

## **AFTERPAY TOUCH GROUP LIMITED (ASX: APT)**

### **ASX Announcement**

8 November 2018

### **Business Developments**

*(all currency figures are in Australian dollars unless otherwise stated)*

Afterpay Touch Group Limited (ASX: APT) (“**Afterpay**” or the “**Company**”) is pleased to provide an update in relation to key business developments in both the US and Australia / New Zealand markets:

#### **US Market Update**

- While still early days (less than 6 months since launch), traction with millennial-focused retailers and their customers has been strong.
- Over A\$115m of underlying sales have been processed through the Afterpay platform YTD (to end of October 2019).
- To date, over 300,000 consumers and over 900 retailers have transacted with Afterpay in the US. We are pleased with our pipeline of over 1,300 additional retailers having signed agreements with Afterpay or in the process of integrating on our platform.
  - Our retailer acquisition strategy remains focused on the online apparel sector and introducing the Afterpay service in partnership with leading millennial retailers.
  - The total addressable GMV of retailers who are now live in the US with Afterpay is assessed by Afterpay to be larger than the total online apparel market in Australia (addressable live GMV in the US is estimated at US\$3b or A\$4.2b).
  - In addition, we believe Afterpay is relevant to a number of other retail verticals in the US, as illustrated by the expanding market reach achieved in Australia and New Zealand, and we are actively exploring these opportunities.
  - These results come within 6 months of launch in the US market, which represents a more rapid pace of growth than what was experienced in Australia where similar results were achieved after approximately 24 months of operations.
- Early engagement metrics indicate Afterpay’s value proposition is resonating with both retailers and customers. Key metrics include sales penetration, average order value and repeat customer usage.

- Early Launch partners in the US included:

|                         |                    |                      |
|-------------------------|--------------------|----------------------|
| <i>Urban Outfitters</i> | <i>Free People</i> | <i>Anthropologie</i> |
| <i>Revolve</i>          | <i>Morphe</i>      | <i>Quay</i>          |

- Recent retailer signings with core US millennial brands are expected to increase underlying sales contribution, retail awareness and Afterpay's US customer network in future periods:

|                     |                        |                   |                        |
|---------------------|------------------------|-------------------|------------------------|
| <i>Steve Madden</i> | <i>Skechers</i>        | <i>Superga</i>    | <i>Rebecca Minkoff</i> |
| <i>Flight Club</i>  | <i>Kylie Cosmetics</i> | <i>Freebird</i>   | <i>Dose of Color</i>   |
| <i>BH Cosmetics</i> | <i>GOAT</i>            | <i>Dolls Kill</i> | <i>ThirdLove</i>       |
| <i>Cult Gaia</i>    | <i>Alo Yoga</i>        | <i>APL</i>        | <i>Bandier</i>         |

- The majority of these retailers went live during October and their sales numbers are not fully reflected in our YTD GMV.
- Merchant pipeline indications beyond these recent signings are encouraging.
- The Steve Madden Group, a leading footwear and fashion accessories retailer, said:
 

*"We were very excited to launch Afterpay in the US market after seeing its success in Australia. In the first week of going live, Afterpay was the second most popular payment method after credit cards and we saw a 25% uplift in average order value"*
- Afterpay's Gross and Net Transaction Loss profile is within the budgeted range and is benefitting from our initial and ongoing investment in risk and data capability. While Net Transaction Losses and other variable costs (mainly processing costs) are, as expected, higher in relative terms to the Australian business in the initial stages, Net Transaction Losses are expected to reduce over time (in line with our previous Australian experience) and other variable costs are expected to benefit from economies of scale and global supplier arrangements over the medium term. Net Transaction Margin in the US is also expected to benefit in the medium term as higher revenue margin SMB retailers contribute a greater proportion of underlying sales or GMV.
- Afterpay continues to target an FY19 EBITDA loss for its US operations of approximately \$20m (pre-accounting change and FX impacts), broadly in line with the Matrix original investment in early 2018 which was earmarked for establishing the US business.
- UK expansion activities continue according to plan and in-line with previous updates. The UK business is expected to require a smaller business establishment investment than the US and UK operating losses (EBITDA) in FY19 are expected to be in the order of 50% - 70% of the US position.
- The Company's international team continues to grow and attract world-class talent. Drew Lieberman has recently commenced as Afterpay US Chief Operating Officer. Prior to running and developing multiple early stage ventures, Drew held leadership positions at eBay where he led a portfolio of product categories, including Motors and the Lifestyle Group (Apparel, Jewellery and Home).

