

NOVATTI GROUP LTD (ASX: NOV)

FINANCIAL TECHNOLOGY AND SERVICES



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Key Highlights

- **Processed more than \$2bn of transactions in FY20**
- **Record total revenue - \$11.86m - reported for FY20;**
- **Five consecutive quarters of record processing revenue;**
- **Well positioned for growth initiatives with \$10m+ cash on hand;**
- **Major commercial appeal in the cash-alternatives sector through COVID-19;**
- **Prepaid Visa business launched with revenues from their own VascoPay cards and whitelabel programs underway;**
- **Instant validation of \$2.6m Emersion acquisition with business growth;**
- **Selected by global payments giant Marqeta as Australian partner;**
- **RentPay 'next generation' payments platform to launch in FY21;**
- **Digital Banking license under review by APRA.**

Outlook - Buy/Hold

The onset of the Coronavirus pandemic has altered various aspects of daily human interaction where enforced lockdowns have created generational changes driven by technology. This has only increased the transition towards a cashless economy where, even prior to the pandemic, Novatti has developed an international network of partners that enable seamless movement of money across international borders. With a specific focus on nations that have had a historic reliance on cash but are now gaining greater access to digital payments.

Much of this was evidenced by Novatti's FY20 results where the Company processed more than \$2 billion in transactions which contributed to a 33% increase in revenue to \$11.86m. This was partially driven by recurring revenues secured through Novatti's acquisition of payments business Emersion in April which has exceeded internal expectations by securing new client contracts through the pandemic.

Date 30 Sep 2020

Price (30 Sep): \$0.24
Ticker: ASX: NOV

52-Week range: \$0.11-\$0.39
Market cap (AUD): \$55.64m
Shares on issue 227.09m

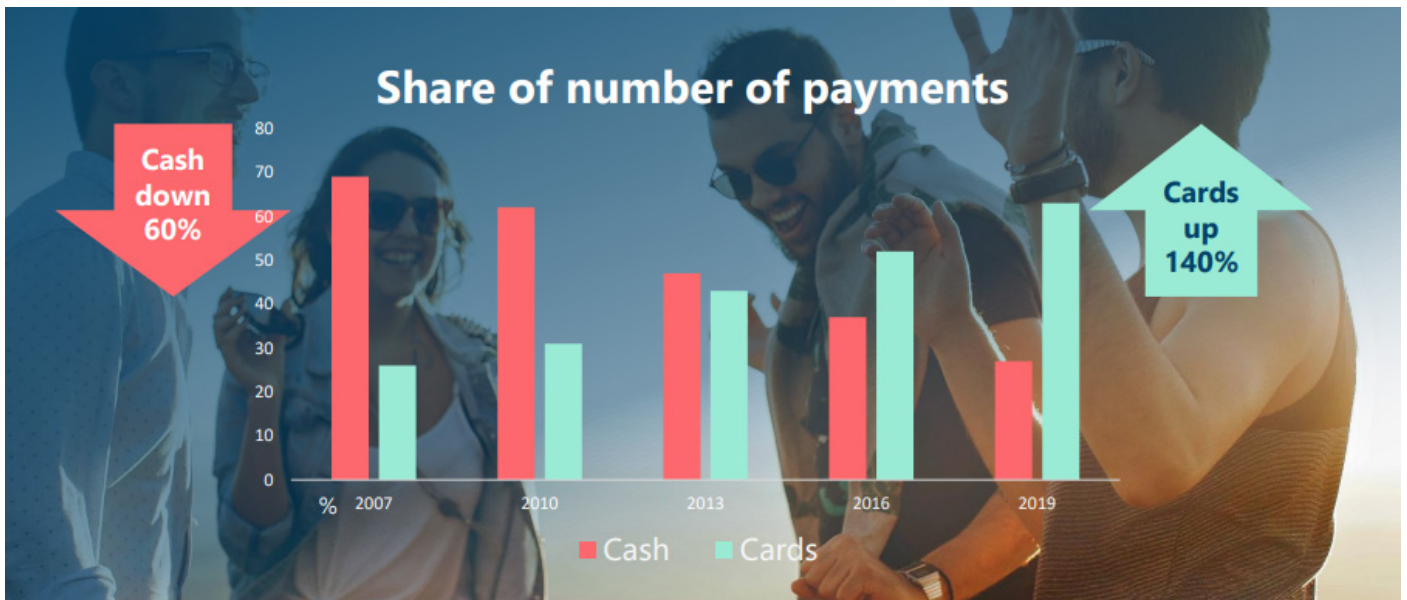
	FY20	FY19	FY18
Revenue (\$m)	11.86	8.89	6.36
EBITDA (\$m)	-8.53	-4.25	-4.71
NPAT (\$m)	-10.86	-4.95	-2.07



Novatti
Digital Banking



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Emersion functions as a simple add-on business to Novatti while creating further commercial opportunities for other divisions within the Group.

The granting of a Visa Principal Issuer licence from Visa Inc in 2019 has further fuelled Novatti's core payments processing business, which has delivered five consecutive quarters of record processing revenue.

