

AFTERPAY TOUCH GROUP LIMITED
(ASX: APT)

ASX Announcement

6 June 2019

Business Update

(all currency figures are in Australian dollars unless otherwise stated; where relevant figures are quoted on a pro forma basis excluding accounting changes unless otherwise stated)

Afterpay Touch Group Limited (ASX: APT) (“**Afterpay**” or the “**Company**”) is pleased to provide an update in relation to key business and regulatory developments.

Global Business Update Highlights

- Underlying sales were approximately \$4.7 billion in the 11 months to 31 May 2019 (unaudited), up 143% on the prior comparable period.
- There are over 4.3 million active customers transacting with Afterpay as at the end of May, growing at an average of approximately 7,900 new customers per day since 31 December 2018.
- Further, Afterpay has partnered with approximately 30,600 active merchants as at the end of May, up 7,400 or 32% on 31 December 2018.
- Afterpay maintained Gross Loss, Net Transaction Loss (NTL) and Net Transaction Margin (NTM) on a May financial year to date basis (all unaudited), broadly in line with the performance achieved in the 6-month period to 31 December 2018. This has been achieved notwithstanding the increasing contribution to underlying sales from international markets.
- Our strategy remains focussed on global merchant and customer growth, platform innovation and global support and infrastructure given an increased appreciation of the size of our global market opportunity and confidence in our differentiated value proposition.

Global expansion

US Market Update

- Growth continues to remain strong in the United States. After just over 1 year of operations Afterpay has acquired over 1.5 million active customers who are now able to shop with over 3,300 active merchants as at the end of May. There are a further 1,100 merchants in the process of integrating with the platform.
- Afterpay US underlying sales was approximately \$780m (unaudited) for the 11 months to 31 May 2019.

- Merchants that have recently gone live or signed include:

Levi's Tarte Jeffree Star Cosmetics Windsor Bandier

Ray-Ban Reformation Girlfriend Collective O'Neill Lime Crime

Hatch Collection

- Based on annualising the May trading numbers, the US business is generating approximately A\$1.7 billion in annualised underlying sales. This was achieved within 13 months of operations in the US. By comparison, it took the Australian business approximately 3 years to achieve the same level of underlying sales.
- Growth across the US market is being driven by customer and merchant demand and is underpinned by the expertise of Afterpay's US and global-based staff. Future growth will be additionally supported by the US\$300 million receivables funding facility announced in May.
- NTM is increasing month on month, driven by a combination of improving Afterpay merchant fee income and stabilising losses as the business scales. In the 11 months to 31 May 2019, NTM has been positive before taking into account the impact of AASB 9.
- Further, merchant fees in the US are trending in line with Australia.
- The network effects of the Afterpay platform continue to add value to our merchant partners with the Company's shop directory generating over 3.2 million retailer referrals in the month of May, in the US alone, reflecting significant month-on-month growth.

UK Market Launch

- Afterpay's model continues to be an effective product fit in markets outside the US, Australia and New Zealand.
- Afterpay has successfully completed a "soft test" in the UK market and is now live and transacting under the Clearpay name.
- Afterpay has launched in the UK with the same product, business model, global technology and operating platform which has achieved success in other markets. It is this model and solution that we believe resonates most with customers and with retailers.
- Acquiring Clearpay and adopting the Clearpay name - which has been re-launched and features the Afterpay arrows and branding - provided the flexibility to get to market faster and capture the market growth opportunity.
- Early engagement has been positive across the Company's initial target market with over 50 retailers in varying stages of integration. Partnerships include a mix of well recognised UK, US and Australian based retailers.

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- The UK launch is being rolled out in a phased approach, starting with initial US launch partner Urban Outfitters, Inc. (URBN) whose brands include Anthropologie and Free People.
- In terms of the UK pipeline, the Company is well progressed in further leveraging its strong existing partnerships with major international retailers across Australia, NZ and the US that have a significant UK presence. We are pleased with the progress and expect to make further announcements in the near term.
- The UK team is being led by Carl Scheible, who joined the company several months ago. Recruitment of other key talent into the UK-based team has progressed with a number of key roles being filled. The team in the UK has now grown to 26 staff.
- Carl is a seasoned Fintech veteran with over 20 years of leadership experience in technology, financial services and payments. He previously held a variety of leadership positions at PayPal, most recently serving as VP & Managing Director for the UK & Ireland.
- The UK e-commerce market is the third largest in the world after China and the US¹. The addressable retail market opportunity is substantial, with online sales representing A\$130 billion of a A\$720 billion retail market². By comparison, the total Australian retail market is A\$320 billion, with online accounting for roughly A\$30 billion³.
- The changing nature of millennial spending habits in the UK presents the same opportunity to launch a pro-consumer retail service as in Australia and the US. Millennials now make up 27% of the global population⁴ and by 2020 will have the highest spending power at nearly US\$15 trillion worldwide⁵.
- Afterpay will continue to work with its existing retail partners in Australia and the US to expand these relationships into the UK market.

