



## basis2 Acquisition



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# Acquisition Rationale

basis2 is a profitable utility billing business with excellent technology, “sticky” customers and key distribution partners



## Strongly Earnings Accretive

- Includes significant prepaid revenues, then ongoing margin of circa \$40k per month
- Significant contributor to Novatti targeted profitability for FY2018
- Generates predictable and stable revenues
- Attractively priced at 2.6x EBITDA



## Strongly Synergistic

- Builds on Novatti's Transactions Division offering
- Follows Novatti's recent strategic entry into e-payments in India through JV with TSN
- Growth potential for basis2 through Novatti's established Middle East, Africa, Asia network
- Acquisition brings additional skills/expertise to Novatti



# basis2 – Opportunity Overview

Seller	Prophecy International Limited
Nature of operations	<ul style="list-style-type: none"><li>• Utility billing software, primarily for water utilities</li><li>• Operating for more than 10 years</li><li>• Major clients - Philadelphia Water, City of Cairo</li><li>• 95% of revenues from US</li><li>• 5% of revenues from Middle East, Africa</li></ul>
Nature of revenues	<ul style="list-style-type: none"><li>• 50% recurring</li><li>• 50% professional services to existing clients</li><li>• Highly “sticky”</li><li>• Low customer churn</li></ul>
Growth profile	<ul style="list-style-type: none"><li>• Existing clients – potential for increased revenue from more active account management</li><li>• Emerging markets – highly prospective region with a major distribution channel in place through Giza Systems in Middle East. <i>(Giza is an existing Novatti partner for other payment solutions)</i></li><li>• New platform services offerings - “Subscription Billing as a Service”</li></ul>



# basis2 – Technology Overview



Basis2 is an advanced billing and customer information system (CIS) for the worldwide utilities industry

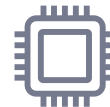
Drives value for customers by:

- Improving operational efficiencies
- Reducing the cost of serving customers



Technology is:

- Built on Oracle
- Standard, well documented software
- Robust, Scalable



# Strong, proven, customer benefits

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basis2 CIS  
– flexible,  
better value  
and lower  
risk



## Product benefits

- Easy to configure and maintain by users and partners
- Exploits the features and capabilities of Oracle
- Relatively low implementation costs
- Stable/robust product with low ongoing upgrade and maintenance costs
- Lower risk



## Leading to “sticky” customers

- Highly integrated to their businesses
- Large, high risk projects to change supplier



# basis2 – The Market



Solution suitable for all utilities – Water, Electricity, Gas, Internet

- High value, high margin sales
- Replacement market is small, infrequent
- Many new utilities in emerging markets



Growth drivers

- Indicated demand via key distribution partner
- Low cost to deliver & service
- Novatti payment technologies a unique value add proposition



Target market sizing

- Africa, Middle East
- Circa 50 countries
- Strong knowledgeable distribution partner in this territory
- Small market share in strongly growing market



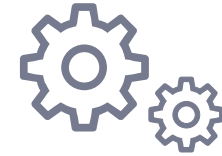
New service offering – Subscription as a Service

- Growth business requirement for internet platform businesses
- Creates efficiencies, productivity



# basis2 – Integration

## “Tuck in” asset acquisition



### Sales & Distribution

- Growth not actively sought by current owner
- Distribution crossover in key markets - Middle East and Africa
- Customers under serviced
- Can integrate and offerings to existing clients of both Novatti and basis2

### Technical Team

- Small team (4 persons)
- Knowledge well spread within team
- Novatti ready for technology transfer

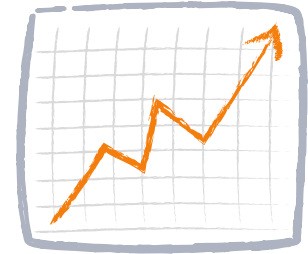
### Culture & Management

- Fits Novatti pedigree
- Fits Novatti customer management methodology
- Low incremental cost





