

# NOVATTI (ASX: NOV)

## DIGITAL PAYMENTS



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### Key Highlights

- \$39m sales revenue in FY23, +20% YoY;
- \$21.5m sales revenue in H1 FY24, +8% YoY;
- Focus on cost reduction reduced quarterly expenses to \$7.2m, down 41% YoY;
- Restructure of 12 fragmented business units down to 4 core divisions;
- \$4m in annualised expenses to be cut commencing Q3 FY24;
- Clear line of site to operating cash flow positive by mid 2024;
- An immediate opportunity is in the Payments AU/NZ division, targeting 70% gross margins within 3 years - currently approx 44%;
- Streamlining to be fronted by a unified Novatti platform with all payment services accessible with cross-selling ease, already proving popular among current and new clients;
- Major tailwinds for Novatti services with the shift towards a cashless society;
- Only 20% of Australians are now classified as 'cash users', set to drop further;
- Strategic review underway of all business assets within the Novatti portfolio;
- Novatti's funding for the International Bank of Australia (IBOA) has ceased;
- External funding for IBOA has commenced, latest pre-money valuation at \$24.7m;
- 87% stake in IBOA to be reduced with more external funding expected;
- Novatti's stake in IBOA, alone, is valued higher than the entire NOV market cap.

### Investment Case - Speculative Buy

Emerald Financial maintains its Speculative Buy rating on Novatti which is six months into a major restructure across the Company that has seen operational efficiencies streamlined by merging 12 individual business units down to 4 core divisions - Payments AU/NZ, Payments International, Technology and Investment.

The restructure has been headed by the first major leadership change since Novatti listed on the ASX in 2016, with international payments executive Mark

Healy taking the helm in June 2023 as just the second CEO in Novatti's history. The appointment brought major international experience in scaling payment companies, evident by his initiative to unify various payment service brands into the Novatti brand. This initiative to streamline the business has already appealed to existing and new customers who can access all of their payment acquiring, card services, alternative payments, loyalty programs, digital wallets,

#### Outlook:

##### Date:

#### SPECULATIVE BUY

1 FEB 2024

Price (1 Feb):

\$0.053

Ticker:

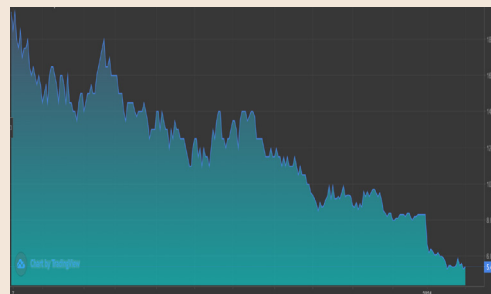
ASX: NOV

52-Week range: \$0.053-0.215

Market cap (AUD): \$18.3m

Shares on issue 338.6m

	FY23	FY22	FY21
<b>Revenue (\$m)</b>	38.9	32.6	16.5
<b>EBITDA (\$m)</b>	-23.5	-14.0	-5.9
<b>NPAT (\$m)</b>	-26.5	-16.6	-11.9



# Novatti



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billing, and payments automation within a singular platform.

A strategic review is also underway, being led by Healy, which is expected to see all businesses within Novatti's global portfolio be assessed around its future growth potential and contribution towards Novatti's mission to achieve positive cash flow.