Australia and New Zealand

- Afterpay's in-store rollout in Australia and New Zealand remains strong and is becoming entrenched in the bricks and mortar retail landscape. In the 5 months to the end of May 2019, in-store represented approximately 20% of total Afterpay ANZ underlying sales, up from around 15% in 1H FY19.
- Strong in-store growth has been exhibited to date in major Australian retailers that have on-boarded during the course of FY19 and will be a continued growth focus as other large retailers (e.g. Myer) integrate Afterpay's in-store service in FY20.
- Close to a quarter of Afterpay's new customer growth in Australia is currently through in-store acquisition.

¹ Statista (2019).

² UK House of Commons (2018).

³ NAB Online Retail Index December 2018.

⁴ A.T. Kearney (2016).

⁵ Financial Times (2018).

- There are currently well over 2.7 million active customers in Australia and New Zealand who are now able to shop at approximately 27,300 merchants. New customer growth is accelerating month-on-month in Q4 (period to date), in-line with seasonal expectations.
- Merchants that have recently gone live or signed with Afterpay in ANZ include:

ONLINE

REVOLVE (AU) *L'Occitane (AU)* *Dyson (AU)* *Superdry (AU)*
Daniel Wellington (AU) *Assembly Label (AU)* *Murad Skincare (AU)* *Shine On (NZ)*
Experience OZ (AU) *Adrenaline (AU)* *Incu (AU)* *Superga (AU)*
NZ Muscle (NZ) *XO Beauty (NZ)* *Okana Skincare (NZ)*
Bridge Climb Sydney (AU)

IN-STORE

Myer (AU) *Oroton (AU)* *Decathlon (AU)*
Forever New (AU) *Strandbags (NZ)* *Australian Skin Clinics (AU)*
Endota Spa (AU) *Nutrition Warehouse (AU)*

New verticals

Healthcare

- In less than 10 months, more than 1,100 dental and optical practices in Australia are now offering Afterpay as an alternate payment method for customers.
- New Dental and Optometry groups live or in the process of integrating in Australia include:

Specsavers *National Dental Care* *George and Matilda* *Teachers Union Health*
- Following our successful expansion into the dental and optometry segments, Afterpay is also working in partnership with *TerryWhite Chemmart* to trial the Afterpay service in pharmacy.
- We are receiving strong customer feedback that Afterpay is making healthcare more affordable for Australians and allowing them to get access to the treatment they need. Afterpay for healthcare is a growing segment as more Australians opt out of private health cover, and only 45.6% of Australians are currently covered.⁶

⁶ APRA (2017).

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Travel

- The pilot of Afterpay's collaboration with Layaway Travel is underway through "PLAY" as a result of customer requests. The platform enables customers to select and book a curated holiday experience and pay for it in a series of interest-free instalments in the lead up to their departure.

Regulatory Update (Australia)

Product Intervention Powers (PIP)

- In April 2019, the Federal Parliament passed the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) legislation which introduced Product Intervention Powers for ASIC which now apply to the Buy Now Pay Later (BNPL) sector.
- These powers equip ASIC with the ability to intervene where it identifies a risk of significant detriment to consumers.
- Afterpay has consistently supported the introduction of these powers to provide the industry additional formal regulatory oversight.
- These measures, in addition to the in-built protections in the Afterpay product, further ingrain our commitment to putting customers at the forefront of everything we do.

Anti-Money Laundering / Counter-Terrorism, Financing (AML/CTF)

- In July 2018, Afterpay amended its AML/CTF compliance framework to incorporate obligations in relation to the services we provide our customers, including external identity verification and other processes for all Afterpay customers.
- Although Afterpay has not identified any money laundering or terrorism financing activity via our systems to date, Afterpay is currently in dialogue with AUSTRAC regarding issues that AUSTRAC has raised regarding our AML/CTF compliance, the outcome of which is yet to be determined.
- As a scheduled part of our existing program, we are in the process of appointing a leading professional services firm to conduct an independent review of the design and operation of our AML/CTF framework to see if any further improvements or actions can or should be made.

Credit Licence

- Given Afterpay is not regulated by the National Credit Code and does not intend to bring a traditional credit product to market, Afterpay has cancelled its Australian Credit Licence. This Licence was acquired some time ago, prior to the report released by ASIC into the BNPL sector, the recent Senate Inquiry, and the passage of PIP legislation through the Parliament. The Licence has not been used and its cancellation will have no impact on the Afterpay business or service.

Awards

- Afterpay was honoured to accept the "Retail Technology Game Changer of the Year" at the World Retail Congress held on 16 May in Amsterdam.

- Afterpay was also honoured to be awarded “Best Fintech Innovator” at this year’s Australian Banking & Innovation Awards held on 22 May in Sydney.

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 over 4.3 million active customers and approximately 30,600 active 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.

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