

27 February 2023

ASX ANNOUNCEMENT

Gratifii releases H1 FY23 Half Year Results

Revenue up 202% v pcg

Gratifii Limited (ASX:GTI) (**Gratifii** or **the Company**), the enterprise loyalty and rewards company, is pleased to announce its results for the half-year ended 31 December 2022 (**H1 FY23**).

Key Highlights

Financial

- Revenue of \$14.05m (up 202% from H1 FY22)
- Gross profit of \$2.62m (up 98% from H1 FY22)
- Operating cashflow of \$1.15m (up 67% from H1 FY22)
- Cash at 31 December \$2.45m
- Improving operating and capital management initiatives leading to positive operating cashflow over the full year
- Successful completion of \$2.7 million capital raise

Operations

- Implementation of three enterprise Mosaic contracts, two are now live and the third planned to go live in H2 FY2023.
- Neat Ideas appointed member benefits partner for Rest superannuation fund's 1.7 million members and Student Edge with 1.1m users taking the individual client accounts to more than 16m.
- Integration of the Hachiko business following acquisition in August 2022 delivering \$300k of annualised cost synergies and efficiencies
- 12 new enterprise client contracts signed across all lines of business
- Achievement of 'Climate Active' carbon neutral certification
- Redesigned the client delivery model resulting in simplification, speed to integrate, enhanced options for cross sell on the full-service provider model and streamlined the organisation to remove duplicate roles.

Outlook

Single overarching Mosaic platform resulting in continued margin and revenue growth

- Three key enterprise implementations forecast to deliver high margin license revenues of ~\$400k ARR (excluding additional service revenues and volume growth)
- Additional enterprise pipeline opportunities in play
- Neat Ideas clients will be migrated to Mosaic by end of financial year, increasing margins and cross sell opportunities, and reducing operational risks
- Hachiko client migration will begin in H1 FY24

Reducing operating expenses ~\$900k p.a.

- Technology efficiencies: Moving all parts of the business to Mosaic will reduce 3rd party license and support fees by approx. ~\$600k (annualised)
- Integration efficiencies: Hachiko acquisition integration completed in Q3 FY23, resulting in ~\$300k annualised cost synergies

Reducing recurring Capex spend ~\$750k p.a.

- R&D milestones: Investment to reduce outsourced development from \$3.0m to \$2.25m p.a. in FY24 upon delivery of final core Mosaic module for FAB Group and Neat Ideas

