

AFTERPAY TOUCH GROUP LIMITED
(ASX: APT)**Business Update**

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

19 July 2018

Afterpay Touch Group Limited (ASX: APT) (**Afterpay** or the **Company**) is pleased to provide a business update for the three-month period ended 30 June 2018 (Q4 FY18) and the financial year ended 30 June 2018 (FY18):

- *Over \$2.18bn of total underlying sales processed through the Afterpay platform in FY18 (289% increase over FY17)*
- *Q4 FY18 underlying sales of approximately \$736m represents a 171% increase over Q4 FY17 and a 39% increase over Q3 FY18*
- *Approximately 16,500 retailers and approximately 2.2m customers currently live and transacted on the Afterpay platform since inception*
- *A strong start to Afterpay's U.S. business since launching in mid-May 2018 (over \$11m of underlying sales in the first full month, June 2018). Over 400 retailer contracts signed and over 200 retailers currently transacting on the platform, including major millennial focused brands, URBAN OUTFITTERS (live since 16 May 2018) and REVOLVE (live since 9 July 2018)*
- *Significant new enterprise retailers and service providers continue to sign-up to Afterpay in Australia including BOOHOO, BING LEE, MITRE 10 and DIESEL, in both traditional retail categories and new vertical expansion categories such as health, beauty and entertainment with a strong future pipeline*
- *Afterpay in-store is building momentum. Approximately 10,000 individual shopfronts are now live with Afterpay in-store*
- *Several senior, globally experienced team members joined the business in FY18 to support business expansion and core product and system development, particularly in the areas of risk, data and technology development*
- *Gross Losses and Net Transaction Losses trended down in Q4 FY18 and generally improved over H2 FY18, despite the increased underlying sales performance and merchant diversification in the same period. Consequently, a stronger Net Transaction Margin is expected in H2 FY18 compared to H1 FY18*
- *Previously announced product enhancements in Australia in relation to external ID verification and the capping of late fees have now been implemented in line with previous guidance. U.S. product*

enhancements will be configured progressively as further transactional data and experience is obtained

- *Pro-active and voluntary engagement with all key industry stakeholders continues: government, regulators including ASIC, and consumer groups, to ensure the differentiated nature of the Afterpay service is clearly understood and to receive constructive suggestions for improvement*
- *Previously announced \$200m warehouse receivables funding facility with major international bank (to sit alongside the existing NAB \$350m warehouse receivables facility in Australia) continues to progress from term sheet towards final documentation*
- *The Pay Now businesses remain stable from both a revenue and margin perspective. A review of the European E-Services business is in progress*
- *Subject to audit, FY18 Group Revenue and Other Income is expected to be in the order of \$142m, FY18 Group EBITDA is expected to be in the order of \$33m to \$34m and FY18 Group EBTDA is expected to be in the order of \$27m to \$28m, both prior to one-off and share based expenses but including the majority of expenses incurred in establishing and operating the U.S. business*

The Afterpay Business in Australia and New Zealand Continued to Perform Strongly in Q4 FY18

Strong underlying growth and performance continued in Q4 FY18 with respect to all key metrics (unaudited):

Platform growth:

- Over \$2.1bn of total underlying sales processed through the Afterpay platform in FY18 (287% increase over FY17)
- Q4 FY18 underlying sales of approximately \$722m represents a 166% increase over Q4 FY17 and a 36% increase over Q3 FY18 and now tracking at over \$3bn on an annualised basis based on recent monthly performance
- Platform growth is being driven by a combination of new customers (growing at an average of over 3,600 per calendar day in Q4 FY18), repeat customer activity, new retailers (consistently onboarding between 600 and 1,000 new businesses per month), increasing share of retailer check-out and adoption of Afterpay's in-store proposition by existing multi-channel retail partners
- Today, it is estimated that Afterpay processes more than 10% of all physical online retailⁱ in Australia and over 10% of the purchasing Australian populationⁱⁱ has transacted with Afterpay since inception