# basis2 – Financials



Revenue	\$1.7m	(USD\$1.25m)
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EBITDA	\$1.1m	(USD0.825m)
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Cashflow	Year in advance payments from two largest clients – paid in April/May each year  Monthly receipts circa \$90k per month  Expenses circa \$50k per month	
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Exchange rate	0.75 cents
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# Effect on Financial Position

Novatti Group Statement of Financial Position	Consolidated 31 December 2016	Acquisition of basis2	Entitlement Issue net of costs	Consolidated pro-forma
<b>Current Assets</b>				
Cash and cash equivalents	2,639,097	(2,141,831) <sup>1 2</sup>	3,055,878	3,553,144
Trade and other Receivables	1,513,034	73,136	-	1,586,170
Other assets	105,954	-	-	105,954
<b>Financial Assets</b>	32,216	7,698	-	39,914
<b>Total current Assets</b>	4,290,301	(2,060,997)	3,055,878	5,285,182
<b>Non-current assets</b>				
Intangible assets	-	2,750,000	-	2,750,000
Investments accounted for using the equity method	9,120	-	-	9,120
Property, plant and equipment	32,049	-	-	32,049
<b>Total non-current assets</b>	41,169	2,750,000	-	2,791,169
<b>Total assets</b>	4,331,470	689,003	3,055,878	8,076,351
<b>Current liabilities</b>				
Trade and other Payables	1,432,595	517,643	-	1,950,238
Employee benefits	229,690	77,727	-	307,417
<b>Total current liabilities</b>	1,662,285	595,370	-	2,257,655
<b>Non current liabilities</b>				
Employee benefits	14,654	93,633	-	108,287
<b>Total non current liabilities</b>	14,654	93,633	-	108,287
<b>Total liabilities</b>	1,676,939	689,003	-	2,365,942
<b>Net assets</b>	2,654,531	-	3,055,878	5,710,409
<b>Equity</b>				
Issued capital	11,940,604	-	3,055,878	14,996,482
Reserves	1,000,129	-	-	1,000,129
<b>Accumulated losses</b>	(10,286,202)	-	-	(10,286,202)
<b>Total Equity</b>	2,654,531	-	3,055,878	5,710,409

1. On completion of the acquisition of basis2, an estimated \$2,338,284 is to be paid to the basis2 vendor after completion adjustments are taken into account.

2. Post-completion, an estimated \$196,453 is to be paid to Novatti pursuant to agreed post-completion adjustments.



# basis2 – Transaction Overview

Price:  
AU\$2.75m

Multiple:  
2.6 x EBITDA

Transaction type:  
Business  
& Asset sale

## Reason for sale



- basis2 is a solution, inconsistent with current owner's go-to-market strategy
- Valuation reflects Novatti ability to manage an Australian software asset with overseas clients

## Transition & Integration



- Bolt on acquisition.
- 4 technical staff. Novatti can easily manage.
- Management overhead – low.

## Synergy Savings



- Nil in year 1
- Potentially \$100k+ in year 2



# basis2 – Compelling Value Acquisition



## Revenue

Increased by \$1.7m with potential for further growth



## Recurring revenue

Half of revenue is recurring



## Cashflow

Positive cash flow from day 1



## Novatti EBITDA

Assist in Company's target of positive EBITDA in FY18



## Synergy Savings

Low



## US presence

First major client in US



## Growth opportunities

Additional solution to sell in Middle East, Africa via current partner Giza Systems  
Subscription billing as a service



# Transaction Summary

1.

basis2 is an established and profitable utility billing business with excellent technology, “sticky” customers and key distribution partners



2.

Stable and predictable cash generation with immediate cash flows – ongoing net cash flow circa \$40k per month with est. net cash of \$600k in April/May from prepaid service fees



3.

Novatti's businesses is targeted to be profitable in FY2018 and basis2 acquisition will strongly add to Novatti's profitability



4.

Strong growth profile with opportunities to leverage Novatti's existing networks/partnerships in emerging markets like Africa and Middle East



5.

Skilled technology team that will bring additional expertise to Novatti



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