

# NOVATTI GROUP (ASX: NOV)

## FINANCIAL SERVICES & DIGITAL PAYMENTS



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### Key Highlights

- **Launch of International Bank of Australia in November 2022**
- **Launch to reduce Novatti's expenses by \$3m p/a via independent operations;**
- **Q1 FY23 revenue of \$10.5 million, +98% YoY increase;**
- **800+ merchants now using Novatti's acquiring solution**
- **Reckon partnership consummated with profit-share agreement to offer merchant services to their 117,000 cloud-based users;**
- **Alternative payment capabilities increasing with launch of 1:1 fiat-backed stablecoin AUDD;**
- **Banking licence frames Novatti as a potential takeover target;**

### Outlook - Speculative Buy

Emerald Financial holds a Speculative Buy rating on Novatti which has continued to deliver on its strategy of expanding their global payments ecosystem which will provide scalable margins as transaction volumes increase.

The biggest tick of approval came on 7 November 2022 when the International Bank of Australia (IBoA) was granted a restricted banking licence, enabling the launch of banking services.

From an operational level, this will facilitate an increase in Novatti's payment processing margins over time by streamlining the fintech supply chain, while Novatti owns 91% of the bank. Additionally, IBoA will operate independently of Novatti and therefore no longer require funding from Novatti, which is expected to save \$3 million per annum on expenses which will be retained in the Novatti business.

While the launch of the bank has been a long time pending, the delays have enabled IBoA to address business strategy and revenue loopholes that were exposed by failed neobanks that did not have clear revenue pathways. IBoA has set theirs out as a payments bank rather than a savings bank, and have an advantage by being able to leverage Novatti's international footprint to win customers quickly.

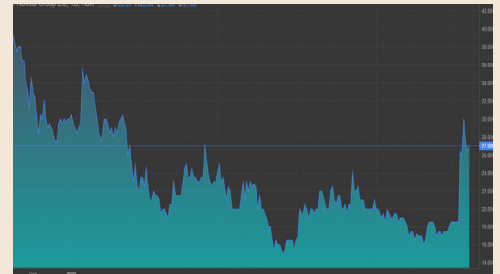
Banking services are only a small part of the Novatti ecosystem where they have continued to expand their global network over the past 12 months, highlighted by \$10.5m in revenue for Q1 FY23. On an annualised

**Outlook:** **SPECULATIVE BUY**  
**Date:** **14 NOV 2022**

Price (14 NOV): \$0.265  
Ticker: ASX: NOV

52-Week range: \$0.15-\$0.38  
Market cap (AUD): \$89.1m  
Shares on issue 336.5m

	FY22	FY21	FY20
<b>Revenue (\$m)</b>	32.6	16.5	11.9
<b>EBITDA (\$m)</b>	-15.2	-5.9	-5.63
<b>NPAT (\$m)</b>	-16.6	-11.9	-10.9



# Novatti



basis, this has them on track for more than \$40m in FY23 which will be comfortably higher than the \$32.5m reported in FY22.

As part of their upscaling and expansion, Novatti is moving toward cashflow positivity.

The \$13.2m in net outflows for FY22 is the worst it is likely to be for the Company with a \$3m of those expenses tied to IBoA.

With a \$12.8m cash dividend to be paid to Novatti on 21 November 2022, Q2 will be cash flow positive courtesy of that one-off payment. At the operational level, Novatti has emphasised a core focus on reducing cash expenses and increasing margins.

The acquiring division (merchant services) will play a major role in this. 12 months since being licenced by Visa and Mastercard to offer these merchant services, Novatti has more than 800 merchants accepting digital payments via Novatti.

Due to the confidential nature of merchant services, Novatti is unlikely to announce 'major' customer wins but given the structure of their ecosystem, the most likely targets will be international organisations with operations in Australia.

Other soft targets for merchant services are Reckon's 117,000 cloud-based users, many of which will be able to reduce their expenses by engaging Novatti for merchant services. Under this partnership, Novatti and Reckon have a profit share agreement in place.

One of the biggest pressures impacting Novatti is perceived market confidence. Emerald Financial views the recent share price decline as being overstated and misinterpreted due to their cash flow position.

The launch of IBoA is a pressure relief from Novatti's cash balance is expected to be circa \$20m upon payment of their \$12.8m special dividend from Reckon. With cash outflow of \$2m in Q1, which was a seasonally slower quarter for revenue, Novatti is set for a stronger cash flow position in FY23 than the

previous year where cash flow positivity in FY24 is achievable.