- Afterpay assesses there is significant scope for future expansion in Australia and New Zealand, driven by:
 - The much larger in-store addressable market and significant pipeline of existing multi-channel retailer partners that are adopting Afterpay in-store, in addition to online
 - The long-tail of higher margin SMB retailers which have only been penetrated to a small degree online and to a lesser extent in-store. Afterpay's stand-alone retail point of sale solution has recently been launched in April 2018, facilitating the start of an SMB in-store roll-out programme
 - New retail and service vertical expansion opportunities, outside of retail, relevant to Afterpay's customers and core value proposition

Building a loyal customer base and commitment to continuous improvement

- Afterpay's customer base is large (approximately 2.2 million customers have transacted with Afterpay since inception), growing and maturing (average age is 32, with 72% representing a core millennial demographic)
- More importantly, Afterpay's customers are highly engaged:
 - Repeat Afterpay transactions represent approximately 92% of monthly total transaction value
 - There were a total of 2.0m total active customers in FY18. Average customer purchases over the past twelve-month period was approximately \$1.1k, up from \$0.9k for the twelve-month period ended 31 December 2017 and \$0.7k for the twelve-month period ended 30 June 2017
 - The Afterpay mobile App continues to gain popularity and has now been downloaded more than 1.6m times (up from 0.85m downloads at the end of H1 FY18)
- Afterpay is resonating strongly because it offers customers a fundamentally different value proposition to traditional credit products when it comes to paying for smaller, lifestyle related purchases
- Traditional credit providers typically make money from the consumer and benefit when debt balances accrue and remain outstanding for long periods of time. Already burdened with the high cost of education and big life purchases, millennials in particular are averse to falling into a 'debt trap' and therefore utilise our product as it relates to smaller but more regular lifestyle purchases
- Afterpay is an attractive budgeting focused alternative to traditional credit because:
 - It is a free product to consumers if payments are made on time
 - It is applied to discrete transactions, instalment periods are short (four instalments, every two weeks) and cannot be extended

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- If payments are not made on time, the customer account is immediately suspended and they cannot keep purchasing, meaning debt cannot “revolve”, bad debt cannot accrue and the customer base is refined to those who use the system repeatedly and responsibly
- Afterpay’s revenue is derived mainly from fees paid by the retailer as opposed to the customer. Customer late fees are capped, are less than the costs associated with Afterpay’s bad debts and are designed only to be a proportionate incentive for customers to pay on time
- The improving effectiveness of this system is evidenced by the high rate of returning customer monthly transactions, low balances outstanding and low default rates:
 - Afterpay’s Net Transaction Loss was 0.7% (Gross Loss of less than 2%) in H1 FY18, which is low compared to industry standards. Both Gross and Net Transaction Loss metrics improved (on a consistent methodology basis) and trended down in H2 FY18
 - Outstanding account balances are low (>90% of accounts have less than \$500 outstanding; >75% of accounts have less than \$350 outstanding)
- Afterpay is committed to continual improvement of its offering in all respects. We do this because it is the right thing to do for our customers, merchants and shareholders and it allows us to grow
- A number of product enhancements that were announced in April 2018 have now been implemented in line with previous guidance:
 - From 30 June, Afterpay’s late fees have been capped at the higher of \$10 or 25% of order value, with a maximum late fee of \$68 per order
 - Approximately 95% of instalment payments received in FY18 did not incur late fees
 - The late fee cap is intended to reduce and limit penalties that apply to the minority of customers who may miss instalments
 - External third-party ID Verification has been implemented in partnership with Illion to supplement Afterpay’s proprietary systems
 - ID verification has strengthened fraud prevention and will help to ensure that everyone who uses Afterpay is over 18 years old, in line with Afterpay’s Terms
 - The ID verification process has been designed to minimise customer impact and is largely automated and instantaneous for the majority of customers
- The introduction of fee caps and ID Verification in Australia is not expected to have a material financial or performance impact on the business and is part of an ongoing process of continuing improvement
- The U.S. Afterpay business has employed a 25% late fee cap since inception and will implement further fraud prevention enhancements as further transactional data and experience is obtained
- It is important to recognise that while Afterpay has maintained a low fraud and loss rate experience since inception, product and security enhancements will always be ongoing and can not be expected to completely eliminate the occurrence of fraud or losses. While Afterpay can do everything within

