

ASX Announcement

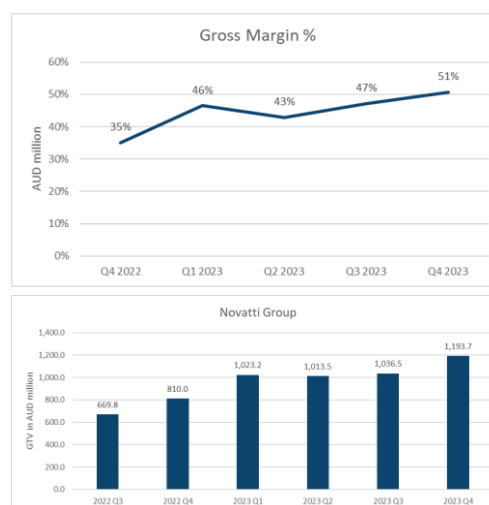
31 July 2023

June Quarter FY23 Activities Report and Appendix 4C*

Business to be simplified as focus on gross margins gains traction

Highlights

- Business simplification with focus on being customer led, integrated go to market and gross margin improvement
- Payment AU/NZ, the future growth engine has 113% YOY growth
- \$1.19 billion GTV - a new quarterly record
- Quarterly GTV up 46% YoY and 15% QoQ
- \$10.3m quarterly sales revenue - growth returns
- Gross margin at 51% up from 35% in Q4 FY22



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

Commenting on the results, Novatti CEO, Mark Healy, said:

“Novatti continues to capitalise on the global megatrend towards digital commerce and digital transformation which is being reflected in Novatti’s payment processing volumes. These volumes were up 15% Quarter-on-Quarter to \$1.19 billion in Q4 FY23.”

“Consistent with commentary from previous quarters, Novatti’s revenue also returned to positive growth in Q4 at \$10.3m, up from \$8.9m in previous quarter, with the business now having adjusted to lower margins from one international client.”

“Having developed and commercialised a portfolio of payments technology that serves all sides of the digital payments landscape, Novatti is now shifting its focus to optimising its product suite and business with a core focus on lifting gross margins.”

“During the June quarter, Novatti began to streamline the business with a focus on profitable revenue where enhancing gross margin is a key focus. By realigning the commercial team around this goal, we have started seeing an uplift of gross margins. For example, gross margin percentage across the business increased to 51% in Q4 FY23, up from 35% in Q4 FY22. We remain focused on driving revenue growth and further increases in margin while maintaining an investment in continual product innovation, with a target of achieving positive operating cash flow by the end of FY24.”

“As we continue to streamline the business, we expect cost optimisation measures to continue through FY24, alongside initial steps to align marketing and sales teams with an integrated go to market approach. Once embedded, this will drive cross selling of multiple products and services from Novatti and unlock greater benefits for clients.”

“FY23 has been a breakout year for Acquiring which has benefited from major technology upgrades enabling all new merchants to be on-boarded onto our new in-house platform. This has contributed to 198% YoY growth in revenue by the division. The upgrades give Novatti greater flexibility to deliver payment solutions and more importantly, a better customer experience.”

“Some of the larger customer wins across FY23 in Acquiring include a national gym software business which collects payments from members across Australia, a major hotel operator, a student accommodation provider and various telecommunications providers that acquire their customer payments via Novatti.”

“In the coming quarters we will increasingly move towards simplifying our business, with a focus on continued and sustainable increase in margins.”

Operations Update

Novatti set a new quarterly record for Gross Transaction Value (GTV) in Q4 FY23 with \$1.19 billion processed throughout Novatti’s digital payments ecosystem. This took Novatti’s GTV for the 12 months ended 30 June 2023 to \$4.21 billion, a 46% increase on the previous year.

Sales revenue of \$10.3m for the Group was generated in Q4 FY23. This return to growth aligns with previous commentary about the business adjusting to lower revenue and margins from one international client, with the impact of this now fully realised.

On 15 June 2023, Mark Healy commenced in the role of CEO having been promoted from the role of Executive General Manager of Payments. Mark has already played a key role in managing several major projects, including the continued investment in Novatti’s Acquiring business, growing the Issuing business and managing the FY24 budget process.

During the quarter, Novatti added in-store terminal payments to its Acquiring product suite for ‘card present’ payments to accept payment via a physical card or digital wallet. The addition of this capability will enable the sales team to target merchants that require a terminal as an alternative or addition to an online payment gateway.