Given the higher quality of business and scalability potential in Novatti's path, Emerald Financial views Novatti as undervalued compared to its peers with substantial revenue to be accelerated by the upscaling of their merchant services. The launch of IBoA is likely to attract potential M&A attention from larger suitors that don't want to go through the 3-year application process that Novatti endured and has now overcome.

## Company Summary

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

In November 2022, the International Bank of Australia was granted a restricted banking licence, providing Novatti with a 91% owned banking business that will become one of Novatti's largest customers. The bank opens new revenue streams to service fintechs with B2B banking services, and migrants with B2C banking services.

Novatti's revenue is generated across a variety of streams including a percentage of payments processed, enterprise contracts for their payments tech and regulatory services, 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 that enable businesses to accept payment via Visa and Mastercard.

Novatti has established business partnerships through existing B2B payment service networks which will enable the rapid expansion of their digital banking



## Historical Statistics - Novatti

INCOME SUMMARY (STATUTORY)	2017/06	2018/06	2019/06	2020/06	2021/06	2022/06
Revenues (m)	2.19	5.43	8.42	11.00	16.5	32.6
EBITDA (m)	-4.68	-1.77	-4.47	-5.63	-5.9	-15.2
Depreciation (m)	-0.03	-0.02	-0.05	-0.38	-0.46	-0.36
Amortisation (m)	-0.03	-0.27	-0.34	-0.52	-1.02	-1.50
EBIT (m)	-4.73	-2.07	-4.86	-6.53	-7.4	-7.90
Earning Before Tax & Abnormals (m)	-4.72	-2.07	-4.92	-7.90	-11.83	-8.63
Income Tax Rate (%)	0.00	0.00	-0.60	-0.40	-0.10	-0.10
Net Profit After Abnormals (m)	-4.72	-2.07	-4.95	-10.96	-11.9	-16.63

services to differentiate 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, IBM World Wire, VISA Inc, Marqeta, and Decta already secured, Novatti's digital banking capabilities are positioned to significantly disrupt existing mediums of migrant banking services in Australia, with a seamless experience to manage their payments and savings both domestically and abroad.

### International Bank of Australia - Banking business becomes clearer

One of the biggest upsides to Novatti is the substantial investment they have made in progressing their banking business which led to a licence application in November 2019 for a restricted authorised deposit-taking institutions (RADI) licence.

Being granted their licence on 7 November 2022, Novatti has launched their neobank under the name **International Bank of Australia**, which provides a financial services vehicle that can encapsulate all of their existing digital payment services under one banner.

This has been what Novatti has been working towards for the past 3 years to the point where Novatti had secured the full funding required to launch the neobank. Unfortunately for Novatti, the application was under review just as the coronavirus pandemic started.

As of November 2022, Novatti owns 91% of International Bank of Australia but per regulations, Novatti will need to reduce its stake down to 20% or less. The bank will also operate independently of Novatti which will cease funding operations. It is expected that Novatti will save \$250k per month that it was contributing to International Bank of Australia which will instead take over these expenses and operate as an independent private company.

On an annualised basis, this will save Novatti \$3 million per year. The bank will also be a part of Novatti which will enable Novatti to increase overall payment processing margins by not having to use third party suppliers for banking services.

To date, Islamic Bank is the bank we most assimilate Novatti's banking business with, which has generated more than 8,000 leads of customers keen to open an account with them.

This is the standard practice upon granting of a RADI licence whereby the licenced bank is approved to set up its technology and banking infrastructure before it can actively start servicing customers. When the licence was first lodged, Novatti had intended that the bank would have a strong foothold in migrant banking services.

International Bank of Australia 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.

The fact that international students or international workers cannot transact from a bank account with a major bank without undergoing an in-branch KYC process speaks volumes about the difficulty of moving funds internationally. With their international network of partners, Novatti's banking business has the potential to remove such roadblocks while facilitating foreign exchange and transfers with reduced fees courtesy of movement within the Novatti ecosystem (eg, their 'rails').

*But what does the migrant market look like and how will they engage in borderless banking?*

When assessing the market for migration in Australia, we need to look beyond just the person coming in and out of Australia. Expanding beyond that one person, we are looking at their lifetime value which extends to their immediate family and future income.