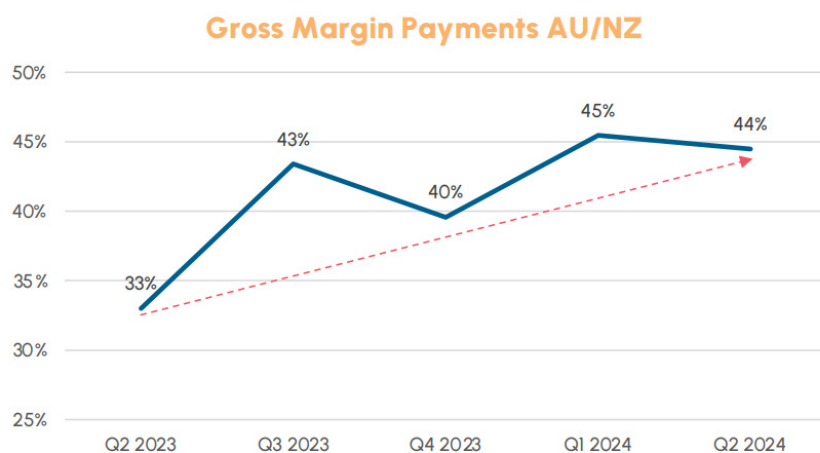
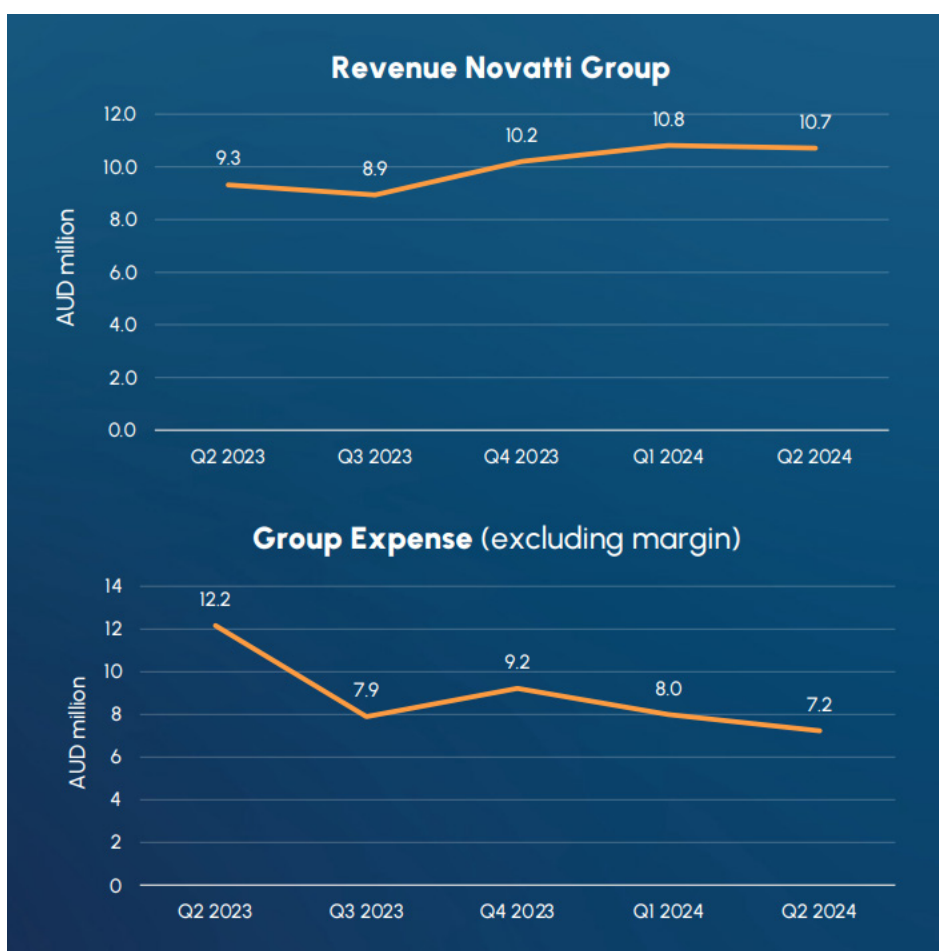
Part of this review includes identifying opportunities for Novatti to reduce its funding exposure, which has already seen a reduction of ownership in the AUDD stablecoin business down to 80%. Novatti's 87% stake in the International Bank of Australia (IBOA) is also expected to be reduced, with IBOA's latest funding round raising at a pre-money valuation of \$24.7 million. This values Novatti's IBOA stake (\$21.5m) higher than the entire market cap for NOV (\$18m).

Achieving positive operating cash flow is flagged as the medium-term measure of success for Novatti and their restructure which commenced at the start of FY24. Operational efficiencies are being witnessed with 12% revenue growth (HoH) reported in H1 FY24 to \$21.5 million as well as a \$2 million reduction of expenses over the same period (-11%).

A decision to restructure their collateral facility, utilised by all payment companies to facilitate payment processing, by repaying a \$10 million corporate bond in full proved savvy.

The early payment has saved Novatti more than \$4 million in interest payments while the collateral has been incrementally rebuilt at a lower interest rate via the issuing of convertible notes.

Novatti remains well positioned to capitalise on global tailwinds for the payments industry where the



undisputable decline of cash usage is delivering organic demand growth for all Novatti services, particularly in Australia. This is validated by Novatti's immediate focus on its Payments AU/NZ division which is targeting 70% gross margins on payment processing by 2026.

Australia is well on its way to becoming a cashless society with forecasts estimating cash will make up less than 4% of the total value of retail purchases by 2025.



## Company Summary

Novatti Group Limited (ASX: NOV) is an Australian fintech company that specialises in digital payments, underpinned by a strong history of regulatory compliance that has made the Company a partner of choice for payment solutions. The Company operates a range of different payment businesses that include international payment processing, business automation and billing software, card issuing, payments tech app development, and growth-oriented eCommerce project incubation.

Novatti's revenue is generated across a variety of streams including a percentage of payments processed, enterprise contracts for payments tech and regulatory services, as well as recurring SaaS fees and capital returns from incubator projects. Within their suite of financial licences, Novatti is one of just 20 financial institutions in Australia that can offer merchant acquiring services, enabling businesses to accept payment via Visa and Mastercard.

Novatti has established business partnerships through existing B2B payment service networks which will differentiate their fast-expanding digital banking services from competitors by primarily targeting migrant demographics.

With a network of Tier 1 corporate partnerships including Google, Samsung, Apple, Afterpay, Ripple, UnionPay, WeChat Pay, Alipay, Bank of Shanghai, VISA Inc, Mastercard, Amex, Marqeta, and Decta already secured, Novatti's digital banking capabilities are positioned to significantly disrupt existing mediums of migrant banking services in Australia, providing a seamless experience to manage their payments and savings both domestically and abroad.

