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NOVATTI LIMITED
(NOV.ASX)

RESEARCH NOTE
19 July 2017

RECOMMENDATION

Buy

PRICE

\$0.14

TARGET PRICE

\$0.275

RISK

High (Speculative)

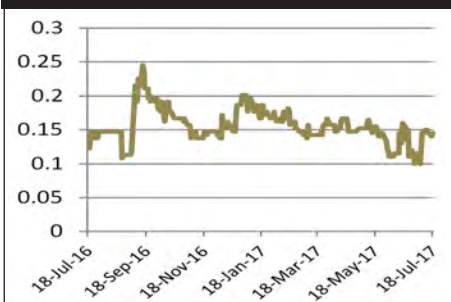
BRIEF COMPANY DESCRIPTION

Novatti, an Australian-based company, is an award-winning global software technology and payment services provider. Both through technology and services, Novatti helps economies, corporations and consumers digitize cash transactions. Novatti's robust and efficient software solutions include Consumer Digital Wallet, Branchless banking, 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. Additionally, Novatti recently entered the billings sector, via the acquisition of basis2, a utilities billing and customer information systems (CIS) business.

COMPANY DATA (19.07.2016)

ASX Code	NOV.ASX
Market Capitalisation (fully diluted)	~\$17.2m
Enterprise Value	~\$16.1m
Shares on Issue	109,511,932
Options (all >\$0.20 Ex)	13,379,250
12 Month High/Low	\$0.255/\$0.092
Ave Monthly Turnover	~2,054,090
Cash – Mar 2017	~\$1.07m

12 MONTH SHARE PRICE



Recommendation – BUY – Update Report

Approaching the Inflection

We recently met with Novatti Group Limited ("Novatti" or "the Company") to discuss the acquisition of basis2 and the progress of the various transaction revenue growth initiatives and partnerships that have been formed over the past twelve months. Novatti is an Australian-based, award-winning global financial transaction software technology and payment services provider. The Company was founded upon the 'Novatti Platform', which enables telecoms and other businesses to provide and drive value from digital financial transactions. The Novatti Platform has been in the market for nearly two decades, underpinning the Company. Additionally, Novatti has developed its own transaction-based platforms, which are being distributed via a variety of channels and partnerships, offering significant blue-sky potential. Novatti undertook an initial public offering ("IPO") on Australian Stock Exchange in January 2016 and has since continued to roll-out its growth strategy, acquiring billings provider, basis2, executing a number of key contracts and forming partnerships, which are delivering meaningful revenues.

We maintain coverage on Novatti with a BUY recommendation and after accounting for the recent share issue we arrive at a share price target of \$0.275 per share with this share price target being comprised of the DCF valuation (\$0.28) and a per share valuation based on peer group revenue multiple (\$0.27).

Investment Highlights

Earning accretive acquisition of basis2 – Novatti acquired basis2, an advanced billing and customer information systems (CIS) solution that services the utilities industry. The acquisition is earnings accretive, acquired on an attractive multiple of ~2.6 times EBITDA, enhancing the value proposition of Novatti.

Profit inflection point – The integration of basis2 injects ~\$1.1m EBITDA (~\$1.7m revenue) into Novatti, turning the group as a whole profitable. Our modelling suggests that the combination of growing transaction revenues and cost mitigation will turn Novatti (ex basis2) profitable in approximately Q3FY2018. Therefore, the positive EBITDA that basis2 provides, enables Novatti to strengthen its balance sheet, enabling the progression of further growth opportunities and importantly delivering profitability sooner.

Moving quickly to seize growth opportunities

- **Cryptocurrencies** – Novatti identified an opportunity for Flexepin to service users of cryptocurrencies such as Bitcoin, Ethereum and Ripple as an enormous opportunity. Initially rolled out in Canada, Flexepin provides a simple and secure method for consumers to transfer funds to a distributor or exchange to make their purchases of cryptocurrencies. Flexepin is increasing its cryptocurrency merchant base (30) and expects continued strong uptake from this sector. Traffic related to cryptocurrencies is the prominent driver for the impressive growth rates of the Flexepin product. The escalating demand of cryptocurrencies in conjunction with the growing market awareness of the Flexepin offering indicates that current growth may be maintained.
- **China Payments** – Novatti have executed key partnerships with Royalpay, epay and Latipay, facilitating a broad spectrum of Chinese payments. Chinese payments equates to more than \$87b per annum, presenting a significant opportunity for Novatti. The division is delivering strong revenue growth, providing preliminary validation of the strategy. Initial growth has come from the RoyalPay, who is generating \$150m in revenue (annualised) at a growth rate of 20% per month.

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(All dollars referred to in this report are in Australian dollars unless otherwise stated)

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Investment Highlights continued

Large market opportunity – The global mobile commerce and alternative payments industry accounted for transactions totalling 3.8% of global GDP in 2014, valued at over US\$3 trillion, which is expected to grow substantially. Novatti's transaction services are highly scalable on a global level and offer significant blue-sky potential for the Company.¹

Disrupting and enhancing emerging markets - Novatti's technology offering is perfectly suited for emerging markets where traditional banking infrastructure is not well established. Two billion people globally remain 'unbanked' and are subject to inefficient remittance/payment options, which attract excessive fees.² Novatti's payment and remittance platforms are solving a substantial issue, enhancing the lives of those in emerging markets.

Novatti has an excellent technology offering – Novatti's extensive suite of mobile payment solutions include Digital Wallets, Electronic Top-Up, Mobile Money, Bill Payments, Remittances and Voucher Management. These solutions have been validated by blue-chip customers and can be delivered by way of an enterprise solution, cloud solution or integrated with a partner under a transaction revenue share model.

Executing Partnership Model – Novatti continues to execute partnership agreements, which for a minimal capital outlay, leverage the parties' key capabilities in order to set the framework to generate 'clip the ticket' revenues that grow month on month at exceptionally high margins.

Global reach and scalability – Many FinTech companies endeavor to be global, but experience significant challenges expanding to other jurisdictions. Novatti has a global network, which has enabled them to execute various partnerships and sales over the past twelve months.

Strong and Diverse Revenue Model - Novatti's revenue mix is transitioning towards **high margin, recurring or transactional revenues**. These revenues are derived from a variety of sources:

- **Transaction Revenues:**
 - **Chinese Payments** – Partnerships formed with RoyalPay, epay and Latipay to deliver effective and efficient payment solutions for Chinese consumers in Australia and aboard
 - **Flexepin** – A versatile electronic voucher platform being partnered with merchants globally for a wide range of applications, including cryptocurrencies (Bitcoins etc.) and bill payments
 - **TransferBridge** – A cost effective remittance platform focussed on emerging markets
- **Trusted Party Services - Compliance** - Novatti provides financial compliance services to companies that are establishing operations in Australia.
- **The Novatti Platform** – Novatti's technology platform, delivered as either an enterprise solution sale or on a Software as a Service (SaaS) basis
- **Utility Billing** – Novatti's acquisition of basis2 extends the revenue mix into billing processing, with a growth focus on utilities in emerging markets

Experienced and proven board and management that have a deep understanding of global markets, domain knowledge of payments and a history of executing large contracts with large telecommunication and financial services companies.

