ASX Announcement

30 August 2024

Novatti FY24 Results Announcement and Appendix 4E[1]

Turnaround progress clear with deeper impact flow for FY25

FY24 Highlights

- $42.9 million revenue[2], +10% YoY increase
- $29.7 million in operating expenses (normalised), a 19% decrease YoY (ex IBOA)
- $7 million cost reduction program actioned
- 16% improvement in underlying EBITDA[3] to ($12.5m) - largely reflected in H2 only
- Business streamlined with divestment of interests in Reckon Limited and IBOA (Q1 FY25)
- Targeting positive operating cash flow by end of H1 FY25 on run rate basis

Novatti Group Limited (ASX:NOV) (**Novatti** or the **Company**), a leading fintech enabling businesses to pay and be paid, has released its Appendix 4E (Preliminary Final Report) for the year ended 30 June 2024. Audited financial statements are expected to be released before 30 September 2024.

Commenting on the results, Novatti CEO, Mark Healy, said:

"With Novatti now one year into its strategic transformation, the business entering FY24 is vastly different to that going into FY25. For a start, it has been streamlined and re-directed under a simplified strategy, all now underpinned by long term financial targets and systematic execution.

"Across FY24 the transformation saw many individual initiatives executed, including appointing a new leadership team, streamlining Novatti's business portfolio from 12 separately run businesses down to four core divisions, undertaking a strategic review of all business areas for optimisation and divestment, implementing a $7m+ annualised cost reduction program, streamlining access to multiple products, and repositioning Novatti to leverage its strengths for high-margin revenue opportunities.

"The impact of all these individual initiatives is highlighted by the emerging financial results, with revenue up 10% YoY to $42.9m, a new record. Normalised operating expenses fell 19%, while

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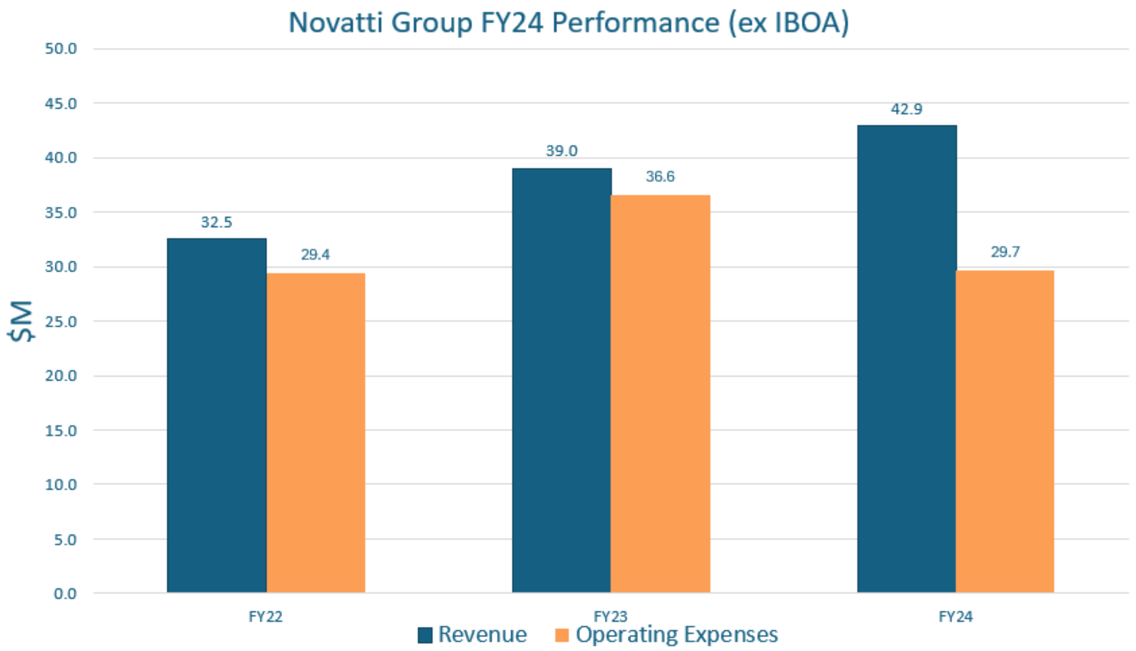
[1] All figures throughout this document related to FY24 remain unaudited unless stated otherwise.

[2] The FY24 revenue does not include $3.1m that has been reclassified as released via the ASX on 29 August 2024.

[3] Underlying EBITDA is a non-IFRS measure calculated as profit before income tax, and before depreciation and amortisation, share based payments, net finance costs, due diligence costs, gain on embedded derivative and the bank business. The Company believes this non-IFRS and operational measure is useful in monitoring and understanding the Group's business and they should not be considered in isolation nor as a substitute for IFRS measures.

underlying EBITDA improved 16%. Put simply, the numbers that we want to see going up are going up and the numbers we want to see going down are going down.



"In particular, the traction and future growth potential of the core Payments AU/NZ division is clear from FY24's results, with this segment already delivering the largest gross margin contribution across Novatti, despite starting from a lower revenue base compared with other areas.

"Importantly, much of the visible traction in Novatti's turnaround really only took effect from Q4 FY24 and we expect the real impact will be seen in FY25 onwards. In FY25, we are committed to deepening Novatti's turnaround as we move towards achieving our 3-year, 70%+ margin target and run rate of positive operating cashflow by the end of H1 FY25. As part of this, we continue to review the financial and risk performance of business lines and customers to ensure they align with these targets. This has already resulted in a number of customers being offboarded in FY24 while we also ceased offering wholesale crossborder payment services due to the high compliance cost and low overall profitability.