## New leadership is driving the operational focus towards positive cash flow

The appointment of Mark Healy as CEO of Novatti in June 2023 was a flagship moment in Novatti's company history, marking the first change in leadership since Peter Cook led the company since Novatti listed on the ASX in January 2016 with Cook also being one of the co-founders.

Under Cook's tenure, Novatti grew from a startup fintech concentrating on cards and alternative payments, to a fully-fledged digital payments ecosystem delivering a range of solutions for companies to pay and be paid digitally. In building that ecosystem though, Novatti expanded with teams located around the world, operating under various business units which resulted in a sub-optimal payroll situation while those businesses were being established.

Prior to Healy's appointment as CEO, he held the role of Executive General Manager of Payments at Novatti and was a key driver behind the Company budgeting for FY24 before taking on the CEO role to execute many of those proposed initiatives.

Before joining Novatti, Healy held senior leadership roles as Managing Director, Oceania of Global Payments Inc (a Fortune 500 company), Chief Operating Officer at Ezidebit and eWAY, and Executive Vice President and Chief Risk Officer for Neovia Financial (now Paysafe) Group.

Healy's immediate focus was to streamline Novatti Group, from 12 individual operating businesses down to four key pillars: Payments AU/NZ, Payments International, Technology Solutions and Investments.

### Historical Statistics

Income Summary	2016/06	2017/06	2018/06	2019/06	2020/06	2021/06	2022/06	2023/06
Revenues (m)	3.90	2.20	5.40	8.42	11.00	16.48	32.55	38.98
EBITDA (m)	-4.65	-4.68	-1.77	-4.47	-5.63	-8.84	-6.05	-23.33
Depreciation (m)	0.00	0.00	0.00	-0.05	-0.38	-0.46	-0.36	-2.21
Amortisation (m)	0.00	-0.03	-0.27	-0.34	-0.52	-1.02	-1.50	-0.28
EBIT (m)	-4.67	-4.73	-2.07	-4.86	-6.53	-10.32	-7.90	-25.83
Earning Before Tax & Abnormals (m)	-	-	-	-4.92	-7.90	-11.83	-8.63	-26.54
Income Tax Rate (%)	-2.00	0.00	0.00	-0.60	-0.40	-0.10	-0.10	0.00





Streamlining the Novatti portfolio had a secondary effect which saw movement in Novatti's senior management ranks, with several long-time employees departing the Company. This resulted in some one-off payments around entitlements expensed in Q4 FY23 (\$3.4m) and Q1 FY24 (\$4.1m). Both those net operating outflows included IBoA expenses too (see Strategic Review section below).

The long-term effect of these personnel changes however, is expected to deliver a significant improvement on gross margins where one KPI discussed by Healy during investor meetings was 'revenue-per-head', implying that Novatti has made these structural changes to first drive operational cash flow, and ultimately profit.

The shift to positive operating cash flow is further assisted by Novatti's decision to sell their 19.9% stake in Reckon, using the funds to repay a \$10m corporate bond facility. Paying the facility back four years before maturity is expected to save Novatti more than \$4 million in interest payments.

The facility was mostly being utilised as collateral for Novatti's payments ecosystem where Novatti fronts payments for 1-2 days, before they are settled. The facility was topped up in December 2023 from a \$3.5 million capital raise via Convertible Notes, which will incur up to \$1.2 million in coupon payments dependent on the timings of any equity conversion of the notes. The net difference in expenses tied to the facilities is \$2.8m, as another example of how Healy is optimising the Novatti portfolio and reviewing all assets and liabilities within the Company.

## The Strategic Review of Portfolio Assets

Healy's arrival to the CEO role of Novatti flagged a strategic review of all assets within the Novatti portfolio in June 2023, but it did not become clear until November 2023 what the review would entail when the first transaction from this review was executed - the sale of their 19.9% stake in Reckon Limited (ASX: RKN)

### Reckon

Key to the sale was unlocking cash that would save Novatti \$4 million in interest payments over their corporate bond.

As shareholders of Reckon, Novatti has earned \$15.2 million in cash dividends since acquiring the stake in July 2021. When calculating their \$22.5m purchase and aggregate sale price of \$8.9m, Novatti walked away from the investment with a neat \$1.5m gain.

The strategic stake opened a major partnership between Reckon and Novatti where Novatti's payment services are being promoted to Reckon's 110,000 users. The partnership operated under a profit-share agreement between the two companies and will continue with Novatti's merchant services promoted at Reckon events and their cloud-solutions marketplace.

### International Bank of Australia (IBOA)

In December 2023, it was confirmed that IBOA was undertaking a funding round. It was not confirmed whether the funding would dilute Novatti's stake or if it would involve Novatti selling down their stake. But either way, it would involve Novatti reducing its 87% stake.



As mandated by APRA, the regulator, Novatti must reduce their stake below 20% as part of IBOA's licensing requirements, in line with all banks licensed in Australia where no entity owns more than 20%.

IBOA operates independently of Novatti which has ceased funding its operations, hence IBOA's funding round. It has been widely expected that funding rounds will take place at higher valuations than at the time of Novatti's investment, whereby post-money valuations should be analysed in the context of Novatti's market cap.

