

AFTERPAY TOUCH GROUP LIMITED

(ASX: APT)

ASX Announcement

16 January 2018

International Expansion - Strategic Relationship - Investment in Afterpay Touch Group

Summary

- Afterpay Touch Group continues to assess geographic expansion opportunities for its Afterpay product
- Afterpay team, led by co-founder Nick Molnar, currently investigating opportunities to enter the United States market
- In support of this initiative, Afterpay Touch has entered into a strategic relationship and new share issuance transaction with US based Matrix Partners, a long-established, technology-focused venture capital firm
- Matrix to invest US\$15.0m (approximately A\$18.9m) in Afterpay Touch - US\$14.9m via a new share issuance at A\$6.51 per share and US\$100,000 via convertible note issuance from Afterpay US, Inc.
- Mr. Dana Stalder, a General Partner of Matrix, invited to join the Afterpay Touch Board

Introduction

Following the successful launch of Afterpay in New Zealand during the second half of calendar 2017, **Afterpay Touch Group Limited (ASX:APT) (Afterpay Touch or the Company)** has continued to investigate expanding its market leading Afterpay product into other markets, while at the same time developing its internal capabilities and resources to ensure the Company's ability to innovate and grow in its established markets is maintained.

The Afterpay team, led by co-founder Nick Molnar, is currently investigating opportunities to introduce Afterpay in the United States market. This process is at a preliminary stage and the Company will update shareholders in due course with respect to its longer-term strategy.

In support of this initiative, Afterpay Touch is pleased to announce that it has entered into a strategic relationship and new share issuance transaction with **Matrix Partners (Matrix)**. Matrix will collaborate with and provide advice to Afterpay Touch to further investigate and execute a potential expansion into the United States. Matrix is a globally recognised venture capital firm based in Cambridge, Massachusetts, with offices in San Francisco and Palo Alto, California, and has a long and

successful track record in backing globally scalable technology companies. An overview of Matrix is contained in Appendix B.

The market dynamics that provided the opportunity for Afterpay's launch and rapid growth profile in Australia and New Zealand appear just as prevalent in the United States. These dynamics relate to a number of macro factors including the retail culture and growth of online commerce, as well as millennial trends in relation to lifestyle, shopping, finance and payments. Our decision to explore expansion opportunities in the United States has also been driven by the encouragement and insights provided by some of Afterpay's core retailer relationships.

Over the past twelve months, Afterpay has significantly developed its local talent pool in relation to all facets of the business. While there is more work to do, we are now in a position to contemplate market development opportunities, while still delivering on our core objectives. It is intended that any US operation will be substantially managed by a US-based team with support provided by our experienced Australian team.

Strategic Relationship with Matrix Partners

Afterpay Touch's decision to formalise a strategic relationship with Matrix is driven by Matrix's strong understanding of US market dynamics, its relationships with relevant local key stakeholders, as well as its knowledge base and access to the best in-market talent from both a 'go-to-market' and technology innovation perspective.

We believe that our relationship with Matrix and its extensive expertise and network in the US will be of substantial value to the Board in developing a strong local team and will help to provide oversight and input towards executing a potential market development strategy. The transaction does not in any way commit Afterpay Touch to a particular course of action or pre-determined investment and the Afterpay Touch Board remains in full control of all aspects relating to any US expansion opportunity. The transaction has been structured to award Matrix a return on its investment if a US expansion strategy is successful (at the back-end) and to create alignment with all Afterpay Touch shareholders during the potential development phase.

Key components of the transaction are as follows:

- Matrix to acquire US\$14.9m (approximately A\$18.75m) of new Afterpay Touch shares at A\$6.51 per share, subject to a multi-year lock-up arrangement.
- Afterpay US, Inc. (**Afterpay US**) (incorporated as a 100% owned subsidiary of Afterpay Touch), will additionally issue convertible notes to Matrix (with an aggregate face value of US\$100,000), which will provide for Matrix to receive an entitlement to Afterpay Touch shares in the future (in 5 – 7 years' time) based on up to 10% of the future value of Afterpay US in excess of US\$50 million, to be determined by independent valuation. A further entitlement of up to 10% of Afterpay US may be granted to employees of the Afterpay group, albeit this has not been fully committed at this stage.
- A formal committee structure will be established, and will include representatives of both Matrix and Afterpay Touch, to facilitate timely communication and strategy execution.

