

NOVATTI GROUP LTD (ASX: NOV)

FINANCIAL TECHNOLOGY AND SERVICES



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Key Highlights

- **Record Half-Year Revenue - \$7.35m reported for H1 FY21;**
- **Seven consecutive quarters of record processing revenue;**
- **RADI Banking License resumed review in March 2021;**
- **Revenue drivers in motion with licences secured and Tier 1 partners signed in sector with high entry barriers;**
- **Novatti payments fully integrated into Apple Pay, Samsung Pay and Google Pay;**
- **Digital Payments Accelerator driving Visa card issuing platform;**
- **International expansion of Emersion to the United States on track;**
- **RentPay 'next generation' payments platform to launch in FY21;**
- **\$40m post-money valuation of Novatti IBA underquoted in current NOV market cap;**
- **Novatti ecosystem emerging alongside launch of Lifepay app;**
- **Regulatory licence secured in New Zealand for card issuing expansion;**
- **Cryptocurrency Payment Gateway patent application lodged.**

Outlook - Buy

Despite being a fintech company that was adversely affected by the COVID-19 pandemic where international travel restrictions stalled a sizable portion of international payment processing revenue, Novatti has weathered the pandemic by expanding other areas of the business which have enabled the Company to emerge in a stronger position than it was pre-pandemic.

This was highlighted by \$7.3m sales revenue for the December Half-Year which represented a 49% increase on the previous corresponding period.

Emerald Financial maintains its Buy rating on Novatti which re-allocated resources between its various business divisions to set a foundation for substantial revenue growth in FY21 and beyond through core tech partnerships. These included key signings with Apple, Google, Samsung and Visa which brought Novatti's payments tech capabilities in line with market leaders - almost all of which trade publicly with substantially

Outlook:

BUY

Date:

15 March 2021

Price (11 March):

\$0.41

Ticker:

ASX: NOV

52-Week range:

\$0.08-\$0.53

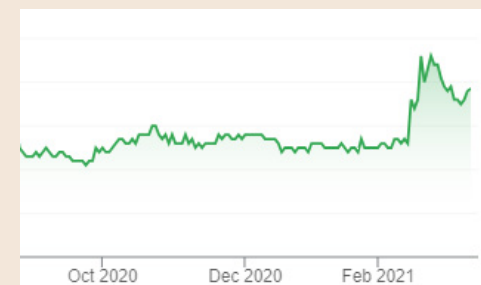
Market cap (AUD):

\$93m

Shares on issue

228m

	FY20	FY19	FY18
Revenue (\$m)	11.90	8.90	6.36
EBITDA (\$m)	-5.63	-4.47	-1.77
NPAT (\$m)	-10.96	-4.95	-2.07



Novatti



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higher market capitalisation values. Many of these include Buy-Now-Pay-Later (BNPL) operators, compared to which Novatti carries a substantially stronger balance sheet than most.

Digital payments continue to emerge as the preferred method of payment in Australia and abroad, accelerated by the pandemic that halted traditionally cash economies. These economies, particularly in South-East Asia have been identified as a key area of growth by Novatti which provides cross-border payments and prepaid credit card services.

Granting of a Visa Principal Issuer licence from Visa Inc in 2019, the ability to issue VISA cards has further fuelled Novatti's core payments processing business, which has delivered seven consecutive quarters of record processing revenue. In CY2021, Emerald Financial expects Novatti to execute its international expansion plans which will build on the foundations built over the past 12 months through their Tier 1 partnerships network.

