

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

### **ASX Announcement**

23 August 2018

**NOT FOR DISTRIBUTION INTO THE U.S.**

### **International Expansion Progresses and Capital Raising**

#### **Summary**

- Momentum building in the U.S., with over 800 retailer contracts signed, over 400 retailers currently transacting on the U.S. platform, and over 150,000 registered U.S. based customers having transacted to date
- Afterpay commenced trading in the U.S. in mid-May 2018. Underlying sales (GMV) was approximately A\$12m in June and A\$20m in July (unaudited)
- The U.S. pipeline remains strong with underlying sales volume expected to rise as the number of integrating merchants and customers continues to increase and seasonal retail tailwinds come into play during the remainder of calendar year 2018
- In line with its retailer-led strategy, Afterpay has determined that the UK, as the world's third largest e-commerce market, with more than £133b in online retail sales per annum, represents the next logical step for international expansion
- To accelerate and de-risk Afterpay's planned entry to the UK, Afterpay has made a strategic acquisition of a UK-based buy now, pay later business
- Specifically, Afterpay has entered into a Share Purchase Agreement (the Agreement) with ThinkSmart Limited (AIM:TSL) (ThinkSmart) to acquire 90% of ClearPay Finance Limited (ClearPay), for 1m Afterpay shares, with the acquisition to be completed today
- Utilising the local capabilities of the ClearPay entity and team, Afterpay intends to launch its globally scalable system into the UK within the next 6 months and will immediately engage with relevant retailers with a local UK presence
- To provide scope for near-term, accelerated global expansion and, in due course, cornerstone international debt facilities that are currently being investigated, Afterpay is undertaking a fully underwritten Institutional Placement (the Placement) to raise at least \$108.1m. A non-underwritten share purchase plan will also be offered to eligible retail shareholders

## **Continued international expansion**

Afterpay launched in the U.S. in mid-May 2018. Early engagement with enterprise and mid-tier retailers and their customers has been encouraging. Approximately A\$20m of underlying sales (GMV) was processed in July 2018 (unaudited). Over 400 retailers are currently transacting on the U.S. platform, and over 800 retailer contracts have been signed as of mid-August 2018.

Following the success of the Afterpay product in Australia and New Zealand, as well as the early momentum in the U.S., international retailers are encouraging Afterpay to continue to expand into additional offshore markets.

In line with its retailer-led strategy, Afterpay has determined that the UK, as the world's third largest e-commerce market, with more than £133b in online retail sales per annum<sup>1</sup>, represents the next logical step for international expansion.

## **Entry into the UK**

To accelerate and de-risk its planned entry into the UK market, Afterpay has entered into a Share Purchase Agreement to acquire ClearPay, an entity 100% owned by ThinkSmart. ClearPay is a UK based payments company through which customers can purchase items up to £450 in value and make repayments in three interest-free monthly instalments.

Under the Agreement, Afterpay will acquire 90% of the issued shares in ClearPay for total consideration of 1m Afterpay shares. Afterpay also has an option to acquire the remaining shares held by ThinkSmart, exercisable any time after 5 years from completion, based on agreed valuation principles. See the separate investor presentation lodged with the ASX today for further details of the acquisition.

The acquisition of ClearPay will allow Afterpay to accelerate its entry into the UK market and enable further deployment of Afterpay's global system. Afterpay are acquiring the ClearPay corporate entity, ClearPay's contracts with relevant service providers and key employees with local knowledge of the UK market and regulatory landscape. ClearPay's intellectual property (IP) will not form part of the acquisition. The ClearPay brand will be transitioned out and changes will be made to the business model to align ClearPay with the Afterpay brand and associated brand values.

ClearPay's existing retailers and customers currently transacting on ClearPay's system (the ClearPay legacy business) will be afforded the opportunity to transition onto Afterpay's global platform upon launch, expected to be within the next 6 months. Afterpay will not be exposed to any economic gains or losses from the ClearPay legacy business under the Agreement, with ThinkSmart indemnifying Afterpay for all losses arising from the ClearPay legacy business.