1. GSMA 2015, The Mobile Economy, page 9

2. <http://www.worldbank.org/en/programs/globalindex>

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Company Overview

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Division	Example of Partnerships (P) / Clients (C)	Market	Revenue Model
Transaction Services			
Trusted Party Services	Royal Pay (WeChat) (P)	Australia	0.1-0.3% of transaction
	epay (Alipay) (P)	Australia	0.2-0.5% of transaction
	LatiPay (P)	Australia/China	0.2-0.5% of transaction
Flexepin	Online Merchants	Australia, Canada, Europe, Online	0.5-6% of transaction
TransferBridge	Zapper (P), MoniSend (P) and ATX (P)	Emerging Markets	1-2% of transaction
The Novatti Platform			
Enterprise Solution	Telstra (C) Tanzania Telecom (C)	Global	Upfront + Maintenance Fee
SaaS Solution	Cathay Pacific (C)	Global	Upfront + License Fee
Partnership Integration	Transaction Services Int Ltd (P)	India	Wholesale and transactional revenue share
Billing Services			
basis2	Philadelphia Water (C) Cario Water (C)	United States Emerging Markets	SaaS – License Fee Professional Services

Figure 1 - Company Division Breakdown
 Source - Company Presentations and Material

Acquisition - basis2

Novatti entered into a conditional binding agreement with Prophecy International Limited (PRO.ASX) to acquire 100% of basis2, a billing and customer information systems (CIS) business.

The Transaction

Acquisition Consideration	A\$2.75 million – (\$2.3m cash, \$0.45m offset)
Acquisition Multiple	~2.6 times EBITDA
Revenue	FY16 Revenue = ~A\$1.7m FY16 EBITDA = ~A\$1.1m
Funded via Rights Issue	The acquisition is funded through a \$3.25 million accelerated 1 for 4 pro rata non-renounceable entitlement offer of Novatti fully paid ordinary shares to shareholders at \$0.14 per share*

*Shortfall is in the process of being placed

About basis2

basis2 is profitable and has been operating for over 10 years. basis2 has developed technologically advanced billing and CIS solutions that service the utilities industry, providing a low cost and low risk way for utility providers to improve operational efficiencies and lower the cost of servicing their customers. The platform has been built on Oracle and has proven to be a robust and scalable solution. basis2 has a number of key customers namely, Philadelphia Water and City of Cairo, which provide reliable, sticky revenues.

Market

Target Customers	<ul style="list-style-type: none"> Utilities - Water, Electricity, Gas & Internet
Legacy Market	<ul style="list-style-type: none"> United States Utilities (95% of Revenues)
Target Market	<ul style="list-style-type: none"> Africa, Middle East Circa 50 countries Strong knowledgeable distribution partner in this territory
Growth Drivers	<ul style="list-style-type: none"> Strong demand from key distribution partner Enhanced solution to include Novatti payment platform technologies Emerging market focus Leverage Novatti's emerging market experience to engage new clients Cross sell solutions to existing customers

Novatti acquired basis2 on a multiple of 2.6 times EBITDA

The acquisition was funded through a non-renounceable entitlement offer at \$0.14 per share

basis2 is profitable and has been operating for over 10 years



Figure 2 - basis2 overview
Source - www.basis2.com

Acquisition - basis2 - Highlights and Synergies

basis2 underpins Novatti's profitability – It has become clear that in the current market, technology investors favour companies that are profitable & demonstrating growth and avoid companies that are maintaining excessive burn rates without a clear route to profitability, even if there is significant blue-sky. Our modelling suggests Novatti (excluding basis2) will be profitable on a month-by-month basis by Q3FY18. The acquisition of basis2 injects A\$1.7m revenue and A\$1.1m EBITDA into Novatti, underpinning Novatti's profitability from Q1FY18, satisfying the capital requirements for growth.

Attractive acquisition metrics – The consideration for the acquisition is \$2.75m in cash, which equates to a multiple of ~2.6 times EBITDA. The acquisition is earnings accretive and will provide immediate cash flows to Novatti, with the actual cash payable being approximately \$2.3m due to advanced payments by customers being netted off the acquisition price and ongoing net cash flow of circa \$40k per month.

Addition of valuable technology and expertise – In addition to the strong recurring revenues, Novatti have acquired valuable technology solutions and industry expertise. The addition of these assets enables Novatti to build upon their growing Transactions Division, rounding out the offering.

Novatti to push growth in emerging markets – Novatti have identified growth opportunity in emerging markets, particularly the Middle East and Africa where Novatti will be able to utilise its existing distribution network to satisfy pent up demand. There is also potential to cross-sell Novatti's offerings to basis2 clients and vice-versa.

Refocus basis2 for growth – Novatti noted that under previous ownership, basis2 was not entirely focussed on growth and the utmost efficiency. Management have established immediate and longer term growth opportunities in the basis2 business that can be achieved under their ownership.

Costs Savings – Novatti have identified a range of cost saving and efficiencies, which will likely increase the EBITDA margin beyond its already strong position of 65%.

basis2 underpins Novatti's profitability, providing a A\$1.7m revenue and A\$1.1m EBITDA injection into the business.

Novatti have identified strong growth potential in emerging markets

Novatti aims to improve the EBITDA margin beyond its already strong level of 65%

Transaction Processing Revenue

Novatti's growth strategy revolves around the growth of their transaction based revenue division. Novatti is focussed on deploying highly scalable platform technologies that 'clip the ticket' of each transaction. The deployment/integration of these sophisticated platforms requires minimal initial and ongoing capital expenditure, resulting in high margin, reliable revenue.

Specifically, Novatti's transaction based revenues are derived through three platforms:

- 1) Chinese Payments (Trusted Party Services)
- 2) Flexepin
- 3) TransferBridge

Novatti is focussed on deploying highly scalable platform technologies that 'clip the ticket' of each transaction

Three Platforms

1. Chinese Payments
2. Flexepin
3. TransferBridge

Chinese Payments (Trusted Party Services)

Novatti launched their Trusted Party Services division in 2016, with a focus on Chinese payments, following a successful two month trial. Under this model, Novatti enables trusted third parties to become authorised representatives of Novatti, facilitating operations in Australia under Novatti's Australian Financial Services License (AFSL). **Novatti charges a monthly fee for these compliance services and anticipates the number of clients to grow steadily.** In addition to utilisation of the AFSL, Novatti may integrate their payment platform to further enhance the offering and charge a fee per transaction.

Under this model, **Novatti have executed deals with RoyalPay, ePay and LatiPay** to facilitate a broad spectrum of Chinese Payments, including:

- in-store retail payments with leading Chinese e-wallets (WeChat Wallet & AliPay);
- online e-commerce payments from Chinese consumers within China; and
- cross-border Business-to-Business trade payments.

Novatti has positioned itself at the forefront of the market, enabling cheaper and efficient payment options, providing solutions to a disjointed market. Revenues generated from this division are demonstrating strong growth, validating the business model.

RoyalPay Australia - WeChat Wallet

Novatti signed an agreement with RoyalPay Australia, one of the first Australian distributor for WeChat Wallet, following the launch of the Trusted Party Services. This agreement enables Australian retailers to accept WeChat Wallet payments from Chinese visitors (tourists/students) in store, an option which has not been available in the past. Novatti receives a commission for each WeChat transaction generated through the RoyalPay system in Australia.

