

ASX Announcement

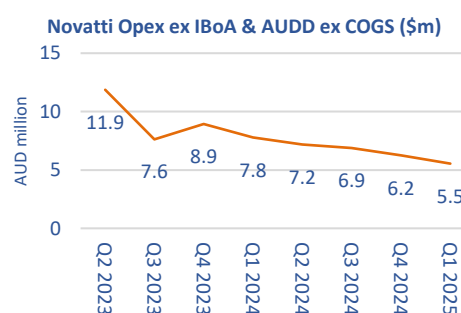
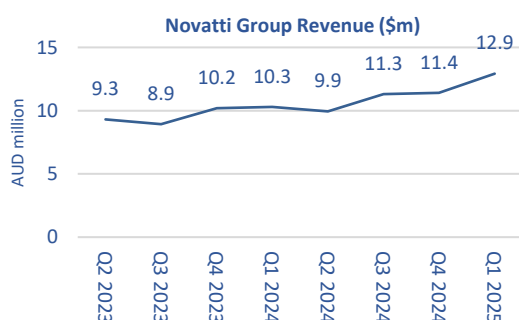
30 October 2024

September 2024 Quarter Activities Report and Appendix 4C¹

Continued strategy execution to unlock growth and progress toward positive cashflow target

Highlights

- \$12.9m quarterly revenue - up 13% QoQ
- Expenses down 11% QoQ to \$5.5m²
- Further \$2.8m in annualised cost reductions to be implemented in Q2 FY25
- Normalised net operating cash outflow of \$1.8m in the quarter, a 48% YoY improvement (\$3.4m)
- Post quarter, a capital raising announced, backed by professional and institutional investors
- International Bank of Australia (IBoA) interest sold for \$2.87m
- Reiterates targets of monthly positive operating cashflow by January 2025 and positive operating cashflow for the half year ending June 2025³



Novatti Group Limited (ASX:NOV) (Novatti or the Company), a leading fintech enabling businesses to pay and be paid, is pleased to release its September 2024 quarter (Q1 FY25) Activities Report and Appendix 4C.

¹ All figures throughout this document related to the September 2024 quarter and FY25 remain unaudited unless stated otherwise.

² Excluding COGS and expenses associated with investments in IBoA and AUDD Stablecoin

³ Operating cashflow as measured by cash EBITDA and excludes historic creditor liabilities

Commenting on the Company's Q1 FY25 performance, Novatti CEO, Mark Healy, said:

"Novatti's turnaround strategy, which has been progressively implemented by the Company's new management team over the past year, is already delivering benefits. Group revenues increased to \$12.9m in the September 2024 quarter, up 13% on a preceding quarter basis. Cost efficiency was also much improved in the latest quarter, with expenses falling by 11% on a QoQ basis to \$5.5m⁴. Another Q1 FY25 highlight was continued growth within Novatti's core business, Payments AU/NZ, with GTV increasing by 7% and revenue up by 9% on the prior quarter – both excluding the impact of our previously announced deliberate exit from specific low profitability wholesale Cross Border services.

"Since Novatti's turnaround strategy was set in motion in Q1 FY24, we have seen a 26% increase in quarterly revenue and a 29% decrease in quarterly expenses⁵, highlighting the significant progress already made. These metrics also demonstrate how the business can continue to grow while operations are streamlined and costs are reduced.

"Moving forward, further significant growth and performance improvements are expected to be achieved by the core Payments AU/NZ business, which will help realise the target uplift in gross margins from 44% today to 70%+ in FY27. Initiatives undertaken in Q1 FY25 were aimed at deepening our progress here, including tackling structural reforms. This included the exit of non-core businesses and investments, such as Novatti's interest in the International Bank of Australia, and simplifying the business as we move towards positive operating cashflow, including ceasing wholesale Cross Border services, while retaining direct to business relationships.

"In the September 2024 quarter we also started to see the first benefits of recent investments in technologies to enhance internal workflows. This included implementing process orchestration and data management software to unlock efficiencies in key areas like merchant onboarding, support and payment operations. These recently introduced tools will reduce friction and enhance customer experience, accelerating the onboarding of Novatti's merchant acceptance pipeline (500+) across the remainder of FY25.

"Importantly, these efficiency gains, alongside the ongoing simplification and the consolidation of shared services, have enabled further cost reductions, with \$2.8m in annualised expenses identified to be removed in Q2 FY25. Completion of this next phase will result in a total of \$9.8m of annualised expenses removed from across Novatti during calendar year 2024, underpinning our drive to achieve positive operating cashflow.