This Visa partnership was followed up by more commercial opportunities in FY20 which included partnerships with Alipay, Decta, Rent.com.au and Marqeta - all driven by Novatti's deep understanding of payments technology, regulation and accessibility.

Across the wider market, fintech and online retail have been two of the quickest sectors to recover from the market lows in March 2020. Technology has enabled populations to remain connected whilst in isolation with minimal disruption, allowing the retailers that have embraced online orders and delivery chains to see strong performances in a tough retail market. This

has been notable in Novatti's performance through Emersion, which assists businesses with online billing, subscriptions and payment collection.

Further highlighting the institutional interest in Novatti and its payments technology, the Company successfully raised \$10.2m in June 2020 from institutional investors which positions Novatti to be fully funded to explore growth opportunities in FY21, leveraging their payments infrastructure at a time when cash is rapidly becoming less relevant.

Company Summary

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

International payment services are the core business units with cash voucher service Flexepin, international remittance service Flexewallet, China bill payment service Chinapayments.com and prepaid credit card



processor Vasco Pay being the key revenue drivers for Novatti via recurring SaaS fees and transaction processing fees.

Expanding on its existing fintech infrastructure, Novatti has 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 WeChat Pay, Alipay, Bank of Shanghai, IBM World Wire, VISA Inc, SplitPay, Marqeta, and Decta already secured, Novatti’s digital banking service is 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.

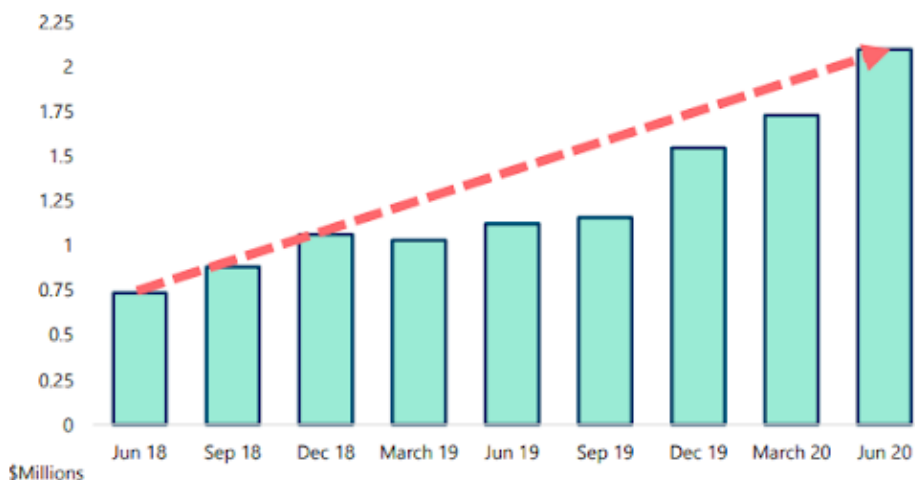
Operational Performance - FY20

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 the second half of the year.

Despite the wider macroeconomic challenges, Novatti reported a 33% increase in revenue to \$11.86m which was driven by its payments processing divisions for FY20 to maintain an average of 50% annual revenue growth over the past three years.

Processing more than \$2 billion in transactions globally, Q4 FY20 was the fifth consecutive quarter of growth in the processing division which has been assisted by the \$2.6m acquisition of Emersion in April 2020.

Quarterly processing revenue



Despite the acquired and organic growth in Novatti’s revenues, the Company logged a net loss of \$10.9m for the year but this included a \$3m non-cash impairment linked to Novatti’s digital banking subsidiary forced by pandemic-related delays in the issuing of new banking licences and circa \$2m of non cash expenses related to options and convertible note embedded derivatives.



FY20 Balance Sheet

	2020 \$	2019 \$	Change \$	Change %
Net loss from operations	(10,960,326)	(4,954,313)	(6,006,013)	121%
Add:				
Interest	(8,745)	(10,282)	1,537	(15%)
Less:				
Depreciation and amortisation	904,815	389,337	515,478	132%
Finance charges	1,366,425	75,664	1,290,761	1706%
Indirect tax expenses	158,987	245,006	(86,019)	(35%)
EBITDA	(8,538,844)	(4,254,588)	(4,284,256)	101%
Add back/(less):				
Vesting of share-based payments	1,332,486	386,085	946,401	245%
Due diligence costs	-	497,853	(497,853)	(100%)
Loss on embedded derivative	726,942	-	726,942	-
Impairment or capitalised bank licensing costs	3,012,715	-	3,012,715	-
Underlying EBITDA*	(3,466,701)	(3,370,650)	(96,051)	3%
Cash	2,599,878	1,806,924	792,954	44%
Operating cash flow	(1,237,067)	(2,103,520)	866,453	(41%)

Not reflected in their FY20 balance sheet is the \$10.2m raised by Novatti and received at the start of July which has the Company well-funded for growth initiatives. Through this, Novatti is committed to adding financial services to its digital payments suite as they further advance towards the launch of their digital bank.

Partnerships played a major role in Novatti's FY20 year which commenced with the granting of a Principal Issuer Licence by Visa Inc, enabling Novatti to issue both physical and digital Visa cards.