Outlook - RoyalPay is gaining strong traction

RoyalPay Australia, which commenced operations in July 2016, surpassed \$50m of turnover as of June 2017. Impressively, the current annualised run rate is \$150m on a current growth rate of circa 20% per month.

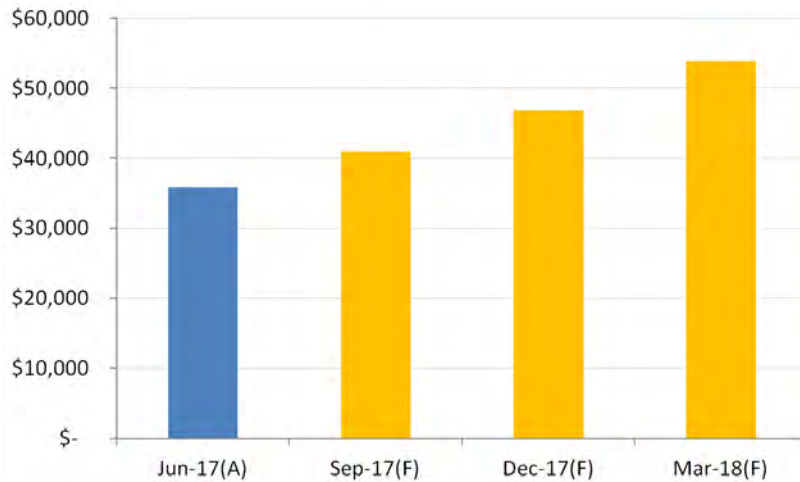
Novatti reported that net processing fees are currently circa \$150k per annum and growing in line with RoyalPay's growth.

Novatti have executed deals with RoyalPay, ePay and LatiPay to facilitate a broad spectrum of Chinese payments

RoyalPay is now generating over \$150m in revenue, growing at 20% per month

Chinese Payments continued

RoyalPay - Quarterly Revenue Forecast



Revenues generated from RoyalPay could potentially reach \$50,000 per quarter by Q3FY18

Figure 3 - RoyalPay - Quarterly Revenue Forecast (BYS Assumptions)

At the current growth rate, revenues generated from RoyalPay could potentially reach approximately A\$50,000 per quarter by Q3FY18 (A\$200,000 annualised). We anticipate that RoyalPay's growth rate will likely taper FY19 as the market becomes saturated, providing Novatti a strong, reliable revenue contribution all of which, effectively 'hits the bottom line'.

epayAustralia—AliPay

Novatti executed an agreement with epay Australia Pty Ltd to provide processing and compliance services to support epay's roll-out of Alipay to their large Australian retail base. epay provides innovative and tailored electronic payment solutions to a customer base with over **23,000 point of sale terminals, which includes Woolworths, Myer, David Jones and JB Hi-Fi.**

To facilitate the roll-out, epay have integrated Novatti's technology and are operating under Novatti's AFSL. In return, Novatti 'clip the ticket' on each Alipay transaction that is processed throughout the retail network. Novatti have built and integrated the necessary technology for a modest capital outlay, establishing an considerably high margin division which will result in healthy revenues as the roll-out is executed.

epay provides innovative and tailored electronic payment solutions to a customer base with over 23,000 point of sale terminals

Outlook

epay is due to initiate its roll-out in July 2017 with Novatti to receive revenues as transactions are processed. It is anticipated that revenues will be similar to the RoyalPay deal.

LatiPay Deal – Expanding the Scope

Novatti has executed a deal with LatiPay, which facilitates the expansion of its payments service to cover Australian e-commerce and trade payments from China. The deal enables payments via Chinese e-wallets such as AliPay, WeChat Pay and JDPay along with 19 major Chinese banks. These payment options are currently extremely limited in Australia and are highly sought after by Chinese consumers and merchants that desire faster and more cost-effective payment systems.

In combination with the RoyalPay & epay deals, Novatti have now secured the whole payment vertical, facilitating payments in store, online and between businesses. The deal effectively increases Novatti's reach from 1.2 million (Chinese visitors) to in excess of 1 billion.

The deal with LatiPay enables payments via Chinese e-wallets such as AliPay, WeChat Pay and JDPay along with 19 major Chinese banks.

Outlook

Novatti have started to on-board clients to the platform, which is resulting in early revenues. Growth in-line with managements expectations will reflect that of the Royalpay deal.

Chinese Payments continued

Novatti Addresses Three Enormous Chinese Focussed Markets

1. In-Store Retail Payments by Chinese Visitors

- A record 1.2 million Chinese tourists visited Australia in 2016. The 2017 International Visitor Survey (IVS) by Tourism Research Australia, showed foreign tourists spent a record A\$39.1bn throughout the year ending December 2016, a 7-percent rise on the previous year, **with Chinese visitors accounting for almost a quarter of that figure spending ~A9.5bn.**³ Facilitating Chinese payment options such as AliPay and WeChat (the two largest e-wallet providers in China, controlling ~90% of the market) is essential for Australian retailers if they wish to capture a piece of the growing opportunity.

Chinese retail payments could be worth up to \$13Bn by 2020

2. Online e-commerce payments from Chinese consumers within China

- China is the largest e-commerce market in the world with in excess of 300 million online shoppers. Cross-border e-commerce transactions between China and Australia were approximately \$50 billion in 2015⁴, making Australia one of China's most popular sources of products. Chinese consumers and businesses struggle with Australian denominated payments, which are both costly and timely. Utilising Novatti, Australian merchants will be able to accept and easily process Chinese payments, both faster and for a reduced transaction fee.

Cross-border e-commerce transactions were approximately \$50Bn in 2015

3. Business-to-Business trade payments and direct invoicing for Australian exporters

- China is Australia's largest business to business trading partner, with exports of goods and services up 2% on last year to \$27.3 billion.⁵ Transacting with small Chinese business customers is often burdensome and inefficient. Novatti's new platform is positioned to potentially disrupt the payment industry as it facilitates one of the easiest and most efficient payment systems (time and cost) for Australian exporters. The service enables merchants to now make requests for payment in real-time and directly to business customers, a pivotal change in cross-border transactions.

China is Australia's largest business to business trading partner, with exports of goods and services up 2% on last year to \$27.3 billion.

Competition

We note that there are a number of other participants that have emerged in this space over the past 6 months. Novatti's is ideally positioned through their key partners to capture a strong portion of the market in the current 'land grab', which will provide a reliable high margin revenue stream going forward. Management have indicated that resources attributed expanding the division will plateau once the market becomes saturated, shifting the focus to the service and management of the reliable, high margin revenue stream.

3. http://www.chinadaily.com.cn/business/2017-03/23/content_28655066.htm

4. <https://www.austrade.gov.au/australian/export/export-markets/countries/china/doing-business/e-commerce-in-china>

5. <http://www.abs.gov.au/ausstats/abs@.nsf/mf/5368.0>

Flexepin

Flexepin facilitates the conversion of cash into a digital voucher, which can be used for online and mobile commerce. Novatti is establishing a growing network of physical locations enabled with a distributor's point of sale systems for the purchase of the Flexepin vouchers. Online merchants are then signed up who will accept the Flexepin vouchers as a payment method. Being a prepaid voucher, Flexepin offers a safer online purchasing experience, limiting the risk of identity fraud. Flexepin is gaining strong traction as a method of payment for cryptocurrencies such as Bitcoin, Ethereum and Ripple. Cryptocurrencies are experiencing staggering growth for which Novatti is well positioned to service.

