

ASX ANNOUNCEMENT

31 January 2017

December Quarter Update

Highlights:

- Increased focus on building business development capabilities and sales funnels
- Continued development of China Payments services
- Strong growth in transaction processing and recurring revenue streams
- Outlook for FY17 is positive with strong growth expected across all business divisions
- Cost reductions of \$60k per month achieved
- Good cash balance of \$2.6m at 31 December 2016

Novatti Group Limited (ASX: NOV, “Novatti” or the “Company”) is pleased to provide its quarterly update for the three months ended 31 December 2016.

Operating overview

During the quarter ended 31 December 2016, Novatti has increased its business development activities in the primary functional areas of

- Financial technology sales
- Compliance services
- Transaction processing on its own Flexepin and TransferBridge networks
- China Payments merchant services.

This focus on business development has led to increased business in all areas and a much stronger sales pipeline.

Financial technology sales

The core Novatti Payments System continues to win market acceptance for being a contemporary flexible robust payments system capable of deploying payments networks in short time. This enables our clients, such as financial services institutions, to meet growing demand to provide their consumers with new ways to make financial transactions. The increased business development has led to two major upgrades of existing client networks that will be delivered in the quarter ended 31 March 2017, along with an enhanced sales funnel for which management is confident of good success in the current quarter.

Compliance services

Novatti's subsidiary Flexewallet Pty Ltd that holds an AFSL for Non-Cash Payments had another successful quarter growing its compliance services revenues. As a result of this growth there are now four Authorised Representatives of the licence from which the Company receives recurring revenues.

Transaction processing - Flexepin & TransferBridge

Novatti continued to see growth in its Flexepin business during the quarter, in particular, through the uptake of vouchers by existing and new merchants in Canada and Australia.

The digital currency market presents a new and growing opportunity for Flexepin. The Company signed 15 Bitcoin merchants during the quarter, all of which have an established customer base that transacts on a regular basis.

The strong interest from Bitcoin merchants in the Flexepin solution is providing Novatti with the opportunity to grow its recurring revenue stream as a growing number of customers of these Bitcoin merchants are opting to use the Flexepin vouchers to purchase Bitcoin. Growth in other merchant categories such as e-commerce merchants continues.

The Company successfully integrated its TransferBridge platform with emerging global e-wallet and e-payment provider Zapper Marketing Limited (Zapper) during the quarter, providing another avenue of expansion into high-growth transaction-based revenue markets.

Zapper selected Novatti to enable airtime top-up features on the Zapper app through the TransferBridge Solution. Zapper is an emerging global leader in the e-wallet and e-payment space providing an in-store merchant payment service based on a consumer using the Zapper app to pay at the Merchant site via a QR code.

China Payments merchant services

Novatti continues to execute on its strategy of focusing on the rapidly growing demand for an efficient and cost-effective payment system to settle cross-border commerce payments from China to Australia.

In December, the Company signed an agreement with payment service aggregator, LatiPay enabling Novatti to expand its payment service to cover Australian e-commerce and trade payments from China through 19 Chinese banks in Australia and leading Chinese digital wallets WeChat Pay, AliPay, JD Pay and Baidu Wallet.

LatiPay is an award winning New Zealand-based payment service aggregator owned by Latitude Technologies. The distribution and integration partnership agreement provides Novatti with the tools and collateral to onboard Australian businesses to a platform where online retailers and exporters will be able to accept and request payments in real-time directly from 19 major banks and the leading Chinese digital wallets.

The agreements give Novatti a significant stronghold into large and growing transaction markets which include:

- In-store retail payments by Chinese tourists and students
- Online e-commerce payments by Chinese consumers directly from China
- Payments for business-to-business trade payments and direct invoicing for Australian exporters

The Chinese payments processing market is a multi-billion-dollar opportunity and through this and its previous agreement with RoyalPay (ASX, 5 September 2016) Novatti is positioning itself to become a major player in this market.

The Chinese tourism market alone presents a significant opportunity for Novatti. Chinese tourists are expected to surpass New Zealand visitors as the largest inbound arrivals market to Australia in 2017. Chinese tourists already make up the largest spending segment of Australia's inbound tourism market, spending a total of \$9 billion in the 12 months to September 2016, a growth rate of 18% on the previous corresponding period¹.

This growth in Chinese visitors and spending is expected to continue at a rapid rate. China is expected to contribute 43% of the growth in inbound arrivals to Australia between 2014/15 and 2024/25 and 60% growth in terms of expenditure².

Corporate and Financial Overview

Novatti finished the quarter with a cash holding of \$2.6M putting the Company in a good position to build on the growth that has been achieved in 2016. Cash receipts for the period were \$974K and the Company received a Research & Development rebate in respect of the 2015/2016 financial year of \$1.3M.

The Company is pleased to note that its project with Telecom Tanzania has successfully passed a contractual requirement of the Performance Acceptance Test. A payment milestone for this of approximately USD400K will be received in the March quarter.

Novatti is also focussed on reducing the cost base of the business and has made a number of reductions in operating overheads as well as savings in the area of technology delivery. These savings will reduce the ongoing cost base of the business by approximately \$60,000 per month and will begin to be realised in the March quarter.

Subsequent to the reporting period, Novatti wishes to advise that Paolo Montessori will leave his role as Chief Executive Transaction Processing Services as of 27, January 2017. Mr Montessori has provided strong leadership and support to the sales teams, helped with global resourcing and introduced partnership opportunities for the group. Mr Montessori will continue to work closely with the Company through an advisory board role where he will provide ongoing mentorship and advice around international business development.

¹ [http://www.tourism.australia.com/documents/corporate/TAINT11054_QMU_-_December_2016_\(September_Data\).pdf](http://www.tourism.australia.com/documents/corporate/TAINT11054_QMU_-_December_2016_(September_Data).pdf)

² https://www.tra.gov.au/documents/forecasts/Tourism_Forecasts_2016.pdf

Outlook

In FY17 Novatti is focussed on further building its business development pipeline and consequently its revenue streams to continue its year on year revenue growth and to strongly increase the proportion of recurring and transaction revenues within the revenue mix.

The growth in the business is being undertaken whilst simultaneously improving the efficiency of the business and reducing the current cost base. Importantly the company is appropriately resourced to meet its next set of commercial milestones.

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About Novatti Group Limited

Novatti is an award-winning global software technology and payment services provider. Both through technology and services, Novatti helps economies, corporations and consumers digitise cash transactions. Novatti's robust and efficient software solutions include Consumer Digital Wallets, Electronic Top-Ups, Mobile Money, Bill Payments, Remittance Services and Voucher Management Systems. Novatti's transaction processing services include Flexepin, an open-loop cash voucher service and TransferBridge, a global remittance network.