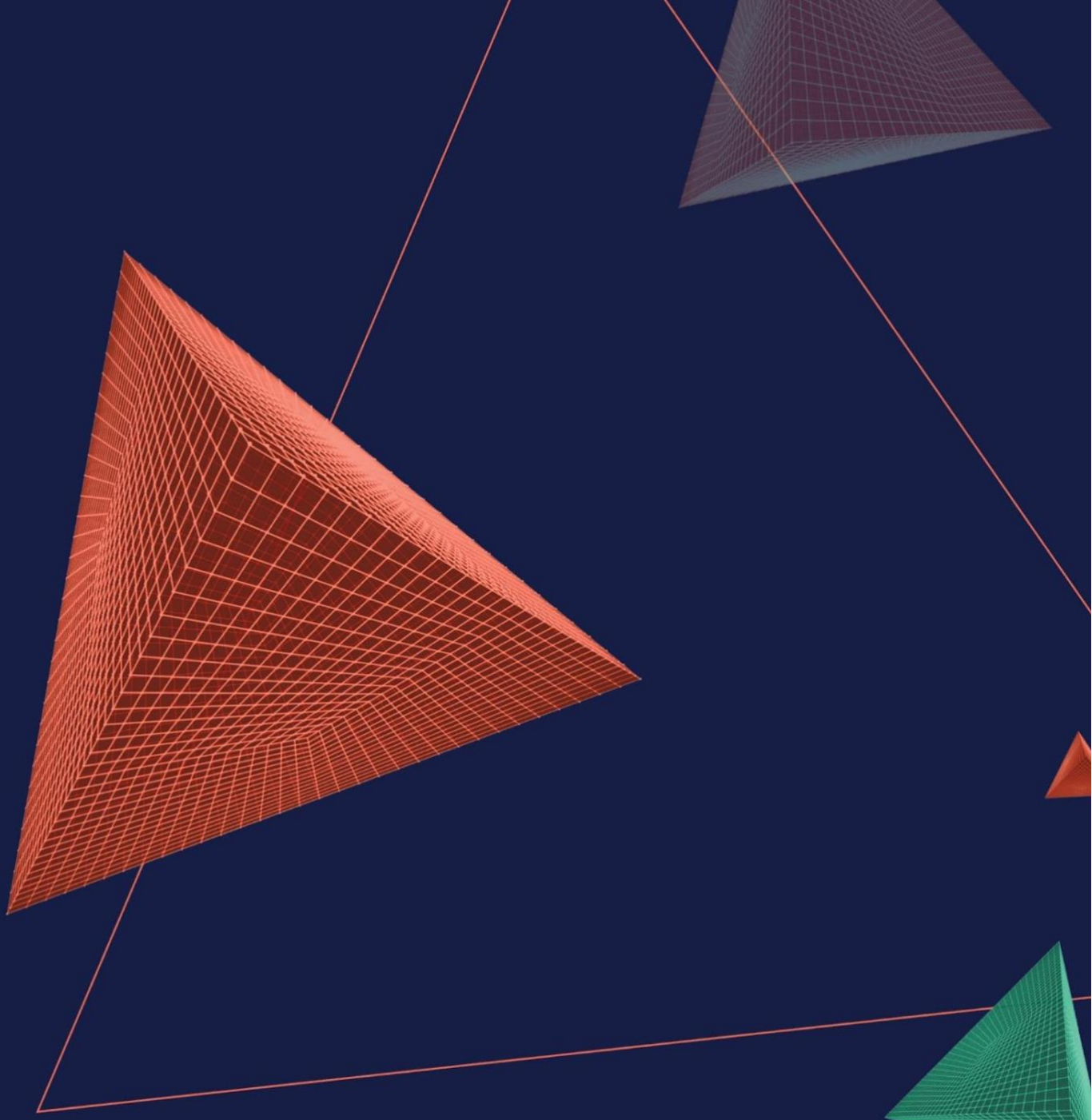
For personal use only



change.