As of January 2024, IBOA has raised \$950k from external investors to support ongoing operational costs which diluted Novatti's stake down to 87%. The latest funding round was raised at a pre-money valuation of \$24.7 million, meaning that Novatti's stake in IBOA is higher than the Company's entire market cap.

IBOA will leverage Novatti's large presence in SouthEast Asia and India which are regions that produce the majority of migration into Australia, courtesy of established diaspora and accessibility. This market segment of migrants in Australia has given rise to the need for borderless banking - which is essentially the frictionless movement of money between Australia and abroad.

At present, the Australian banking system is accessible to incoming migrants but it is not designed for them. Rather, it is designed for them to open an account upon arrival in Australia and then adopt the Australian ideals of financial management which are substantially different to those overseas.

Since Healy's appointment, he has been notably quiet on the operational horizon of IBOA, instead focusing on reducing Novatti's cash outflow by cutting its funding while lifting gross margins on Novatti's core payments business by streamlining the payments businesses.

## AUDD

AUDD is another business within the Novatti portfolio, currently operating within the Investments pillar.

AUDD is a 1:1 fiat-backed stablecoin that enables businesses, people and governments to make financial transactions at a fraction of the cost and time currently taken by fiat payments.

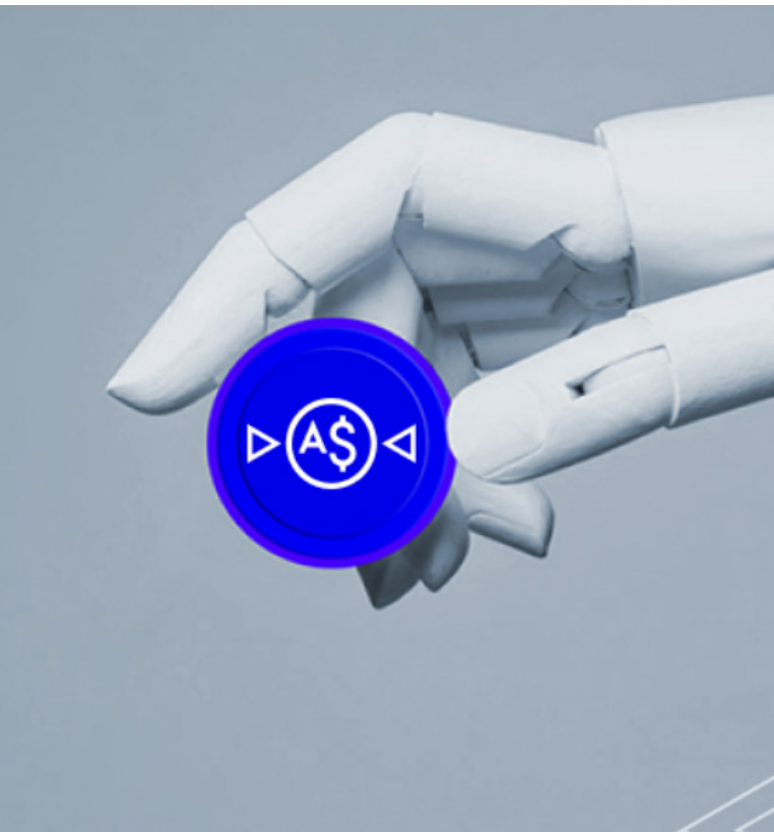
Drawing interest from fintech investors, AUDD completed a pre-seed funding round which raised \$600k at a pre-money price of \$2.4m from investors and management. The funding round reduced Novatti's stake in AUDD down to 80% and will enable AUDD to become self-funding, alleviating the financial support impost on Novatti.

Unlike IBOA however, AUDD was largely established using external funding and research grants up until this point.

The bigger picture for AUDD is its functionality as a 'stablecoin' that can facilitate the international movement of money without the need to transact via traditional banks. Increasing scrutiny amongst non-traditional businesses, such as those that primarily operate in the blockchain space, has seen traditional banks reject those businesses that in-turn seek out alternative banking services such as stablecoins.

The key to AUDD's commercial opportunity will be scaling the business to a point where Net Interest Margin (NIM) is the biggest revenue generator for the business,





currencies (CBDCs), including Australia where [Novatti was selected for the pilot program.](#)

### **Emersion**

Emersion has continued its operations within the Novatti ecosystem, offering subscription billing services; however, little commentary has been offered by Novatti about Emersion's growth, beyond its plans to expand into the United States in 2020 which ultimately stalled due to COVID-19 and international travel restrictions.

We note that part of Novatti's streamlining of its business operations has included plans to centralise its payment services into a singular portal, which would fall under the Novatti banner. Whether this will mean migrating Emersion's business into that portal is unclear but since securing their Acquiring licence, many of those subscription billing services became available through Novatti's Acquiring division, which has since morphed into Payments AU/NZ.

Emersion was acquired by Novatti in 2020 for \$2.6 million, bringing with it \$1.7m in revenue delivered in FY19 and \$300k EBITDA. Continuing to operate the Emersion business on its own will likely enter the purview of Novatti's strategic review in H2 FY24.