Taking an international student, for example, the lifetime value effectively spans:

- Money entering Australia to set up a new life (rent, utilities, cost of living)
- Education expenses
- Income earned as a student
- Income earned post-graduation
- Money sent back to homeland
- Permanent resident banking (mortgages, credit cards etc)

Emerald Financial notes that the neobank sector has changed substantially since 2019 when Novatti first submitted a restricted banking licence. Due to failures of Xinja and Volt, the licence application process has changed, hence the delay in Novatti's application decision.

Notably, there is a greater focus on neobanks which have achieved success courtesy of their revenue-generating products that do not rely on raising capital.

Changes to the regulatory approval process have strengthened the business model of International Bank of Australia, closing loophole weaknesses that were exposed by failed counterparts.

In addition to those aforementioned banks that were granted licences after the APRA pandemic delays,

## International Bank of Australia - Market Comparison

	   	   	
1 Banking and payment services to Fintechs	×	×	✓
2 SMB Banking & Payment Services	✓	✓	✓
3 Cross Border Remittance	✓	✓	✓
4 Borderless Bank Account	×	×	✓
5 Cross border Lending	×	×	✓
6 Ecosystem	×	×	✓





Judo Bank (ASX: JDO) has delivered a successful neobank model as a B2B lender while 86 400 combined online-only transaction banking with B2C lending that prompted its \$230 million acquisition by NAB.

While all eyes are on Novatti's Australian banking business, Novatti already has banking infrastructure established in Europe where they launched Verv in September 2021.

Once signed up to Verv, Europeans can open a digital bank account with its own unique IBAN – International Bank Account Number – for standardised banking services worldwide. This is the international equivalent of Australia's BSB system, but on a global scale. Upon account verification, European-based customers can send and receive money, make payment requests, schedule recurring payments and withdraw funds from ATMs. This is just a very limited number of the financial services Novatti is offering in Europe where they have an e-Money licence application pending also.

With this international infrastructure established between Australia, Europe and SouthEast Asia, Novatti's network shapes as a major attraction for migrants in Australia and abroad as the bank of choice that can seamlessly move money around the world, with Novatti taking a clip on payments processed along the way.

## **AUDD - The stablecoin digital currency built on blockchain technology**

Novatti's marketing work around their AUDD stablecoin has attracted notable publicity for the Company which is no stranger to digital currency through existing partnerships with Stellar and Ripple. It should therefore come as no surprise that the two blockchain companies were the first to commit to AUDD for digital payments on their blockchain networks, enabling instantaneous movement of AUDD.

Issued by Novatti and having launched at the start of November 2022, AUDD is 1:1 backed against the Australian dollar. Users of AUDD can exchange their \$A fiat currency for AUDD which can be instantly transferred on partner blockchains without incurring fees that banks charge for international transfers.

The addition of AUDD to Novatti's suite of digital payments expands the Novatti ecosystem, enabling businesses and consumers to transmit large amounts of funds with very low transaction or foreign exchange fees. As a licensed provider of merchant services, Novatti already supports a large number of international businesses in collecting payments from customers using Visa or Mastercard. Once those funds have been acquired, one application of AUDD is to bulk transfer them to another country



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instantaneously as AUDD rather than waiting several days for an inter-bank transfer.

As a globally recognised financial institution, Novatti is able to issue AUDD and generates revenue from fees associated with the transaction of the stablecoin. In the event it reaches the scale of other stablecoins in the market, interest on funds held at 1:1 backing could also grow to be substantial. This is what Tether (\$T) - the world's largest stablecoin - does by using the fiat backing to invest in Government bonds and similarly super-low risk yield assets. As of October 2022, there was USD \$68 billion worth of Tether in global circulation, making it the third largest cryptocurrency, followed by fellow stablecoin USD Coin in fourth with \$44 billion.

Key to stablecoin technology is the scalability of AUDD which can operate with minimal resources. Being transacted on blockchain, all transactions are recorded with an asset address publicly available, with the movements and amount of AUDD issued publicly available at all times. Tracking the growth of AUDD activity will therefore be more transparent than their other business units and will be closely followed to analyse the yield potential from AUDD. Since announcing AUDD as their newest digital payments product, Novatti has drawn substantial industry attention, possibly none higher than being engaged by the Reserve Bank of Australia's Digital

Finance roundtable to advise on use cases for digital currencies in Australia.