"Some of the structural reforms we have undertaken in Q1 FY25 have resulted in a short-term, negative financial impact, particularly in cash used in operations. This has included the ongoing removal of historic liabilities to improve the working capital position and to strengthen Novatti's balance sheet. While the positive impacts of these measures were not evident in Q1 FY25's cash use figures, cash outflow will be trimmed in coming quarters, headed by the additional \$2.8m annualised cost reduction program to be implemented in Q2 FY25. We will also continue with the divestment of non-core assets, streamlining of the existing business, and the exit from unprofitable services.

⁴ Excluding COGS and expenses associated with investments in IBoA and AUDD Stablecoin

⁵ Both figures excluding investments in IBoA and AUDD Stablecoin

“Notwithstanding these structural reforms, Novatti continues to gain commercial momentum in pursuit of its market led, customer focus, as highlighted by the sustained growth in the Company’s revenue base. Here we are focussed on building traction in education, real estate, and hospitality, with these efforts to benefit from the capital raising initiative announced in early Q2 FY25.

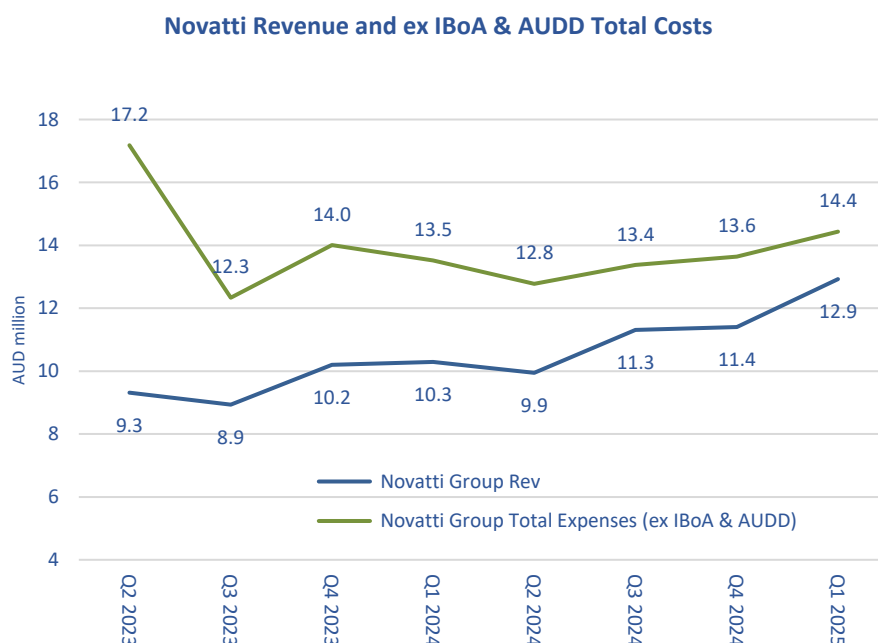
“Ultimately, all these changes help underpin progress towards Novatti’s targets of monthly positive operating cashflow by January 2025 and positive operating cashflow for the half-year ending June 2025⁶, while simultaneously recording sustained growth in the overall business.”

Operations Update

Business performance

Turnaround strategy initiatives implemented over the past 12 months are already getting positive results, with Novatti’s Q1 FY25 financials including a 13% quarter-on-quarter (QoQ) increase in revenue to \$12.9m, and a 11% QoQ reduction in quarterly expenses to \$5.5m⁷. Further operational efficiencies will be realised in the current quarter, with Novatti identifying an additional \$2.8m in annualised cost reductions to be implemented in Q2 FY25.

