AFTERPAY LIMITED (ASX: APT)

ASX Announcement

27 February 2020

Afterpay Half Year Results to 31 December 2019 (H1 FY20)
(all currency figures are in Australian dollars unless otherwise stated)

Afterpay Limited (**Afterpay**) is pleased to release its half year results for the six-month period ended 31 December 2019.

OVERVIEW

GLOBAL	H1 FY20	H1 FY19	Variance
Underlying sales	$4.8b	$2.3b	109%
Active customers[1]	7.3m	3.1m	134%
Active merchants[1]	43.2k	23.2k	86%
Afterpay net transaction margin	$102.0m	$46.7m	118%
Gross loss as % underlying sales[2]	1.0%	1.2%	17% (improvement)

Key Operating Highlights

- Continued growth in global underlying sales, up 109% compared to H1 FY19, with a run rate of over $11.0b per annum (based on Q2 trading).
- Global expansion momentum continued with accelerated growth in the US and UK. US underlying sales (over $1.4b in H1 FY20) were more than five times H1 FY19.
- Current US and UK underlying sales run rate of over $4.3b per annum (based on Q2 trading). The addressable online opportunity from our contracted or currently integrating merchants in the US and UK is ~$30b[3] which is equivalent to the total addressable retail online opportunity in Australia.
- Our In-store offering in ANZ continues to grow and currently represents approximately 24% of total ANZ underlying sales. An additional 14.2k store fronts are offering In-store compared to H1 FY19.
- Record number of active customers at 7.3m globally, averaging over 16,800 new customers per day in H1 FY20 and increasing to over 22,900 per day in November and December 2019.
- An 86% increase in global active merchants on the Afterpay platform was driven by strong growth in all markets.
- Customer purchasing frequency continued to grow across all markets. Increased frequency has translated to lower gross losses and higher margins, validating the benefits of our business model.

NOTES: IN THIS ANNOUNCEMENT ALL CHANGE CALCULATIONS MAY NOT EQUATE DUE TO ROUNDING, ALL METRICS ARE AS AT 31 DECEMBER 2019 UNLESS OTHERWISE STATED.
1. ACTIVE IS DEFINED AS HAVING TRANSACTED AT LEAST ONCE IN THE LAST 12 MONTHS.
2. GROSS LOSSES ARE DEFINED AS AFTERPAY RECEIVABLES IMPAIRMENT EXPENSE AS A PERCENTAGE OF UNDERLYING SALES.
3. MANAGEMENT ESTIMATE.

- Net transaction margin (NTM) as a percentage of underlying sales, our key indicator of operating profitability, has remained stable at 2.1% notwithstanding a lower contribution from late fees and a higher contribution from newer markets, which are initially lower margin.
- Substantial investment made to pursue our global expansion strategy. Our growth opportunity is reflected in our current pipeline of new and integrating merchants which are yet to materially contribute to underlying sales.
- Increased investment will continue into H2 FY20 and support plans to launch In-store in the US in H2 FY20 and expansion into new markets with Canada being the next target market.
- Notwithstanding increased investment in growth, maintained positive EBITDA (excluding significant items) of $6.8m in H1 FY20.
- Afterpay continues to attract world-class talent with several senior executives recruited to the executive leadership team.

Key Financial Performance

- Total Group income of $220.3m was 96% higher than H1 FY19.
- Total Afterpay income[1] of $212.2m was 105% higher than H1 FY19.
- Merchant margins remained stable at 3.8% (3.7% in H1 FY19) demonstrating the appeal of our shared value business model to merchants.
- Gross loss as a percentage of underlying sales was materially lower at 1.0% (reduced from 1.2% in H1 FY19) despite strong growth in newer markets, which initially have a higher loss rate.
- Net transaction loss (NTL) improved by 24% from 0.6% (H1 FY19) to 0.5% (H1 FY20) with the improvement in gross loss more than offsetting lower contribution from late fees.
- Afterpay NTM was $102.0m, a 118% increase on H1 FY19, while Afterpay NTM as a percentage of underlying sales remained stable at 2.1%. This was achieved notwithstanding a lower contribution from late fees and an increased contribution from new and developing markets.
- EBITDA (excluding significant items) was $6.8m, 51% below H1 FY19. This was driven by a material investment in marketing, people and technology targeted towards accelerating growth in existing markets and expanding our platform for further geographic expansion and product development.
- The Group recorded a statutory loss after tax of $31.6m for the period which was impacted by one-off and non-cash items including share-based payments expenses.
- Capacity to scale has increased with an increase to total available funding, including from a new US warehouse facility (US$200m) provided by Goldman Sachs, and extension of the Group's overall maturity funding profile. Current liquidity and additional growth capacity within our $1.1b of total warehouse facilities provides scope to fund incremental annualised underlying sales in excess of $15.0b above our current run rate.

