

ASX Announcement

31 January 2024

December Quarter FY24 Activities Report and Appendix 4C\*

## \$4m in cost reductions to be implemented furthering commitment to positive cashflow

### Highlights

- Targeting operating cashflow positive by middle of calendar 2024
- 6% decrease in normalised quarterly cash use QoQ
- 10% decrease in quarterly expenses QoQ
- Debt reduced by \$7m following divestment of Reckon Limited stake\*\*
- \$10.7m quarterly sales revenue – not being impacted by cost reduction
- Approx. \$4m cost reduction program to be implemented in Q3 FY24
- External funding identified for key initiatives – AUDD and International Bank of Australia
- Up to \$5.5m capital raising announced, to be completed by end of February

**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 December quarter FY24 performance.

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

“We are now deep into the simplification of Novatti’s business. In Q1 of FY24, our focus was on simplifying Novatti’s business portfolio, completing an internal organisational restructure, streamlining the sales process, and ultimately establishing a three year, 70%+ margin target that will underpin business evaluation going forward.

“In Q2 FY24, we continued this simplification process and increasingly focused on delivering optimised financing for key initiatives. To this end, we divested Novatti’s stake in Reckon Limited,. Exiting the bond also created more flexibility for Novatti to execute its strategic review, including for the potential divestment of further interests or businesses that could have otherwise been restricted by the bond’s conditions. Importantly, the commercial partnership with Reckon remains in place with more than 300 customers now onboarded, while Novatti has now also secured an API integration to enable access to Reckon’s larger customers.

“We identified external funding opportunities for key growth initiatives, including working to finalise a Series A round for International Bank of Australia, while a pre-seed funding round for the AUDD

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\* All figures throughout this document related to the December quarter remain unaudited unless stated otherwise.

\*\* Assuming that the convertible notes are approved by shareholders on 14 Feb 2024.

Stablecoin was increased to \$600k to meet investor demand. With AUDD now self funding, this removes another operational cost from Novatti, while we retain an 80% interest in AUDD, providing continued exposure to any upside growth.

“We remain committed to our positive cashflow target in mid 2024 and continued progress towards this target in Q2, including normalised quarterly cash use (excluding Reckon dividend) decreasing more than 6% QoQ while we also delivered a 10% QoQ decrease in quarterly expenses. Importantly, these cost reductions are not having negative impacts on Novatti’s revenue, with quarterly revenue marginally down to \$10.7m due to cyclical, not operational, factors.

“However, we want to increasingly align these expense reductions with the timing for our positive cashflow positive target and therefore, we will now using Q3 to implement a substantial cost reduction program, with approx. \$4m in annual savings already identified.

“This focus in Q3 will be coupled with a capital raising of up to \$5.5m, continuing Novatti’s work on optimising financing of key initiatives. The capital raising is strongly supported by the Novatti Board and I, through personal contributions of \$750k.

“More broadly, Novatti’s strategic review continues across the business, with a view to identifying any non-core activities that do not align to Novatti’s long term strategic, financial and margin goals. We expect this review will identify further opportunities for optimisation and divestment across Novatti’s business and to ultimately result in the strengthening of Novatti’s financial results across 2024.”

## Operations Update

### Business performance

Quarterly cash used in operations (excluding Reckon dividend) decreased more than 6% on the prior quarter to \$3.76m. Cash utilised within the areas of staff, administration and corporate costs fell 9% on the prior quarter. Importantly, these reductions are not negatively impacting Novatti’s quarterly revenue, which was marginally down to \$10.7m due to cyclical, not operational, factors. The reported cash consumption in the Appendix 4C includes expenses for International Bank of Australia (IBOA) which is included as a consolidated entity for accounting purposes due to Novatti’s 87% shareholding. Despite being classified as a consolidated entity, IBOA’s operations remain independent of Novatti with its own Board of Directors and executive team.

The core Payments AU/NZ business also continues to strengthen, particular against Novatti’s 70%+ 3 year margin target. Quarterly margin for this business has increased by 11% year on year.

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.

### Divestment of stake in Reckon Limited

Novatti divested its 19.9% stake interest in Reckon Limited, with \$8.9m in proceeds from this sale adding to the \$15.2m in dividends received since first acquiring the interest in July 2021.

This divestment process enabled Novatti to exit a \$10.5m bond, creating greater flexibility for Novatti to execute its strategic review, including for the potential divestment of further interests or businesses that could have otherwise been restricted by the bond's conditions.

Importantly, the current commercial partnership with Reckon Limited will continue, with more than 300 Reckon customers already onboarded. Novatti has now also secured an API integration with Reckon that enables access to larger Reckon customers, creating opportunities for larger potential revenue streams.

### External funding opportunities for Novatti's key growth initiatives

External funding opportunities for two of Novatti's key growth initiatives, International Bank of Australia (**IBOA**) and AUDD stablecoin, were identified as part of the ongoing strategic review process as announced to ASX on 11 December 2023.