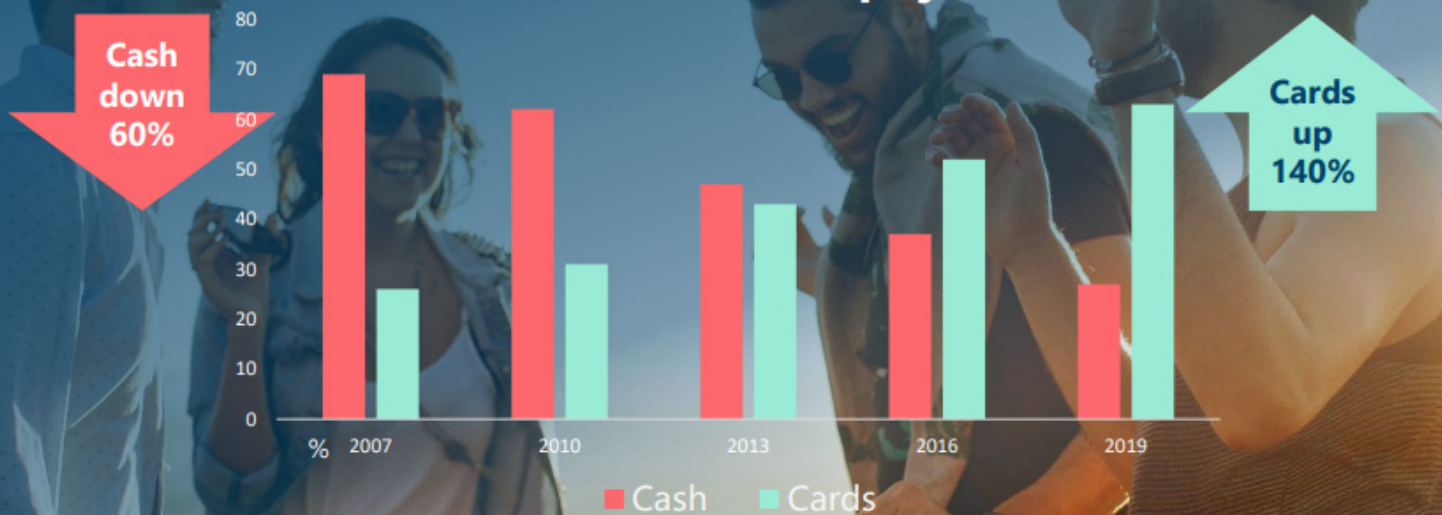
The expansion of billing automation software through Emerson to the United States is expected to be a revenue driver for Novatti given the division has achieved substantial growth since being acquired by Novatti in April 2020. This has opened up opportunities for Emerson customers to engage other Novatti business services while improving its service to leverage new fintech solutions.

Additionally, as part of Novatti's international expansion plans, the Company was granted regulatory approval for 'issuing and managing means of payment' in New Zealand in January 2021. This should also open up new revenue streams for Novatti's digital payment divisions which already issue digital vouchers and prepaid VISA cards for both enterprise solutions and consumer use.

All of the service capabilities of Novatti have increased over the 12 months remaining core to their neobank with their banking license application back under review as of March 2021. This resumes an ongoing process which APRA halted during the pandemic which resulted in a \$2.9m impairment expense that was reported in Novatti's FY20 financial statement. This suggests that the investment into their banking licence application is no longer carried on the balance sheet despite the planned neobank - Novatti IBA - having a post-money valuation of \$40 million when Novatti conducted a funding round for it in November 2019 of which Novatti would have owned 50%.

As a result of the APRA delay, these funds were returned to investors. However, Novatti's application is now back under review. Since first submitting their banking licence application, Novatti is in a stronger financial position, has increased its digital payment services and will soon see the return of international travel to Australia where migrants have long been a core segment of Novatti's revenue.

Share of number of payments



Company Summary

Novatti Group Limited (ASX: NOV) is an Australian fintech company which operates in four key spaces within the financial services industry - international payment processing, business automation and billing software, card issuing services, and growth-oriented eCommerce project incubation.

Novatti's revenue is generated across a variety of streams including a percentage of payments processed, enterprise contracts for their payments tech and regulatory services, recurring SaaS fees and capital returns from incubator projects.

Expanding on its global fintech infrastructure which processes more than \$2.5 billion in total transaction volumes, Novatti submitted an application to APRA for a banking licence. This follows banking sector regulatory changes in 2017 enabling consumers to gain access to a greater range of competitive banking products and the introduction of digital banks in Australia. Once issued with their restricted banking licence, it is expected to lead to the launch of a digital banking business in conjunction with their application for a full banking licence.

Novatti has established business partnerships through existing B2B payment service networks which will enable the rapid expansion of their digital banking services to differentiate from competitors by primarily targeting migrant demographics.