"We will use FY25 to accelerate the alignment to these targets, which will likely result in further opportunities for optimisation, cost reduction, and divestment in non-core business areas. While in some cases these actions will have a short term impact on revenue, this will be offset by strengthening Novatti's business overall."

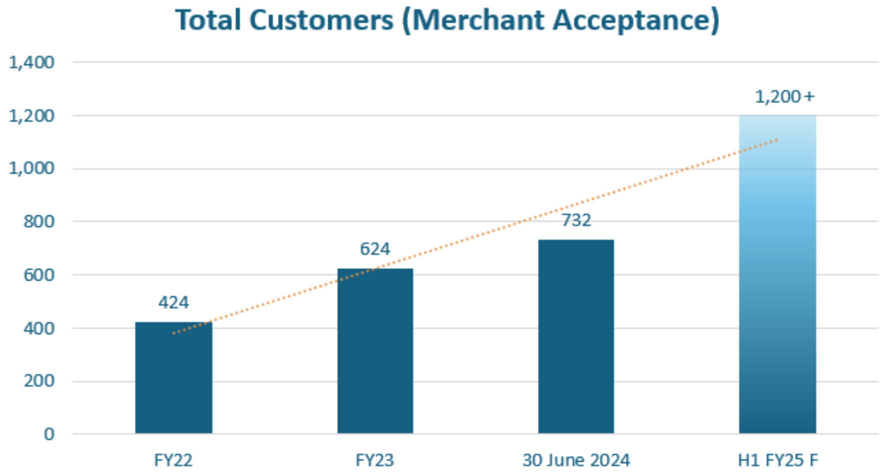
Operational Update

FY24 was a year of transition for Novatti which completed the first year of a turnaround strategy under a new Executive Leadership team, headed by CEO Mark Healy, who was appointed to the role in June 2023. Key to the strategy is Novatti's stated 3-year target to increase gross margins on payment processing to 70%, a target that is achievable based on peer comparisons, simplifying the business and organisational structure, and introducing a market led, customer focussed commercial strategy.

Streamlining the business took throughout FY24 with Novatti having consolidated 12 separately operated businesses with independent teams, down to four core divisions (Payments AU/NZ, Payments International, Technology Solutions, Investments) and the deployment of shared services and processes. This streamlining strategy has seen $7m in annualised expenses removed from Novatti while still maintaining a growth profile and undertaking selective reinvestment into the marketing strategy, customer experience and payments platform consolidation.

With the progressive deployment of the transformation initiatives across structure, process and technology, Novatti has been able to reduce FY24 expenses (ex IBOA) by 19% compared to FY23.

Novatti continues to attract strong growth within its Payments AU/NZ business, particularly within merchant acceptance. As at the end of Q4 FY24, 732 merchants were using Novatti for their payments acceptance, a 13% increase since the start of FY24. This result is net of intentionally offboarded customers following a review of their financial performance and risk profile during FY24.



This review into the financial and operating performance of customers and services remains ongoing as part of the strategic review. For example, during Q4 Novatti ceased offering wholesale (as opposed to B2B) cross border payment services due to the high compliance costs and low overall profitability. While this specific customer segment contributed ~$1.5m to annual revenue, it is not considered to contribute positively to Novatti's long term financial targets, particularly positive cashflow and margins.

Novatti will still continue to provide cross-border support for B2B customers going forward, as this is considered an important differentiator as a complementary product to existing and new mid-sized customers, and still aligns with long-term financial targets.

As part of the strategy to simplify Novatti, all businesses within the portfolio have been undergoing a strategic review with a focus on their contribution to Novatti's immediate goal to achieve positive operating cash flow, and long-term goal of contribution towards Novatti's 70% gross margin on payment processing.

This ongoing review contributed to Novatti divesting its stake in Reckon Limited in November 2023 for $8.9 million and fully repaying its $10.5 million corporate bond facility. Following the FY24

www.novatti.com
Novatti Group Limited (ASX:NOV)
investorrelations@novatti.com
ABN 98 606 556 183
Head Office: Level 3, 461 Bourke Street, Melbourne VIC 3000 Australia

reporting period, Novatti also divested its stake in IBOA Group Holdings Pty Ltd (IBOA) for $2.87 million.

Financial Results Commentary

Overall, Novatti revenue grew by 10% to $42.9m and recorded an improvement of 16% in underlying EBITDA to -$12.5m (FY23: -$15.0m). The improvement in underlying EBITDA was primarily attributable to streamlining Novatti's business which saw numerous changes across the organisation structure and drove cost reductions across the Company. Here, operating expenses were reduced by 19% for FY24, without sacrificing revenue. In total $7m+ in annualised costs have been removed since the start of FY24.

As a core objective of the new strategy, Novatti is repositioning its brand, product and target customer profile within the core Payments AU/NZ division. Positive results from this approach were seen in Q4 with several large commercial wins announced in key target markets.

Going forward, the continued streamlining and management of customer accounts is expected to increase margin for Payments AU/NZ, which annually is now 45% (FY23: 37%) as Novatti progresses towards its stated three year 70% target.

Novatti concluded FY24 with $9.5m in cash and cash equivalents. $4.3m of this is attributable to the discontinued operations of International Bank of Australia. Novatti sold its stake for $2.87m in Q1 FY25, which is not reflected in the cash balance at 30 June 2024.

Novatti maintains its run rate target of positive operating cashflow by the end of H1 FY25

(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

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.

For further information, contact:
Mark Healy
CEO
Novatti Group Limited
investorrelations@novatti.com

About Novatti Group Limited (ASX:NOV)

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