1. AFTERPAY TOTAL INCOME INCLUDES AFTERPAY INCOME AND OTHER INCOME, EXCLUDES PAY NOW REVENUE

Investing to Exceed Mid-Term Targets

- Ambition to reach 9.5m active customers by the end of FY20.
- Ambition to exceed previously stated mid-term target of approximately $20b+ by the end of FY22.
- Ongoing investment in global talent – with particular focus on the sales, product and technology teams. New key hires include: Global Chief Product Officer, David Katz (ex Fanatics, Groupon); Global Chief Marketing Officer, Geoff Seeley (ex Airbnb); Chief Enterprise Risk Officer, Cassandra Williams (ex CBA); ANZ Sales Director, Katrina Konstas (ex AMEX); VP Product Design, Scott Polchleb (ex WeWork); US Head of Finance, Laura Nadler (ex Visa).
- Continued investment in existing market acceleration (customer and merchant acquisition) as well as global expansion with preparations well underway to launch In-store in the US in H2 FY20 and pursue new target markets. Canada will be our next market to launch in 2020.
- While there will be a continued focus on net transaction margins in each market, short term profitability at the Group level will be impacted by increased investment in accelerating growth in new and developing markets.

REGIONAL PERFORMANCE

	H1 FY20	H1 FY19	CHANGE %
Underlying sales (A$)	**4.8b**	**2.3b**	**109%**
ANZ	3.1b	2.0b	55%
US	1.4b	0.3b	445%
UK	0.2b	~	~
Active customers	**7.3m**	**3.1m**	**134%**
ANZ	3.1m	2.5m	26%
US	3.6m	0.7m	443%
UK	0.6m	~	~
Active merchants	**43.2k**	**23.2k**	**86%**
ANZ	35.5k	21.8k	63%
US	7.4k	1.4k	421%
UK	0.4k	~	~

ANZ

- Continued customer growth in our most mature market, with the increase of new customers tracking consistently over past 12 months.
- Customers who joined the platform in FY15-FY17 are now purchasing at an average of approximately 23 times per annum.
- ANZ experiencing high profitability as a result of higher customer acceptance and higher frequency which also drives greater data and insights and lower losses.

- In-store gaining momentum, now representing approximately 24% of ANZ underlying sales. Remains largest growth opportunity in this market.
- Large new verticals still nascent and growing, representing a significant growth opportunity. Most recent merchants and platforms to sign up include eBay, NAB Health HICAPS, and Webjet which are set to come online in 2020.

US

- Underlying sales more than double H2 FY19 and more than five times H1 FY19. US contribution in H1 FY20 represented more than 30% of Group underlying sales.
- Underlying sales run rate at $3.8b per annum based on Q2 FY20 trading.
- In-store to be launched prior to end of FY20 creating significant underlying sales growth opportunity.
- Largest active customer market at 3.6m with over 1.0m new customers acquired in November and December 2019 alone.
- Active merchants of 7.4k, nearly double H2 FY19 and more than five times H1 FY19.

UK

- Underlying sales of approximately $200m achieved in first full half of trading, with December 2019 run rate in excess of $650m per annum.
- Active customers reached over 0.6m, broadly in line with the US at the same stage post launch.
- Three of the UK's largest ecommerce retailers (ASOS, Boohoo and Marks & Spencer) are already onboarded to the Afterpay platform in the first year of operation.