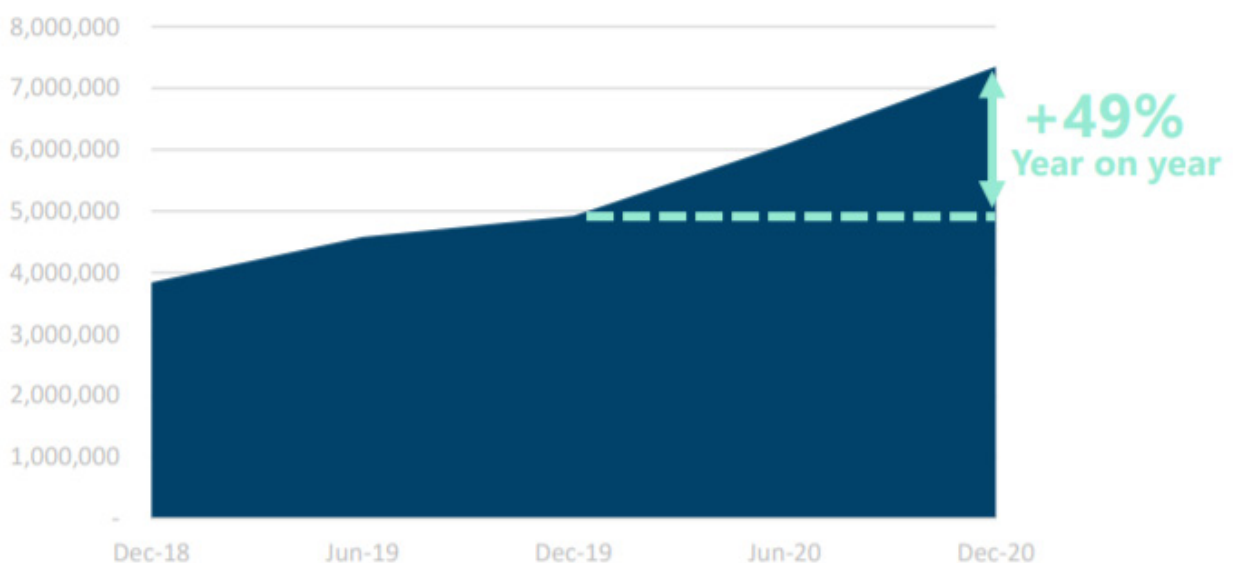
With a network of Tier 1 corporate partnerships including Google, Samsung, Apple, WeChat Pay, Alipay, Bank of Shanghai, IBM World Wire, VISA Inc, SplitPay, Marqeta, and Decta already secured, Novatti's digital banking capabilities are positioned to significantly disrupt existing mediums of migrant banking services in Australia, with a seamless experience to manage their payments and savings both domestically and abroad.

Operational Performance - H1 FY21

FY20 was the most significant in Novatti's history as a listed entity with the Company having achieved major milestones in what were testing economic conditions due to the coronavirus pandemic consuming most of the Financial Year. However, with adjustments to their business which significantly reduced operational expenses, Novatti has continued its strong financial performance in FY21 with the December Half-Year headlined by a 49% increase in sales revenue on the previous corresponding period, which was prior to the onset of COVID-19.

Historically, Novatti has been substantially exposed to international travel with overseas students and migrants being a core customer segment that uses Novatti services to remit between China and Australia. Despite a decline in Chinese nationals travelling to Australia, the decline in that division has been propped up and exceeded by Novatti's billing

Half Year Sales Revenue



subscription software - Emersion - which saw a dramatic uptake in subscriptions through the pandemic.

As a consequence of the mass lockdowns around the world, many businesses were forced to digitise their operations, management and delivery. This, well commercialised before the onset of COVID-19, is what Emersion has facilitated to automate billing and collect payment digitally.

Already having secured major telecommunications and utility companies in Australia, New Zealand and Singapore as core clients, Novatti reported that Emersion has been signing up an average of 5 new clients per month since the pandemic started. This was further facilitated by tech upgrades that led Emersion to be launched on the Salesforce AppExchange - one of the world's most used business platforms. Continuing to perform well within the Novatti ecosystem, Emersion flagged plans in October 2020 to expand to the United States by March 2021.