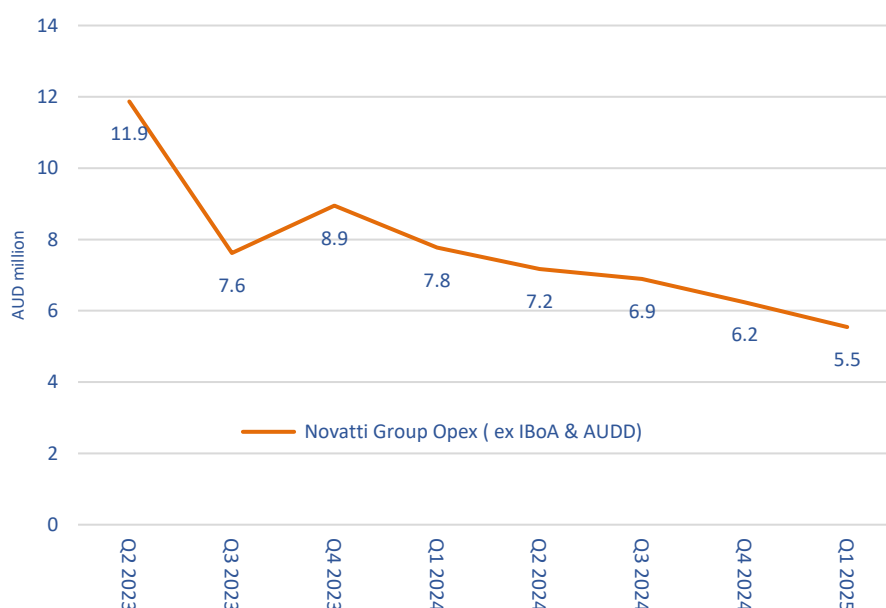
Since the commencement of Novatti’s turnaround strategy in Q1 FY24, the Company has seen a 26% increase in quarterly revenue and 29% decrease in quarterly expenses, highlighting the significant progress already made in the targeted transformation and streamlining of business operations across the Group.



⁶ Operating cashflow as measured by cash EBITDA and excludes historic creditor liabilities

⁷ Excluding COGS and expenses associated with investments in IBoA and AUDD Stablecoin

Novatti Opex (excluding COGS) and ex IBoA & AUDD



While quarterly cash consumption was (\$3.9m) in Q1 FY25, on a normalised basis it has reduced from the prior quarter as historic liabilities were addressed to improve the working capital position and strengthen Novatti's balance sheet. These additional cash outflows were largely the result of one off, year-end costs, the removal of legacy liabilities and historical ATO payments. On a normalised basis without these expenses, cash use was (\$1.8m), a continued decrease on the prior quarter. The normalised cash use was also much improved on the YoY equivalent figure of (\$3.4m) reported in Q1 FY24.

Reconciliation of Reported Sep-24 quarter (Q1 FY25) 4C Cashflow to Normalised Cashflow

	Reported Q1 FY25 cashflow	Normalisation adjustments	Normalised Q1 FY25 cashflow
	\$'000	\$'000	\$'000
Receipts from customers	28,690		28,690
Product manufacturing and operating	(25,999)		(25,999)
Staff Costs	(4,534)	1,360 (Historic PAYG and staff exit costs)	(3,174)
Fixed Costs	(2,490)	749 (Historic creditor payments)	(1,741)
Other	430		430
Net Operating	(3,903)	2,109	(1,794)

Going forward, cash used in operations is expected to continue to strengthen in line with Novatti's targets of monthly positive operating cashflow from January 2025 and positive operating cashflow

for the half-year ending June 2025.⁸ This has been assisted by the sale of Novatti's IBoA interest in Q1 FY25 for \$2.87m, which has resulted in a saving of approximately \$0.8m in future quarterly cash consumption, based on previously reported Q4 FY24 financials.

Increased margins and exit from high cost, low profitability services

Within these results, Novatti's core continuing business operation, Payments AU/NZ, reported a 9% QoQ revenue increase in Q1 FY25 (excluding Cross Border).

This continued growth in the core Payments AU/NZ business occurred in tandem with the previously announced restructuring within Cross Border services, which entailed the exit of low profitability wholesale services and the implementation of new technology and service partners for direct to business customers. While the wholesale customer segment contributed around \$1.5m to annual revenue, it is not aligned to Novatti's future commercial strategy and financial targets. These reforms will result in a short-term disruption to Cross Border services and therefore revenue in Q2 FY25, however this will help support the overriding drive to positive operating cashflow. As previously advised, Novatti will continue to provide cross-border support for direct to business customers, as this is considered an important differentiator, being a complementary product for existing and new mid-sized customers, and still aligns with long-term financial targets.

The three-year target of 70%+ gross margin for Payments AU/NZ remains firmly in place. A major project is now underway to deliver the next significant step increase in margins here, with Novatti integrating into a new processing partner for merchant acquiring that will reduce variable costs, deliver enhanced functionality and remove a number of impediments to building Novatti's customer base. This change should start to deliver an improved merchant acquiring margin over the coming quarters with a substantial improvement anticipated in Q4 FY25.

