

AFTERPAY TOUCH GROUP LIMITED

(ASX: APT)

ASX Announcement

22 February 2018

H1 FY2018 Financial Results

Group revenue and other income \$60.7m

Group EBTDA \$12.1m (excluding significant items)

*Afterpay underlying sales \$918m, over \$2 billion annualised
(based on most recent quarterly performance)*

We are changing the way people shop. We are doing it for the love of retail. We adopt this perspective because it puts customers at the core of everything we do and aligns our values and objectives with our retail partners. Together, we are making a difference.

In the past six-months Afterpay purchasing customers have grown over 85% to over 1.5 million and our retail partners, now over 12,000 in Australia and New Zealand, have sold more than \$900m of goods and services, an increase of 120% over the prior six-month period.

In only a few years, and based on our most recent quarterly performance, Afterpay now represents over 25% of all Australian domestic apparel online sales and over 8% of all online physical retail sales, with our key brands now actively adopting Afterpay in-store.

Our journey is just beginning. With the merger of Afterpay and Touchcorp now complete, there is significant opportunity to expand in our current markets and new international markets.

Strong Financial Results for the six-month period ended 31 December 2017

- Inaugural results for Afterpay Touch Group on a fully consolidated basis
- Total revenue and other income was \$60.7m
- EBTDA (excluding significant items) was \$12.1m
- EBTDA post significant items, comprising share-based payments (non-cash) and one-off expenses was \$5.5m and statutory net profit before tax was \$0.7m

- Afterpay grew strongly in the period and represented approximately 79% of Group revenue and other income and 76% of EBTDA contribution prior to corporate costs:
 - Underlying sales were \$918m, an increase of 534% from the prior year comparable period
 - Merchant revenue was \$37.1m, an increase of 517% from the prior year comparable period
 - Net Transaction Margin was \$21.3m, an increase of 446% from the prior year comparable period
 - Net Transaction Losses remained in line with the prior year comparable period at 0.7% of underlying sales, a pleasing result given the rapid scaling of customers and underlying sales, in-store growth and deeper seasonal provisioning for bad and doubtful debts
- The Touch businesses remain stable and performed in-line with expectations:
 - Total revenue contribution across Mobility, Health and e-Services was \$12.9m, in line with the prior year comparable period
 - Gross margin was slightly reduced due to increased transaction processing costs
- Corporate costs increased as a result of the Merger and investment in people and technology to focus on growth opportunities in domestic and international markets
- Group results impacted by significant items (\$6.6m):
 - Share based expenses (non-cash) of \$5.3m, for key employees including the Group Head
 - One-off costs of \$1.3m relating to merger costs, international expansion activities and new debt facility establishment costs
- The Group's balance sheet remains strong, benefiting from:
 - Strong underlying operating cash flows adding to the equity base
 - Increased Afterpay receivables funding facilities from NAB in Australia (increased from \$200m to \$350m) and ASB in New Zealand (NZ\$20m). Gearing remains low and can facilitate significant expansion of Afterpay underlying sales in Australia and New Zealand
 - New equity and note placement (A\$18.9m) to Matrix Partners, a US venture capital fund that is assisting Afterpay with business development opportunities in the USA

We are changing the way people shop

- Customers are at the core of everything we do:
 - Over 1.5 million Afterpay customers have now purchased with Afterpay and, on average, returning customers have placed eight Afterpay orders over the past twelve months
 - We are building a relationship that goes beyond the transaction. While new customer growth remains strong, nearly 90% of underlying sales in the last quarter came from customers that have previously used Afterpay
 - We get millennials and are appealing to their preferences around non-finance products, budgeting and transparency
 - Our research and results tell us that our customers are loyal to our brand and our business model is aligned to promoting responsible customer spending. Our customer base is not skewed towards lower socio-economic customers; only a small proportion of our orders incur a late fee and for those customers who do incur a late fee, the average costs are lower than consumer financial product fees

- We partner with retail, for the benefit of retail:
 - We are privileged to partner with the major retail brands in Australia, including many global brands that are represented in our markets
 - Over 12,000 retailer groups now on-boarded, with significant growth potential remaining across new retail verticals, services and across the entire small to medium business retail universe
 - In-store migration is gathering momentum, with over 5,000 shopfronts integrated with Afterpay, an increase of over 300% over the six-month period
 - We drive significant customer referrals to our retail partners. Afterpay is now one of the largest retail affiliate programmes in Australia, driving millions of leads per month to our retail partners via our shop directory, targeted marketing campaigns and events (such as “Afterbae Day” on 14/15 February)
 - With our increasing scale, we have the ability to develop highly qualified customer insights and leads to promote the brands and products we know our customers like. Data and analytics remains a core pillar of our business and we will continue to invest strongly in this area to develop our capabilities and applications

Growth Strategy and Opportunities

- There is significant scope to expand in our current markets. Afterpay still only captures a relatively small percentage of its addressable market, from both a customer and retailer perspective
- We continue to partner with major brands across more verticals. New and integrating online retailers include:

				AND MORE...

- In-store remains a core focus and represents a very large addressable market. While in-store penetration rates will take longer to develop given the broader demographic profile, we are encouraged by the early results from our retail partners that have migrated and the strong pipeline of integrating retailers. New and on-boarding in-store retailers include:

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- Now with over 1 million Afterpay mobile App downloads, we are well positioned to drive in-store growth and introduce personalised marketing and loyalty programmes over time. We are currently working with Westfield and other large retail landlords on in-store activation programmes
- New verticals relevant to our customers' lifestyle preferences represent a significant opportunity and we are in the process of commencing pilots in selected new verticals and service industries
- The Touch businesses bring technology and market connectivity advantages as we look to expand Afterpay's product reach
- New Zealand continues to gather momentum with major local and inbound international brands continuing to on-board
- The U.S. represents a significant opportunity to expand Afterpay's retail connections and product and we are continuing to investigate the market opportunity in association with Matrix Partners. Several U.S. based hires have been made and initial retailer engagement has been strong and encouraging.

ENDS

For further information, contact:

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About Afterpay Touch Group

Afterpay Touch Group (APT) is a technology driven payments company with a mission to make purchasing feel great for a global customer base. APT comprises the Afterpay and Touch products and businesses. Afterpay is driving retail innovation by allowing leading retailers to offer a 'buy now, receive now, pay later' service that does not require end-customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. Afterpay currently has over 1.5m customers and over 12,000 retail merchants on-boarded. Touch comprises innovative digital payment businesses servicing major consumer facing organisations in the telecommunications, health and convenience retail sectors in Australia and overseas.