Revenue Model

The vouchers are sold in various pre-determined amounts, for which Novatti will receive varying margins of circa 2% per transaction, depending on the commercial arrangement and region. Ongoing business development activities should see strong growth in the number of countries and the numbers of merchants accepting Flexepin.

Online Merchant Focus

Novatti is focussed on acquiring new online merchants for processing globally where distribution networks have been established. Flexepin continues to add countries for distribution along with merchants that accept Flexepin cash vouchers as online payment for goods and services. Flexepin is operational in Canada, Australia, Greece, Cyprus and parts of Africa. Novatti is currently updating its service to meet PSD2 and 4AMLD regulations and directions due in the UK and Europe and will accelerate the Flexepin roll-out to additional countries worldwide during FY 2018.

Partnering - Licensing the Platform

Flexepin is also progressing projects assisting businesses manage their internal payment processes by providing special customised voucher applications and services. PayGround AB in Sweden are utilising specialised services from Flexepin for their internal processes in the Nordic region (Sweden, Norway & Denmark).

Revenue Growth

The Flexepin payment network has accelerated its growth, predominantly fuelled by cryptocurrencies. **The Company noted that quarterly revenue has approximately double in each quarter of FY2017, with the June Quarter providing a 135% increase.** We have modelled for strong growth, supported by the roll-out to additional jurisdictions.

Flexepin facilitates the conversion of cash into a digital voucher, which can be used for online and mobile commerce.

Novatti is acquiring new online merchants throughout Canada, Australia and Europe where distribution networks have been established.

Growth has been fuelled by cryptocurrency exchanges

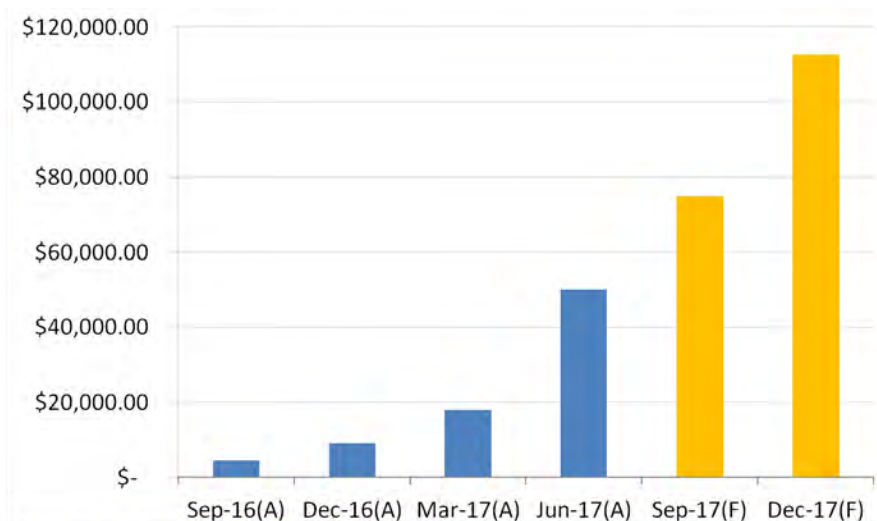


Figure 4 - Flexepin Revenue Growth (BYS Assumptions)

Flexepin - Cryptocurrencies

Novatti identified the adaptability of Flexepin to service users of cryptocurrencies such as Bitcoin, Ethereum and Ripple as an enormous opportunity. Initially rolled out in Canada, Flexepin provides a simple and secure method for consumers to transfer funds to a distributor or exchange to acquire cryptocurrencies. Flexepin is increasing its cryptocurrency merchant base and expects continued strong uptake from this sector. Flexepin is currently available to consumers at approximately 6,000 retail outlets in Canada.

Flexepin provides a simple and secure method for consumers to acquire cryptocurrencies

According to a recent McKinsey Report, Blockchain technology such as Bitcoin will experience an early adoption phase throughout 2016-17, followed by rapid growth in 2018. Bitcoin is already growing in acceptance by mainstream retailers, with majors such as Microsoft, Dell, Kmart, Sears and Bloomberg accepting Bitcoin as a payment option.⁶

Cryptocurrencies are forecast to gain further adoption in 2018

Growth and Prevalence of Top Three Cryptocurrencies



Cryptocurrencies have experienced significant growth over the past 6 months

6. <http://bravenewcoin.com/bitcoin?mkt=AUD#Exchanges>

Figure 5 - Cryptocurrency charts -
Source: <https://coinmarketcap.com/> - 1 July

Flexepin - Partnering

Scandinavia PayGround AB Partnership

Novatti established a partnership with PayGround AB, a Swedish online payment provider focussed on global mobile payments. Novatti has integrated their technology in order to create a tailored electronic voucher payment product for customers and merchants located in Scandinavia. The product is currently sold online, enabling customers to process invoices, e-vouchers and mobile phone bills. The product has been launched in Sweden Norway and Denmark.

The Flexepin voucher technology will provide customers with a secure and convenient way to make online purchases and/or to load value to their accounts, reducing the threat of online fraud. PayGround's process allows the merchant to offer a secure and simple mobile payment option to their consumers.

Revenue Model

Novatti will receive a service fee on every transaction and the revenues will be dependent on the take-up of the service.

Novatti established a partnership with PayGround AB, a Swedish online payment provider focussed on global mobile payments

TransferBridge

TransferBridge provides a global network that connects emerging payment platforms, remittance operators, financial institutions, retailers, utilities and all types of telecommunication operators. TransferBridge facilitates the international transfer of a range of remittances, mobile recharge credits, bill payments, vouchers, donations and other digital transactions, both on a wholesale and retail basis. The network ecosystem has been formulated over the past three years, connecting over 120 countries with more than 680 telecommunication companies and other payment recipients.

TransferBridge is a global remittance network

Change of Strategy

Since our initiation report, Novatti have adjusted their TransferBridge strategy, moving away from a self funded global roll-out, to a focused partnership model. This strategy dramatically reduces capital expenditure and results in immediate revenue for the Company. Continual execution of this strategy should result in a sustainable remittance operation.

Revenues are below what was first modelled, although there were a number of developments under the new strategy over the past six months. These developments include the formation of Monisend and the integration with Zapper Marking Limited and ATX.

TransferBridge - Partnering

MoniSend – Zimbabwe Cross Boarder Payment Service

In March 2017, Novatti established MoniSend (50% owned) to launch a global first cross border payment service called Amagetsi Ekuya - Magetsi Kumusha ('Amagetsi'), which translates to 'send electricity home'.

The platform enables online payments for prepaid electricity in Zimbabwe to customers in South Africa and abroad (UK, US, Europe and Australia). Zimbabwean nationals make up the largest population of foreigners from African countries, of which 1-3 million live in South Africa, making it the logical initial focus. Total remittances sent to Zimbabwe are approximately \$1b per annum. This is a scalable, first to market service that solves the compelling issue of fast and efficient remittance for the growing electricity consumer base in Zimbabwe.