## Financial Performance - FY22 and Q1 FY23

Novatti is in a growth phase for their business where the primary focus is topline revenue where growth will be driven by transaction volumes. As both a payments processor and technology provider, Novatti has a range of fixed contracts to supply financial technology, but their growth potential lies in the scalability of their business where higher transaction volume will lead to profitability.

Delivering \$32.5 million in annual sales revenue for FY22, it marked the sharpest rise in Novatti's short history. The 97% jump on the previous year included revenue generated from ATX which was acquired during the year, but this was only around \$10 million. Included in the 97% jump was organic growth that ATX has delivered by establishing it as Novatti's base in SouthEast Asia which is a targeted growth corridor for Novatti which already has large presences in Australia and China.

Novatti has made no secret of their corporate objectives where top line revenue growth will drive the Company towards cash flow positivity. For the 12 months ended 30 June 2022, Novatti reported \$13.2m in cash outflows. This included money



invested in their banking business which was estimated to be around \$2.5m for the year, but will move off their balance sheet upon granting of the banking licence, at which point the banking business will operate independently of Novatti (which will retain an equity stake).

Reducing their cash expenses has been a targeted initiative for Novatti which delivered on this in Q1 FY23 when delivering \$10.5m revenue with cash outflow of \$2m. On an annualised basis, this has Novatti on track to deliver more than \$40m in revenue while cash outflows would be on track to drop from \$13.2m in FY22 to around \$8m in FY23. That latter number would not include the \$12.8m special dividend Novatti will receive on 21 November 2022 which will be a one-off cash boost courtesy of the 19.9% stake in Reckon Limited. As of 30 September 2022, Novatti reported \$14.4 million of cash in the bank which will be boosted a further \$12.8m when the Reckon special dividend is distributed. Novatti CEO Peter Cook has mentioned on several



## Novatti - Q1 FY23 Consolidated statement of cash flows

As at 30 September 2022

	Current Qtr \$'000	YTD (3 months) \$'000
Cash flows from operating activities		
Receipts from customers	18,743	18,743
Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(12,896)	(12,896)
(c) advertising and marketing	(310)	(310)
(d) leased assets	(89)	(89)
(e) staff costs	(6,451)	(6,451)
(f) administration and corporate costs	(2,585)	(2,585)
Dividends received	676	676
Interest received	24	24
Interest and other costs of finance paid	(192)	(192)
Income taxes (paid)/refund	(8)	(8)
Government grants and tax incentives	1,051	1,051
Other - Working Capital	-	-
Net cash from / (used in) operating activities	(2,037)	(2,037)



occasions that he is confident Novatti has the cash on hand to see the Company inflect into cash flow positivity. This will leverage Novatti's digital payments ecosystem where bottom line growth is appearing to be achieved without further capital investment in the business which has an expansive portfolio of revenue-generating products that no longer require substantial investment in tech development.

With circa \$20m on hand upon distribution of the Reckon special dividend, FY23 shapes as the first year that Novatti will not need to raise capital, unlike the previous three years that have had adverse effects on their share price. This funding concern has been largely alleviated courtesy of a \$10.5m corporate bond that provided non-diluted capital for Novatti where earnings growth is expected to exceed interest repayments. The bond will be repayable in August 2027 and is accruing interest at 90 day BBSW plus 650bps which is 2-5% lower than common credit products available to small cap companies of Novatti's profile.

## Consolidated statement of profit or loss and other comprehensive income

As at 30 June 2022

	2022 \$'000	2021 \$'000
Revenue	32,555	16,482
Other income	1,815	1,947
Expenses		
Administrative and corporate costs	(3,752)	(2,227)
Client hosting fees and other direct services	(18,928)	(4,979)
Employee benefits	(27,394)	(15,888)
Foreign currency translation gains/(losses)	403	(116)
Marketing and selling expenses	(290)	(57)
Data management expenses	(1,197)	(454)
Gain on investments at fair value through profit or loss	3,302	366
Share based payment on investor and broker options	(1,325)	(1,085)
Share of net profit of joint ventures accounted for using the equity method	23	23
Gains/(losses) on embedded derivative - convertible note facility into Novatti Group	729	(2,860)
Depreciation and amortisation expense	(1,853)	(1,481)
Finance costs	(725)	(1,507)
Loss before income tax expense	(16,610)	(11,826)
Income tax expense	(17)	(17)
Loss after income tax expense for the year	(16,627)	(11,843)
Foreign currency translation	43	(43)
Total comprehensive income for the year	(16,584)	(11,886)