Continued commercial progress through market led, customer focus approach

Novatti continued to secure commercial traction across Q1 FY25, underpinned by its market led, customer focus approach, with the following positive developments:

- **Major global airline contract:** Novatti won a contract in Q1 FY25 to enhance the voucher payment offering of a major Asian-based global airline, upgrading to a digital solution to improve their customer experience
- **ChinaPayments geographic expansion:** Novatti's ChinaPayments product is now live in New Zealand and processing payments from Asia wallets for a large university accommodation provider
- **Education market segment penetration:** The integration of Novatti's Asian payment solutions with a global education software business that services over 30 universities across Australia and New Zealand was completed in FY24. We are actively working with the

⁸ Operating cashflow as measured by cash EBITDA and excludes historic creditor liabilities.

software provider for the first university to be activated and onboarded via the technical integration.

- **Hospitality market segment penetration:** Novatti is working closely with two, large online ordering platform partners on a pipeline of 500 merchants, with an initial pilot group of 50 merchants underway, while technology and automation improvements are being deployed to enhance the merchant experience, data capture and onboarding efficiency.
- **Accounting Services card issuance:** A leading accounting services firm extended their Australian card issuing program via Novatti into New Zealand (NZ) in March. The NZ program continues to grow month on month, with over 8,400 cards now on issue.
- **Brand Refresh initiated:** Novatti has commenced a brand refresh, with design work already completed and the delivery of updated visuals, messaging and positioning, alongside a new Novatti corporate website, to be launched in January 2025.

Investments and Business Portfolio Update

During Q1 FY25, Novatti successfully divested its interest in IBOA for \$2.87m. Importantly, exiting this business also sees Novatti save approximately \$0.8m quarterly in cash use, based on recent quarters.

The Company's decision to divest its interest in IBoA was motivated by Novatti's strategic review, which determined that IBoA was unlikely to contribute to Novatti's long-term financial goals. Novatti's ongoing strategic review of all business units and subsidiaries is expected to identify further opportunities for optimisation and divestment in the coming quarters.

AUDC progressed its commercial strategy to build capabilities through partnership and continued its market expansion during Q1 FY25 with revenue, customers, and partners growing strongly. New projects included the launch of the AUDD Stablecoin on the Hedera blockchain supported by a grant from The Hedera Foundation and a cross-border trade payment service as part of a trial with the Monetary Authority of Singapore.

This growth has seen AUDC temporarily increase expenditure by approximately \$30k per month for compliance and legal resources. Additional software expenses of approximately \$20k per month have also been committed to support recent growth. During Q1 FY25, AUDC raised circa \$300,000 at 20 cents per share, valuing Novatti's holding in AUDC at \$4m, and AUDC remains self-funded through FY25.

Corporate

Subsequent to the end of Q1 FY25, Novatti announced a capital raising of up to \$9.4m, comprised of:

- A two-tranche placement to sophisticated and professional investors, to raise \$4m
- A non-renounceable pro rata entitlement offer on a 1-for-3 basis, to raise up to \$5.4m

Supported by major shareholder, Brayter Limited, and Novatti directors Peter Pawlowitsch and Peter Cook, and partially underwritten to \$3m by GBA Capital, the Company has received aggregate binding commitments for a minimum of \$7m.

The offers also include a free-attaching option for every share issued, exercisable at 6.4 cents and expiring 31 December 2027, subject to shareholder approval to be sought at the Company's 2024 Annual General Meeting, scheduled to be held on Thursday, 28 November 2024.

The first tranche of the placement, comprising 50,612,567 shares, was issued on 23 October 2024 within the Company's existing 15% share issue capacity pursuant to Listing Rule 7.1. The second tranche comprises an aggregate 50,000,000 Shares, with the issue subject to shareholder approval to be sought at the 2024 Annual General Meeting.

The entitlement offer opens on 1 November 2024 and is schedule to close on 19 November 2024.

The entitlement offer and options offer are being made under a transaction-specific prospectus pursuant to section 713 of the Corporations Act 2001. The prospectus was lodged with ASIC on 24 October 2024 and released to ASX on that date.

Proceeds from this capital raising will go towards unlocking internal growth, new business initiatives, brand refresh, repayment of historic liabilities, all in support of the drive to deliver Novatti's target of 70% gross margins in FY27, monthly positive operating cashflow by January 2025 and positive operating cashflow for the half-year ending June 2025⁹.

Listing Rule 4.7C Disclosure

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.

Online Investor Briefing

Novatti CEO, Mark Healy, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on 30 October 2024, at 11.00am (AEDT). Investors can register at: <https://novatti.com/investor-briefing>

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>

Investors can view all Novatti announcements at: <https://www.novatti.com/asx-announcements>

This announcement has been approved for release by Mark Healy, CEO and the Board.