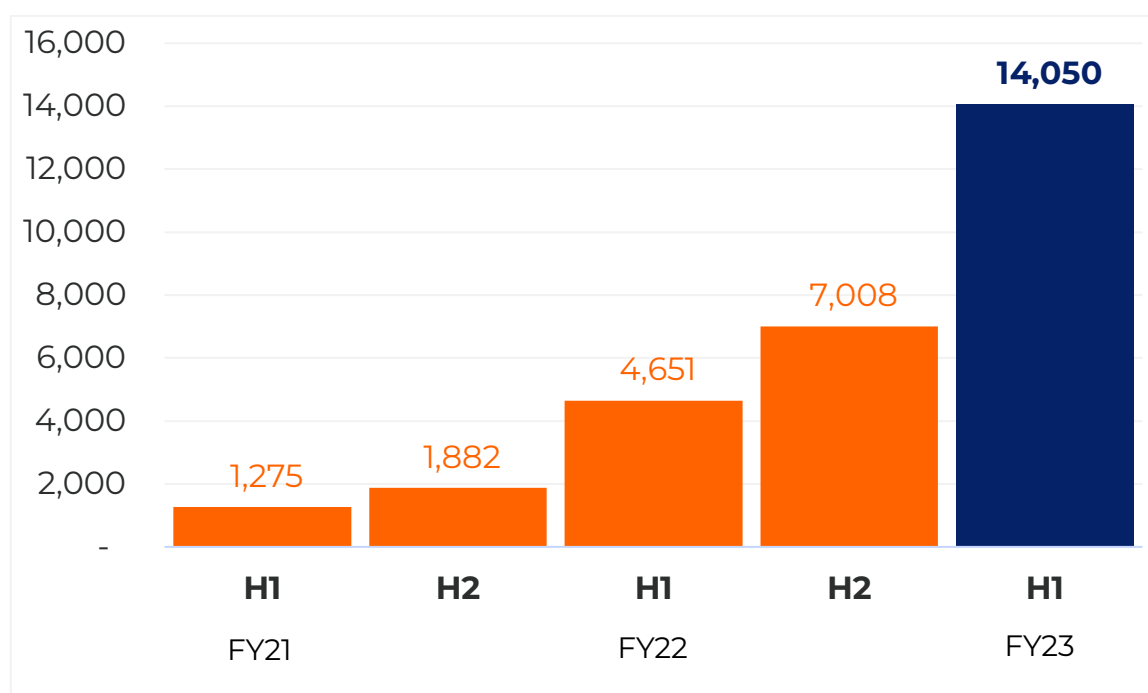
Financial Results

Results Summary

\$'000	H1FY23	H1 FY22
Revenue	14,050	4,652
Gross Profit	2,620	1,320
Operating EBITDA	(1,002)	(535)
Net profit/(loss)	(1,834)	(1,211)
Total comprehensive profit/(loss) for the year	(1,864)	(1,220)

Revenue was \$14.05 million for the six months to 31 December 2022, an increase of 202% over the six months to 31 December 2021 and 2Q 2023 is 19% growth on 1Q 2023 revenues, continuing seven quarters of revenue growth. The Hachiko acquisition in August 2022 accounted for 74% of the half year revenue growth, with 26% coming from organic growth in loyalty and rewards.

Half Year Revenues (\$'000)



Gross profit increased 98% in comparison to H1 FY2022. Reported margins were 18.6%, representing a material uplift on rewards trading, whilst the development and investment in the Mosaic platform mitigated the delivered margins in the SaaS results. In addition, a number of project deferrals, particularly in the IT services sector, impacted the reported Hachiko results. Management have now redesigned the client delivery process on the back of the delivery of Mosaics core modules and streamlined the organisation. This, together with the implemented cost savings, are expected to have a material positive impact on margins in H2 FY2023.

Operating EBITDA Loss increased to \$1.0 million, primarily on the back of the reduced margins noted above. The major expense line is people, which has grown some 104% in the half year. As noted above, the streamlining of the organisation and re-assigning responsibilities has resulted in some \$300,000 of annual cost savings already undertaken, with an expected additional \$600,000 of annual cost savings to be undertaken in H2 FY2023.

Reported Net Loss was \$1.8 million for the half (H1 FY2022: \$1.2 million). A key impact was the continuation of the Mosaic investment and completion of the core modules in H1 2023. Management expect to reduce capex spend by an annual \$750,000 at the start of FY2024.

Net Cash from Operating Activities was \$1.2 million for the half (H1 FY2022: \$0.7 million), representing a 67% growth in cashflow. Net cash increased by \$380k with cash raised of \$2.7 million, used to pay for the acquisition of Hachiko at \$2.14 million and further development of Mosaic at \$1.5 million.

Capital Raising. The Company successfully raised cash of \$2.7 million in August 2022 via a share placement (\$1.25 million) and convertible notes (\$1.5 million), in

addition to issuing 19.2 million shares, to fund the acquisition of loyalty and rewards agency Hachiko for \$3.6 million. Up to a further 53.8 million shares may be issued as deferred consideration (subject to shareholder approval).