Monisend enables online payments for prepaid electricity in Zimbabwe from customers abroad

Revenue Model

Novatti aims to provide an efficient and cost effective solution to a market that is constrained outdated solutions with high transactions costs (approx 9.5%). Revenues will be derived from transaction fees (1-3%), the success of which will be based on the uptake of the service and the number of transactions and their value.

TransferBridge - Partnering

Integration with Zapper

Zapper Marketing Limited ("Zapper") has selected Novatti to enable airtime top-up features on the Zapper app through Novatti's TransferBridge solution. The additional features include the ability for Zapper users to top-up domestic mobile airtime, and top-up mobile phone accounts in other countries.

The possibility exists for future integration of Flexepin, which will allow Zapper users to make payment without a linked bank account. This will provide consumers in developing countries with access to online purchasing and transfers, particularly in jurisdictions with low financial access.

What is Zapper?

Zapper is a quick and easy way for consumers to pay for goods and services using their mobile phone. The service is appropriate for any physical location or online site, and is currently used in 15,000 merchants across Europe, Africa and North America. Their payment platform offers a number of advantages over traditional payment methods, including but not limited to, quick and secure cashless payment using QR codes, merchant access to CRM analytics through the Zapper Merchant Portal, and ability for patrons to share offers and deals with one-another through the Zapper platform.

Revenue Model

Novatti will receive a usage fee on every transaction and the revenues will be dependent on the take up of the service.

ATX Malaysia

Novatti commenced commercial operations in Malaysia through its joint venture with ATX Malaysia Sdn Bhd. The JV provides Malaysian retailers and consumers access to a payment platform for mobile phone and utility bills. It was announced in February that the platform was live and connected to 9,000 independent retail agents in Malaysia with strong growth expected to continue throughout 2017.

Revenue Model

Novatti is paid on a percentage of the value of the transactions processed by the JV.

TransferBridge Outlook

Under the new strategy, commercial relationships continue to be developed for TransferBridge, which are in line with our reformed expectations. During FY18 we anticipate revenues from both Monisend and Zapper to grow from a modest base, accompanied by new partnership integration opportunities.

The Novatti Platform

Developed over the past five years, the Novatti Platform is the traditional core of Novatti. The platform deploys a vast array of mobile and alternative payment solutions and services to telecommunications and financial services companies globally. Novatti has a focus on enabling financial inclusion to consumers in developing nations with minimal access to traditional bank accounts. The Novatti Platform facilitates end-to-end electronic payments using mobile phones and other affordable devices, creating an accessible financial ecosystem. The innovative technologies enables new and cost effective payment services, which have a great demand in developing markets/nations, where internet and mobile penetration is growing dramatically.

Novatti has partnered with Zapper to integrate the TransferBridge offering with their platform

Zapper is a quick and easy way for consumers to pay for goods and services using their mobile phone.

The Novatti Platform facilitates end-to-end electronic payments using mobile phones and other affordable devices, creating an accessible financial ecosystem.

The Novatti Platform continued

Revenue Model

The Novatti Platform is sold under two models: Enterprise Sale or Software as a Service (SaaS)

Example of an Enterprise Sale

- 1) Large upfront payment (40%)
- 2) Payment upon delivery (60%)
- 3) Ongoing service & maintenance fees*
- 4) Update fees

On-going service and maintenance contracts; typically 15–18.5% of the initial contract value and last for five to ten years

Example of a SaaS Sale

- Upfront - \$75k
- Install Cost - \$30k
- SaaS fees – \$100k per annum
- SaaS Cost - \$20k per annum

Sales

The Novatti Platform continues to win market acceptance for being a contemporary flexible robust payments system capable of deploying payments networks in short time. Increased business development led to two major upgrades of existing client networks that were delivered in Q3FY17, along with an enhanced sales funnel for which management noted their confidence for further sales in the coming quarter(s).

Novatti continued to derive business from its project with Telecom Tanzania, successfully passing a contractual requirement of the Performance Acceptance Test. A payment milestone for this of approximately USD400K was received in the Q3FY17.

Outlook

It is anticipated that the the Novatti Platform division of the business will deliver 2 enterprise sales and 2-5 SaaS sales per annum.

The Novatti Platform - Partnering

India Payments - Transaction Solutions International Ltd Partnership

Novatti entered into an exclusive agreement with Transaction Solutions International Limited (ASX.TSN) to develop solutions for the multi-billion-dollar digital payments market in India. India is a highly attractive market as a result of a current legislative push to transition away from a 'cash economy' in order to reduce corruption, increase business efficiencies and tax overall revenue.

TSN is a strong partner with a network of 14,000 ATMs and established relationships with more than 35 tier-one Indian banks, including the Central Bank of India and the State Bank of India.

The services offered to the Indian market will include::

- An agent based payments and collections network;;
- Bill payment aggregation and a cash pickup remittance network;;
- Digital wallets; and
- Additional mobile banking, branchless banking and cash collection solutions.

According to a report by the Boston Consulting Group, it is estimated that total value of payments conducted via digital instruments in India will reach US\$500 billion annually by 2020, an increase of approximately 10 times over current levels.

Revenue Model

Novatti will receive a mixture of wholesale and revenue share fees and the revenues will be dependent on sales volumes.

Novatti continued to derive business from its project with Telecom Tanzania

Novatti entered into an exclusive agreement with Transaction Solutions International Ltd to develop solutions for the multi-billion-dollar digital payments market in India.

Investment View

Since listing in January 2016 Novatti has continued to establish itself at the forefront of the payments sector. Management are successfully transitioning the Company from its legacy model, traditional enterprise sales, to a diverse revenue mix including Software as a Service (SaaS) and 'clip the ticket' transaction revenues, which are derived from a variety of sources. The acquisition of basis2 is a strong strategic fit for Novatti, as they can leverage their key capabilities and networks to drive growth in what was a mature business. Most importantly the acquisition brings strong earnings which underpin Novatti's profitability during this growth phase. Novatti have demonstrated an ability to identify and seize upcoming opportunities, namely through the formation of their China payment partnerships and facilitating cryptocurrency purchases via Flexepin. These intuitive endeavors are gaining traction, resulting in solid high margin revenue growth. To drive growth further, the Company is utilising a partnering model to integrate their technologies into a number of platforms, quickly gaining access to markets without excessive capital outlay. These platforms are in their early stages but are gaining traction in their respective markets. It is encouraging to see the revenue mix transition as these new platforms are highly scalable, attract high margins and are thus positioned to be the leading revenue generators for the Company going forward.

Ability to adapt - Like the majority of tech companies listed during the 2014-16 period, Novatti utilised the funds raised from the initial public offering to hire more specialised staff and divisional managers in order to launch new products and transform the business. During their first year of listing, the increase in monthly cash burn did not directly equate to comparable increase revenues or growth of both Flexepin and TransferBridge, requiring a 'pivot' to the operation. To Novatti's credit, Management have been highly nimble, implementing a number of strategies to set strong foundations in order to drive high margin, transactional revenue growth. Most importantly, Novatti have been able to successfully integrate/implement these strategies whilst reducing costs throughout the business.