This expansion has been driven by new hires in the United States that have been upgrading Emersion's technology to integrate with individual tax rates between States. This looms as a hugely lucrative opportunity for billing automation software given only 32% of invoices are sent electronically in the US compared to 84% in Australia.

Some of these expansion expenses were factored into Novatti's \$3.1m net loss for the Half-Year which was a substantial improvement on H1 FY20 which resulted in a \$6.7m net loss.

Financial Summary - H1 FY2021				
	31 December 2020 \$	31 December 2019 \$	Change \$	Change %
Net loss from operations	(3,119,314)	(6,752,841)	3,633,527	(54%)
Less				
Interest income	(23,067)	(13,113)	(9,954)	76%
Add back:				
Depreciation and amortisation	740,268	362,569	377,699	104%
Finance charges	709,680	596,265	113,415	19%
Indirect tax expenses	18,194	77,986	(59,792)	(77%)
EBITDA	(1,674,239)	(5,729,134)	4,054,895	(71%)
Vesting of share-based payments	1,716,682	1,275,198	441,484	35%
Due diligence costs	-	(125,000)	125,000	(100%)
Gain on embedded derivative	(790,968)	(148,145)	(642,823)	(434%)
Impairment of capitalised bank licensing costs	-	3,010,256	(3,010,256)	(100%)
Underlying EBIDTA*	(748,525)	(1,716,825)	968,300	(56%)



The Full-Year result is likely to include additional expenses for the launch of Emersion in the United States however these expenses will be recouped over the coming years where further efficiencies can be optimised via friendly foreign exchange rates.

With a cash balance of more than \$9 million as of 31 December 2020, Novatti remains well capitalised to fund these expansion plans with new revenues to be further recorded from incubator projects as they reach commercialisation.

Additionally with \$7.3m revenue for H1, Novatti is on track to exceed \$15m for the Full-Year with Emerald Indicators and projections expecting Novatti to deliver closer to \$16m revenue FY20 given sustained growth over the past seven Quarters.

SCORE OUT OF 100	
Dividend Score	0
Quality	5
Price Momentum	69.1
Maturity Score	44.3
All Weather Score	1.6
Credit Score	3.4
Earning Score	27.2
Growth	78.7
Emerald Stock Score	16.2

Profit and Loss Statement - Half-Year ending 31 December 2020

	Consolidated	
	31 December 2020 \$	31 December 2019 \$
Revenue	7,350,147	4,923,036
Other income	990,698	13,778
Expenses		
Client hosting fees and other direct services	(1,938,255)	(1,142,304)
Employee benefits	(6,830,290)	(5,853,975)
Depreciation and amortisation expense	(740,268)	(362,569)
Occupancy costs	(90,672)	(64,662)
Finance charges	(709,680)	(596,265)
Foreign currency translation cost	(217,983)	(98,539)
Data management expenses	(172,966)	(128,024)
Administrative and corporate costs	(404,881)	(278,016)
Due diligence costs	-	125,000
Share based payment for investor relations services	(574,034)	-
Share of net profit of joint ventures accounted for using the equity method	5,247	3,737
Gain on embedded derivative - convertible note facility into Novatti Group Ltd the parent entity	790,968	148,145
Impairment of capitalised bank licensing costs	-	(3,010,256)
Other expenses	(570,519)	(408,436)
Loss before income tax expense	(3,112,488)	(6,729,350)
Income tax expense	(6,826)	(23,491)
Loss after income tax expense for the half-year attributable to the owners of Novatti Group Limited	(3,119,314)	(6,752,841)



Payments Technology & Fintech Incubation

Although Novatti was only listed on the ASX in 2016, founder and current CEO Peter Cook has extensive experience in the technology sector where he founded and sold various tech and telecommunications companies prior to his listing of Novatti on the ASX.

This track record in project incubation has been one area that Novatti has always operated in the background when game-changing tech opportunities have been identified. One of these projects recently incubated was SendFX, with Novatti exchanging payment services for an equity stake in the startup before exiting 15 months later for a \$900k buyout. This, according to the Company, was a substantial multiple of the value provided to SendFX from Novatti services.

