

# Novatti

ASX Announcement

31 October 2022

September Quarter FY23 Activities Report and Appendix 4C<sup>1</sup>

## Continued progress in shift to positive cashflow

### Highlights

- **\$10.5m quarterly sales revenue – up 98% YoY**
- **Quarterly processing revenue up 123% YoY**
- **Remain confident of progress on restricted banking licence**
- **Shift to monetisation phase continuing**
- **New services continue to move into commercialisation phase**
- **Acquiring, Issuing and Cross Border customer bases and revenues increasing strongly**
- **Quarterly cash requirement decreases another 10%**
- **\$14.5m cash available with further \$12.8m expected shortly<sup>2</sup>**

### Quarterly Sales Revenue



### Quarterly Processing Revenue



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

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

“Novatti continued its long-run growth trend in the September quarter, with quarterly sales revenue of \$10.5m, representing a year-on-year increase of 98%. Looking forward, we remain particularly excited about the potential for this growth to continue as the business rapidly shifts from a development to a monetisation phase.”

“Novatti’s global payments ecosystem is now established after several years of substantial investment. As a result, Novatti is able to increasingly focus on generating sales traction, leveraging the innovative services across its payments value chain. For example, Novatti’s acquiring business is already servicing more than 800 merchants, highlighting the strong demand for these services.”

<sup>1</sup> All figures throughout this document related to the September quarter remain unaudited unless stated otherwise.

<sup>2</sup> Based on special dividend as announced by Reckon Limited on 27 October 2022.

# Novatti

“Being able to shift our business from an investment phase to a monetisation phase has two very notable benefits. Firstly, it enables Novatti to shift its focus to delivering positive cashflow, which continued during the September quarter as quarterly cash use fell 10%, after falling 48% in the previous quarter. Cash use is now down 53% across two quarters, highlighting the substantial progress already made in a short period of time. Secondly, with Novatti’s ecosystem in place, we can leverage these assets to bring new products and services to market quickly and efficiently to drive new revenue. For example, we have announced that our Australian dollar backed stablecoin, AUDD, will launch on 1 November.”

“The strength and innovation of Novatti’s payments ecosystem is getting noticed. For example, Novatti was recently invited to join a Reserve Bank of Australia payments fintech roundtable led by Governor Philip Lowe. In addition we were featured at Stellar’s global digital currencies conference, Meridian, in Rome.”

“The growing attention on Novatti’s business is all happening at the same time that we are seeing big market players starting to catch on to the huge potential of fintech-led payments and the macro-level shift to digital payments more broadly. Recently we saw Westpac confirm its interest in acquiring Tyro to better support its customers and grow its merchant acquiring business. Further, in June we saw ANZ consider an acquisition of accounting platform MYOB.”

“This sort of interest only further highlights the significant value generated by Novatti having our own acquiring business in market, and growing strongly. In addition, we were well aware of the strong synergy between payments and accounting software platforms when we acquired a strategic stake in Reckon Limited last year, then following through with a strategic partnership where our joint marketing efforts are bringing through new prospects and customers.”

“We still firmly believe in the strength of the future prospects for our business and fintech-led payments more broadly, which is only reinforced by the recent moves by major players like Westpac and ANZ. Novatti’s own prospects are only furthered by the strength of our balance sheet, ending the September quarter with \$14.5m in cash with a further \$12.8m expected on 21 November.<sup>3</sup> These funds will enable Novatti to continue to execute its growth strategy at the same time that markets are clearly waking-up to the huge potential in digital payments going forward.”

<sup>3</sup> Based on special dividend as announced by Reckon Limited on 27 October 2022.

## Financial performance

### Revenue

The September FY23 quarter saw Novatti deliver \$10.5m in sales revenue, a 98% increase year-on-year, and again highlighting Novatti's ability to deliver growth over the longer term. While this result was down 4% on the prior quarter, this is largely attributed to seasonal factors, in particular in the South East Asia business ATX.

#### Quarterly Sales Revenue



#### Quarterly Processing Revenue



### Cash flow

The September quarter saw Novatti's quarterly cash used in operations fall 10% on the prior quarter to \$2m. This follows the 48% quarterly decrease achieved in the previous June quarter.

Novatti's focus here continues to be delivering positive cashflow. With significant progress already made in a short period of time, this cash usage trend is expected to continue.

Year-on-year, receipts from customers were up 65% in the September quarter to \$18.7m. While receipts were down 12% on the prior quarter, this had a commensurate impact on product manufacturing and operating costs, which were equally lower.

In addition to Novatti's end of quarter cash balance of \$14.5m, an additional \$12.8m is expected shortly as a special dividend from Reckon Limited.<sup>4</sup> These funds leave Novatti with a strong balance sheet to continue to execute its growth strategy.

In accordance with Listing Rule 4.7C, payments made to related parties and their associates are included in item 6.1 of the Appendix 4C, which incorporates directors' fees, salaries and superannuation.

<sup>4</sup> Based on special dividend as announced by Reckon Limited on 27 October 2022.

# Novatti

## Fundraising

The September quarter saw Novatti complete the issue of a \$10.5m corporate bond. The issuing of this bond followed consideration of a number of ways to unlock further growth funds without diluting shareholder capital.

These new funds enable Novatti to unlock new and larger market opportunities as well as increased transaction volumes. In particular, the funds support growth in Novatti's core payment processing business and capital for proposed banking business.

This bond issue was arranged by BCI Australia Pty Ltd (**BCI**) and was fully subscribed to by institutional investors, which only reinforces the strength of Novatti's existing business and future prospects. BCI received transaction fees of 3.5% of the bond offer proceeds plus customary out of pocket, trustee and Austraclear fees and expenses.