### **ATX**

The Malaysia-based ATX business was flagged as Novatti's gateway into SouthEast Asia when acquiring the payments business in 2021 for \$8.4 million. At the time it was one of the fastest growing startups in Malaysia which was undergoing a significant surge in digital payments adoption, as were its neighbouring countries.

ATX generated \$5.5 million revenue in FY23 which was an increase on the \$3 million it generated when acquired by Novatti, but also incurred a \$1.3m EBITDA loss which was an improvement on the \$2.6 million EBITDA loss in FY22.

While improvements in ATX's earnings are encouraging, its loss contribution to Novatti over the past two years will likely see wholesale changes in its role within the Novatti portfolio where Healy is locked in on driving

complemented by onboarding and offboarding fees. As of January 2024, AUDD has \$2.5 million of stablecoins in circulation with the corresponding \$2.5m in banks or Treasury Notes. AUDD focuses on optimising the NIM such that it can grow with minimal operating expenses, hence the scaling potential.

For example, if there is \$100 million of AUDD in circulation, and those funds are generating 4% pa interest, it would equate to \$4 million of NIM revenue for AUDD.

To put this into perspective, the world's largest stablecoin Tether has more than \$130 billion in active circulation, followed by USDC with more than \$37 billion in circulation.

AUDD can play an integral role within payments companies such as within the Novatti ecosystem where it can be utilised for cross-border payments more efficiently than via traditional financial institutions. Compared to traditional international transfers, stablecoin transactions can settle in minutes, offering a faster alternative and why corporations have shown growing interest in stablecoins. Some central banks and governments are also exploring central bank digital





towards positive cash flow, hence potential divestment due to its limited contribution to the Payments AU/NZ business in the immediate future.

### ChinaPayments

The ChinaPayments business now falls within the Payments International division, and has been replicated for other Southeast Asian nations, linking Australia's BPAY system with digital wallets that are commonly used in Hong Kong, Indonesia, Philippines, South Korea, Thailand and Malaysia under the Novatti BillPay banner.

The business is profitable, with its cross-border payment services included in Novatti's Alternative Payments segment in FY23 which generated \$20.8 million in revenue and \$2.6 million EBITDA.

There is substantial synergy between these BillPay services offered by Novatti to international markets, primarily international students, and Novatti's Payments AU/NZ division whereby local businesses such as Universities can increase their appeal by partnering with Novatti for merchant services, with benefits passed on to the shared customers.

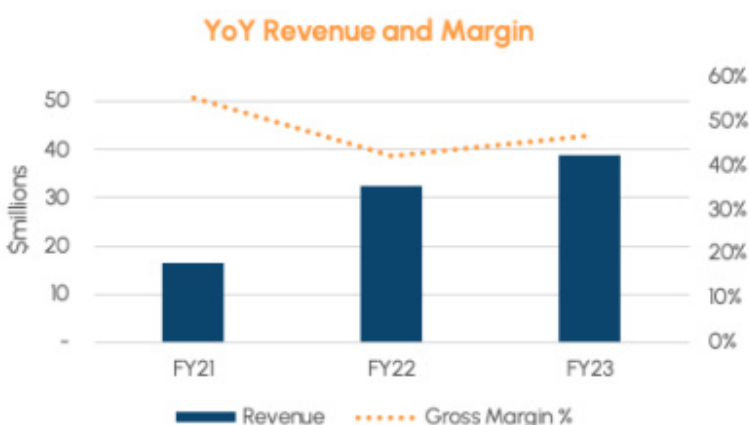
Australia underwent a migration boom as arrivals in 2023 exceeded Treasury forecasts by 25% (300,000 additional net arrivals). With these tailwinds driving ChinaPayments and Novatti BillPay, both businesses are significant assets in the Novatti portfolio and unlikely to be disrupted.

## FY23 Financial Performance - The Turning Point

FY23 is likely to be a turnaround point in terms of Novatti's financials, given the change in leadership that was executed in June 2023 with the strategic objective of providing new management with a clean sheet to execute their restructuring initiative.

The restructure comes as Novatti has set the foundations of its digital payments ecosystem which generated \$39 million in revenue in FY23, while its focus on cost-cutting in FY24 has had no impact on revenue, with \$21.5 million reported in H1 FY24.

Increasing gross margin on payment processing is the primary focus for Novatti through its restructure under the new management, where the strategy is forecast to lift those gross margins for Payments AU/NZ to 70% by 2026, up from 40% when initiatives were first introduced.



### Digital Wallets

Click on each wallet to learn more about them.

 **Alipay**

 **WeChat Pay**

 **UnionPay**

**AlipayHK**

 **DANA**

 **GCash**

 **pay**

 **rabbit LINE Pay**

**truemoney**

**Tough nGO**

 **Goost**

 **BPI**

\* Rates will be charged to bill payers based on their selected payment method.

 **Alipay**

Customer Surcharge Rate: **1.8%**

Approximately **900 million users** worldwide

Primary Currency: **Chinese Yuan (CNY)**

Popular in: **China**



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Gross margins are also being improved via the reduction of cash expenses within the business, as well as the cross-selling opportunities created by streamlining Novatti's businesses. In Q4 FY23 and Q1 FY24, Novatti confirmed the departures of several members of the senior management team in an overhaul that incurred entitlement payouts but would streamline 12 individual business units down to 4 core divisions. Within these divisions, shared resources are a key driver to cross-selling additional payment products to existing customers. To do so, Novatti has also overhauled its technology, enabling multiple payment services to be accessible through a singular platform and account manager.