Further details in relation to the transaction are outlined in Appendix A.

The equity capital raised in relation to the Matrix transaction will be applied for general working capital purposes and while there is no requirement for this capital to be applied to any particular activity, it has been ear-marked to facilitate the potential development of a US based team and market initiation strategy.

While Afterpay Touch does not expect Afterpay US to materially contribute to revenue in the 2018 financial year, we expect to be able to update shareholders at the end of the 2018 financial year about the potential US opportunity and the nature of the Company's commitment to the development of a longer-term US market strategy.

Proposed Afterpay Touch Board Changes

Mr. Dana Stalder is a General Partner at Matrix and has been invited to join the Afterpay Touch Board in the capacity of independent, non-executive director. While this is not a requirement of the Matrix transaction, we feel that Dana's extensive global technology and business experience will significantly complement the skills of existing Board members and facilitate coordination and execution of a potential US market development strategy. Prior to joining Matrix in 2008, Dana held leadership positions and was responsible for core product and global business expansion activities at companies such as eBay, Netscape and PayPal. His business and company building experience cuts across multiple disciplines including sales, marketing, finance, technology and product management. Dana's appointment and service arrangements will be in line with the Company's policies for external directors.

Contemporaneously with Dana's appointment, it is the intention of Mike Jefferies to resign from the Afterpay Touch Board. Prior to Afterpay's merger with Touchcorp, Mike was the long-serving Chairman of Touchcorp and stepped into an executive role following the tragic passing of Touchcorp's Managing Director, Adrian Cleeve, in late 2016. In both his Touchcorp and Afterpay roles, Mike has been an outstanding director and has worked tirelessly for the benefit of all shareholders and staff. His contribution to his fellow directors and the personal support that he has provided to a great many members of the Afterpay Touch team has been immense. We thank Mike for his unique and invaluable contribution over many years.

Appendix A: Key Matrix Deal Terms

In addition to the matters outlined above, a summary of some of the key terms of the agreement with Matrix is as follows:

1. **Placement:** the Company will issue 2,880,426 ordinary shares in Afterpay Touch to two funds managed by Matrix (collectively, **Matrix**), issued at A\$6.51 per share, being the 5 day volume weighted average price to the date of signing of the agreement. The shares are expected to be issued on or before 19 January 2018.

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2. **Conditions:** the conditions precedent to the issue of the placement shares and convertible note have been satisfied. These involved obtaining a technical on-sale relief from ASIC and confirmations from ASX in relation to certain ASX Listing Rules, including ASX Listing Rules 6.1 and 7.1. The issue of the shares and convertible note does not require Afterpay Touch shareholder approval.
 3. **Restrictions on dealing:** Matrix can only deal (i.e. sell or encumber) 50% of its placement shares no sooner than the third anniversary of the date of the transaction agreement (16 January 2018), and the remaining 50% no sooner than the seventh anniversary of the date of the transaction agreement. **Exceptions** to this restriction include:
 - a. a change in control of the Company;
 - b. conversion of the convertible notes in accordance with its terms; or
 - c. if the Afterpay Touch Board decides not to continue its business development activities in the United States.
 4. **Convertible Note:** Afterpay US will issue unsecured, un-quoted convertible notes to the two funds managed by Matrix (each a **noteholder**), with:
 - a. a total face value of US\$100,000;
 - b. interest payable of 6% per annum;
 - c. a conversion period of 5 - 7 years from the date of issue, with conversion at the noteholder's election; and
 - d. a conversion value based on up to 10% of the future value of Afterpay US in excess of US\$50 million, to be determined by independent valuation using valuation metrics, multiples and methods which the market is using to value Afterpay Touch at the time of conversion. The conversion value will be issued in the form of Afterpay Touch shares, valued at the market price of Afterpay Touch shares at the relevant time. For example, if the assessed value of Afterpay US at the time of conversion were US\$70 million, then the value of Afterpay Touch shares to be issued to the noteholders would be $10\% \times (\$70m - \$50m) = US\$2m$.