Formation of the China Business Unit - Novatti identified a significant opportunity in facilitating Chinese payments and merchant services. Novatti established a 'China Business Unit', which promptly returned three pivotal partnerships with RoyalPay, epay and Latipay. Novatti is now positioned at the forefront of the market, facilitating a broad range of Chinese facing payments/transactions. The opportunity for Novatti is significant, with total transactions valued at approximately \$87bn per annum. This figure is made up of, retail spending by Chinese visitors (\$9.5bn), Online e-commerce payments from Chinese consumers within China (\$50bn) and Business-to-Business trade payments and direct invoicing for Australian exporters (\$27.3bn). Novatti's partnerships facilitate the use of all major Chinese payment methods, WeChat, Alipay and all major banks providing cheaper, faster and safer solutions for all parties involved in the transaction.

RoyalPay is gaining strong traction in the Australian market, with annualised revenues reaching \$150m, growing at 20% per month, returning approx \$150k to Novatti. We anticipate revenues from these partnerships to incrementally grow, quarter on quarter, potentially forming a significant portion of Novatti's diverse revenue mix.

Flexepin – Cryptocurrencies - Flexepin is experiencing 100% quarter on quarter growth, albeit from a modest base, highlighting the traction of the product offering. The growth can be attributed to a widespread integration with cryptocurrency exchanges in Canada, facilitating the exchange of a Flexepin voucher for a desired cryptocurrency (Bitcoin, Ethereum, Ripple etc.). Flexepin is a truly innovative product in a sector that is experiencing astounding growth and attention globally. We anticipate that revenues will continue to grow organically as the Flexepin offering is rolled-out further across Canada and additional jurisdictions (UK, Europe & Australia).

Management are successfully transitioning to a diverse revenue mix including Software as a Service (SaaS) and 'clip the ticket' transaction revenues

Management have been nimble, implementing a number of strategies to set strong foundations in order to drive high margin, transactional revenue growth.

Novatti is now positioned at the forefront of the market, facilitating a broad range of Chinese facing payments/transactions.

Flexepin is experiencing 100% quarter on quarter growth, fuelled by cryptocurrencies such as Bitcoin

Investment View continued

Acquisition - basis2 - Novatti's most recent initiative was the acquisition of basis2, a profitable, advanced billing platform that has serviced the utilities industry for over 10 years. The acquisition of basis2 injects approximately A\$1.7m revenue and A\$1.1m EBITDA into the P&L, transitioning Novatti to profitability. Our modeling suggests that Novatti (excluding basis2) will be approaching break even during Q3FY2018, therefore the basis2 revenue provides a strong, positive EBITDA foundation to build upon and makes Novatti profitable on a cashflow basis from Q1FY18.

It has been noted that basis2 has not been geared for growth with previous management focussed on servicing existing clients. Novatti's Management have identified a number of growth opportunities, predominantly the distribution throughout current networks in emerging markets such as Africa and the Middle East.

Partnership model - As mentioned above, Novatti have implemented a number of strategies to increase transaction revenues for a modest capital outlay. This has been achieved through a partnering model, which leverages the parties' strengths in order to establish a payment/billing platform which generates 'clip the ticket' revenues that grow exponentially at high margins. Novatti has integrated their technology with a variety partners across number of jurisdictions. We now expect the modest capital outlay for these integrations to pay dividends over the coming years as these services gain traction in their respective markets.

We acknowledge that some of these products will be more successful than others, but it is the diverse revenue mix that Novatti is establishing that forms an attractive value proposition.

Summary - Novatti's core technology platforms are robust and have been validated by a variety of blue-chip customers and partnerships. The Company is approaching an inflexion point as the transactional revenue divisions continue to grow exponentially, dropping high margin revenues straight to the bottom line, transitioning the Company into profitability. We believe Novatti is undervalued vs. its peers, and thus maintain a **BUY recommendation and share price target of \$0.275 per share with this share price target being the comprised of the DCF valuation (\$0.28) and a per share valuation based on peer group revenue multiple (\$0.27).**

The acquisition of basis2 injects approximately \$1.7m revenue and \$1.1m EBITDA into the P&L, transitioning Novatti to profitability

Novatti has integrated their technology with a variety partners across number of jurisdictions.

We maintain a BUY recommendation and share price target of \$0.275

Valuation Methodology & Assumptions

We have used equal weighting of DCF and peer group revenue multiple to determine Novatti's valuation. We note the inherent forecast risk surrounding the timing and quantum of transaction revenues but the initial revenue and uptake has provided a degree of validation.

As Novatti's business is made up of five different silos that complement each other, we have valued assessed revenues from each of these divisions and discounted them accordingly.

Novatti Platform

- Enterprise contracts range from \$0.5m – \$1m and we have assumed an average value per contract of \$0.6m
- Enterprise Sale Services and maintenance fees are said to range from 15-18% p.a. and we assumed 16.5% being the midpoint of this range
- Contracts typically range from 5-10 years and we have assumed average length is 7.5 years
- We understand the company is targeting two additional enterprise contracts per year and feel this is achievable given the established nature of the company.
- Additional Enterprise contracts are cumulative (for the period of their contract)
- We assume a growth level of 7.5% for Enterprise Sales
- CPI at 2.5% (average CPI for next 10 years)
- All dollars are stated in AUD – the company converts and reports dollar value of contact wins in AUD
- SaaS contract wins are assumed to have an upfront revenue of \$50,000 based on historical numbers
- We assume recurring SaaS fees of \$100,000 per contract as the SaaS component is results in a higher monthly ongoing fee (as the upfront is smaller)
- We assume contract length is an average 7.5 years
- The Company is targeting 5 additional cumulative SaaS contract wins p.a. and we believe this is achievable given previous track record and pipeline
- We have factored in a SaaS yearly price increase of 3% in line with industry standard

Flexepin

- We have assumed five geographic areas that NOV is targeting/launching into: Australia, Canada, UK, Europe and Rest of World / Online
- Transaction Fees will range from 0.5-3% and so we have assumed a 1% fee for Australia, 2.5% fee for Canada, 2% for UK, Europe and RoW
- From year two we assume a growth rate of 25% - it is hard to gauge growth over the initial two years but growth of Flexepin thus far MoM has been >25%

TransferBridge

- We assume a 1.5% net remittance fee to Novatti
- We assume a strong uptake of the current platforms (Monisend, Zapper & ATX) in FY18
- Transaction growth of 50% over the next 4 years
- Growth to be sustained by uptake of the platforms and the addition of new partnerships/platforms

Valuation Methodology & Assumptions continued

China Payments / Trusted Party Services

RoyalPay

- We have assumed a 0.1% fee on RoyalPay's transaction throughput
- We assume the current growth (20% per month) will continue until Q2/Q3FY2018 before tapering off
- Assumed growth going forward - FY19 & FY20 - 40%, FY21 - 20%, FY22 +5%

ePay

- Transaction fee assumed to be between 0.2% - 0.5% - Midpoint = 0.35%
- Transaction volume per terminal assumed to be \$3,000
- Total number of terminals = 23,000
- We assume a roll-out to the most applicable 20% over FY18 & FY19
- Terminal growth beyond FY19 assumed to be 5%

LatiPay

- Transaction fee assumed to be between 0.2% - 0.5% - Midpoint = 0.35%
- Transaction volume per customer assumed to be 10,000 per month, growing at CPI (2.5%)
- Strong client uptake assumed over the first three years - 100% growth per annum, reaching 600 clients on the platform by FY20.
- Once market is saturated a conservative growth rate of 5% is assumed

