

ASX Announcement

27 February 2020

DECEMBER 2019 HALF YEAR COMMENTARY

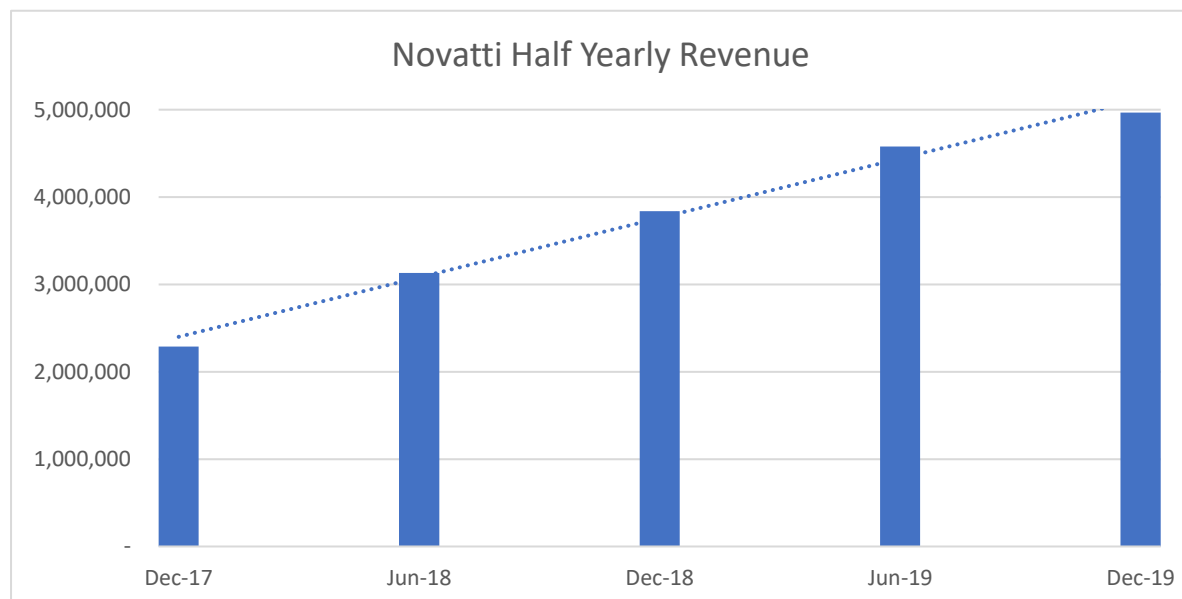
Highlights:

- **Transaction processing revenue of over \$1.5M in the December quarter**
- **Improvement of Normalised EBITDA from (\$1,552,538) to (\$1,162,628) compared to the corresponding half-year**
- **Transaction processing now in excess of 50% of revenue**
- **Lodgement of Restricted Bank Licence application to APRA**
- **Continued growth of revenue half on half (excluding R&D refund)**

Operating overview

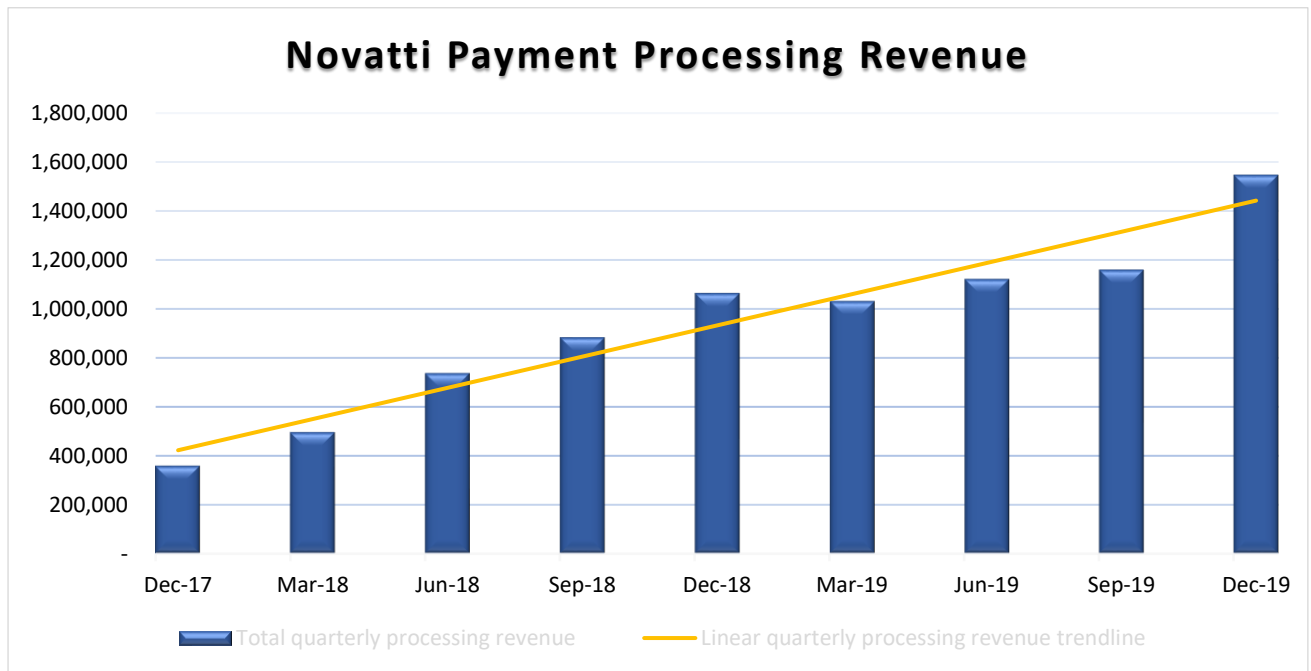
Revenue Growth

Revenues continued to show strong growth, half year on half year.