As part of the pandemic's peripheral effects, Novatti's reduced business activity while awaiting their RADL Licence led to increased additional attention paid to incubator projects that could expand their digital banking capabilities once license issuing is resumed. Four projects that have leveraged their payments infrastructure and R&D capabilities for incubation recently include:

(1) Digital Payments Accelerator

The first of these was the Digital Payments Accelerator which assists startups and fellow fintechs execute progressive payment platforms. The accelerator program is made possible by Novatti's Visa Principal Issuer Licence which enables them to issue Visa cards as a token of digital payment. Who makes the payments, how they are logged and what they can be used for is where the program's innovation comes to the fore.

The platform is powered by APIs developed by Novatti and linked into their processing network enabling users to transact either with physical cards or digital ones accessible through mobile payment.

One application highlighted through Novatti's testing was Visa cards issued for the purpose of controlled

welfare payments to people in urgent need of assistance. As such, Government agencies would be able to track spending and use of welfare payments to ensure funds were being spent appropriately while not allowing cash withdrawals, or use on gambling websites and liquor stores. As referenced in the December Quarterly Update, Novatti had already been actively signing up partners to the Accelerator, including one that ordered 50,000 cards.

(2) Lifepay Digital Banking App

Tech is at the core of everything that Novatti does which is why they entered into a partnership in 2020 with various payment specialists to develop a digital banking app for consumers.

Development of this app would be mission critical to Novatti's long-term plans of launching their own Neobank and one of the reasons Novatti secured a 25% stake in the startup in exchange for payment and regulatory services.

The Lifepay app offers a range of services including digital payments, transaction accounts, access to Visa prepaid cards and real-time transfers. Where it becomes unique however is its application within mobile payments where Novatti already enables users to pay through Apple Pay, Samsung Pay and Google Pay where Lifepay provides an interface for customers to pay either via tap or scanning a QR code on their smartphone.

The app underwent a soft launch in February 2021 with a full commercial launch scheduled for March 2021. To fund the launch, Lifepay underwent a Series A fundraising which gave Lifepay a \$20.5 million pre-money valuation, of which Novatti's stake would be valued at \$5.1m.

Likely to be one of the more marketed Novatti products in the next 12 months geared towards consumers, app users will further grow the Novatti's digital payments ecosystem and provide valuable insights into their own neobank. Alongside revenue for ongoing services provided to Lifepay, a capital exit could be on the cards also.



(3) Cryptocurrency Payments Gateway

Cryptocurrency remains one of the most scrutinised topics of discussion when it comes to the ASX which may be one reason Novatti has been tight-lipped about their provisional patent application for a cryptocurrency payments gateway.

The application was lodged with the Australian Patent Office on 16 February 2020 but continues a long-time interest Novatti has had in the cryptocurrency space dating back four years, well before crypto interest soared in 2020, sending the price of Bitcoin (BTC) to all-time highs in February 2021.

Although Novatti has not revealed the full extent of their technology behind the patent application, CEO Peter Cook referenced it in an Shareholder update describing it as a “first-of-a-kind gateway will be accessible to all participating crypto exchanges and wallets. It will provide consumers with digital asset wallets with participating exchanges with a secure and compliant option to pay in their chosen, participating cryptocurrency, while ensuring merchants receive the applicable fiat or cryptocurrency in return.”

If indeed the tech behind the patent application will enable merchants to receive payment for goods and services via cryptocurrency, Novatti’s existing ties to foreign exchange and international remittance could see this tech substantially altering the use case of cryptocurrency in daily lives.

Under such a theoretical model, a user could tap their phone which instantly exchanges BTC to AUD for a merchant to be paid instantly in that same AUD amount.

Prior to submission of this provisional payments application, Novatti has partnered with Stellar and Ripple, having identified the value of payment processing on the blockchain where Novatti has become one of the ASX’s more-exposed fintechs within the cryptocurrency space.

(4) RentPay

In March 2020, Novatti commenced a partnership with Rent.com.au (ASX: RNT) to help develop a new platform for the rental industry that would disrupt an industry that had long seen minimal change since the introduction of online banking for electronic payments.