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its power to prevent fraud from occurring, there will be instances in which people are not honest. Illegal and inappropriate use of the Afterpay platform is acted upon, including the immediate suspension of accounts. Afterpay also cooperates with the relevant authorities on these fraud matters as appropriate

Retail partnerships and focus on more value-added services

- Currently there are approximately 16,500 retailers now on-boarded (up from approximately 6,000 at the end of FY17)
- Significant online retailers continue to on-board, having either recently come live or are in the process of integrating. These include, BOOHOO, BARBEQUES GALORE, MITRE 10, DIESEL, YOUFOODZ, PHARMACY ONLINE, BAILEY NELSON, BING LEE and a strong future pipeline
- The continuing growth and contribution of Afterpay's "in-store" product is significant. Store-fronts now number approximately 10,000. Afterpay Australia in-store sales represented approximately 9% of total underlying sales in FY18 and approximately 12% of total underlying sales in Q4 FY18
- The recent in-store go-live of PANDORA and SUNGLASS HUT and impending in-store launch of major retailers such as BEACON LIGHTING, BARBEQUES GALORE, BABY BUNTING, DIESEL, BAILEY NELSON, NAPOLEON PERDIS, BETTS and BED BATH n TABLE illustrates the current pipeline and opportunity to significantly grow this area of sales
- Afterpay's commitment to its retail partners is to help them become more successful and relevant to their target audience. Afterpay's extensive retail footprint and highly engaged customer base is giving rise to new innovative opportunities to add value:
 - During FY19, Afterpay will focus on introducing new retailer services and campaigns to target new customers based on brand and product relevance criteria
 - Additionally, Afterpay's highly engaged audience continues to establish Afterpay as one of the largest retail affiliate programmes in Australia and a direct gateway to the multitude of brands that are represented on the platform. Utilising this forum in a more meaningful way to promote products and brands is also a key focus area

New verticals growth opportunity

- New vertical opportunities are also relevant to Afterpay's growth prospects, particularly in categories that serve our customers' budgeting needs in new retail or service categories. Initial progress has been made in developing a presence in the following new verticals:

Health:

- This is a significant sector covering a number of sub-verticals, many of which are assessed to be relevant to the Afterpay value proposition, including relatively low average order values
- Afterpay recently signed a five-year agreement with major dental PMS provider, Software of Excellence (A Henry Schein One company), in relation to integrating Afterpay in to its practice

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management platforms across Australia and New Zealand. Afterpay will also shortly commence a pilot with a major dental group in Australia to test the category proposition

Beauty:

- Afterpay commenced a roll-out programme to a number of hair and beauty businesses in Q4 FY18. Over 250 shop fronts are now live with SALONPAY and at least 500 shop fronts are in the pipeline with partners including ELLA BACHE & HAIRHOUSE WAREHOUSE

Entertainment:

- DREAMWORLD recently commenced offering Afterpay and other entertainment related opportunities are being actively pursued

Travel:

- Afterpay's partnership with JETSTAR was expanded towards the end of FY18 with a national advertising campaign, which followed a more extensive roll-out of the Afterpay product on the Jetstar platform
- While New Zealand is a relatively small retail market compared to Australia, Afterpay is pleased with the progress made during H2 FY18 and since inception (approximately 9 months):
 - Afterpay is signing up the largest retailers and most well-loved brands in New Zealand, including GLASSONS, HALLENSTEINS and ICEBREAKER
 - Afterpay is also continuing to expand its Australian retail base to New Zealand, including THE JUST GROUP, LULULEMON, PANDORA, SPOTLIGHT and ADAIRS
 - New Zealand customer growth is consistently growing in line with our retail footprint expansion

