

Novatti

Quarterly update

Appendix 4C

December quarter FY21

29 January 2021



Novatti is a leading digital banking and payments company.

We provide the services that enable financial transactions to take place digitally, on any device, anywhere.

We do this by leveraging our world-class banking and payments platforms, extensive regulatory licences, and global commercial partnerships.

\$3.79m

Highest ever
quarterly sales
revenue

+52%

Increase in
quarterly sales
revenue
year-on-year

7

Consecutive quarters
of record payment
processing revenue

\$9m+

Cash available at end
of December quarter



ASX Announcement

29 January 2021

Another quarter of record revenue as investment in platforms delivers growth

Highlights

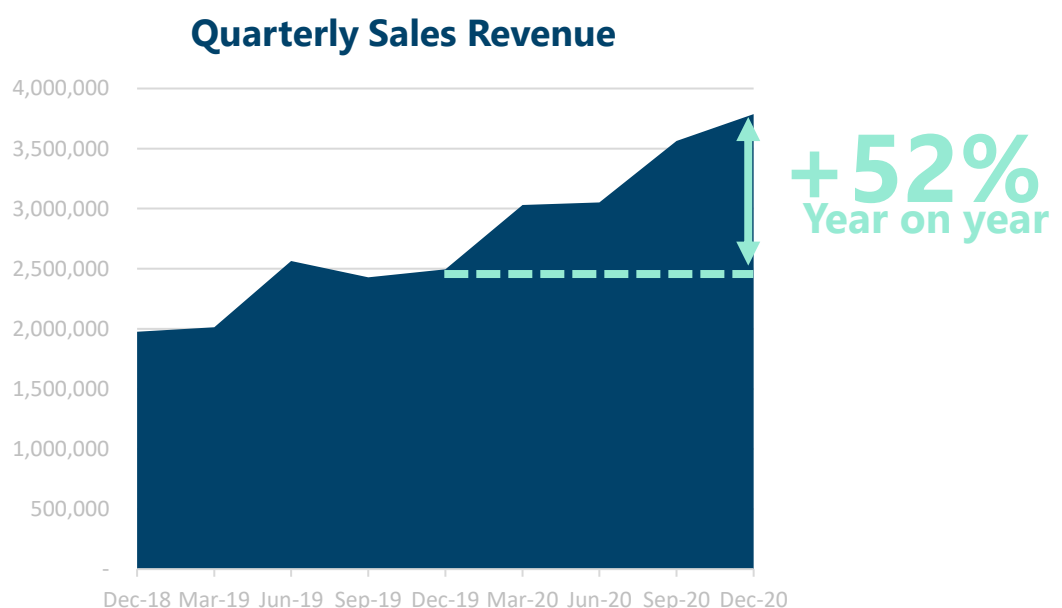
- New record quarterly sales revenue of \$3.79m, up 52% year-on-year, highlighting consistent, long term growth*
- New record half yearly sales revenue of \$7.35m, 49% higher year-on-year, as first half total revenue hits \$8.2m
- Core payment processing business achieves seventh consecutive quarter of record revenue
- Past investment in platforms delivering strong and consistent growth as new partnerships, including UnionPay, Google Pay, Samsung Pay, provide leverage to scale
- Capital applied to accelerate growth as current strategy remains fully-funded with \$9m in cash

Novatti Group Limited (ASX:NOV) (Novatti or Company), a leading digital banking and payments company, is pleased to provide an update on its activities for the December FY21 quarter.

Financial

Revenue

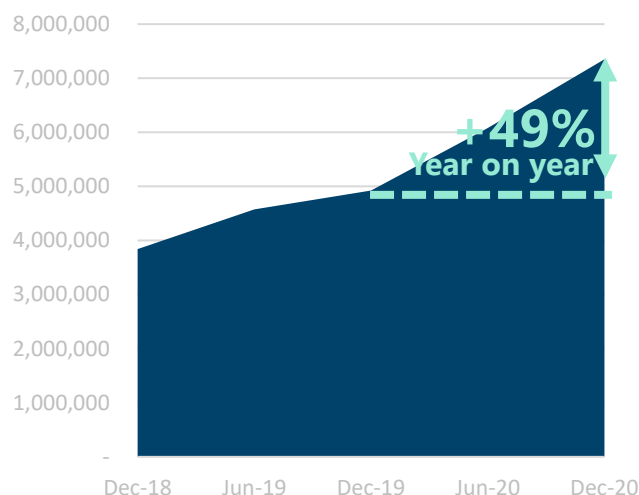
The December FY21 quarter saw Novatti achieve its highest-ever quarterly sales revenue yet again, at \$3.79m. This represents growth of more than 52% year-on-year and more than 6% on the previous quarter. Importantly, it again highlights Novatti's ability to deliver consistent, long-term growth.



