

# AFTERPAY TOUCH GROUP LIMITED

(ASX: APT)

## ASX Announcement

4 April 2018

### Company Update

Afterpay Touch Group Limited (**Afterpay** or the **Company**) is aware of recent reports that not only comment on Afterpay's systems and processes but also speculate about the founding shareholders commitment to the Company after the expiry of their escrowed shares.

### Afterpay Quarterly Update

Afterpay intends to provide a quarterly update next week for the period ended 31 March 2018. This will include performance reports as to growth, customer usage and responsible customer spending practices.

### Responsible Customer Spending

Afterpay is committed to responsible customer spending and is clearly resonating as an alternative to credit for discretionary purchases to customers who can and do use the service regularly. Afterpay has conducted over 13 million transactions, with more than 1.5m registered customers. Returning customers account for approximately 90% of monthly transactions. This demonstrates a strong repayment track record, notwithstanding Afterpay's rapid growth.

- Afterpay applies a proprietary fraud and repayment capability check for every order approved and rejects approximately 30% of attempted transactions based on this check
- As a result of this check and other processes, Afterpay's net transaction loss due to payment difficulties is at 0.7% (gross less than 2%) in H1FY18, which is low compared to industry standards
- Afterpay is upgrading its procedures to curtail any alleged under age usage of its service by dishonest users. Customers are legally required to confirm their identity and date of birth at sign-up. On the merchant side, there are a number of legal obligations imposed on businesses that sell restricted items such as alcohol online, including an overarching obligation not to sell or deliver alcohol to a minor
- Afterpay's merchant agreement requires them to observe State and Federal laws at all times and retains the option for Afterpay to suspend merchant services if it is reasonably believed that making a payment or processing the Afterpay purchase is in breach of any relevant law

- Afterpay utilises an external database of prepaid cards and has a rule to block usage of these cards as the primary payment source through the system
- As well as the proprietary fraud and repayment capability check, an initial payment is required upfront for new account applicants. Limits are set low until a regular on-time repayment record is established
- If a customer does not meet the due payment date, their account is suspended until they make good. Customers cannot “revolve” and use Afterpay as a line of unpaid, accumulating credit
- A detailed external review of Afterpay transactions since inception until the end of calendar 2017<sup>1</sup> confirmed that:
  - Approx. 85% of Afterpay transactions were made with a bank issued debit card. Safeguards ensure outstanding customer balances are low, averaging \$208 in calendar 2017
  - For customers who pay on time, Afterpay is a free service. Approximately 93% of Afterpay orders do not incur late fees
  - Late fees are less than losses incurred – the business model is underpinned by customers paying on time and we communicate clearly with customers in advance
  - Over 75% of customers say they use Afterpay as a budgeting tool and Afterpay under-indexes with respect to the lowest credit quality customers
  - The top 1% of late fee-paying customers (measured as a proportion of total purchases) use the product the least, have the lowest outstanding balances, had average annual late fees in calendar 2017 of less than \$110, representing less than 30% of purchase values

## **Product Enhancements**

Our data and key findings from the above research clearly indicates we are serving the vast majority of our customers well and they are using the product responsibly.

In our quest to always improve our service and help prevent deliberate breach of our rules, we are introducing a number of product enhancements that we do not expect will have a material, negative financial impact on the business. These will be further outlined in the quarterly report and include:

- Supplementing Afterpay’s proprietary transaction engine with External ID verification checks. Integration activities with Illion (formerly Dunn and Bradstreet) commenced in 2017, is currently being tested and will be implemented well within the current financial year
- Capping late fees

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<sup>1</sup> Review conducted by Alphabeta Advisers with data supplied by Afterpay, IPSOS and Illion

## **Regulatory Status**

Afterpay is not a regulated credit product under the National Credit Code. This has not been challenged by any regulatory authority. Afterpay has always and continues to proactively and voluntarily engage with regulators and stakeholders. ASIC has announced a review into all buy now, pay later services. We welcome that review and continue to actively engage with the regulator.

## **Escrow**

Founding shareholders of Afterpay Holdings Limited, Anthony Eisen and Nick Molnar, are subject to a two year ASX escrow restriction which expires on 8 May 2018 in relation to their shareholdings (collectively, approximately 23% of issued capital). Anthony and Nick have informed the Board that they intend to remain long term, substantial shareholders and executives of the business.

Subject to share price and general market conditions, Anthony and Nick, for asset diversification reasons, may sell up to 10% of their underlying individual shareholdings (less than 2.5% of total issued capital) over the next twelve months.

## **ENDS**

### **Investors:**

Anthony Eisen  
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### **Company:**

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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 12,500 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.