Completion of the acquisition will occur today. Afterpay will immediately supplement the ClearPay management team with Afterpay expertise and will immediately engage with retailers in preparation for its launch in the the UK market. Afterpay will commence in the UK as an online-only platform with an intention to introduce in-store capability in due course. Initial transaction experience and

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<sup>1</sup> Source: IMRG Capgemini eRetail Sales Index, 17 January 2017

learnings in relation to retail and customer dynamics will be translated into a programme of product development specific to the UK market.

Given the Afterpay product will not be launched for some months, UK operations are not expected to materially contribute to revenue in H1 FY2019. Afterpay will provide more details about its longer-term UK market strategy at its H1 FY2019 results presentation.

### **Strategic rationale**

The rationale behind Afterpay's plan to enter the UK market and acquire ClearPay is as follows:

- As one of the world's largest consumer retail markets, the UK offers a significant market opportunity
- Market dynamics are assessed to be favourable, particularly in relation to millennial demographic payment behaviours and preferences
- Synergy with a number of Afterpay established retailer relationships in Australia, New Zealand and the U.S. that have global operations and a presence in the UK
- ClearPay provides an established operational footprint in the UK, with local relationships and understanding of local regulatory conditions
- The acquisition will accelerate the planned launch of the Afterpay global system into the UK market and continues Afterpay's preferred model of partnering with a local market presence to de-risk global expansion (consistent with its NZ and U.S. expansion strategies)

### **Funding international expansion**

Afterpay's Australian operations are expected to generate material underlying operating cash flow in FY2019. Afterpay's international growth is expected to require incremental capital to fund:

- The growth of receivables books in the U.S. and UK and ultimately to cornerstone international debt facilities that are currently being investigated
- Local market investment in terms of team and infrastructure
- Expected operating losses from the U.S. and UK businesses in FY2019

### **Capital raising**

Afterpay is undertaking a fully underwritten institutional Placement to eligible investors, to raise at least \$108.1m, to fund Afterpay's international expansion strategy.

Pricing will be determined via an institutional bookbuild, with an underwritten floor price of \$15.75 per share. The underwritten floor price represents a 9.9% discount to the 5 day VWAP to close of trade on 22 August 2018. New shares issued under the Placement will rank equally with Afterpay's existing shares.

No shareholder approval is required for the Placement, as the Company will utilise a portion of its existing placement capacity under ASX Listing Rule 7.1.

Afterpay's shares will remain in a trading halt today while the Placement is conducted. Normal trading in Afterpay shares is expected to resume on 24 August 2018 or such other time as the completion of the Placement is announced to the market.

Cash on hand as at 30 June 2018, pro forma for the Placement, and available borrowing capacity (prior to establishing international debt facilities) is expected to be sufficient to fund international expansion costs and facilitate international underlying sales growth well in excess of A\$1 billion.

### Share purchase plan

A share purchase plan (SPP) will follow the Placement with eligible Afterpay shareholders in Australia and New Zealand offered the opportunity to acquire additional shares in Afterpay. The SPP will not be underwritten.

Shareholders on the Afterpay register at 7:00pm (Sydney time) on 22 August 2018 (Record date), with a registered address in Australia or New Zealand will be entitled to subscribe for up to \$15,000 worth of Afterpay shares through the SPP, subject to eligibility criteria and other terms and conditions of the SPP which will be set out in the SPP booklet and dispatched to eligible shareholders in due course. Shares issued under the SPP will rank equally with existing shares of Afterpay.

The SPP aims to raise approximately \$20m. Afterpay may decide to scale back applications under the SPP at its absolute discretion. New Shares under the SPP to be issued at the lower of the price paid by investors under the Placement, and the 5 day VWAP of Afterpay shares up to the SPP closing date.

Highbury Partnership Pty Limited is acting as financial adviser to Afterpay on the acquisition of ClearPay and the Placement and SPP. Citigroup Global Markets Australia Pty Limited is acting as sole underwriter and bookrunner to the Placement, with Bell Potter and Wilsons acting as co-managers.

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### 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 approximately 2.3 million customers and approximately 17,700 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.