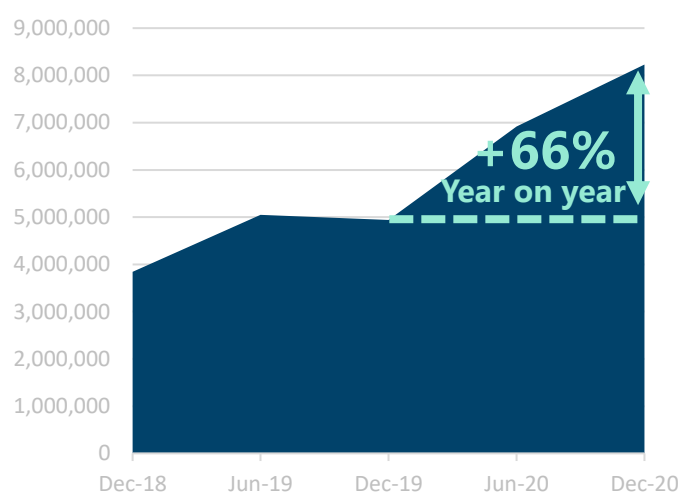
*Unless stated otherwise, all figures remain unaudited

First half sales revenue of \$7.35m was 21% higher than the previous half and 49% higher year-on-year, again highlighting Novatti's growing revenue base. Importantly, total revenue (including all sources) exceeded \$8.2m for the December FY21 half, a 66% increase year-on-year.

Half Yearly Sales Revenue

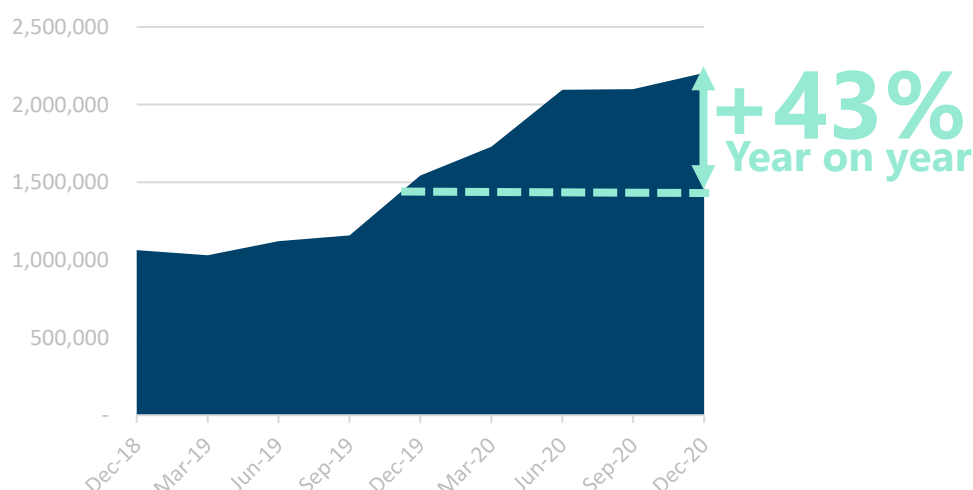


Half Yearly Total Revenue



Novatti's core payment processing business continues to provide the strong platform for growth, achieving its seventh consecutive quarter of record revenue at \$2.2m, an increase of 43% year-on-year.

Quarterly payment processing revenue



Importantly, Novatti is also seeing strong growth from its newer platforms and businesses. For example, revenue associated with Novatti's Visa card issuing business increased more than 180% on the previous quarter, to more than \$190,000.

These results validate Novatti's strategy across the past few years of building and acquiring the platforms that can scale quickly, with these past investments now delivering strong and consistent revenue growth.