FY2023 Q2
QUARTERLY UPDATE AND APPENDIX 4C

30 January 2023

For personal use only

December 2022 Quarterly Update and Appendix 4C

FY2023 Q2 Highlights

- Customer receipts of US$2.3m (A$3.2m)
- Q2 FY23 revenue of US$2.0m (A$2.8m), up 9% on prior corresponding period (pcp)
- H1 FY23 revenue (unaudited) of US$4.3m (A$6.0m), up 14% on pcp
- AFSL granted enabling Change to issue prepaid cards in Australia upon completion of Mastercard Principal Issuer licence certification which is expected in Q3 FY23
- Successfully completed Mastercard technical certification with the Vertexon platform now ready for issuing prepaid and debit cards in New Zealand
- Signed a five-year partnership agreement with Mastercard enabling Change to expand its product offering in the US to include debit cards
- Final phase of Vertexon integration and testing ahead of 'go-live' of first New Zealand clients expected in Q3 FY23
- Cash holdings of US$2.8m (A$3.9m) as at 31 December 2022

Investor Webinar Registration

Monday, 30 January 2023 at 10:00am Brisbane time (AEST) / 11:00am Sydney time (AEDT)

Click here to register (or see link below)

30 January 2023 **Change Financial Limited (ASX: CCA) ("Change"** or **"the Company")** is pleased to release an update on the Company's business activities along with the Appendix 4C for the quarter ended 31 December 2022 (Q2 FY23).

Change CEO and Managing Director, Alastair Wilkie commented, "During the quarter we continued to progress our operational readiness for direct issuing in Australia and New Zealand. A key enabler of our Oceania direct issuing strategy was the granting of an Australian Financial Services Licence (**AFSL**). The AFSL will enable the Company to issue prepaid cards in Australia and will significantly expand opportunities in one of our core target regions."

"Revenue for the quarter grew 9% relative to Q2 FY22, with H1 FY23 revenue growing 14% over the prior corresponding period. We continued to make strong progress towards 'go-live' of the first New Zealand client card programs and we expect to commence transitioning card programs in Q3 FY23, which will help accelerate our revenue growth profile."

Business Activities

Australian Financial Services Licence (AFSL)

Change Financial Payment Services Pty Ltd (**CFPS**), a wholly-owned subsidiary of Change Financial Limited, was granted an AFSL. The AFSL will enable Change to issue prepaid cards in Australia, complementing the Company's debit and prepaid card issuing capability in New Zealand. Change is in discussions with Mastercard to seek approval to issue debit cards in Australia where the customer is an authorised deposit-taking institution (**ADI**) or restricted authorised deposit-taking institution (**RADI**).

Change's card issuing capabilities in both Australia and New Zealand are expected to help drive growth in the sales pipeline and new opportunities.

Following granting of the AFSL, Change will proceed to finalise the Mastercard Principal Issuer licence process for Australia, which is expected to complete in Q3 FY23. In Q2 FY23, Change achieved

For personal use only

Mastercard Principal Issuer status in New Zealand. Card issuing in Oceania is a key component of Change's strategy and will enable the Company to generate revenue growth through transaction and processing-based fees.

Partnership with Mastercard for Prepaid and Debit Card Issuing in the US

During the quarter, Change signed a five-year agreement with Mastercard in the US, significantly strengthening the partnership both regionally and globally. This expanded partnership will enable Change to offer debit cards, complementing its existing prepaid card offering in the US. The addition of debit card functionality is a key product offering that will expand the client opportunity pool across the fintech and financial institution sectors. The debit card offering will be available following the completion of the Mastercard licence application and technical certification, both of which are expected to be completed in H2 FY23.

The agreement with Mastercard includes incentives and fee waivers to support the growth and operations of the US business. Change now has a strong, long-term partnership with Mastercard for card issuing in the key target markets of Australia, New Zealand and the US.

New Zealand Client Progress Update

Change continues to progress towards 'go-live' of the first New Zealand client card programs, having delivered all key milestones on time to date. Following the granting of the Mastercard Principal Issuer licence for prepaid and debit cards in New Zealand, Change successfully completed technical certification and the Vertexon platform is now connected to Mastercard's production network with a live Bank Identification Number (**BIN**).