<b>Novatti Group Limited</b> <b>Statement of profit or loss and other comprehensive</b> <b>For the FY year ended 30 June 2023</b>		
	<b>30 June 2023</b> <b>\$'000</b>	<b>30 June 2022</b> <b>\$'000</b>
<b>Revenue</b>	38,979	32,555
Other income	16,316	1,815
<b>Expenses</b>		
Administrative and corporate costs	(5,651)	(3,725)
Client hosting fees and other direct services	(20,731)	(18,928)
Employee benefits	(28,265)	(27,394)
Foreign currency gains	(69)	403
Marketing and selling expenses	(1,037)	(290)
Data management expenses	(4,348)	(1,197)
(Loss)/Gain on investments at fair value through profit or loss	(15,877)	3,302
Vesting charge for share-based payments	(2,265)	(1,325)
Share of net profit of join ventures accounted for using the equity method	-	23
Gains/(losses) on embedded derivative - convertible note facility into Novatti Group Ltd the parent entity	-	729
Depreciation and amortisation expense	(2,211)	(1,853)
Finance costs	(1,382)	(725)
<b>Loss before income tax expense</b>	<b>(26,541)</b>	<b>(16,610)</b>
Income tax expense	(4)	(17)
<b>Loss after income tax expense for the half-year</b>	<b>(26,545)</b>	<b>(16,627)</b>

The net loss after tax of \$26.5 million in FY23 included \$15.8m worth of asset impairments, mostly related to subsidiary businesses within the Novatti portfolio which are being subject to a strategic review in FY24 with divestment intentions flagged. A more accurate measure of Novatti's restructured business (which is transitioning from a start-up profile that incurred substantial investment technology, to a self-sustaining ecosystem) is their underlying earnings and cash flow.

The underlying EBITDA loss of \$14.4m was a marginal decline on the previous year and was not sugar-coated by the Company, which executed the leadership transition to Mark Healy but is likely to improve in FY24 as a result of the restructure. With restructuring expenses tied to the headcount overhaul still captured in Q1 FY24, we will likely see more movement in the cash flow improvement in H2 FY24 and beyond.





## Financial Year Comparison 2022-2023

	30 June 2023 \$'000	30 June 2022 \$'000	Change \$000	Change %
<b>Net loss from operations</b>	(26,545)	(16,627)	(9,918)	60%
Less:				
Interest income	(668)	(34)	(634)	1865%
Add back:				
Depreciation and amortisation	2,211	1,853	358	19%
Finance charges	1,382	725	657	91%
Indirect tax expenses	109	71	38	54%
<b>EBITDA</b>	(23,511)	(14,012)	(9,499)	68%
Add back/(less)				
Vesting of share-based payments	2,265	1,792	473	26%
Losses/(gains) on fair valuation of investments	15,877	(3,302)	19,179	(581%)
(Gains)/losses on embedded derivative	-	(729)	729	(100%)
Dividends from Reckon Limited	(13,511)	(1,126)	(12,385)	1100%
One-off transaction costs related to investment in Reckon Ltd	-	617	(617)	(100%)
Amounts accrued to vendors of the ATX transaction under earn-out arrangements treated as employee benefits expense	1,060	771	289	37%
<b>Underlying EBITDA</b>	(14,481)	(13,585)	(896)	7%
Cash	18,215	6,059	12,156	201%
Operating cash flow	1,393	(13,032)	14,425	(111%)



## Consolidated statement of cash flows

	Current quarter Q2 FY24 \$A'000	Year to date (6 months) \$A'000
<b>Cash flows from operating activities</b>		
Receipts from customers	21,542	44,883
Payments for		
(a) Research and development	-	-
(b) Product manufacturing and operating costs	(17,162)	(35,585)
(c) Advertising and marketing	(133)	(318)
(d) Leased assets	-	-
(e) Staff costs	(5,917)	(12,032)
(f) Administration and corporate costs	(2,149)	(4,943)
Dividends received	-	563
Interest received	300	651
Interest and other costs of finance paid	(406)	(772)
Income taxes paid	(1)	35
Government grants and tax incentives	169	338
Other (provide details if material)	-	-
<b>Net cash from / (used in) operating activities</b>	<b>(3,757)</b>	<b>(7,180)</b>
<b>Cash and cash equivalents at end of period</b>	<b>10,808</b>	<b>14,724</b>



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## The future of Australia is cashless, and Novatti is well-equipped to lead with its advanced digital payments infrastructure

Once fashion statements, wallets have all but gone out of style with empty slots signaling that Australians have transitioned to digital payments. It's now a game of tap-to-pay, or just shop online.

Australia has been racing ahead with its cashless transition, [outpacing its peers](#), the US and Europe. Per the [2023 Consumer Trends report by the Australian Banking Association](#), 98.9% of transactions in the country are now happening online and via apps. In 2022, only [about 13% of payments](#) in Australia were made using cash.