Cash flow

As flagged since Novatti completed its \$10.2 million capital raising in the September FY21 quarter, Novatti is increasingly applying this capital towards accelerating its strategy.¹

During the quarter the following growth initiatives were undertaken:

- Expanding the growth team, including:
 - New employees for Emersion
 - Expansion of the executive team to include additional senior payments specialists in Issuing, Acquiring and Cross Border Payments
 - Ancillary support services to manage accelerated growth
- Building blocks of international expansion, including:
 - Application fees for new licences
 - Legal fees for international agreements
 - Increased software development

Novatti's current growth strategy remains fully-funded as the Company continued to hold more than \$9.1m in cash at the end of the December quarter.

In future quarters, Novatti will continue to direct its cashflow towards accelerating its growth strategy.

Item 6.1 of Appendix 4C provided below includes director fees and salaries paid in the quarter.

Operations

The December quarter provided a number of operational highlights for Novatti as it continues to accelerate its growth strategy.

These included:

- Securing new commercial agreements to drive further revenue growth
- Delivering new partnerships with tier-one players, providing scale to Novatti's existing platforms
- Fast-tracking Novatti's overseas expansion
- Continuing to develop the platforms and businesses for Novatti's future growth

A number of these operational achievements are discussed below.

¹ Novatti ASX Announcement – *Next growth phase funded with \$10.2m capital raising* – 29 June 2020

Securing new commercial agreements

During the December quarter, Novatti was able to finalise a number of new revenue-generating commercial arrangements, including:

- Securing three new white-label programs for Novatti's Visa issuing business, including one client ordering 50,000 Visa cards
- Subscriber billing and payment platform, Emersion, securing an average of five new customers per month, up from an average of less than two prior to Novatti's acquisition in April this year
- Ongoing growth in other Novatti business lines including Payments Processing, Subscriber Billing, and Technology Services

Importantly, many of these new commercial agreements are with Novatti's newer platforms and businesses, again highlighting the sales momentum they are generating.

Delivering new partnerships for scale

Partnerships are central to Novatti's growth strategy. Partnering with tier-one global players provides flexibility to Novatti's clients and enables Novatti's platforms to scale quickly to capture customer share.

In the December quarter, Novatti secured a number of new, tier-one partnerships, including:

Google Pay and Samsung Pay

Novatti simultaneously announced partnerships with both Google Pay and Samsung Pay.

These partnerships see Novatti's Visa Prepaid cards now supported by both platforms. This enables Novatti's users to make online payments as well as contactless in-store payments by tapping their devices through the Google Pay and Samsung Pay platforms.

Novatti joins the major Australian banks, including ANZ, Commonwealth Bank of Australia, NAB, and Westpac, in being supported by both Google Pay and Samsung Pay.

UnionPay International

UnionPay has more than 8.4b cards issued globally and a network spanning 179 countries and regions, highlighting its immense scale.²

The partnership with UnionPay will drive growth in Novatti's core payment processing business, with Novatti appointed as a UnionPay acquirer, providing UnionPay customers with access to Novatti's merchant and transaction services across Australia.

The partnership will also benefit other Novatti businesses, including ChinaPayments, with UnionPay having been integrated into ChinaPayments, enabling transactions using UnionPay accounts to take place.

² UnionPay International - <https://www.unionpayintl.com/en/aboutUs/companyProfile/introductiontoUPI/> & <https://m.unionpayintl.com/wap/en/mediaCenter/newsCenter/marketUpdate/7157.shtml>

Ripple

Novatti formed a major new partnership with global payments disrupter, Ripple, to target the rapidly growing South-East Asia region.

Novatti's customers will gain access to RippleNet, Ripple's decentralised, global financial network that enables the processing of global payments instantly leveraging XRP, the world's fourth largest digital currency.³ Novatti's customers will also gain access to the hundreds of financial institutions that Ripple already works with, including high-profile names such as American Express and MoneyGram.⁴

Plans are also underway to further expand the partnership to see Novatti process Ripple's broader cross-border payments into Australia, creating a new potential revenue source for Novatti's core payments processing business.

Fast-tracking overseas expansion

A key pillar of Novatti's growth strategy is overseas expansion. With Novatti already having the readily scalable platforms to serve the rapidly growing demand for digital services, expanding overseas will enable Novatti to increase its customer base to further drive recurring revenues and margins.

During the December quarter, Novatti undertook a number of activities to further this expansion in key markets:

New Zealand

Novatti was awarded regulatory approval for 'issuing and managing means of payment' in New Zealand, the necessary regulatory step prior to Novatti launching any card issuing services in New Zealand.⁵

After the completion of the quarter, Novatti also announced that it has now been licenced by Visa to issue prepaid cards in New Zealand, with Novatti having moved quickly to see this new business launched after regulatory approval in October 2020, again highlighting the scalable nature of Novatti's platforms.