The integration with the clients' core banking platform is in the final stages of user acceptance testing and client card designs are with Mastercard for approval. Change is working closely with all parties to commence transitioning card programs in Q3 FY23, thereby starting to generate transaction and processing-based revenue from the delivery of those services.

Upon 'go-live' of the first New Zealand client, Change will be entitled to a cash incentive of US$1m from Mastercard as previously announced.

Release of New Vertexon Version

During the quarter, Change released an updated version of the Vertexon Payments as a Service (**PaaS**) platform for Australia and New Zealand clients. The key features of the new version include:

- Amazon Web Services (AWS) hosted architecture features for PaaS clients, providing traditional on-premise Vertexon clients a path to migrate to the cloud
- New Application Programming Interface (API) features for card holders and transactions
- Payment Card Industry Data Security Standard (PCI-DSS) security enhancements, including 3D Secure 2.0 issuing and AES Keyblock LMK
- New rules engine features for cardholder, transaction and ecommerce limits

Change is targeting to deploy the latest version of Vertexon into the US during H2 FY23. The upgrade will enable Change to deliver more innovative card management and processing capabilities to the US market including debit cards, buy now pay later (BNPL) and advanced digital payment solutions.

Sales Update

Change signed 13 new contracts worth US$0.8m (A$1.1m[1]) with both new and existing clients during Q2 FY23, including:

- ***Vertexon:*** signed new projects, services and licence sales for clients across SE Asia, Oceania and LATAM. The first card program in the US, Alaska Prepaid Card, LLC has started to ramp

[1] AUD/USD = 0.71

For personal use only

up transaction and cash load volumes, which Change expects to continue to increase throughout the remainder of FY23

- ***PaySim:*** secured a new PaySim client in Qatar and increased pricing for several existing clients in SE Asia and Oceania

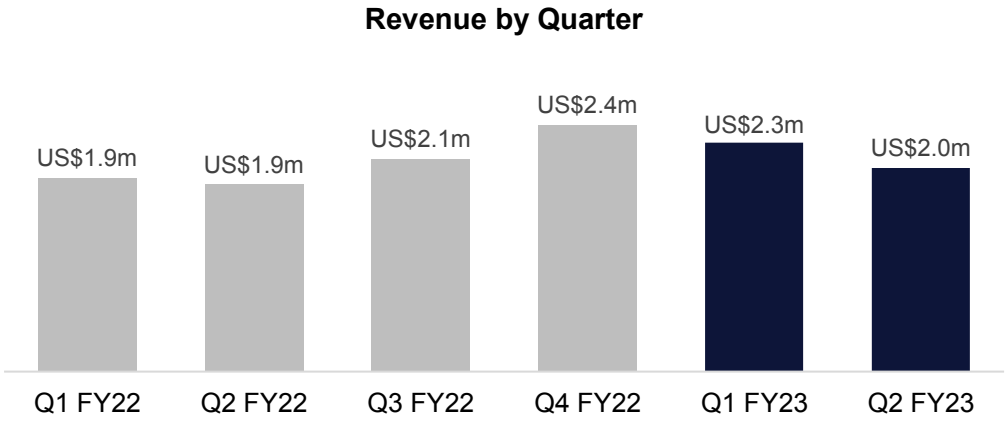
The pipeline continues to mature with higher value Vertexon PaaS opportunities and PaySim subscription and certification offerings progressing through the sales funnel. The Company has seen a significant uplift in Vertexon interest in the Oceania market following the milestone New Zealand client contract announcement and expects this to increase in Australia following the recent granting of the AFSL.