STRATEGIC PARTNERSHIPS AND INNOVATION

- Partnerships with Visa and Mastercard include incentives and processing cost benefits and will facilitate new product development opportunities.
- Lite Integration product enables enterprise merchants to integrate with the Afterpay platform faster. Major retailer, Finish Line, was able to launch on the platform prior to the 2019 holiday season as a result of this innovation.
- Variable First Payment product now has 35,000 merchants enabled globally and our Cross Border Trade product, currently operating between Australia and New Zealand, will be expanded to the UK by the end of FY20.
- Afterpay platform related features and tools relevant to our customers and merchants continue to be developed as the platform continues to evolve. Afterpay's platform is becoming a powerful retail ecosystem that links brands with hard to reach, mainly millennial customers. Lead referrals from our shop directory to our merchant partners increased to approximately 14m per month in Q2 FY20, up from approximately 9m per month in Q1 FY20.

REGULATION

- Afterpay is supportive of an Australian industry code and welcomed the Draft BNPL Code of Practice released for public consultation.
- Submission lodged to Australia's Senate Committee inquiry into FinTech and RegTech with Chair, Elana Rubin and CEO, Anthony Eisen, appearing before the inquiry in February 2020.
- Submission made in response to Reserve Bank of Australia Issues Paper on surcharging. Afterpay provided arguments against the introduction of surcharging that focused on the fact that its service is not comparable to existing regulated payment forms and provides considerable services to merchants that exceed the value of the merchant fee charged. Afterpay submissions are available at https://www.afterpaytouch.com/results-reports.
- AUSTRAC is considering the independent auditor's report received (as announced on 25 November 2019). Afterpay is continuing to work on implementing recommendations made in the report.
- Included within general and administrative expenses is the recognition of a $1.5 million provision for estimated settlement costs related to an ongoing regulatory matter. The Group does not foresee any material disruption to its ability to offer services, or any ongoing financial impact, as a consequence of this matter.

BOARD UPDATE

- We are pleased to announce that Pat O'Sullivan will be joining the Afterpay Board as an Independent Non-Executive Director in March 2020.
- Pat is currently Chair of ASX listed company carsales.com Ltd (ASX:CAR) and was formerly a Director of the following listed companies: APN Outdoor, iSentia (ASX:ISD), iiNet, iSelect (ASX:ISU) and Marley Spoon (ASX:MMM).
- Pat's appointment follows the appointment of Gary Briggs as Independent Non-Executive Director announced in November 2019.
- Global recruitment process to appoint further Independent Directors continues.

AFTERPAY'S CEO AND MANAGING DIRECTOR, ANTHONY EISEN COMMENTS:

"The strong metrics announced today reflect our team's efforts to considerably accelerate sales growth across our global business, while at the same time balancing business performance and developing our team, infrastructure and capabilities for the future.

"We more than doubled our underlying sales and the number of active customers on our platform compared to the same time last year which indicates our differentiated business model continues to resonate with customers and merchants.

"Our global expansion is accelerating with the US and UK growing at considerably faster rate than what we experienced in ANZ. The US now represents over 30% of the Group's total underlying sales and has the largest number of customers actively using the platform.

"Our success compounds as more customers transact more frequently, from a broader cohort of merchants, across a larger global footprint. We are confident in our strategy of investing to significantly expand our platform of customers, merchants and new markets because of our ANZ experience, where high customer frequency and retail penetration has been matched with low losses and strong profitability.

"Early customer cohorts in Australia are now transacting at an average of 23 times per year and our customers in the US and UK are following the same trajectory at the same point in the lifecycle.

"We are now focused on exceeding our mid-term underlying sales target of over $20b by FY22 and we are aiming to reach 9.5 million active customers by the end of this financial year. While this will impact Group profitability in the short term, we expect to achieve higher profitability in each market as they mature over time, in-line with our ANZ experience.

We believe we have the right strategy, the right people and the right business model to continue our momentum and deliver long term value for our shareholders."

Authorised by:
Anthony Eisen
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ENDS

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