

March Quarter FY23 Activities Report and Appendix 4C¹

Acquiring and Issuing continue to highlight future growth engines

Highlights

- Acquiring revenue up 70% on quarter
- Issuing revenue up 67% on quarter
- Quarterly GTV up 56% YoY and 3% on quarter
- \$9.2m quarterly sales revenue
- Pipeline of circa \$15m of new revenues for signing by end of Q1 FY24
- \$21.9m cash available
- Headcount down 14% across FY23
- Normalised cash consumption circa \$2m/qtr
- Committed to delivering positive cashflow



Commentary

Novatti Group Limited (ASX:NOV) (Novatti or Company), a leading fintech enabling businesses to pay and be paid, is pleased to provide an update on its March quarter FY23 performance.

Commenting on the results, Novatti Managing Director, Peter Cook, said:

“Novatti continues its strategy for growth in its core established B2B payments businesses tempered with sustainable cash management and focus on moving to positive cashflow. The company has continued to invest strongly for its Acquiring, Issuing, Cross-border and Subscription Billing businesses whilst undertaking cashflow improvement measures including product price increases, negotiation of cost of goods, a measured reduction in staffing and fixed cost reductions.”

“Of particular note, the March quarter continued to highlight the strong traction being achieved by two of Novatti’s future growth engines in Acquiring and Issuing. These businesses achieved revenue growth on the previous quarter of 70% and 67% respectively, with both beginning to represent substantial contributions to Novatti’s overall revenue.”

“Overall sales revenue was down by 1.6% on prior quarter, as the business continued to adjust to lower margins from one, large international client, as flagged in the prior quarter. However, the GTV that Novatti is processing for this one client has continued to increase,

¹ All figures throughout this document related to the March quarter remain unaudited unless stated otherwise. 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.

including 15% on the previous quarter and 214% year-on-year. We expect this growing volume of work to contribute to revenue growth returning shortly.”

“More broadly, the volume of work across Novatti’s overall business continues to increase. Novatti’s quarterly GTV processed grew 3% on the prior quarter and 56% year-on-year to \$1.04b. The strongly qualified sales pipeline across the group is circa \$15m of new annualised business with a 70%+ confidence factor due for signing between now and the end of the next quarter”.

“For example, the numbers of Chinese visitors through Sydney Airport in March was back to 40% of pre-COVID levels, up from 25% in February². This level of activity is being reflected in our businesses that are particularly exposed to growth in the Chinese market. For example, ChinaPayments businesses alone saw GTV growth of 105% on the previous quarter. This result was also strengthened by a strong marketing campaign undertaken at Australian university introduction weeks.”

“Likewise, strong underlying growth can be seen in Novatti’s Acquiring business, which saw total GTV growth of 32% on the prior quarter. Our investment in this business and its technology is resulting in ongoing traction in the market, including several significant new client signings during the quarter, which we expect to add to growth going forward.”

“We are also positioning our Acquiring business to be ready for new product use cases and customer needs. For example, during the March quarter we secured a \$2.3m government grant alongside our partners to support the creation of a patented new service called payXcrypto. payXcrypto will help align the payment capabilities currently available for crypto transactions with those available for traditional payment options, with a view to making them more compliant and readily acceptable for both business and consumers.”

“Novatti continues to maintain its absolute focus on delivering positive cashflow. On a normalised basis, cash consumption for Novatti was \$2m leading into Q4 FY23. This is based on the actual cash consumption in the quarter being \$3.9m and takes into account the circa \$750k of costs for IBOA, \$250k of a one-off fee for acquiring platform infrastructure and \$900k of salary costs that will not continue into the June quarter giving a circa \$2m cash consumption.”

Across FY23 so far, we have reduced total headcount by 14%. We continue to review all elements of our cost base to deliver further, substantial cost savings. In the short term, cash used in operations continued to be impacted by previously flagged lower margins from one, large international client, which has led to lower receipts from customers. We expect these figures will improve in the short term in response to growth in the underlying volume and value of transactions processed.”