This marked an expansion of Novatti's existing partnership with Visa, after being awarded a Principal Issuer Licence in Australia in September 2019, which enabled Novatti to issue physical and digital Visa Prepaid cards.⁶

As a first step, this expansion into New Zealand will enable Novatti to provide complementary services to its existing global customers with a presence in New Zealand, while also capitalising on the deep relationships that already exist there through Novatti's subsidiary company, Emersion.

³ Brave New Coin - <https://bravenewcoin.com/data-and-charts/market-cap>

⁴ Ripple - <https://ripple.com/customers/#>

⁵ Novatti ASX Announcement – *New licence paves the way for New Zealand expansion* – 2 October 2020

⁶ Novatti ASX Announcement – *Novatti achieves Visa Principal Status* – 9 September 2019

United States

Emersion remains on track to launch in the US during Q3 FY21.⁷

Novatti is investing in the US expansion now to escalate the growth in its customer base and subsequent recurring revenues and margins, which are flow-on benefits of Emersion's full SAAS platform design.

South-East Asia

As noted above, Novatti's new partnership with Ripple will initially target the South-East Asia region, focusing on capturing cross-border transfers out of Australia to this region. In addition, plans are also underway to expand the partnership to see Novatti process Ripple's broader cross-border payments into Australia, creating a new potential revenue source for Novatti's core payments processing business.

Developing the platforms and businesses for Novatti's future growth

While Novatti is supported by the strength of its underlying payments processing business, the focus remains on both driving further growth from this business and developing new businesses and platforms to deliver increasing growth into the future.

Digital Payments Accelerator

After launching Novatti's Digital Payments Accelerator in the September FY21 quarter, Novatti worked quickly to attract clients to the new program, with three new clients secured for the program by the end of the December quarter.⁸

New banking business

During the quarter, Novatti continued to proactively work on the development of its new banking business, which remains a key part of Novatti's long-term growth strategy.

Novatti's strategy for this business is to provide value-add to its existing, established businesses, particularly leveraging its well-established customer and partner base, with a long term aim to provide greater margins for Novatti's payment services.

Novatti remains in regular communication with the Australian Prudential Regulation Authority (APRA), whose latest guidance noted that it will be recommending the issuing of banking licences for new operations, such as Novatti's, from March 2021.⁹ As part of this updated guidance, APRA again advised that Novatti's application will continue to be assessed during this time, minimising any potential delays.

⁷ Novatti ASX Announcement – *International expansion to continue as Emersion readies for US launch* – 8 October 2020

⁸ Novatti ASX Announcement – *End of 2020 business update* – 18 December 2020

⁹ Novatti ASX Announcement – *Update on APRA bank licence issuing* – 11 August 2020

Outlook

Novatti aims to continue to rapidly accelerate its growth strategy across 2021. It is in a strong position to do so, supported by the increasing push to digital services following COVID-19, having the existing platforms to serve this demand, and with the cash available to fund its growth strategy. The acceleration of Novatti's strategy will only be further supported by its ongoing prioritisation of cashflow for growth activities.

Across 2021, these growth activities will include fast-tracking Novatti's international expansion. After the completion of the December quarter, Novatti announced that it had been licenced by Visa to issue prepaid cards in New Zealand.¹⁰ Further, Emersion remains on track to launch in the United States in the March FY21 quarter.

With ongoing demand for Novatti's underlying payment processing business, and with growing demand for Novatti's newer platforms and businesses, including its Digital Payments Accelerator, Novatti aims to maintain its recent, strong levels of revenue growth.

Quotes attributable to Managing Director, Peter Cook:

"The strong results from the December quarter highlight the rewards for Novatti's strategy over the past years to invest in building and acquiring platforms that can scale to meet growing demand. These results also highlight Novatti's record of delivering consistent, long term revenue growth.

"Novatti is in the strong position of having its underlying payments processing business provide the sound platform for consistent growth, while its newer businesses and platforms now show the green shoots of strong future growth.

"Novatti's platforms will continue to benefit from our strategy of securing partnerships with the world's biggest and best banking and payments companies. These partnerships are already enabling Novatti's platforms to scale quickly and acquire new customer share. This will only be furthered by the partnerships secured in the December quarter, including Google Pay, Samsung Pay, UnionPay, Ripple and more recently Apple Pay.