In 2022, three in four Aussies said they were [losing trust](#) in traditional banks and would consider switching to non-traditional banking options due to growing scams and frauds. In such an environment, where there are so many FinTech options, there is a need for a simple consolidated solution that lets people manage their money securely.

## The pandemic's cashless push and Novatti's robust payments infrastructure

In 2022, over 70% of Australians were dubbed '[low cash users](#)', since they used cash for 20% or less of their in-person transactions. When buying groceries, it was more convenient to tap and go than to sort through the cash. This trend was brought on by the pandemic, which restricted the use of cash as more and more people shopped online at a time when [cash was considered a potential virus carrier](#).

Since then, the trend has stuck around, with Aussies choosing to use contactless card payments — be it paying for gym memberships and on-the-go coffees or university tuition, public transport, and much more.

Unsurprisingly, contactless payments accounted for [95%](#) of all in-person card transactions in 2022 which included mobile payments from digital wallets, such as those offered by Novatti cards. Looking ahead to 2027,

this trend is poised to intensify, with Australians expected to [veer further away](#) from traditional cash transactions—making it crucial for merchants to have a sturdy digital payments infrastructure.

Enabling that, Novatti has built a comprehensive digital payments platform that allows businesses to transform their shopping experiences with mobile Point of Sale (PoS) payment systems, among other things. Its user-friendly interface lets businesses offer swift checkouts, streamline onboarding, and accelerate payment cycles. The PoS system allows customers to tap and use their phone-installed cards (or, perhaps, the Novatti Digital Wallet).

Merchants that utilise Novatti's services get the flexibility to accept payments through various channels, including credit cards, debit cards, and popular digital wallet platforms such as UnionPay, Alipay, and WeChat Pay. The system also enables account-to-account transactions, accommodating traditional Direct Debit and the real-time New Payments Platform (NPP).

Novatti also lets merchants acquire its PoS terminals. These terminals can be obtained through leasing arrangements with tech partners or seamlessly integrated into existing Android devices, eliminating the need for additional hardware investments.

Australia is well on its way to becoming a cashless society, and banknotes will make up less than 4% of the total value of retail purchases by 2025, validating Novatti's focus on driving gross margins through its Payments AU/NZ division.

## Making online payments simple and secure a priority

In its 2023 Global Payments Report, McKinsey noted that we are entering the "[Decoupled Era](#)" of finance, i.e. payments are set to be "decoupled" or disconnected from traditional bank accounts. Users won't always need a CommBank or ANZ account to pay; it might be any digital payment app. Because of that, there is a need for a consolidated payment platform.

The Reserve Bank of Australia [echoes this need](#), noting that users now have multiple smartphone payment





apps—GPay, Apple Pay, AfterPay and more, and though they are all connected to the user's bank account, they also feature unique loyalty points, rewards and other offers that cannot be used with just the cards app.

Contenders that will thrive in this overwhelming environment would be [FinTech models that will transition to Platform-as-a-Service](#) (PaaS), helping businesses build across the value chain and providing a seamless transition across products and services for clients.

Novatti anticipated this trend, creating a solid value chain and gaining an early entry advantage where one major focus of the restructure is to streamline various payment products into one brand, and one platform. This will allow merchants to manage all of their payment acquiring, billing, payment portals, loyalty programs and much more from a singular platform. The technology can

be a turnkey, OEM (original equipment manufacturer), or hosted solution, enabling businesses to offer their customers innovative and practically branded services.

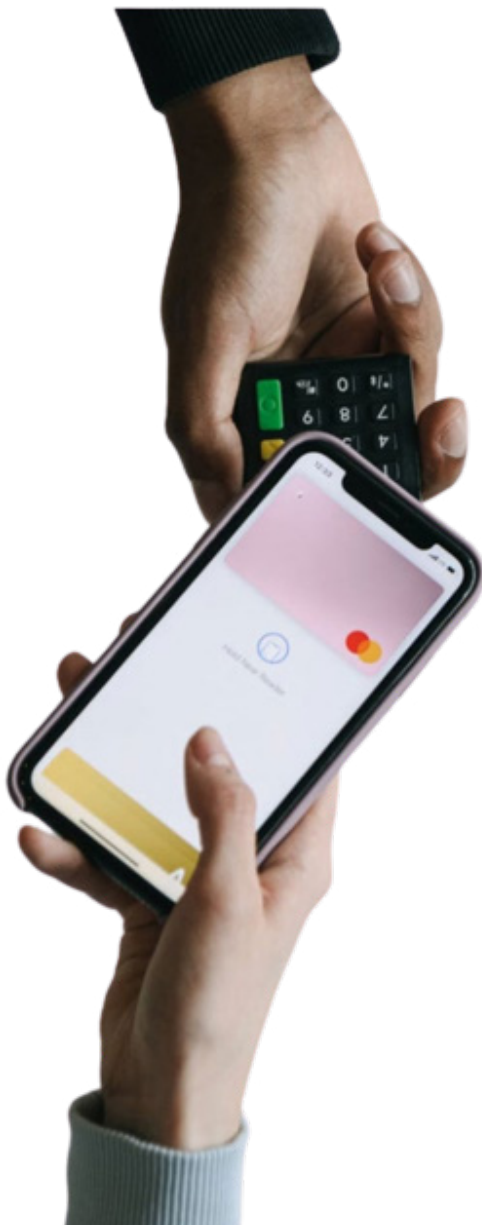
Besides app overload, there's another big problem facing FinTech: data security. In FY23, the Australian Cybercrime unit [received](#) one complaint every six minutes. Online banking fraud was among the top crimes experienced by both businesses and individuals. Thus, the challenge for Novatti is creating a simplified consolidated payments platform that ranks highly on security so businesses can gain consumers' trust.