Operations Update

SaaS Platform Update

In line with its strategy of one platform delivering all the Company's loyalty and rewards services, Gratifii continued to invest in additional functionality for Mosaic. Gratifii invested \$1.53 million in capital development costs (H1 FY22: \$1.5 million) during the period. This was largely invested in delivering client functionality for three key enterprise contracts:

- **Seagrass:** flagship hospitality client with agreement valued at approx. \$500,000 in first year. The first restaurant deployment has gone live, and full roll-out is on schedule.
- **Large health services provider:** The fast-growing private medical centre sector presents a significant opportunity for Gratifii. Initial three-month pilot program valued at over \$175,000 has gone live and assuming success will result in a 2 year+ agreement with potential SaaS revenues of \$200,000+ p.a.
- **FAB Group:** Strategically important as Gratifii's first NZ SaaS implementation to 70 cosmetics and skincare clinics. Implementation on track for H2 FY2023 with SaaS revenues of NZ\$90,000 in year 1, growing in year 2 onwards.

The 'Products' module is now complete and is the final core module to be delivered. Capex expenditure is anticipated to decrease by \$0.75 million p.a. in FY2024. Additionally, the Company received an R&D tax rebate of ~\$0.84 million in November 2022, which has been used to further accelerate these implementations.

Rewards Update (Neat Ideas)

Gratifii's rewards business, Neat Ideas, was appointed as preferred rewards partner for several high-profile member organisations and employers during the period:

- **Rest:** 1.7 million superannuation members can now access rewards Neat Ideas' supplier network of leading cinema and entertainment ticket brands via a custom-built shopping portal.
- **Student Edge:** Neat Ideas went live as preferred member benefit partner for Australia's largest student organisation, Student Edge, giving its 1.1 million members access to offers from Neat Ideas' 150+ suppliers.

- **Toga Group:** 180 employees of this property developer and hotel group can now access Neat Ideas' rewards portal and supplier network.
- **Big Red Group:** Neat Ideas now supplies wholesale priced movie tickets to brands including RedBalloon, Adrenaline and ExperienceOz whose market reach delivered over 1.5 million experiences in the past 12 months.

The addition of these enterprise clients grew the total number of Neat Ideas potential users by 2.8 million, to over 16 million, growing Neat Ideas' revenue stream.

Marketing Services Update (Hachiko)

The acquisition of Hachiko was finalised during the period, adding a highly synergistic service offering with 35 enterprise clients and 19 talented people to the Company for \$3.59 million (\$2.14 million cash consideration and \$1.45 million script consideration).

During the period, Hachiko expanded its existing client relationships to deliver bespoke engagement programs and market services across a range of industries:

- **The Distributors** – Hachiko extended their management of Australia's leading national independent wholesaler's retail and sales rep loyalty programs to include \$460k in large event management.
- **Spark** – Hachiko signed a new contract with New Zealand's largest telecommunications and digital services provider to deliver a full set of new production videos for future digital campaigns
- **Dell** – Hachiko was awarded a new 12-month channel engagement program including rewards.
- **FOIT** – Hachiko delivered partner activation and content creation to this managed service technology company.

Carbon Neutral Certification

Gratifii Limited was awarded Climate Active certification for its business operations during the period, reflecting the Company's commitment to being carbon neutral and reducing its organisational emissions by 30% by 2032 (compared to 2023).

Outlook

Commenting on the results, CEO and Managing Director Iain Dunstan said "We have now redesigned the go to market strategy and delivery model to enhance the effectiveness of the process, create efficiencies in the solution roll out and focus organisational skills, leading to a more effective team. Over H2FY23, we

anticipate continued conversion of the Company's enterprise pipeline and further revenue and margin expansion from our existing client base. We believe Gratifii is well positioned as a complete loyalty and rewards solution alternative to traditional enterprise loyalty platforms. Our ambitious growth targets and business redesign provide evidence of the business and sector maturation."

Appendix 4D

The Company's Appendix 4D is attached.

GTI confirms that this announcement has been approved by the Board of Directors of Gratifii.

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Company Secretary

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About Gratifii Limited

Gratifii Limited (ASX:GTI) is an ASX listed company transforming the way that loyalty and rewards are managed and delivered. Our single platform is a complete solution offering affordable, market-leading functionality and configurability. Over 90 mid-to-top tier brands rely on Gratifii for their loyalty and rewards across Australia, New Zealand, Singapore, South Africa and UAE.

To learn more, visit: www.gratifii.com