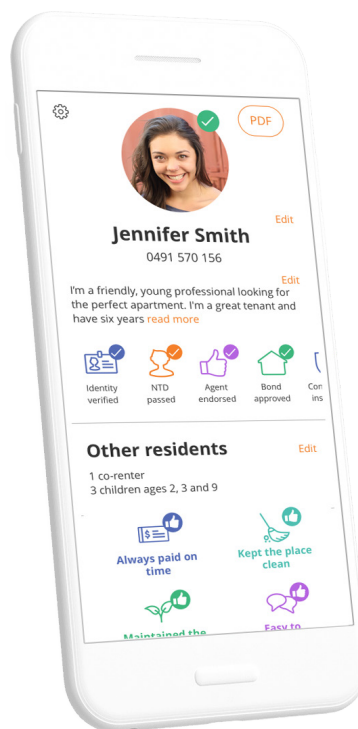
As such, there has long been a disconnect between tenants and landlords where real estate agents get caught up in the middle, often to the neglect of tenants and landlords.

Through Rent.com.au’s platform, RentPay is being developed to break down those boundaries and provide a communications and payments gateway that will improve the rental experience of all parties involved. This leverages the Rent.com.au 1 million+ customers who use their website which is the most popular in Australia for rental properties, and Novatti’s digital payments technology that will provide flexible payment options and regulatory services.

In February 2021, Rent.com.au drew significant interest from the investor community when announcing tech mogul Bevan Slattery had invested \$2m in The Company through his Capital Trust. With Slattery’s extensive experience in identifying tech opportunities,

shares in RNT promptly skyrocketed from 4.5 cents to 31 cents over the space of a week.

Novatti secured a 5% stake in RentPay in lieu of cash for development tech and services, and will also receive ongoing fees from Rent.com.au to manage the payments and regulatory requirements of the platform touted to transform the Australian rental landscape.



Novatti IBA - Digital Banking Licence Review Resumes

While Novatti has bided it's time over the past 12 months while APRA put issuing of new licences on hold, instead redirecting resources to the aforementioned incubator projects, their biggest is still to come with the launch of their neobank.

All the partnerships signed and regulatory licences secured have contributed strategically to Novatti's digital banking capabilities which will be on full show when the banking license is approved and neobank is launched.

This has been what Novatti has been working towards for the past 2 years to the point where Novatti had secured the full funding required to launch the neobank. At the time, the application for a restricted banking license which would enable Novatti's subsidiary Novatti IBA to accept deposits into savings accounts, was under review just as the coronavirus pandemic started.

Frustratingly for shareholders, the pandemic halted the review process at APRA which announced in April that no new applications would be approved for six months due to disruption of their general activities. This delay from APRA has been extended until March 2021 which means Novatti's application review has now resumed.

Digital banks are a relatively new concept to the Australian market where the business models have proven hugely popular in the United States and Europe. Without the expenses and large capital overheads applicable to the traditional banks, digital banks are therefore able to offer customers greater value in banking products while having great digital accessibility to products and services.

Within the Australian market, neobank Xinja made headlines for the wrong reasons when its business collapsed in December 2020, resulting in the neobank returning all deposits. It is worth noting however, that Xinja was in a vastly different position to Novatti and other neobanks.

As a new business at the time, Xinja started from scratch and invested substantially in Australian customer acquisition through unsustainable interest on savings deposited. Conversely, Novatti already has a strong payments network and global customer base.

Outside of Xinja, neobanks have attracted further corporate attention as Australians continue seeking alternative banking and financial services than those offered by the major banks. This was most recently witnessed in the \$220 million takeover bid of neobank 86 400 by National Australia Bank (ASX: NAB) which already held an 18.6% stake.

The takeover was primarily aimed at accelerating NAB's digital strategy where 86 400 customers would be transitioned to NAB's digital-only UBank brand, as well as extracting the neobank's tech to upgrade their own.

Founded in 2019, 86 400 had more than 85,000 customers, \$375 million in deposits, \$270 million in approved residential mortgages, and 2,500 approved brokers at the time of the takeover bid. This highlights the rapid growth neobanks can achieve in Australia through their customer-focused digital offerings, with Novatti in the box seat to secure their license now that APRA has resumed their review of licence applications.



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Recommendation Rating Guide	Total Return Expectations on a 12-mth view
Buy	Greater than +10%
Hold	Greater than 0%
Sell	Less than -10%

