

ASX Announcement

30 October 2023

September Quarter FY24 Activities Report and Appendix 4C*

Growth in AU/NZ market to be unlocked under simplified business

Highlights

- \$10.8m quarterly sales revenue - up 6% QoQ
- 45% margin in Payments AU/NZ Division - up from 40% QoQ
- \$1.2m decrease in QoQ expense (*excluding International Bank of Australia - IBoA*)
- Management restructure implemented to implement new business strategy
- Strategic review of business underway to identify further streamlining opportunities

Novatti Group Limited (ASX:NOV) (Novatti or the Company), a leading fintech enabling businesses to pay and be paid, is pleased to provide an update on its September quarter FY24 performance.

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

“Novatti used Q1 of FY24 to continue the implementation of its new strategy, simplifying the business with a focus on building an integrated payments proposition and enhancing gross margins. For the September quarter, this included creating an integrated AU/NZ core payments division, with Novatti’s clients now able to access multiple products and services from the one provider, increasing cross selling opportunities. This restructure and the supporting adjusted operating model will drive increasing product margins, which have already increased for this division to 45%, up from 40% in the prior quarter.

Novatti’s new strategy is also seeing positive impacts elsewhere across the business. Quarterly revenue continued positive growth, increasing to \$10.8m. Further, operating expenses, excluding IBoA, decreased by \$1.2m to now represent 74% of revenue instead of 90% in the prior quarter.

With the first phase of Novatti’s simplification strategy in place, we have now begun a Group wide business review to ensure all business activities align to long term strategic and financial goals. This process is expected to result in further opportunities to streamline the business through portfolio optimisation and divestment. Completing this review will be a priority in the coming quarters, which we ultimately expect to promote ongoing improvements in our financial results.

We continued to see broader growth in demand across the economy for the services that Novatti provides. While there is talk of uncertainty in the global economy across coming quarters, we believe this presents an opportunity for businesses to unlock efficiencies through digital payments and a consolidated provider, with Novatti being well placed to provide multiple products to customers.”

Operations Update

A major internal restructure was implemented within the Payments AU/NZ Division to unify the operating model and previously independent teams. Novatti expects this to improve the customer experience, simplify the business and accelerate both incremental and cross sales.

As part of the restructure a number of staff exited the business, with several external hires introduced to accelerate execution of the new strategy. Three key appointments being the Executive General Manager, Head of Business Development and Head of Marketing for Payments AU/NZ who will oversee a unified commercial function and operating model across the previously separate Acquiring, Issuing, Cross Border, Processing and Bill Pay business units and product lines.

This internal re-organisation did not detract from the Group's performance with revenue growing to \$10.8 million for the September quarter.

The Payments AU/NZ Division processed \$661 million in Gross Transaction Value (GTV) through Q1 FY24, which represented a 13.8% QoQ increase over Q4 FY23 (\$581m). In parallel, Payments AU/NZ revenue increased 13.7% QoQ to \$3.5m, with margin improving to 45% from 40% in the prior quarter. These combined results reflect the enhanced operating discipline within the business under new leadership and the strategic focus on improving gross and operating margins.

Novatti received a \$562,953 fully-franked cash dividend from its stake in Reckon Limited during the quarter, as it continued to strengthen its overall business relationship. This included Novatti being appointed the exclusive Acquiring partner for Reckon's Reckconnect 2023 conference in Sydney, which was attended by many of Reckon's largest users and presented an opportunity for the two companies to collectively promote the ability for Reckon's cloud-software users to accept digital payments quickly via in store payments, Bill Pay and online payment portals powered by Novatti.

Novatti's AUDD stablecoin achieved a critical milestone to now be live on the Ethereum blockchain as an ERC-20 token, the world's largest blockchain by market cap and liquidity. By introducing AUDD as an ERC-20 token, AUDD taps into a well-established network, opening up larger acceptance of AUDD, programmable payments from complex financial derivatives to straightforward peer-to-peer transfers, and simplified interactions via Ethereum's mature ecosystem and widely utilised digital wallets such as MetaMask with ETH and USDT pairings now available.

Cash Flow Update

The reported cash consumption in the Appendix 4C includes expenses for International Bank of Australia (IBOA) which is included as a consolidated entity for accounting purposes due to Novatti's 91% shareholding. Despite being classified as a consolidated entity, IBOA's operations remain independent of Novatti with its own Board of Directors and executive team.

Operating cash consumption for Novatti Group was \$3.4m across Q1 FY24 which represented a \$0.7m decrease on Q4 FY23. Novatti Group excluding IBoA consumed \$2.6m cash in operations, while IBoA consumed \$0.8m. This strong improvement reflects the Company's ongoing discipline on reducing cash consumption through simplification and focus, as seen with the streamlined Payments AU/NZ division.

As of 30 September 2023, Novatti Group had \$14.7m cash on hand.

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 Monday, 30 October 2023, at 2.00pm (AEDT). Investors can register at: <https://novatti.com/investor-briefing>

**All figures throughout this document related to the September quarter remain unaudited unless stated otherwise.*

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 and join the discussion at Novatti's Investor Community Hub at <https://announcements.novatti.com/>

For further information, contact:

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This announcement has been approved for release to the ASX by the Board of Directors.

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, processing and banking (via International Bank of Australia Pty Ltd (IBOA) under a Restricted Authorised Deposit-taking Institution licence).

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 2023

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	23,341	23,341
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(18,423)	(18,423)
(c) advertising and marketing	(185)	(185)
(d) leased assets	-	-
(e) staff costs	(6,115)	(6,115)
(f) administration and corporate costs	(2,794)	(2,794)
1.3 Dividends received (see note 3)	563	563
1.4 Interest received	351	351
1.5 Interest and other costs of finance paid	(366)	(366)
1.6 Income taxes paid	36	36
1.7 Government grants and tax incentives	169	169
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,423)	(3,423)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(10)	(10)
(d) investments	-	-
(e) intellectual property	-	-
(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	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(10)	(10)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	(31)	(31)
3.10	Net cash from / (used in) financing activities	(31)	(31)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	18,215	18,215
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,423)	(3,423)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(10)	(10)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(31)	(31)
4.5	Effect of movement in exchange rates on cash held	(27)	(27)
4.6	Cash and cash equivalents at end of period	14,724	14,724

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	14,724	18,215
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)	14,724	18,215

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>		

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>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.</i>		
7.1 Loan facilities	10,500	10,500
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,500	10,500
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.		
A bond was issued on August 12, 2022. The \$10.5m bond is secured and is issued for a fixed term of five years. Interest is at 90 day BBSW plus 650 bps.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,423)
8.2 Cash and cash equivalents at quarter end (item 4.6)	14,724
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	14,724
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.3
<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?	
Answer: N/A	
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?	
Answer: N/A	
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?	
Answer: N/A	
<i>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.</i>	

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 2023

This announcement has been approved for release to the ASX by Executive Director, Peter Cook 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.