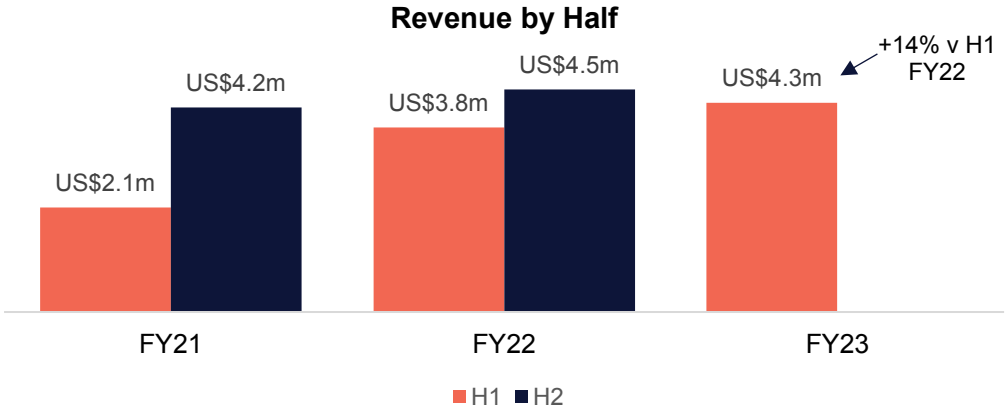
Existing Vertexon on-premise clients are actively exploring PaaS migrations which is a positive validation of Change's product strategy, albeit these migrations typically have long sales cycles.

Financial Update

Change delivered Q2 FY23 revenue of US$2.0m (A$2.8m), up 9% on prior corresponding period (pcp) (US$1.8m). This growth was primarily driven by increased recurring support and maintenance revenue.

H1 FY23 revenue (unaudited) totalled US$4.3m (A$6.0m), up 14% on pcp. For H1 FY23, approximately 57% of revenue was derived from recurring income streams whilst approximately 43% was derived from project and licence income (i.e. non-recurring income). The proportion of recurring income (as a % of total revenue) is expected to increase over time, driven particularly by new PaaS clients.





As outlined in the Q1 FY23 quarterly update, Change realigned its cost base to streamline the business and enable future growth to be delivered profitably. As part of the cost base realignment, there were several one-off restructuring costs incurred during the period. These costs have now all been fully incurred and the Company expects operating expenses to reduce in the second half of FY23.

For personal use only

Cash receipts from customers totalled US$2.3m (A$3.2m), up 57% on pcp. The stronger cash receipts in the current period were driven by higher customer invoicing in Q1 FY23 and some earlier collection of customer invoicing.

Cash payments for operating activities (excluding income tax) totalled US$2.8m (A$3.9m), down approximately 8% on pcp. Staff costs for the current quarter, which comprised approximately 60% of cash payments for operating activities (excluding income tax), were down on pcp but increased slightly relative to Q1 FY23 due to the payment of FY22 staff incentives, the final payment of restructuring costs and an additional fortnightly pay-run. Staff costs are expected to decrease in H2 FY23.

Change's cash position at the end of the quarter was US$2.8m (A$3.9m) with US$0.6m (A$0.8m) (including accrued interest) of debt remaining via an unsecured loan facility, which cannot be redrawn.

The majority of Change's revenue is derived in USD whilst most operating costs are currently incurred in AUD and NZD. As such, the Company benefits from a strengthening USD relative to the AUD and NZD. Additionally, whilst the Company reports in USD, the majority of cash held by the business is in AUD to align with the denomination of the majority of the cost base. As a result of this dynamic, the USD reported figures will be subject to foreign exchange rate fluctuations during the reporting periods (refer accompanying Appendix 4C).

Outlook

Underpinned by an existing client base with contracted revenue, soon to 'go-live' clients and late-stage pipeline opportunities, Change continues to target to deliver double-digit revenue growth in FY23 and achieve monthly EBITDA positive during H2 FY23.

Webinar Invitation - Investors and Analysts

Investors are invited to join a live webinar and Q&A hosted by Change CEO & Managing Director Alastair Wilkie, CFO Tony Sheehan and CPO Vinnie D'Alessandro on Monday, 30 January 2023 at 10:00am Brisbane time (AEST) / 11:00am Sydney time (AEDT).

Please register ahead of time via the following link:
https://us06web.zoom.us/webinar/register/WN_ui9AYGkFQg2rgooxEkpdww

Once the registration form is completed, investors will receive a confirmation email with details on how to access the webinar.