Operations Update

After the end of the quarter, Novatti appointed Dharsh Mendez to the position of CFO. Dharsh brings a wealth of experience from prior positions in eCommerce, distribution, fintech and industrial services and will lead the drive for automation as the Company scales. Steven Stamboultgis will continue as Company Secretary.

Novatti continues to commercialise its unified acquiring solution. Following the awarding of acquiring licences by Visa and Mastercard in late 2021, Novatti deployed a full acquiring solution, initially with e-commerce services providing “card not present” services. During the March 2023 quarter Novatti tested and deployed a “card present” in store terminal-based solution which is now ready for rapid

² <https://www.sydneyairport.com.au/corporate/media/corporate-newsroom/sydney-airport-traffic-performance-march-2023>

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commercialisation. Additional solutions include integration with MyPinPad for Tap on Phone payments and continuing deployment of embedded solutions with a range of software vendors. Novatti's partnership with Reckon Limited (ASX:RKN) continues with commercialisation and strong uptake of Reckon Payments.

The Issuing Division achieved strong growth including a major partnership with Australia and New Zealand based accounting and automation software provider Hnry for deployment of a card-based payment service for their clients. International payments company Wirex also launched with Novatti Issuing during the quarter.

Multiple client wins were achieved across all business units and, of equal importance, Novatti has a very strong consolidated sales funnel with circa \$15m of highly qualified new revenues that should be closed by the end of Q1 FY24. Many of these clients and prospects are likely to take multiple services as Novatti continues to create one stop solutions with its B2B approach for Issuing, Acquiring, Cross Border and Billing.

Given the strong inflationary environment, Novatti has been able to pass on price increases for many of its services.

International Bank of Australia Update

"The International Bank of Australia Pty Ltd (**IBOA**) continues to focus on achieving its full banking licence, with major works including technology and product deployment, compliance and go to market planning. IBOA obtained an Australian Credit Licence and signed multiple MOUs with customer acquisition and capability partners. Novatti is a 91% shareholder in IBOA."

Ends

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

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).

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>

Novatti Managing Director, Peter Cook, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on Friday, 28 April 2023, at 2.30pm (AEST). Investors can register at: <https://novatti.com/investor-briefing>

For further information, contact:

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Appendix 4C

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

Name of entity

Novatti Group Limited

ABN

98 606 556 183

Quarter ended ("current quarter")

31 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	18,162	56,748
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,145)	(37,936)
(c) advertising and marketing	(241)	(921)
(d) leased assets	(65)	(217)
(e) staff costs	(6,779)	(19,892)
(f) administration and corporate costs	(2,731)	(6,715)
1.3 Dividends received (see note 3)	-	13,511
1.4 Interest received	135	332
1.5 Interest and other costs of finance paid	(526)	(1,185)
1.6 Income taxes (paid)/refund	(14)	(33)
1.7 Government grants and tax incentives	231	1,283
1.8 Other – Working Capital	-	-
1.9 Net cash from / (used in) operating activities	(3,973)	4,975
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(11)	(38)
(d) investments	-	-
(e) intellectual property	(117)	(330)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(f) other non-current assets	-	-
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:		
(a) funding collateral for transactional business	-	(1,573)
(b) cash acquired on acquisition of subsidiary	-	
2.6 Net cash from / (used in) investing activities	(128)	(1,941)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	3,000
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	-	10,500
3.6 Repayment of borrowings	-	(40)
3.7 Transaction costs related to loans and borrowings	-	(392)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	13,068

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	25,721	6,059
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,973)	4,975
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(128)	(1,941)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	13,068
4.5	Effect of movement in exchange rates on cash held	278	(262)
4.6	Cash and cash equivalents at end of period	21,899	21,899

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	21,899	25,721
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)	21,899	25,721

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	(35)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

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

7. Financing facilities

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	10,500	10,500
7.2 Credit standby arrangements	-	
7.3 Other (please specify) – Convertible Note	-	-
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.

Finance facilities including Convertible Notes

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)	(3,973)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	21,899
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	21,899
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	
Note: Positive net cash from operating activities results in an anomaly in this result.	5.5

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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?

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?

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

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: 28 April 2023

Authorised by: The Disclosure Committee

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.