Trusted Party Services - Compliance Services

- Monthly Fees Charged per customer - \$3,000 - \$6,000 - Assumed Midpoint - \$4,500
- Customers acquisition - 2-3 per annum - assumed midpoint - 2.5

basis2

- Customer growth rate assumed to be 0.5 per annum
- Customer assumed to generate \$0.5m per annum, recurring revenue
- EBITDA margin assumed to be maintained at 65%

General

- Weighted Average Cost of Capital (WACC) used was 13.6%
- Tax Rate of 30%
- Staff growth of 5%

Comparison Companies

Company	ASX Code	Mkt Cap(\$M)	Share Price (\$)	Revenues (\$m) 9 Months	EV/Revenue (9 months)
Novatti	NOV	\$ 15,846,115	\$ 0.145	\$ 3,140,000	4.41
eServGlobal	ESV	\$ 73,621,160	\$ 0.115	\$ 8,788,500	7.31
Mint Payments	MNW	\$ 42,801,315	\$ 0.066	\$ 2,050,000	18.76
Knosys Limited	KNO	\$ 10,543,417.11	\$ 0.135	\$ 760,000	12.72
eMerchants	EML	\$ 393,390,690	\$ 1.600	\$ 48,600,000	8.09
Otherlevels Holdings	OLV	\$ 8,537,080.000	\$ 0.038	\$ 2,671,000	3.11
Peppermint	PIL	\$ 7,139,593	\$ 0.008	\$ 651,000	10.97
Average EV/Sales					9.34

Figure 6 - Peer Comparisons
Source - IRESS 18 July 2017

Major Shareholders

Investor	Holding	% IC
1 BRAYTER LIMITED	46,631,507	42.45%
2 CHI WAI KENNETH LAI	12,918,750	11.96
3 CORANGAMITE PTY LTD	11,107,904	10.11%
4 BNP PARIBAS NOMINEES PTY LTD	2,002,273	1.82%
5 HALF FULL PTY LTD	1,961,876	1.79%
6 PACIFIC NOMINEES LIMITED	1,812,500	1.65%
7 SQUITCHY LANE HOLDINGS PTY LTD	1,440,090	1.31%
8 MOSCH PTY LTD	1,171,875	1.07%
9 GOLDFIRE ENTERPRISES PTY LTD	937,500	0.85%
10 JASPER SUPERANNUATION PTY LTD	875,000	0.80%

Board and Management

Peter Cook Managing Director and Chief Executive Officer

Peter Cook has 25 years' experience as a director and executive with companies including Coopers & Lybrand (now PWC), Catsco Pty Ltd and Advanced Network Management Pty Ltd (Telstra joint venture company) and many start up technology companies.

Peter's career has been largely based on founding and leading multiple telecommunications and payments companies. Unidial Pty Ltd, Total Tel Limited, Long Distance Direct Pty Ltd, Electronic Recharge Pty Ltd, Ezipin Australia Pty Ltd and Ezipin Canada Inc are such examples and all with successful exits to private and public companies. Peter was a Non-Executive Director and Deputy Chairman of ASX-listed Senetas Corporation Limited from June 1999 to January 2006.

Peter is a graduate of the Royal Military College, Duntroon, and has completed a BSc (UNSW), a Grad Dip Computing (Canberra) and the Graduate Diploma in Securities course from the then Securities Institute of Australia. Peter is a Graduate Member of the Australian Institute of Company Directors.

Peter Pawlowitsch Non-Executive Chairman

Peter Pawlowitsch is an accountant by profession with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors during the last 15 years.

Peter is Chairman of Dubber Corporation Limited, and a Non-Executive director of Ventnor Resources Ltd) and Knosys Limited, all ASX-listed companies.

Peter holds a Bachelor of Commerce from the University of Western Australia, is a current member of the Certified Practising Accountants of Australia and also holds a Masters of Business Administration from Curtin University.

Brandon Munro Non-Executive Director

Brandon Munro is a corporate lawyer by profession with executive experience in the private equity, mining, infrastructure and IT sectors. Brandon brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team as well as his own experience co-founding start-ups in the IT and exploration sectors. He commenced his career as a lawyer working for 7 years at premier Australian commercial law firms, following which he held executive management and director positions in the resources and infrastructure sectors, including in the private equity and funds management industry.

Brandon is currently the Managing Director of ASX-listed Bannerman Resources Ltd and a Non-Executive Director of ASX-listed Rewardle Holdings Ltd.

Brandon has degrees in Economics and Law from the University of Western Australia and postgraduate qualifications in Applied Finance and Investment from the Securities Institute of Australia (now Finsia). He is a Fellow of Finsia and a Graduate Member of the Australian Institute of Company Directors.

Paul Burton Non-Executive Director

Paul Burton has over 14 years of leadership experience in the payments industry and was the CEO of Datacash Group Plc, a payments gateway company bought by Mastercard. Datacash had a significant presence in Africa and Paul steered the company's expansion in that market.

Paul, a qualified chartered accountant, entered the payments industry in 2001 when he joined Proc-Cyber Services as a Financial Controller, which was later acquired by Datacash. He was the CEO of Datacash in 2012 when he left to offer management consulting services to a number of global payment processing companies.

Paul holds a Bachelor of Commerce from Rhodes University and Honours Bachelor of accounting science from University of South Africa. Paul is a current member of the Chartered Accountant of South Africa.

Kenneth Lai Non-Executive Director

Kenneth Lai is a substantial shareholder in Novatti through the Company's initial public offer and is currently the MD of Hong Kong-based investment firm Prestige Team Limited, which has interests in payment processing, real estate, digital marketing and information technology support services. Kenneth has a wide range of investment and business experience in Asia through his business pursuits and is well placed to help Novatti expand within this region.

Kenneth holds a Bachelor of Science (BSc) degree majoring in Computer Science from the University of Auckland, New Zealand.

Steven Stamboultgis Chief Financial Officer

Steven Stamboultgis has more than 25 years finance experience, having worked with companies including Foster's Brewing Group, Pauls Milk and Parmalat Australia.

As Chief Financial Officer at ASX-listed Praemium Limited, Steven was responsible for the company's financial reporting requirements and was a member of the team that assisted the company list on the ASX.

Recently, Steven was Chief Financial Officer and Company Secretary for ASX-listed Urbanise.com Ltd.

Steven holds a bachelor's degree in accounting, a master's degree in commercial law and is a certified practising accountant.

Alan Munday - Chief Operating Officer

Alan Munday has 25 years' experience as a director, executive, and management consultant including with KPMG, Senetas (ASX: SEN), Granite Investment Group, Total Tel International (TTI) and other companies. Alan has been associated with Novatti and its predecessors from 2002 including a period in the role of managing international partner channels and sales.

Alan has considerable experience in establishing and developing early stage companies and helping develop and execute new business strategies. He is recognised for providing innovative and insightful solutions to ensure clients achieved their business objectives. Alan entered the business sector following 15 years' service in the Australian Army, including 2 years in the US Army HQ Washington as part of an IT systems and network communications project.