Novatti’s partnership with Reckon Limited (ASX: RKN) has continued to progress with a targeted campaign launched for Reckon users around EOFY accounts, and the benefits of utilising Reckon Payments, powered by Novatti, for acquiring digital payments. The campaign strengthened brand awareness around the benefits of acquiring payments via ReckonPay compared to competitor services.

The Issuing division continued to expand its services with a multi-currency processing capability added. Strong growth is being witnessed in New Zealand through the partnership with accounting and automation software provider Hnry for deployment of a card-based payment service for their clients. Opportunities are also presenting in New Zealand for Novatti’s Cross Border division for both

inbound and outbound payments with an increasing presence in New Zealand acting as a gateway to the digital payments ecosystem.

Novatti's Stablecoin Division continued its participation in the Reserve Bank of Australia research project to explore the potential use cases and economic benefits of a Central Bank Digital Currency (CBDC) in Australia. In doing so, we aim to help shape the future of CBDCs and promote the use cases for high governance stablecoins in Australia. Novatti's own stablecoin, AUDD, was created with a focus on compliance, security and utility, all of which will support the innovative CBDC project. This was recently highlighted through Novatti executing Australia's first ever charitable donation using a stablecoin backed 1:1 by Australia's CBDC (eAUD) during the trial.

Novatti's AUDD stablecoin was also launched on the XRP Ledger (XRPL) during the June quarter. XRPL is a decentralised exchange operated by Ripple, where XRP is the native digital currency. Progress continues to also be made for Ethereum network integration which will be released shortly.

Cash Flow Update

Cash consumption for Novatti was \$4.2m across Q4 FY23. This includes full running costs for the International Bank of Australia Pty Ltd (IBOA) and the continued investment in the stablecoin business.

As of 30 June 2023, Novatti Group had \$18.2m cash on hand.

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.

International Bank of Australia Update

IBOA continues to focus on achieving its full ADI banking licence. IBOA continues to secure MOUs with service providers and capability partners as part of its plans to acquire customers when account opening processes are launched. Novatti is a 91% shareholder in IBOA.

Online Investor Briefing

Novatti CEO, Mark Healy, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on Monday, 31 July 2023, at 11.00am (AEST). Investors can register at: <https://novatti.com/investor-briefing>

**All figures throughout this document related to the FY23 remain unaudited unless stated otherwise.*

Ends

Novatti invites investors to keep up-to-date with company news, events and industry research by joining the Novatti mailing list at <https://www.novatti.com/subscribe>

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

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This announcement has been approved for release to the ASX by Executive Director, Peter Cook and CEO, Mark Healy.

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 start-ups to global organisations, our solutions will unlock your ambitions. Solutions include acquiring, billing, issuing, processing and banking (via International Bank of Australia Pty Ltd (IBOA) under a Restricted Authorised Deposit-taking Institution licence).

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 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	21,633	78,381
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(15,952)	(53,888)
(c) advertising and marketing	(140)	(1,061)
(d) leased assets	(76)	(293)
(e) staff costs	(6,899)	(26,791)
(f) administration and corporate costs	(2,988)	(9,703)
1.3 Dividends received (see note 3)	-	13,511
1.4 Interest received	326	658
1.5 Interest and other costs of finance paid	(684)	(1,869)
1.6 Income taxes (paid)/refund	(10)	(41)
1.7 Government grants and tax incentives	639	1,921
1.8 Other – Working Capital	-	-
1.9 Net cash from / (used in) operating activities	(4,151)	826
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(45)	(75)
(d) investments	-	-
(e) intellectual property	135	(181)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(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		(1,573)
	(b) cash acquired on acquisition of subsidiary	-	-
2.6	Net cash from / (used in) investing activities	90	(1,829)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	100	3,100
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
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	(392)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	13,208

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	21,899	6,059
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,151)	826
4.3	Net cash from / (used in) investing activities (item 2.6 above)	90	(1,829)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	100	13,208
4.5	Effect of movement in exchange rates on cash held	277	(48)
4.6	Cash and cash equivalents at end of period	18,215	18,215

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	18,215	21,899
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)	18,215	21,899

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter
\$A'000

-

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.

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

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

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.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(4,151)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	18,215
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	18,215
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1) Note: Positive net cash from operating activities results in an anomaly in this result.	4.4

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 July 2023

This announcement has been approved for release to the ASX by Executive Director, Peter Cook and CEO, Mark Healy.

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.