## Australia / New Zealand Market Update

- Platform and network growth is continuing with strong underlying sales performance and customer growth in FY19 YTD.
- A number of large enterprise retailers continue to integrate the Afterpay platform. Most recent additions that are currently live or are in the process of integrating include:

|               |                       |                         |
|---------------|-----------------------|-------------------------|
| <i>Kmart</i>  | <i>EB Games</i>       | <i>ASOS Australia</i>   |
| <i>Kogan</i>  | <i>Boohoo</i>         | <i>Village Roadshow</i> |
| <i>Sussan</i> | <i>Tommy Hilfiger</i> | <i>Lovisa</i>           |

- Momentum also continues to build in relation to two key growth priorities in FY19 – in-store and new verticals. Recent in-store retailers that are either live or in the process of integrating include:

|                  |                          |                             |
|------------------|--------------------------|-----------------------------|
| <i>Target</i>    | <i>Harris Scarfe</i>     | <i>Best &amp; Less</i>      |
| <i>Jeanswest</i> | <i>Sheridan</i>          | <i>Bonds</i>                |
| <i>Goldmark</i>  | <i>Angus &amp; Coote</i> | <i>Prouds the Jewellers</i> |

- Progress in relation to new verticals, particularly in the Health sector, is gaining momentum with a number of large practice groups in various stages of roll-out and pilot programmes, including:

### **Dentistry**

|                       |                     |                       |                       |
|-----------------------|---------------------|-----------------------|-----------------------|
| <i>Primary Dental</i> | <i>Maven Dental</i> | <i>Pacific Smiles</i> | <i>Totally Smiles</i> |
|-----------------------|---------------------|-----------------------|-----------------------|

### **Optometry**

|             |                      |                       |
|-------------|----------------------|-----------------------|
| <i>OPSM</i> | <i>Bailey Nelson</i> | <i>The Optical Co</i> |
|-------------|----------------------|-----------------------|

- Supporting underlying sales growth is a growing customer base (now over 2.5m active customers, excluding US customers) that continues to show high levels of engagement across the platform.
- While new customer growth continues in line with past performance, repeat transaction activity is high and continues to account for over 90% of monthly underlying sales.
- Net Transaction Losses are tracking within our target band and broadly in-line with FY18 performance, equating to less than 0.5% of underlying sales or GMV (unaudited) and demonstrating continued responsible use of the platform.
- Our data analytics and promotional capability are allowing us to serve both customers and retailers in more personalised and high impact ways.

## Regulatory Environment

- Afterpay is subject to a wide range of corporate and ASX regulation, including Australian Consumer Law, and is supportive of appropriate regulatory oversight that provides an informed and secure framework which benefits the customer.
- Afterpay was created to help customers budget and is fundamentally different to traditional credit products and other 'buy now, pay later' products that revolve and charge interest and account fees.
- Afterpay's model is unique in that:
  - It is a free product for customers if payments are made on time.
  - It does not charge interest.
  - It does not charge setup or account-keeping fees.
  - Instalment periods are short (four instalments, every two weeks) and cannot be extended.
  - If payments are not made on time the customer account is immediately suspended and they cannot continue to purchase (debt cannot revolve and bad debt cannot accrue).
  - Revenue is derived mainly from fees paid by the retailer as opposed to the customer.
  - Customer late fees, which are capped, do not cover transaction losses and collection costs and are not viewed as a method to generate profit.
- The Afterpay service continues to resonate strongly with consumers as well as over 20,000 large and small businesses across Australia and New Zealand.
- Afterpay continues to actively engage with government, regulatory authorities and industry stakeholders generally. We are confident that we can demonstrate our unique model as well as the benefits we bring to both consumers and retailers.

## Global Industry Recognition

- It is a testament to our team, our customers and our retail partners to be highly ranked (#26) in the global 2018 Fintech 100, recently compiled by KPMG and H2 Ventures.

## Annual General Meeting

- As previously announced, our 2018 Annual General Meeting will be held on 28 November 2018 at 12.00pm at Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne, Victoria.

**ENDS**

For further information, contact:

| Investors:  | Company:  | Media:   |
|---|---|--|
| David Hancock<br>Group Head<br><a href="mailto:davidh@afterpay.com.au">davidh@afterpay.com.au</a> | Christopher Stevens<br>General Counsel & Company Secretary<br>t) 0481 289 710<br><a href="mailto:christopher.stevens@afterpay.com.au">christopher.stevens@afterpay.com.au</a> | Melissa Patch<br>Cato & Clegg<br>t) 0412 124 195<br><a href="mailto:melissa@catoandclegg.com">melissa@catoandclegg.com</a> |

**About Afterpay Touch Group**

Afterpay Touch Group (ATG) is a technology-driven payments company with a mission to make purchasing feel great for a global customer base. ATG 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 2.8 million customers and over 21,000 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.