Financial Summary

NOVATTI GROUP LTD

Date: 19-Jul-17
Share Price (\$A): \$ 0.140
Year End: 30-Jun

Shares on Issue 109,511,932
Share Price \$0.140
Rating: Buy
Price Target \$0.275 per Share
DCF Valuation \$0.280 DCF
Upside/(Downside): 182%
Risk High (Speculative)
Current Mkt Cap \$ 15.3 million
Cash (last Qtr) \$ 1.1 million
EV \$ 14.2 million
WACC 13.6%

PROFIT & LOSS (A\$mn) - year ended 30th June	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
Sales Revenue	4.87	2.9	7.9	11.7	15.8
Cost Of Sales	-	-	-	-	-
Gross Profit	4.87	2.9	7.9	11.7	15.8
Other Income	1.00	1	1	1	1
Total Revenue	5.87	3.9	8.9	12.7	16.8
Total Operating Expenses	9.70	7.7	6.9	7.3	8.1
Fair Value Change	-	-	-	-	-
EBITDA	-3.83	-3.8	2	5.4	8.7
Depreciation & Amortisation	0.02	0.02	0.04	0.08	0.1
EBIT	-3.85	-3.82	1.96	5.32	8.6
Interest Revenue	0.01	0.1	0.1	0.25	0.3
Finance Costs	0.01	0.01	0.1	0.1	0.15
Net Interest Expense	-	-	-	-	-
Net Profit Before Tax	-3.85	-3.73	1.96	5.47	8.75
Income Tax Expense	-	-	-	-	-
Net Profit After Tax	-3.85	-3.73	1.96	5.5	7.44

BALANCE SHEET (A\$mn)	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
Current Assets					
Cash	4.725	1.1	3.1	8.5	20.4
Receivables	1.54	0.58	1.58	1.76	2.37
Inventories	-	-	-	-	-
Other	0.081	0.1	0.1	0.1	0.1
Total Current Assets	6.346	1.8	4.8	10.4	22.8
Non Current Assets					
Property, Plant and Equipment	0.0014	0.7	0.9	1.1	1.5
Intangibles	n/a	n/a	n/a	n/a	n/a
Other	0.061	0.004	0.004	0.004	0.004
Total Non Current Assets	0.06	0.70	0.90	1.10	1.50
Total Assets	6.41	2.48	5.71	11.48	24.32
Current Liabilities					
Trade and other Payables	-1.88	-1.2	-1.0	-1.1	-2.4
Provisions	-0.15	-0.03	-0.03	-0.03	-0.08
Borrowings	-	-0.2	-0.2	-0.2	-0.2
Total Current Liabilities	-2.03	-1.385	-1.265	-1.325	-2.71
Non-Current Liabilities					
Employee benefits	0.118	0.130	0.143	0.157	0.188
Deferred Tax Liability	n/a	n/a	n/a	n/a	n/a
Total Non Current Liabilities	-0.175	0.130	0.143	0.157	0.188
Total Liabilities	-2.21	-1.26	-1.12	-1.17	-2.52
NET ASSETS	4.20	1.23	4.59	10.32	21.80
Contributed Capital	11.9	12.61	14.01	14.01	14.01
Reserves	0.75	0.8	0.8	1.1	5.1
Accumulated Losses	-8.45	-12.2	-10.2	-4.8	2.7
Total Equity	4.2	1.23	4.59	10.32	21.80

CASH FLOW (A\$mn)	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
Cash at Start	0.4	4.7	1.1	3.1	11.7
Cash Flow from Ops	4.87	-3.8	8.9	12.7	16.8
Cash Flow From Investing	-8.10	-0.5	-6.9	-7.3	-8.1
Cash Flow From Financing	7.5	0.7	0	0	0
Net Cash Flow	4.27	-3.6	2	5.4	8.7
Cash At End	4.7	1.1	3.1	8.525	20.4

EARNINGS	FY14/15A	FY15/16E	FY16/17E	FY17/18E	FY18/19E
EPS - Basic	-0.035	-0.034	0.018	0.050	0.068
EPS - Diluted	-0.035	-0.034	0.018	0.050	0.068
EPS Growth (%)	n/a	n/a	152.55%	179.08%	35.97%
DPS	0	0	0	0	0
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%	0%

VALUATION	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
P/E (x)	-3.98	-4.11	7.82	2.80	2.06
EV/EBIT (x)	-2.90	-2.92	5.69	2.10	1.30
EV/EBITDA (x)	-2.91	-2.94	5.81	1.13	1.28
Dividend Yield (%)	0%	0%	0%	0%	0%
Price/Book (x)	2.42	8.61	3.19	1.48	0.67
Price/NTA (x)	2.39	6.17	2.69	1.34	0.63
Price/Cash/Flow per Share (x)	3.59	4.26	7.67	2.84	1.76

GROWTH	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
Total Rev. Growth (% pcp)	n/a	-34%	128%	43%	32%
Op. Exp. Growth (% pcp)	n/a	-21%	-10%	6%	11%
EBITDA Growth (% pcp)	n/a	-1%	153%	170%	61%
EBIT Growth (% pcp)	n/a	-1%	151%	171%	62%
NPBT Growth (% pcp)	n/a	-3%	153%	179%	60%
NPAT Growth (% pcp)	n/a	-3%	153%	179%	36%

MARGINS & RETURNS	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
EBITDA Margin (%)	-65%	-97%	22%	43%	52%
EBIT Margin (%)	-66%	-98%	22%	42%	51%
NPBT Margin (%)	-66%	-96%	22%	43%	52%
ROIC (%)	-92%	-303%	43%	53%	34%
ROE (%)	-92%	-303%	43%	53%	34%
ROA (%)	-60%	-150%	34%	48%	31%
Effective Tax Rate (%)	-	-	-	-	-

GEARING	FY15/16A	FY16/17E	FY17/18E	FY18/19E	FY19/20E
Net Debt (A\$mn)	0.15	-	-	-	-
Net Debt/Equity (%)	1.0%	-	-	-	-

Key Risks

Regulatory and licensing risk

Novatti operates in a complex regulatory environment across a variety of jurisdictions, which have varying degrees of regulations. Material changes in regulation in a particular jurisdiction may have an effect on the Company's operations. A failure to properly understand or comply with such regulations or the conditions of licences issued under those regulations may also negatively impact on the Group's business.

Delivery of current products and services

The ability of the company to continue to deliver its current products and services to new and existing customers, whilst commercialising new technologies and attaining new markets and customers.

Management of growth

There is a potential risk that the Company may not be able to manage rapid growth of the business, namely the Flexepin and TransferBridge divisions, which have enormous markets. If the Company cannot properly implement and manage this growth, it may affect financial performance.

TransferBridge and Flexepin have a limited operating history

TransferBridge and Flexepin limited operating history, which presents a risk as there is no assurance that they will achieve commercial viability through sufficient growth of transaction volume and network extensions.

Competition

Financial payment technology faces stiff competition from similar products, some of which are offered by well-established and financially-strong players with access to much greater resources. This could adversely impact the company's ability to garner favourable deals in both defense and civilian markets.

Sovereign Risk – Foreign Corruption and Bribery

The Group and its Channel Partners operate in many overseas countries and in particular in many emerging markets. It is possible that a staff member or representative of the Group fails to adhere to relevant legislation from Australia and other countries in relation to acts of corruption and bribery and places the Group in an adverse legal position. Such an event could lead to reputational damage, contract termination or renegotiation, direct costs and loss of revenue to the Group.

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