To-date IBOA has raised \$950k from external investors, with the most recent pre-money valuation being \$24.7m. Novatti currently holds 87% ownership of IBOA. There is strong interest in the IBOA Series A capital raising, with additional significant subscriptions currently in the negotiation and due diligence phases. In parallel, IBOA continues to meet ongoing APRA compliance requirements and work on technology enablement, product design and development of its policies, procedures and compliance functions as it progresses towards regulatory approval for a full banking licence.

For AUDD, a pre-seed funding round was successfully completed raising \$600k. This funding round was increased from \$300k, as initially proposed, to meet investor demand. AUDD is now self-funding, removing another operational cost from Novatti, while Novatti retains an 80% interest in AUDD, providing continued exposure to any upside growth.

AUDD's circulating supply is now more than \$2.5m with payment volume of more than \$25m to date. AUDD has successfully launched on Stellar, Ripple XRP Ledger, Ethereum and most recently, Solana.

### Capital Raising

Subsequent to the end of Q2, on 2 January 2024 Novatti announced a capital raising comprised of a convertible note facility for up to \$3.5 million (subject to shareholder approvals) and a share purchase plan (**SPP**) to raise up to \$2 million (**Capital Raising**). If all approvals are received the aggregate raising under this initiative will be \$5.5 million.

As noted above, this fundraising supports the goal of delivering optimised financing for Novatti's business, particularly to fund additional collateral for growing Novatti's Payments Solutions division and working capital.

The Novatti Board and CEO have personally committed \$750k to this capital raising.

Full details of the capital raising can be seen in Novatti's ASX releases at: <http://www.novatti.com/asx-announcements/>.

### **Online Investor Briefing**

Novatti CEO, Mark Healy, will be hosting a shareholder webcast, including quarterly results presentation and Q&A, on Wednesday, 31 January 2024, at 11.30am (AEDT). Investors can register at: <https://novatti.com/investor-briefing>

### **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 at: <http://www.novatti.com/asx-announcements/>.

This announcement has been approved for release to the ASX by the Board of Directors.

**For further information, contact:**

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### **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 Ltd

## ABN

98 606 556 183

## Quarter ended ("current quarter")

31 December 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	21,542	44,883
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(17,162)	(35,585)
(c) advertising and marketing	(133)	(318)
(d) leased assets	-	-
(e) staff costs	(5,917)	(12,032)
(f) administration and corporate costs	(2,149)	(4,943)
1.3 Dividends received (see note 3)	-	563
1.4 Interest received	300	651
1.5 Interest and other costs of finance paid	(406)	(772)
1.6 Income taxes paid	(1)	35
1.7 Government grants and tax incentives	169	338
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,757)</b>	<b>(7,180)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(10)
(d) investments	-	-
(e) intellectual property	(124)	(124)
(f) other non-current assets	-	-

Appendix 4C  
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	8,958	8,958
(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 (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>8,834</b>	<b>8,824</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	1,500	1,500
3.6 Repayment of borrowings	(10,500)	(10,500)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	(111)	(142)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(9,111)</b>	<b>(9,142)</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	14,724	18,215
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,757)	(7,180)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	8,834	8,824
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(9,111)	(9,142)

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	118	91
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>10,808</b>	<b>10,808</b>

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	10,808	14,724
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>10,808</b>	<b>14,724</b>

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	-
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.*

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<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	1,500	1,500
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	1,500	1,500
7.5 <b>Unused financing facilities available at quarter end</b>		-
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.		
<p>As at 31 December two related parties have provided unsecured loans of \$1.5m (\$0.8m has been repaid in January 2024) with the balance to be repaid by 29 February 2024 and at 12% interest per annum on the principal amount, which will accrue from day to day.</p> <p>Novatti Group Limited announced a convertible note facility in the amount of \$3.5 million (subject to shareholder approvals), comprising of \$2.75 million for secured convertible notes from professional and sophisticated investors and an additional \$0.75m for unsecured convertible notes from Directors and management (together, the Convertible Notes). The first tranche of the convertible note facility has been issued after the end of the quarter to the value of \$1.46m with General Meeting to approve Tranche 2 scheduled for 14 February 2024.</p> <p>The Convertible Notes have a \$1.00 face value, a coupon of 10% per annum and a maturity date of 22 December 2026. They are convertible into Shares at a conversion price of the lower of \$0.06 and the next equity capital raising price, subject to a floor price of \$0.04.</p> <p>See announcement on 2<sup>nd</sup> of January 2024 for further details.</p>		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,757)
8.2 Cash and cash equivalents at quarter end (item 4.6)	10,808
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	<b>10,808</b>
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>2.9</b>
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	



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

8.6.1 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?

Answer: N/A

8.6.2 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

8.6.3 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

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

### 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 January 2024

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.