⁹ Operating cashflow as measured by cash EBITDA and excludes historic creditor liabilities.

For further information, contact:

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Novatti Group Limited

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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 start-ups to global organisations, our solutions will unlock your ambitions. Solutions include acquiring, billing, issuing, and processing.

Important Notices

Some of the statements appearing in this announcement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which Novatti operates and proposes to operate as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets, among other things. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. No forward looking statement is a guarantee or representation as to future performance or any other future matters, which will be influenced by a number of factors and subject to various uncertainties and contingencies, many of which will be outside of Novatti's control. Novatti does not undertake any obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions or conclusions contained in this announcement. To the maximum extent permitted by law, none of Novatti, its directors, employees, advisors or agents, nor any other person, accepts any liability for any loss arising from the use of the information contained in this announcement. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this announcement reflect views held only as at the date of this announcement. This announcement is not an offer, invitation or recommendation to subscribe for, or purchase, securities by Novatti. Nor does this announcement constitute investment or financial product advice (nor tax, accounting or legal advice) and is not intended to be used for the basis of making an investment decision. Investors should obtain their own advice before making any investment decision. By reviewing or retaining this announcement, you acknowledge and represent that you have read, understood and accepted the terms of this important notice.

Appendix 4C

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

Name of entity

Novatti Group Ltd

ABN

98 606 556 183

Quarter ended ("current quarter")

30 September 2024

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	28,690	28,690
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(25,999)	(25,999)
(c) advertising and marketing	(21)	(21)
(d) leased assets	-	-
(e) staff costs	(4,534)	(4,534)
(f) administration and corporate costs	(2,469)	(2,469)
1.3 Dividends received	-	-
1.4 Interest received	365	365
1.5 Interest and other costs of finance paid	(53)	(53)
1.6 Income taxes paid	(16)	(16)
1.7 Government grants and tax incentives	134	134
1.8 Net cash from / (used in) operating activities	(3,903)	(3,903)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	(48)	(48)
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
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)	-	-
2.5.1	Cash reduction from disposal of IBOA Group Holdings Pty Limited ("IBOA")	(4,877)	(4,877)
2.5.2	Proceed from disposal of IBOA	2,869	2,869
2.6	Net cash from / (used in) investing activities	(2,056)	(2,056)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities of IBOA to non-controlling interest	1,103	1,103
3.1.1	Proceeds from issues of equity securities of the AUDC to non-controlling interest	169	169
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	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(23)	(23)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(75)	(75)
3.10	Net cash from / (used in) financing activities	1,174	1,174

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,469	9,469
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,903)	(3,903)

Appendix 4C

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,056)	(2,056)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,174	1,174
4.5	Effect of movement in exchange rates on cash held	(67)	(67)
4.6	Cash and cash equivalents at end of period	4,617	4,617

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	4,617	9,469
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)	4,617	9,469

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	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	857	857
7.2	Credit standby arrangements	-	-
7.3	Other (convertible notes)	3,488	3,488
7.4	Total financing facilities	4,345	4,345
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. As at 30 September three related parties have provided unsecured loans of \$0.86m at 12% interest per annum on the principal amount, which will accrue from day to day. Novatti Group Limited issued a convertible note facility in the amount of \$3.50m. The first tranche of the convertible note facility was issued on 3rd January 2024 to the value of \$1.46m and the second tranche issued on 14th February 2024 to the value of \$2.04m and subsequently \$12k was converted to shares with current balance being \$3.488m. The Convertible Notes have a \$1.00 face value, a coupon of 10% per annum and a maturity date of 22 December 2026. They are convertible into Shares at a conversion price of the lower of \$0.06 and the next equity capital raising price, subject to a floor price of \$0.04. Current balance is \$3.488. See announcement on 2nd of January 2024 for further details.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,903)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,617
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,617
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.18
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions: 8.6.1 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? No, the Company has been focusing on reducing costs and increasing revenue targeting being operating cash positive in January 2025	

8.6.2 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?

Subsequent to the end of Q1 FY25, Novatti announced a capital raising of up to \$9.4m, comprised of:

- A two-tranche placement to sophisticated and professional investors, to raise \$4m
- A non-renounceable pro rata entitlement offer on a 1-for-3 basis, to raise up to \$5.4m

Please refer to ASX announcement on 11 October 2024

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

Yes. Refer to 8.6.1 and 8.6.2 above

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 30 October 2024

This announcement has been approved for release to the ASX by Chairman, Peter Pawlowitsch and CEO, Mark Healy.

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.