailand and the Philippines in 2021.

## Acquisitions

### ATX

During the December quarter, Novatti announced the acquisition of leading South East Asian payments fintech, ATX. This acquisition has since been completed, subsequent to the end of the quarter.

Based in Malaysia, ATX provides e-wallet providers, traditional retail stores and kiosks with digital payment services, such as third party bill and product payments.

The ATX acquisition provides Novatti with an on-the-ground presence in South East Asia to further its expansion in that region, particularly following the expansion of Novatti's partnership with Ripple in the Philippines and Thailand. In addition, it presents strategic value for Novatti on a number of other fronts, including:

- Access to an established network of 30,000+ payments touch points across Malaysia
- ATX's strong leadership team, including its founders who hold the positions of CEO and Director – Strategy, and who will remain employed post acquisition, ensuring continuity
- Access to ATX's existing innovative solutions and technology, including its e-wallets

Following the successful acquisition of ATX, Novatti continues to assess a number of other opportunities as part of its pipeline of potential acquisitions.

## Strategic investment in Reckon Limited

Novatti is continuing discussions with ASX-listed accounting software provider, Reckon Limited, on servicing the needs of its customers. This follows Novatti securing a 19.9% strategic stake in Reckon earlier in 2021.

During the December quarter, Novatti also received a \$676k dividend from its investment in Reckon.

## Appointment of Abigail Cheadle as a non-executive director

Novatti has welcomed Abigail Cheadle as a non-executive director of the Company and Chair of the Company's Audit and Risk Committee, effective from 13 December 2021.

Ms Cheadle is a Chartered Accountant with 30 years' experience working across Asia, Europe, the Middle East, and Australia. During this time, she led professional services practices for a number of leading firms, including EY, Deloitte, and KordaMentha, with a focus on corporate strategy and risk management.

This included 17 years working in Asia, a key growth region for Novatti. Here Ms Cheadle advised and helped grow many listed companies, including during challenging economic periods, such as the Asian Financial Crisis. Notably, while advising the Indonesian-listed consumer finance company, BFI Finance Indonesia, its market capitalisation grew tenfold.

Ms Cheadle also brings extensive ASX-listed board experience having sat on four ASX-listed boards to date.

### 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 **Monday, 31 January 2022, at 1pm (AEDT)**. Investors can register at: <https://www.novatti.com/investor-briefing>

For further information, contact:

Peter Cook  
Managing Director  
Novatti Group Limited  
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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")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	13,339	24,672
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(8,942)	(16,713)
(c) advertising and marketing	(159)	(309)
(d) leased assets	(64)	(129)
(e) staff costs	(5,241)	(9,827)
(f) administration and corporate costs	(2,057)	(4,775)
1.3 Dividends received (see note 3)	676	676
1.4 Interest received	14	19
1.5 Interest and other costs of finance paid	(364)	(514)
1.6 Income taxes (paid)/refund	-	(13)
1.7 Government grants and tax incentives	-	256
1.8 Other – Working Capital	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,798)</b>	<b>(6,657)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	(3,149)	(3,149)
(b) businesses		
(c) property, plant and equipment	(37)	(103)
(d) investments	-	(22,517)
(e) intellectual property	(42)	(84)

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
(f) other non-current assets (acquisition of BC Investment Group Holdings Ltd 19.9% share of Novatti B Holding Company Pty Ltd)	(2,000)	(2,000)
<b>2.2</b> Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		
<b>2.3</b> Cash flows from loans to other entities		
<b>2.4</b> Dividends received (see note 3)		
<b>2.5</b> Other assets (funding collateral for transactional business)	(555)	(555)
<b>2.6</b> <b>Net cash from / (used in) investing activities</b>	<b>(5,783)</b>	<b>(28,408)</b>

<b>3. Cash flows from financing activities</b>		
<b>3.1</b> Proceeds from issues of equity securities (excluding convertible debt securities)	-	40,249
<b>3.2</b> Proceeds from issue of convertible debt securities		
<b>3.3</b> Proceeds from exercise of options	1,392	1,619
<b>3.4</b> Transaction costs related to issues of equity securities or convertible debt securities	-	(2,221)
<b>3.5</b> Proceeds from borrowings		
<b>3.6</b> Repayment of borrowings	(114)	(639)
<b>3.7</b> Transaction costs related to loans and borrowings		
<b>3.8</b> Dividends paid		
<b>3.9</b> Other (provide details if material)		
<b>3.10</b> <b>Net cash from / (used in) financing activities</b>	<b>1,278</b>	<b>39,008</b>



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	19,932	8,798
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,798)	(6,657)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,783)	(28,408)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,278	39,008
4.5	Effect of movement in exchange rates on cash held	365	253
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>12,994</b>	<b>12,994</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	<b>12,994</b>	<b>19,932</b>
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>		

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
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.*

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify) – Convertible Note	200	200
<b>7.4 Total financing facilities</b>	<b>200</b>	<b>200</b>

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 half of FY 22, a total of \$500k was paid down on the note leaving a balance of \$200k as at 31 December 2021 repayable to AFIG.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	<b>(2,798)</b>
8.2 Cash and cash equivalents at quarter end (Item 4.6)	<b>12,994</b>
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	<b>12,994</b>
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>4.64</b>

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

- 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: 31 January 2022



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.
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