

AFTERPAY LIMITED (ASX: APT)

ASX Announcement

19 March 2020

Letter to Shareholders

Afterpay Limited (**Company**) attaches a copy of a Letter to Shareholders from the Company's CEO & Managing Director.

Authorised by:

Anthony Eisen
CEO & Managing Director

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Dear Shareholders,

The world is currently facing significant challenges as a result of COVID-19. These challenges are generating unprecedented circumstances that are causing significant concerns in financial markets across the world.

Afterpay has not been immune to these market concerns which is evidenced by the volatility in our share price over recent weeks and days.

We are unaware of any information, outside of the current uncertainty in the market generally, that would have precipitated recent share price performance.

I would like to acknowledge the impact that this volatility may be having on you, our securityholders and appreciate your support through this period of market instability.

We are fortunate to have a business model, balance sheet and customer base that creates a level of protection in times of economic uncertainty.

We advise that we have not seen a material impact on our business activity and timing of instalment repayments or transaction losses to date. As outlined below, we have a dynamic system and risk mitigation capability and we are implementing measures proactively and are well prepared to add further measures as required.

We intend to release a business operating update following the end of the current March quarter. This information will provide a more relevant and meaningful snapshot of how we have performed over the three months ending 31 March 2020, further details around our strong balance sheet and excess liquidity position as well as what we are seeing in terms of developing trends.

I would like to take this opportunity to reiterate some key facts that may be useful when considering how Afterpay will perform in the future:

- Afterpay's service promotes budgeting by responsible customers. Our service is unable to be accessed by customers that have a single overdue payment and well over 90% of our monthly underlying sales is generated by repeat customers that can and do use the service repeatedly. We believe the appeal of Afterpay as a disciplined budgeting tool will not be diminished and may be enhanced with changing market conditions.
- As a consequence of our business model and high frequency purchasing and repayment rates, average transaction values (average of approx. A\$150) and average outstanding balances (average of approx. A\$211) are low with no material concentration in our portfolio from a merchant or customer perspective.

Afterpay Limited

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- Our product design and operating model has built in risk mitigations that include dynamic transaction value limits by customer and real time approval of each individual transaction. We have put in place the appropriate level of risk mitigation measures into our operating model that take into consideration the current economic environment and continue to monitor this on a daily basis. We are implementing measures proactively and are well prepared to add further measures as required.
- Due to the dynamic nature of Afterpay's system and the short duration of our receivables book (less than 30 days) we are able to manage losses in real time by identifying leading indicators early and modifying risk parameters in the system immediately.
- The average age of our customers globally is 33 years (AU average 34 years, US average 32 years, UK average 34 years). We have seen that, over time, our customer cohort has increased in age and spending power. In Australia, for example, our customers are over-indexed in middle and high household income brackets and under-indexed in lower income cohorts compared to the general population.
- Our strong balance sheet and liquidity position provides us with the capacity to both continue to fund our operating expenditure and significantly expand our business activities in the medium term. As we advised in our announcement released on 13 March 2020:
 - The Company has:
 - Over A\$1.09b of warehouse facilities in place with major financial institutions which provides us with the capacity to grow underlying sales by an additional A\$15 billion above our Q2 FY20 run rate of over A\$11 billion. These are committed facilities and are not subject to traditional debt facility covenants.
 - Strong liquidity position of over A\$672.1m.
 - Cash on balance sheet at A\$402.5m.
 - Weighted average life of debt facilities of 2.1 years.
 - Proportion of warehouse facilities drawn of 33.3%.
 - The duration of our receivables are matched to the duration of drawn debt at any given time with no material fixed term debt on the balance sheet.
 - Our strong liquidity position provides us with the capacity to both continue to fund our operating expenditure and significantly expand our business activities in the medium term.

Liquidity levels have been maintained on a year to date basis and are being conservatively managed.

We are progressing with the execution of our strategic objectives and will continue to communicate regularly with our retailers and customers to advise that we will support them through future periods of uncertainty.

A decision has been made, following encouragement by our retailers, to proceed with Afterpay Day on 19-20 March 2020. We believe it is important that we continue to support our merchants who are rapidly looking to increase their online exposure in the current environment and will redirect a portion of our



existing budgeted marketing spend for this purpose. The majority of Afterpay's underlying sales (>75%) are generated from online transactions.

We have asked our employees to work from home in order to ensure their health and safety over the coming weeks and months. This has occurred seamlessly with no disruption to our service.

Once again, I thank you for your ongoing support of our business and our thoughts go out to all who have been affected in any way by the current and unprecedented times.

Anthony Eisen

CEO & Managing Director

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