Transaction processing

During the half-year ended 31 December 2019, the Group continues to show ongoing growth in transaction processing revenues, as shown in the graph below. For the December quarter, Novatti achieved \$1.5M of transaction processing revenue for a quarter for the first time.



Some notable partners added are:

- Alipay for direct merchant acquiring,
- Visa, Inc for Principal Issuer partnership
- Innovapay Brazil for payment processing
- Multiple Chinese payment processors for collection of online marketplace payments and
- Multiple remittance companies for provision of compliance and processing services.

Billing services

The Group's billing services division basis2 continues to perform in line with expectations.

Banking

The company lodged its application to obtain a Restricted Authorised Deposit taking Institute (RADI) to the Australian Prudential Regulation Authority (APRA) in November 2018.

Novatti's goal is to create Australia's leading migrant services bank through the offer of new banking services to Australian customers with a focus on new migrants.

Following ongoing consultation with APRA, on 12 November 2019 Novatti resubmitted the RADI licence application with all additional documents and information for the RADI licence application required by APRA, and this is currently being assessed by APRA.

Financial technology sales

Novatti has historically provided global sales of its Fintech platforms. Novatti continues to service existing customers and limitedly brings on new customers for technology network and platform sales where such sales are strategic to Novatti's core financial processing

business. During the period, Novatti commenced one new Fintech technology client in the Buy Now Pay Later sector.

Corporate and Financial Overview

The Group's cash holding as at 31 December 2019 excluding client funds of \$2,233,635.

The Group is focused on driving the proportion of recurring and transaction revenues within the revenue segments of the group. In addition to its transactional revenue focus, the group is also positioning itself to become a leading migrant services bank leveraging digital technologies such that new sophisticated and meaningful services can be offered from a low cost digital bank.

Normalised EBITDA

Significant improvement in normalised EBITDA from a loss of \$1.55m in the prior calendar period of Dec 2018 to a loss of \$1.16m in the Dec 2019 period. Further growth in the company and cost management should strongly further improve this trading performance in the period to 30 June 2020.

| | 31 Dec 2019 | 31 Dec 2018 |
|--|---------------------------|---------------------------|
| | \$ | \$ |
| Loss after income tax expense for the half-year attributable to owners | (6,752,841) | (2,514,216) |
| Less | | |
| Interest income | (13,113) | (6,118) |
| Add back | | |
| Depreciation and amortisation | 362,569 | 159,613 |
| Finance charges | 596,265 | 19,921 |
| Tax and other indirect tax expenses | 77,986 | 149,795 |
| EBITDA with banking services | <u>(5,729,134)</u> | <u>(2,191,005)</u> |
| Add back | | |
| Capitalised bank and EMI licensing costs impairment | 3,010,256 | - |
| Other banking services costs | 406,052 | - |
| EBITDA (excluding banking services) | <u>(2,312,826)</u> | <u>(2,191,005)</u> |
| Add back | | |
| Share based payments expense recognised for the half-year | 1,275,198 | 140,614 |
| Less | | |
| Merger and acquisition costs | (125,000)* | 497,853 |
| Normalised EBITDA | <u><u>(1,162,628)</u></u> | <u><u>(1,552,538)</u></u> |

* Discount for early payment on consultancy fees.

Significant changes in the state of affairs

The 31 December 2019 half-year financial statements have been adjusted to impair the previously capitalised costs associated with the Restricted Authorised Deposit-taking Institution (RADI) license of \$2.9M and the previously capitalised costs associated with the Electronic Money Issuing license (EMI) of \$120K.

Other significant changes

The Group raised \$2.275 million in convertible notes secured against its US subsidiary Novatti Inc. These funds have been allocated to working capital and funding of a collateral deposit of approximately \$147K.

In addition, Novatti B Holding Company Pty Ltd, the Parent entity's wholly owned subsidiary and head of its banking services unit entered into a convertible note loan arrangement with an Australian based investment group. The investment has raised \$1.1 million into the subsidiary via a non-interest bearing converting note at a \$20M pre-money valuation.

Subsequent events

Following the end of the quarter, the Group also announced on the ASX the raising of \$10 million as direct equity into the banking subsidiary, conditional on the banking subsidiary obtaining its restricted banking licence. Once achieved, Novatti will no longer have direct responsibility for funding the banking unit.

In February 2020, Novatti Group Ltd the parent entity, entered into an agreement with investors for an extension on its convertible note facility. The amount receivable is \$1.225million, bringing the total funds in from the parent entity's convertible note facility to \$3.5million. The terms and conditions of the extension is identical to those of the original convertible note taken up on 15 November 2019.

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

About Novatti Group Limited (ASX:NOV)

Novatti is a leading digital banking and payments company. Through innovative technology, Novatti positions its customers to thrive in the growing cashless economy. Novatti's transaction processing services include Flexepin, an open-loop cash voucher service, Flexewallet for remittance and compliance services, Chinapayments.com for bill payment services and Vasco Pay for the issue of reloadable Visa cards. Novatti subsidiary Flexewallet Pty Ltd holds an Australian Financial Services Licence No 448066 and is registered with AUSTRAC as a Remittance Network Provider. Novatti subsidiary Novatti IBA Pty Ltd has applied to APRA for a RADI licence. Novatti's software solutions include Consumer Digital Wallets, Branchless Banking, Mobile Money, Bill Payments, Remittance Services and Voucher Management Systems.