## A Digital Payments Gateway with Reckon

In July 2021, Novatti acquired a 19.9% strategic stake in accounting software company Reckon Limited (ASX: RKN). At the time of announcement, minimal details were provided to the market and no formal partnership agreement had been entered into between the two fintech companies. However, the deal was brokered by a third party which enabled Novatti to acquire the strategic stake via an off-market block trade for \$1 per RKN share, which has created an opportunity for Novatti and Reckon to commence discussions around digital payment services.

Novatti's investment needs to be viewed from a lens that highlights the business assets that Reckon has, beyond their accounting software that is a low-cost alternative for small businesses, compared to Xero and MYOB. In particular, they have a valuable market share of SMB customers that will at some point require digital payment and/or banking services.

Discussions between Reckon and Novatti have now been confirmed with Reckon announcing in April 2022 the launch of a digital payments gateway that has been integrated into their cloud-based software.

This gives users of Reckon's accounting software an option to accept digital payment by Visa or Mastercard directly through Reckon's invoicing app.

In our view, Novatti are following an approach that a number of private equity firms have achieved in the US, whereby they are "buying" an addressable market for their acquiring services (in this case, the 117,000 business users of Reckon's accounting software). This is a large customer base that Novatti can bring payments and banking services to, where there is a mutual benefit for Reckon to utilise Novatti's service as Reckon's major shareholder.

As digital payment providers, all businesses require a payments company to settle their digital payment transactions. These businesses will subsequently pay 'merchant fees' to the payments company, normally around 1-2% of the transaction value.

At present, Reckon does not offer merchant payment services directly which means those 117,000 small business customers must pay their digital payment merchant fees to a third party, likely one of the major banks that they do their banking with, or a non-bank payments company. For the small business operator,

## How will customers benefit?



### Case study: Dan the electrician

Dan can leverage digital payment tools within his Reckon products

- ✓ Simplifies invoicing, with multiple payment options
- ✓ Get paid faster
- ✓ Improve cashflow
- ✓ Stop chasing payment with automatic reminders
- ✓ Less hassle with automatic reconciling

## Turn 10 steps into 3

1. Create invoice
2. Send invoice
3. Send payment reminder
4. Track payment received
5. Verify payment
6. Receive/apply payment
7. Reconcile payment
8. Mark as paid
9. Send receipt
10. Any 3<sup>rd</sup> party steps



1. Create invoice
2. Save for future use
3. Send via SMS or email

### Automate all other steps

- ✓ Payment reminders
- ✓ Real-time notification
- ✓ Payment receipts
- ✓ Mark as paid
- ✓ Reconcile payments

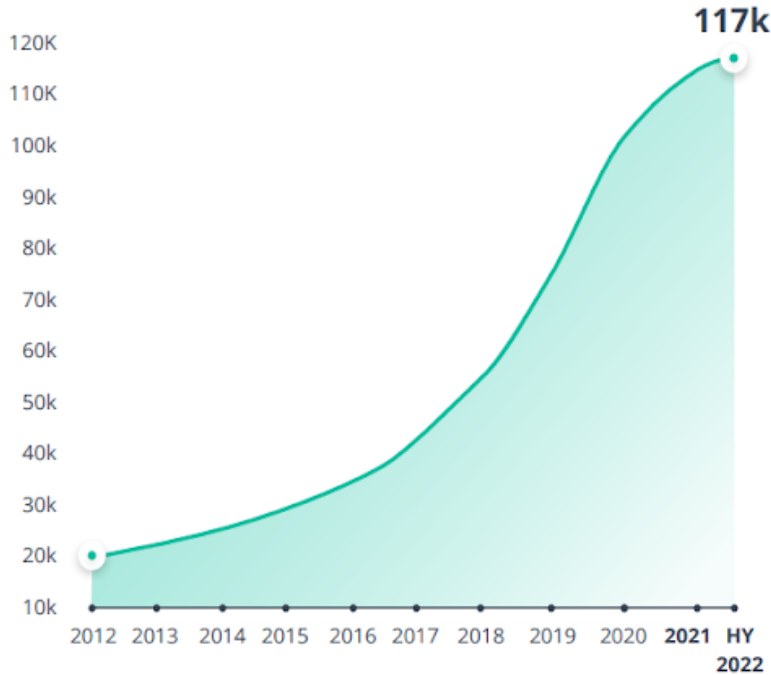


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## Small Business Cloud User Growth