U.S. Market Expansion Update

- Afterpay recently launched in the U.S in mid-May 2018. The early engagement with enterprise and mid-tier retailers and their customers is encouraging
- Since launching in mid-May 2018, over \$11m of underlying sales was processed in the first full month, June 2018. By comparison, it took approximately 16 months for the Australian Afterpay business to achieve \$11m of cumulative underlying sales
- Over 400 retailer contracts signed to date and over 200 retailers are currently transacting on the platform

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- Afterpay is pleased with the early performance of our major initial launch partner, URBAN OUTFITTERS (live since 16 May 2018). Afterpay has now been rolled-out across the entire online platform of brands across the group – URBAN, FREE PEOPLE and ANTHROPOLOGIE
- The proposition is performing well with strong conversion and basket size dynamics similar to our experience in Australia
- The debit/credit card mix is sitting at levels similar to Australia
- Major online fashion retailer, REVOLVE, went live with Afterpay across its U.S. online business on 9 July 2018. REVOLVE is a U.S. based company that distributes a number of fashion brands and has a highly engaged audience and global following of 2.4m on Instagram and 1m on Facebook
- In addition to enterprise scale retailers, Afterpay is focused on building a network of mid-tier, well recognised brands that are coveted by U.S. consumers. The stable of Afterpay associated brands now include RHONE, BEAUTY BAKERIE, JACKTHREADS and MARGAUX
- Afterpay will also continue to progress expansion opportunities for Australian and New Zealand based retailers that are present in the U.S. market. Australian and New Zealand brands now present on our U.S. platform include LORNA JANE, HELLO MOLLY, COTTON ON, PRINCESS POLLY, QUAY AUSTRALIA and SHOWPO
- Afterpay's value proposition has the potential to resonate with the U.S. retail community as an alternative to traditional credit products, given the underlying market and demographic dynamics and trends:
 - In 2017, total U.S. retail sales were more than US\$3,800bn, with over US\$450bn purchased onlineⁱⁱⁱ, which compares to the Australian online market of approximately US\$18bn
 - The U.S. online fashion market alone is US\$60bn compared with Australia of US\$3bn^{iv}
 - More than 15% of the U.S. total fashion market is purchased online^v
 - The millennial market in the U.S. has a population of 63 million compared with Australia of 6 million^{vi}
 - 67% of US people aged 18-29 do not own a credit card^{vii}
- A high-quality U.S. based team was assembled prior to launch and has been materially expanded since launch across all key business units, particularly in the areas of risk, data analytics and technology development
- While the U.S. business is still at an early stage and transaction data is limited (albeit in line with early expectations), Afterpay will implement additional risk and transaction control measures progressively, and in response to future results and observed dynamics specifically relevant to the U.S. market

Corporate Developments and FY18 Results

- A review of the European E-Services business is in progress
- Afterpay currently intends to publish its audited financial results and annual report on 23 August 2018. From FY19, Afterpay will report results on a half yearly basis and no longer release quarterly business updates. Afterpay initiated quarterly business updates in connection its obligations under Listing Rule 4.7B which no longer apply to the Company
- Subject to audit, FY18 Group Revenue and Other Income is expected to be in the order of \$142m, FY18 Group EBITDA is expected to be in the order of \$33m to \$34m and FY18 Group EBTDA is expected to be in the order of \$27m to \$28m, both prior to one-off and share based expenses but including the majority of expenses incurred in establishing and operating the U.S. business

Awards

Afterpay was delighted to be recognised by its peers and the industry by recently being awarded ‘Fintech Organisation of the Year’ by Fintech Australia at the recent 2018 FINNIES event.

ENDS

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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 2.2 million customers and 16,500 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.

- I. Source: NAB online retail sales index, May 2018
- II. Source: Australian Bureau of Statistics
- III. Source: US Census Bureau, 2017 figures excluding motor vehicles
- IV. Source: Goldman Sachs, Australia Post – Inside Australia Online Shopping, 2017
- V. Source: Goldman Sachs
- VI. Source: Goldman Sachs, US Census Bureau, ABS
- VII. Source: Bankrate Money Pulse Survey, May 2016

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