Novatti's foresight helped build a solution wherein the Company [undertook](#) transactional safety and anti-fraud measures. Through Novatti PayProtect, it offers a chargeback guarantee in case of fraud in partnership with Riskified, a fraud management platform. Secondly, it uses a "Defence in Depth" strategy to safeguard data, creating multiple layers of protection, including network security, access controls, data encryption, employee training, incident response plans, penetration testing and 24x7 security monitoring.

In January 2023, the Company received a \$2.3 million grant under the Australian Government's Cooperative Research Centres Projects (CRC-P) Grants program to develop a digital platform emphasising anti-fraud and anti-money laundering while enabling crypto and traditional transactions in one place. Such a platform will allow Aussies to transfer money globally and leverage more currencies securely. Since introducing its data security measures, many businesses [have adopted](#) Novatti's tech to appeal to customers.

## Enabling seamless cross-border payments

From January to August 2023, the number of international students [studying](#) in Australia totaled 725,582, a 31% uptick compared to the same period in 2022. Students from China made up 21% of the total share of these arrivals, with India following behind at 17%. Besides students, travel generally has picked up since the pandemic, increasing the tourist footfall to Australia. This has created a need for services like Novatti.





Novatti provides digital payment services for students, travelers and migrants from China to pay their Australian bills (like tuition fees, rent, utilities, etc.) in their native currency, RMB. It also facilitates many payment needs for migrants transferring money to and from Australia. Novatti expanded its ChinaPayments business into six other Southeast Asian countries. It also launched Novatti BillPay, a simple platform enabling users to pay Australian bills from their native digital wallets. Plus, it offers multi-currency cards in partnership with Visa, Apple Pay, and Google Pay, making it easier to travel easily without having to line up for currency exchanges.

Along with education, outsourcing has also been a growing trend in Australia, with the business process outsourcing industry set to be [valued at over \\$18 billion](#) by 2028. According to [McKinsey](#), B2B trade fuels two-thirds of cross-border payments revenues. So, if a business has employees worldwide or imports items from different parts of the world, it can use Novatti's platform to pay people in their local currency. Novatti lets businesses deal in over 35 currencies across 185 countries, and there are no set-up costs.

As a testament to its uptake, in FY23, Novatti's Cross Border Payments business saw a strong uplift in gross transaction value to process \$479 million, a 63% increase on the previous year.

## Takeover Target - Low

Novatti has yet to present as an obvious takeover target at present but with IBOA having been granted a RAD licence with the prospect of a full banking licence within 12 months, this could attract suitors from the financial services and fintech industries.

The prospect of acquiring a digital bank however has been explored by major banks which resulted in neobank 86400 being acquired by NAB for \$230m.

Other banks have also voiced their desire to engage with younger audiences, acknowledging that the banking needs of Australians are now vastly different from generations of yesteryear. This has seen Bendigo and Adelaide Bank launch digital bank 'Up', also via acquisition. Similar attention is not likely to be paid to

Novatti until IBOA secures its full licence and has more international infrastructure in place to drive its migrant banking strategy.

One other potential M&A opportunity for onlookers may come from Novatti's subsidiary businesses where assets are being reviewed by the current executive team as part of the Company's focus to drive gross processing margins towards 70% by 2026 which may include divesting non-core assets and cash-consuming subsidiaries.

## Key Risk Considerations

### Neobank Risks

Neobanks entering the Australian market pose different risks to established banks. Customer deposits are protected by regulators.

### Regulatory Risks

Regulatory risks could threaten Novatti's business model. As a payments provider, regulatory disruption could result in loss of customer confidence in Novatti.

### Funding Risks

As an ASX-listed company that is yet to report sustained cash flow positive years, Novatti's operations are largely funded by capital raised from shareholders and debt instruments. These funding vehicles offer no certainty of future capital but will be assisted by a push towards positive cash flow.

### Technology Risks

With the majority of their services being offered digitally, Novatti services may be prone to emerging technology and disruptors in the fintech space.

### Cybersecurity Risks

With oversight over the movement of money across international borders, Novatti may rank higher as a cybersecurity target due to its access to personal and financial information.



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Recommendation Rating Guide	Total Return Expectations on a 12-mth view
<b>Speculative Buy*</b>	Greater than +30%
<b>Buy</b>	Greater than +10%
<b>Hold</b>	Greater than 0%
<b>Sell</b>	Less than -10%

\*A Speculative Buy is speculative in nature for young companies that do not have significant historical data



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