USERS



**10%** annualised user growth

**9%** cloud revenue growth over HY 2021

**56%** of available SME Group revenue cloud based for HY 2022

## EXAMPLE:

*JimBob's Removalist Co operates in the Western Suburbs where customers book his moving services, at a rate of \$200 per hour for two removalists and the truck. When collecting payment at the end of a job, JimBob no longer has to call the office and read the numbers out to be input into the POS terminal. Because Removalist Co uses Reckon as their accounting software provider, JimBob can just enter the credit card numbers into the Reckon payments gateway on his phone and collect the payment instantly.*

*From Monday to Sunday, JimBob's Removalist Co works 50 billable hours for the week, totalling \$10,000 in takings that he can collect payment for immediately upon job completion.*

*\$10,000 x 50 weeks = \$500,000 of sales revenue.*

*With a 1.5% merchant fee, JimBob's Removalist Co pays \$7,500 per annum in merchant fees to secure that \$500,000 in sales revenue.*

these fees are only a small fraction of their revenue where many will even on-charge the fees to their customers.

However, when those small 1-2% fees are multiplied by the 117,000 business customers that already use Reckon accounting software, it equates to millions of dollars worth of merchant fees that are not currently in Reckon or Novatti's ecosystem, but could be in the near future after inking their collaboration in April 2022

So why doesn't Reckon offer digital payment and banking services themselves?

They can't without a massive investment of capital to secure the relevant merchant acquiring and financial services licences to accept payments. On top of this, the regulatory requirements are enormous, which is what prevents new entrants from coming into the payments market where Novatti is already a major player that has a good track record with Australian regulators.

Beyond merchant acquiring, there are further synergies that can be realised between the two companies as Novatti's neobank rolls out new banking products, specifically ones that could be designed for small-to-medium enterprises (SMEs).

At present, Judo Bank is Australia's most successful neobank with its primary operation being business loans to SMEs. Without the retail shopfronts of the Big Four, Judo's interest rates and loan approvals are particularly attractive to business owners. It's how they built a \$6 billion loan book and had a \$1.4 billion valuation as of October 2022.

Where a partnership for lending services between Novatti and Reckon makes the most sense is the existing business data already recorded within Reckon's cloud-based platform.

Fintech service providers have been trending towards low-touch services that can be processed via automation which eliminates any need for an



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in-person meeting with a banker. This form of neo-lending has become particularly popular for business lending and is increasing its presence in personal lending and mortgages as well. Approval times are subsequently becoming the biggest drawback for customers that don't have time to wait weeks for a response from the big banks which is where accelerated approval times have been a key motivator for neolenders like Judo, Wisr and more.

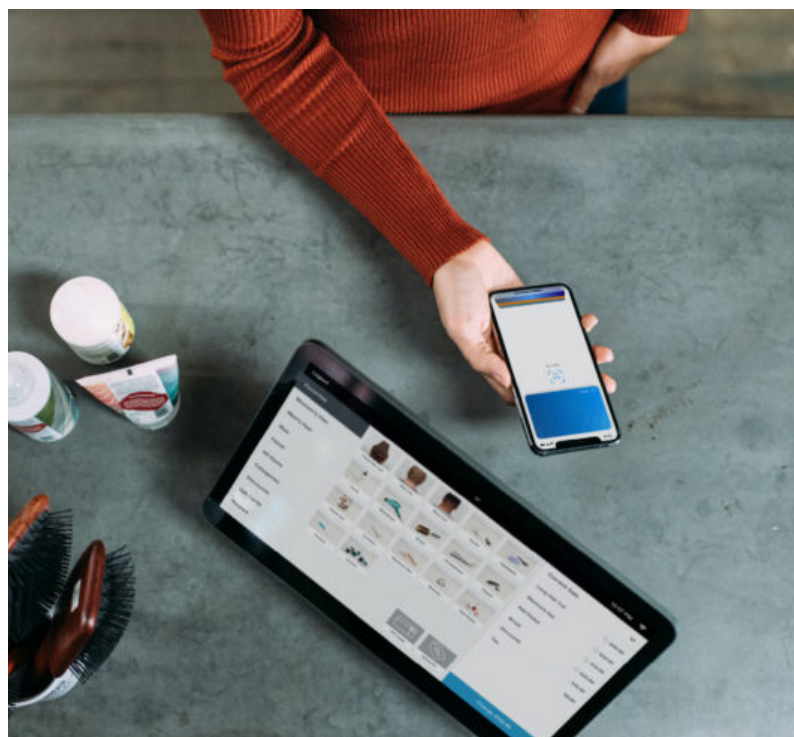
With just basic data sharing between Reckon and Novatti, the application process for business loans could take just a matter of seconds given all the relevant accounting data is already recorded by Reckon. Once combined with Novatti's banking business that then automatically logs the relevant data - an instantaneous loan approvals process would be possible.