This license is set to be leveraged into a new business venture which Novatti has entered into with European payments company Decta, where the two are collaborating on a venture focused in the Asia-Pacific region. This project is of particular interest because areas within the region are still firmly dominated by

cash economies where mobile coverage is limited, restricting access to digital payments. Through the issuing of Visa cards in the region however, it furthers Novatti's reach in migrant populations while growing its customer base in readiness for the launch of a digital bank once granted a RADL license.

After obtaining their issuer license by Visa, the next most significant partnership through FY20 came after being selected by international payments company Marqeta as the domestic partner for their Australian launch. Under terms of that partnership, Novatti will provide support services to Marqeta which facilitate prepaid cards that are used in North America and Europe by hundreds of businesses including Square, Uber, Affirm, Instacart, DoorDash, and Afterpay. As the world's first open-API payments platform, Marqeta's selection of Novatti as their domestic partner will secure ongoing licensing revenue and





further scalable opportunities, with Marqeta having issued more than 140 million cards to date.

Beyond partnerships secured, Novatti acquired payments business Emersion Systems in April 2020 which provided an add-on business to their existing operations. Notably, the business was already \$300k EBITDA positive, when acquired for \$1m cash and \$1.6m in NOV shares where further operational savings have been released since the business was integrated into Novatti.

Through the pandemic, Emersion secured a number of new clients seeking assistance to transition their businesses online where Emersion provides B2B clients with diverse applications, including subscription billing, payments and provisioning, into existing business platforms, saving time and energy. As outlined by management commentary, Novatti has plans for further international expansion for Emersion which currently operates in Australia, New Zealand and Singapore, in FY21 as more businesses adopt process automation brought upon by tech usage through the pandemic.

Novatti IBA - Digital Banking Licence Pending

Since August 2020, Novatti has been undergoing a minor re-brand to better reflect the Company's total digital payments business which has been significantly developed beyond just payments processing.

The long-term vision within Novatti is their establishment as a digital neobank where the Company already provides a suite of ancillary services that can be brought together as a full service bank. 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 as a result of pandemic restrictions around travel and movement. This delay from APRA has been extended until March 2021.

By this point, Novatti has invested a significant amount of funds into Novatti IBA and its RAD1 application. Novatti returned funds to the Hong Kong and Sydney based investors that had invested directly into the bank opportunity.

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.

Since the emergence of digital banks in Australia,

neobank Xinja has reported more than \$100 million in deposits as banking customers seek an alternative to traditional banking systems. These deposits were accepted over the course of 19 days when the company had planned to acquire \$120 million in deposits for the year.

In 2017, USD \$16.8 billion was sent from Australia to other countries. Substantial growth from \$3.7b in 2011. Of the \$16.8b sent from Australia, China was the preferred destination country with \$3b, followed by India at \$2b.

In May 2020, Xinja reduced their interest rates from 2.25% to 1.8% due to growth in their high-interest savings accounts surpassing \$300m, however, this is still notably higher than major commercial bank alternatives. Media coverage around Xinja significantly heightened public interest in neobanks with 1 in 4 Australians considering switching to a neobank at the time.



Unlike traditional banks and new entries into the neobank space once APRA resumes issuing of licences, Novatti has a strong investment proposition based around its focus on migrant populations that actively transact in and out of Australia. This is firmly backed up by Novatti's international payments infrastructure where the Company has divisions located around the world that offer international remittances, credit card issuing, payment regulation technology and payment platforms.

Payments Technology, Anti-Money Laundering & Fintech Incubation

Novatti's payments processing, reporting and compliance technology continue to uphold the fintech infrastructure which has enabled the Company to continue delivering record revenue. It will further form a pillar of their banking subsidiary business. This add-on value was highlighted in March 2020 when Novatti confirmed an incubation partnership with Rent.com.au to redevelop RentPay - a 'next generation' rental payments app which provides Novatti with exposure to the lucrative rental payments market.

Between their award-winning payments processing technology and Visa Principal Issuer status, Novatti has a clear growth strategy to leverage their intellectual property, regulatory licences and industry standing to identify clear growth opportunities in the fintech space for projects which will have minimal impact on operating expenses.

In recent years, the Australian Transaction Reports and Analysis Centre (AUSTRAC) has been thoroughly investigating companies that deal with cross-border payments in a bid to protect Australian shores from illegal money laundering.

Two of the more high-profile cases revolved around Westpac (ASX: WBC) and Crown Resorts (ASX: CWN), but with heightened regulation and monitoring of cross-border payments, there are further growth opportunities for Novatti and its payment processing software for operation, compliance, and reporting purposes.

In September 2020, AUSTRAC handed down a \$1.3 billion fine to Westpac for their role in money laundering which issued notice to the wider financial services industry around the importance of monitoring of payments and regulations.

Offering their payments processing technology which is linked to an unblemished relationship with AUSTRAC, Novatti has proven to be a notable player in the fintech regulator space which was one of the reasons they were selected as the domestic partner for Marqeta's business launch in Australia where Novatti will continue seeking similar commercial partnerships.



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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%