Other Disclosures

Payments to related parties of the entity and their associates are detailed in Section 6 of the Appendix 4C relate to the directors' fees and other related party fees paid during the quarter including the salary of the Managing Director.

All financial figures in the following Appendix 4C are denominated in US dollars unless stated otherwise.

Authorised for release by the board of Change Financial Limited.

About Change Financial

Change Financial Limited (ASX: CCA) (Change) is a global fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by over 156 clients across 41 countries to deliver simple, flexible, and fast-to-market payment services, including card issuing and testing.

Change's payments as a service (PaaS) platform Vertexon, seamlessly integrates with banks and fintechs' core systems enabling delivery of digital and virtual card solutions to their customers. It includes integrated features such as Apple Pay, Google Pay, Samsung Pay and Buy Now Pay Later (BNPL) services. Change currently manages and processes over 27 million credit, debit, and prepaid cards worldwide.

Using PaySim, Change tests payment systems to help clients meet the reliability and performance expectations of end customers. Simulating the full transaction lifecycle across multiple systems, PaySim enables banks and fintechs to complete end-to-end testing of their payment platforms and processes from a desktop. Change also provides the default standard for payments testing for many Australian companies, including Australia's domestic card payment service eftpos.

Learn more about Change at www.changefinancial.com

For more information, please contact

Alastair Wilkie
CEO & Managing Director
Change Financial Limited
investors@changefinancial.com

For personal use only

Appendix 4C

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

For personal use only

Name of entity

Change Financial Limited

ABN	**Quarter ended ("current quarter")**
34 150 762 351	31 December 2022

Consolidated statement of cash flows		**Current quarter $US'000**	**Year to date (6 months) $US'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	2,304	4,607
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(859)	(1,541)
	(c) advertising and marketing	(36)	(65)
	(d) leased assets	(30)	(59)
	(e) staff costs	(1,678)	(3,285)
	(f) administration and corporate costs	(152)	(492)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(3)	(4)
1.6	Income taxes paid	(126)	(214)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(580)**	**(1,053)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	3	(1)
	(j) investments	-	-
	(k) intellectual property	(331)	(690)
	(l) other non-current assets	-	-

For personal use only

Consolidated statement of cash flows		Current quarter $US'000	Year to date (6 months) $US'000
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 – sub lease payments received	-	45
2.6	**Net cash from / (used in) investing activities**	**(328)**	**(646)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	3,867
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	1
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(55)	(325)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(488)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**(55)**	**3,055**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,603	1,501
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(580)	(1,053)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(328)	(646)

Consolidated statement of cash flows		Current quarter $US'000	Year to date (6 months) $US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(55)	3,055
4.5	Effect of movement in exchange rates on cash held	160	(57)
4.6	**Cash and cash equivalents at end of period**	**2,800**	**2,800**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $US'000	Previous quarter $US'000
5.1	Bank balances	2,800	3,603
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**2,800**	**3,603**

6.	Payments to related parties of the entity and their associates	Current quarter $US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	96
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.

For personal use only

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $US'000**	**Amount drawn at quarter end $US'000**
7.1	Loan facilities	581	581
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	**581**	**581**

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.

On 31 January 2022, the Company finalised an unsecured term facility to assist funding the ongoing operations and future growth of the business. The key terms of the facility were outlined in the announcement dated 31 January 2022 and include:

- Amount: up to A$1.5 million
- Funder: Altor Capital via ACM AEPF Pty Ltd ATF Altor Emerging PIPE Fund
- Interest rate: 13.0% pa accrued and capitalised monthly
- Establishment fee: 2.0% of the facility, to be offset against the first draw down
- Term: 24 months
- Security: unsecured

In September 2022, the Company repaid A$0.75 million of the unsecured term facility. There is no ability to redraw under the facility.

8.	**Estimated cash available for future operating activities**	**$US'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(580)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,800
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	2,800
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	4.8

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

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

8.6.1 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?

Answer:

8.6.2 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?

Answer:

For personal use only

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

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 30 January 2023.....