The bonds are secured and will be issued for a fixed term of five years from the date funds are received by Novatti, with interest at 90 day BBSW plus 650bps. Completion of the issue occurred on 12 August 2022.

## Activities update

### Innovation in payments getting noticed as stablecoin to go live

Novatti's new stablecoin, AUDD, will go live on 1 November 2022.

AUDD is a 1:1 fiat-backed stablecoin that will provide a seamless payment experience, enabling users to send currency or remittances globally with near-instant settlement.

AUDD not only provides clients with an innovative new payment solution, but also creates potential new revenue streams for Novatti.

In the past few months, the strength of Novatti's offering has been getting significant public attention. The announcement about the launch of AUDD was made at the Stellar Meridian conference in Rome where Novatti was meeting with financial institutions and blockchain businesses.

In addition, Novatti was also recently invited to a small roundtable with the Governor of the Reserve Bank of Australia (RBA), Philip Lowe, to discuss innovation in the payments sector. The RBA described this meeting as an "invaluable opportunity."

Novatti's involvement in these significant events only reinforces its strong standing within the payments sector.

## New mobile only acquiring solution

Novatti's acquiring business continues to grow strongly, now servicing more than 800 merchants. Novatti has worked extensively to deploy its own acquiring solution which will be able to achieve greater margins. In line with deploying its own full acquiring solution, Novatti is bringing through an extensive roadmap of features including Card Not Present eCommerce with multiple shopping carts, "risk" guaranteed services, Card Present services and mobile Point of Sale services.

After the completion of the quarter, an incredibly innovative partnership was announced with MYPINPAD, a global innovator in card payment systems.

Through this innovative partnership, Novatti will now be able to offer a "tap and pay" solution for businesses using only an Android phone or tablet and without the need for any additional hardware. This marks another leap forward in payments innovation and again highlights Novatti's leadership in this sector.

## Proposed new banking business

Novatti continues to work proactively with Australia's banking regulator for the final approvals of its restricted banking licence. Novatti management remain confident of their progress on this front.

## New director brings strong growth company experience

After the completion of the September quarter, Novatti was delighted to announce the appointment of Killian Murphy as a non-executive director, effective from 13 October 2022.

Killian contributes deep financial markets skills to the board and strong networks both within Australia and globally. He brings more than 15 years of experience working with growth companies across the UK, EU, US, and Australia. As part of this, he has advised both domestic and international companies and investors, including in the technology and payments sector, particularly on leveraging global capital markets. He currently works with leading financial firm, MST Financial.

Killian holds a Master of Arts (Economics) and a Bachelor of Arts (Hons) in Economics from University College Dublin, National University of Ireland.

## Ends

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

Novatti Managing Director, Peter Cook, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on **Monday, 31 October 2022, at 3.00pm (AEDT)**. Investors can register at: <https://novatti.com/investor-briefing/>

# Novatti

For further information, contact:

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

## About Novatti Group Limited (ASX:NOV)

Novatti is a leading fintech that enables businesses to pay and be paid, from any device, anywhere. From corner stores and startups to global organisations, our solutions will unlock your ambitions. Solutions include issuing, acquiring, processing, and billing, while Novatti has also applied to APRA for a restricted banking licence through its subsidiary Novatti IBA Pty Ltd.

## Appendix 4C

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

**Name of entity**

Novatti Group Limited

**ABN**

98 606 556 183

**Quarter ended ("current quarter")**

30 September 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	18,743	18,743
1.2 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)
1.3 Dividends received (see note 3)	676	676
1.4 Interest received	24	24
1.5 Interest and other costs of finance paid	(192)	(192)
1.6 Income taxes (paid)/refund	(8)	(8)
1.7 Government grants and tax incentives	1,051	1,051
1.8 Other – Working Capital	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,037)</b>	<b>(2,037)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(14)	(14)
(d) investments	-	-
(e) intellectual property	(131)	(131)

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<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other:		
	(a) funding collateral for transactional business	(484)	(484)
	(b) cash acquired on acquisition of subsidiary	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(629)</b>	<b>(629)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	10,500	10,500
3.6	Repayment of borrowings	(40)	(40)
3.7	Transaction costs related to loans and borrowings	(339)	(339)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>10,121</b>	<b>10,121</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	6,059	6,059
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,037)	(2,037)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(629)	(629)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	10,121	10,121
4.5	Effect of movement in exchange rates on cash held	974	974
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>14,488</b>	<b>14,488</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	14,488	6,059
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>14,488</b>	<b>6,059</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(41)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	10,500	10,500
7.2 Credit standby arrangements	-	
7.3 Other (please specify) – Convertible Note	-	-
<b>7.4 Total financing facilities</b>	<b>10,500</b>	<b>10,500</b>

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

**Finance facilities including Convertible Notes**

On 8 November 2019, it was announced that a convertible note facility of \$1.1m into Novatti's dedicated banking subsidiary, Novatti B Holding Company Pty Ltd (NBH) for the provision of its working capital by Australian Fintech Investment Group Pty Ltd (AFIG) had been executed. \$1.1m was raised from the issue of one converting note.

On the 9th April 2021 Novatti announced the buy back of the outstanding converting note from AFIG. The buy-back was conducted via an assignment of the converting note from AFIG to the Company, effective immediately, for the \$1.1 million face value of the note. The final payment of \$40k was paid in this September quarter.

A bond was issued on August 12, 2022. The \$10.5m bond is secured and is issued for a fixed term of five years. Interest is at 90 day BBSW plus 650 bps.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	<b>(2,037)</b>
8.2 Cash and cash equivalents at quarter end (Item 4.6)	<b>14,488</b>
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	<b>14,488</b>
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>7.11</b>

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

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

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

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 October 2022



Authorised by: The Disclosure Committee

### Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.