However, conversion of the convertible notes may be accelerated, at the Company's election, if:

- a. a takeover bid is made for Afterpay Touch and the bidder obtains a relevant interest in at least 50% of its shares; or
- b. Afterpay Touch shareholders approve a scheme of arrangement involving an acquisition of all Afterpay Touch shares; or
- c. a material event occurs which results in more than 50% of Afterpay Touch shares or a material part of its business being sold to a third party,

in which case the conversion value for Afterpay US will be assessed as set out above at the time of conversion subject to a minimum conversion value equal to the *lower* of US\$45

million or 2% of the market capitalisation of Afterpay Touch at the time of the change of control.

5. **Non-competes:** until the convertible notes are either converted or mature, Matrix cannot knowingly make an initial investment in an entity that competes directly with the Afterpay Touch Group, or competes or intends to compete with the intended business of Afterpay US in the United States.
6. **Collaboration:** Matrix will collaborate and provide advice to Afterpay Touch in relation to the establishment and development of the Afterpay US business. Matrix will not have authority to make decisions or bind Afterpay Touch.
7. **10% cap:** the number of Afterpay Touch shares that may be issued on conversion of the notes is capped at 10% of the issued share capital of the Company as at the date of issue of the notes.

Appendix B: About Matrix Capital Partners

Matrix Partners is a leading global venture capital firm operating in the US since 1977, and India & China since 2008. Matrix is consistently ranked as one of the highest performing global venture capital firms, having taken 65+ companies from start-up to IPO and 110+ companies from start-up to profitable exit.

As early stage investors, Matrix is typically the first and largest institutional investor in a company. The investing team is a group of former operators and founders, who are company builders by experience. Matrix selectively partners with founders to help them navigate every phase of building and scaling their companies. Through limiting the number of investments made, the investing team ensures they are able to dedicate the time and commitment to each company they partner with.

Select current Matrix investments include Acacia Communications, Didi Chuxing, HubSpot, Ola, and Zendesk. Previous investments include Ambarella, Apple, Aruba Networks, JBoss, Netezza, Oculus VR, SanDisk, and Starent Networks.

Appendix C: About Dana Stalder

Dana brings over 20 years of experience to the table as a technology company operator and investor. His experience cuts across multiple disciplines including Sales, Marketing, Finance, Technology and Product Management at companies such as eBay, Netscape and PayPal.

Dana is an expert in FinTech and an active FinTech investor in Silicon Valley. He was the commercial chief at PayPal for 5 years, where he managed Product, Sales, and Marketing during the company's growth from approximately US\$100M to US\$3B in revenue.

Dana was born and raised in Silicon Valley, holds a Bachelor of Science degree in Commerce from Santa Clara University, and began his career at Ernst & Young advising technology companies. In 1994, Dana joined Netscape Communications, a then nascent, pre-revenue company. Over his four-year tenure, he held executive positions across Finance, Sales, and Operations. After Netscape's

sale to AOL in 1998, Dana was a founding member of Respond.com, an online consumer marketplace for local services, where Dana served as the Vice President of Business Development and Chief Financial Officer.

Dana joined eBay in 2001 and held several leadership positions, including Vice President of Internet Marketing and Vice President of Strategic Partnership. In 2004, Dana joined PayPal as its commercial chief, managing Product, Sales and Marketing and ultimately led the company's global expansion. Dana also spearheaded PayPal's expansion beyond the eBay platform onto other online retail sites and initiated start-up projects within the Company, including PayPal Mobile and the PayPal Developer Platform.

In 2008, Dana brought his operating expertise to the investing world, joining Matrix Partners as a General Partner. His investments focus primarily on FinTech, Consumer Marketplaces, and Enterprise Software. He currently serves on the Board of Directors of several private US based technology companies and Zendesk (NASDAQ: "ZEN"), a global, cloud-based customer service software company.

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Investors:	Company:
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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 over 1.5m customers and over 11,500 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.