Authorised by: the Board.....
(Name of body or officer authorising release – see note 4)

Notes

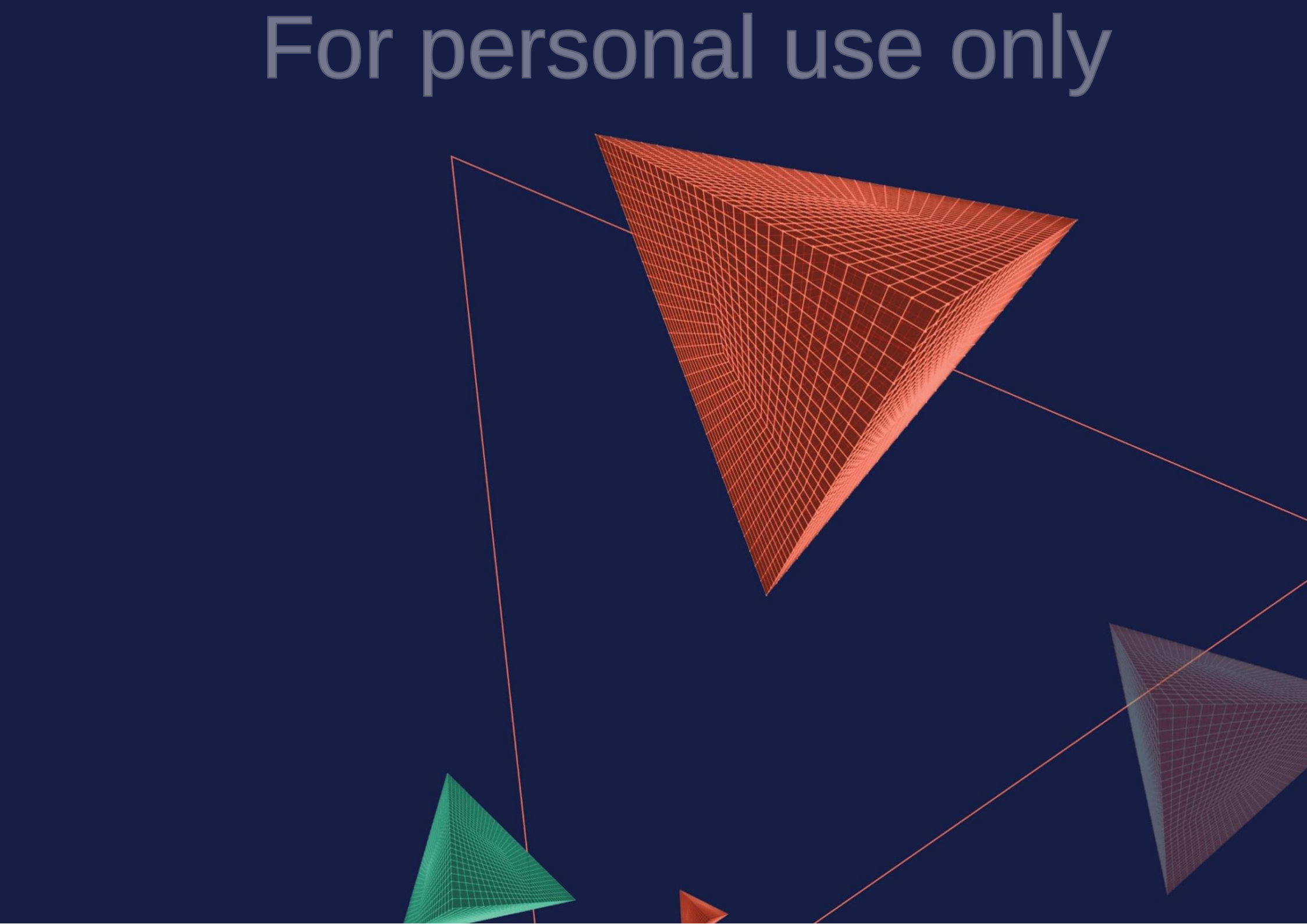
1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over 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.

For personal use only

For personal use only