For the Half Year ended 30 June 2022, Reckon reported \$21.9 million revenue which delivered \$4.9m NPAT. These numbers were for their continuous operations only, after accounting for their \$100m sale of subsidiary business Accountants Practice Management Group.

While that transaction has settled, the special dividend to RKN shareholders is yet to be issued, but

will deliver Novatti \$12.8m cash and \$3.3m in franking credits. That will be in addition to a 3 cents per share interim dividend totalling \$675k, having already banked \$1.12m from RKN dividends in FY22.

Once received, the \$22.5m investment in Reckon will have returned Novatti \$14.6m cash and \$4m in franking credits from just 17 months of holding.



## NOVATTI SHAREHOLDING IN RKN

		Purchase Price: \$1.00	22,518,138		22,518,138
			Cash	Franking	Total
Dividends	22/09/2021	0.03	\$675,544	289,519	965,063
	25/03/2022	0.02	\$540,363	193,013	643,375
	23/09/2022	0.03	\$675,544	289,519	965,063
	Special	0.57	\$12,835,339	3,300,516	16,135,854
Return \$			\$14,636,790	\$4,072,56	\$18,709,356
Return per share			\$0.650	\$0.18	\$0.83
Current Share Price (\$0.65)			\$14,636,790	-	\$14,636,790
<b>Total</b>			<b>\$29,273,579</b>	<b>\$4,072,566</b>	<b>\$33,346,146</b>
<b>Return on Investment</b>			<b>30.0%</b>		<b>48.1%</b>



## Takeover Target - Low to Medium

Novatti does not appear an obvious takeover target at present but having been granted a RADl licence to launch International Bank of Australia, the prospect of a full banking licence within 12-24 months could attract a range of suitors from the financial services and fintech industries.

We have already seen activity in the space with neobank 86 400 acquired by NAB for \$230 million which has enabled NAB to accelerate its digital presence while getting a significant customer injection for its own digital banking business, U Bank.

Other banks have also voiced their desire to engage with younger audiences, acknowledging that the banking needs of Australians are now vastly different to generations of yesteryear. This has seen Bendigo and Adelaide Bank launch digital bank 'Up', also via acquisition.

One other potential M&A opportunity for onlookers may come from Novatti's stake in Reckon, where the accounting software sector has been raging hot for M&A in 2022. This recently included NAB Ventures taking an equity position in software startup Thriday which aims to use automation to challenge Xero and MYOB via direct integrations with debit card and bank accounts.

We've already seen ANZ explore acquiring MYOB so it is clear to us that the major banks acknowledge a gaping problem in their business banking services. Due to the rigidity of how major banks operate, they simply cannot solve these problems themselves and it's why disruptors see such a lucrative opportunity in any product that allows business owners to focus on running their business rather than dealing with administration.

It would be difficult for any potential suitor to acquire Reckon without having Novatti onboard, while acquiring or partnering with Novatti may be another merger opportunity to access Reckon's 117,000 users.

Broker reports suggested that ANZ's takeover bid was in the vicinity of \$4.5 billion which is almost double the \$2.4 billion paid by KKR in 2019 when the private equity firm took MYOB off the ASX boards. At the time, MYOB had approximately 1 million customers that range from small businesses all the way up to multinationals. That loosely values each customer at \$4,500 for simple valuation purposes compared to Reckon's around \$900 each, all of which have similar business banking needs that make Reckon attractive to acquisition by a bank, potentially even Novatti's.





## Disclaimer

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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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