"Backed by strong and growing macro-level demand for digital services, with the existing platforms built and acquired over the past years, and with more than \$9m in cash available, Novatti will continue to accelerate its growth strategy in 2021 and rapidly scale its platforms."

¹⁰ Novatti ASX Announcement – *Visa licences Novatti to issue cards in New Zealand* – 20 January 2021

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

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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 digital banking and payments company. Its fintech, billing, and business automation platforms make payments fast, simple, and secure. Payments services include card issuing, merchant acquiring, payment processing and settlements, and enable our customers to thrive as we shift to a cashless economy. Novatti holds all necessary regulatory licences and registrations, including an Australian Financial Services Licence (No 448066) through its subsidiary Flexewallet Pty Ltd, registration in New Zealand as a Financial Services Provider (FSP613789) through subsidiary Flexewallet (NZ) Limited, is registered with AUSTRAC as a Remittance Network Provider, and has 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")

31 December 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities			
1.1 Receipts from customers		7,595	15,322
1.2 Payments for			
(a) research and development		-	-
(b) product manufacturing and operating costs		(5,618)	(10,358)
(c) advertising and marketing		(60)	(108)
(d) leased assets		(115)	(193)
(e) staff costs		(3,049)	(5,734)
(f) administration and corporate costs		(369)	(1,103)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		15	25
1.5 Interest and other costs of finance paid		(77)	(124)
1.6 Income taxes paid		(8)	(8)
1.7 Government grants and tax incentives		32	616
1.8 Other		-	-
- Other Working Capital		(4)	(1,002)
1.9 Net cash from / (used in) operating activities		(1,658)	(2,667)

2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) entities		-	-
(b) businesses		(135)	(270)
(c) property, plant and equipment		(58)	(72)
(d) investments		-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(e) intellectual property	(170)	(170)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses	-	-
	(i) property, plant and equipment	-	-
	(j) investments	360	360
	(k) intellectual property	-	-
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(3)	(152)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4	10,204
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	-	(660)
3.5	Proceeds from borrowings	-	200
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(60)	(123)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(56)	(9,621)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	11,054	2,600
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,658)	(2,667)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(152)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(56)	9,621
4.5	Effect of movement in exchange rates on cash held	(154)	(219)
4.6	Cash and cash equivalents at end of period	9,183	9,183

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	9,183	11,054
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)	9,183	11,054

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(39)
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	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (please specify) – Convertible Note	4,425	4,425
7.4 Total financing facilities	4,425	4,425

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.

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). \$1.1m was raised from the issue of one converting note. The documented maturity date was 31 March 2020, and in light of APRA's temporary hold on issuing licences for up to six months (see ASX announcement on 9 April 2020) and with a updated guidance by APRA noting that it will recommence issuing bank licences in two phases, with licencing of new operations, such as Novatti's, to begin from March 2021 (see ASX announcement 11 August 2020), NBH and AFIG remain in discussions for the extension of the convertible note. The note will convert into NBH shares automatically upon confirmation by the Australian Regulation Authority (APRA) that a Restricted Authorised Deposit-taking Institution (RADI) licence will be raised on terms and conditions acceptable to NBHC, or the new extended date, whichever is the earlier. Converts into 1.1m NBH shares. The note is unsecured and no interest is payable on the note.

Convertible note facility of \$3.5m issued to sophisticated investors of Novatti Group Ltd. The funds will be used to continue Novatti's growth in its core payments units. The primary terms are: a) Aggregate funds raised amount to \$3.5m from the issue of 3.5m notes, b) Conversion price at lower of 25 cents or the lowest capital raising price prior to maturity c) Convertible at the election of noteholders at any time prior to maturity, 30 July 2021, d) 9% coupon, which may be capitalised at the election of noteholders, e) One free attaching option to be issued for each \$1 note with a 25 cent exercise price expiring 30 October 2022 and f) The notes are secured over Novatti's share capital in its wholly-owned subsidiary, Novatti Inc, which owns the basis2 business. \$175k of the \$3.5m of the Novatti Group Limited convertible notes have been converted to shares.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,658)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	9,183
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	9,183
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	5.54

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

- 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: N/A

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: N/A

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: N/A

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: 29 January 2021



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.

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