

AFTERPAY TOUCH GROUP LIMITED  
(ASX: APT)

ASX Announcement

28 August 2019

**Group 2019 Annual Results**

*(all currency figures are in Australian dollars unless otherwise stated; where relevant figures are quoted on a pro forma basis excluding accounting changes<sup>1</sup> unless otherwise stated)*

Afterpay Touch Group Limited (ASX: APT) (“**Afterpay**” or the “**Group**”) is pleased to announce its results for the full year ended 30 June 2019 (**FY19**).

**Highlights**

- FY19 global underlying sales increased 140% to \$5.2 billion. Run-rate in excess of **\$7.2 billion**.<sup>2</sup>
- Active customers of 4.6 million at end of FY19, up 130%, and in excess of 5.2 million currently.<sup>3</sup> Currently on-boarding over **12,500 new customers per day**.
- Active merchants of 32,300 at end of FY19, up 101%, and 35,300 currently.<sup>3</sup>
- US and UK growth exceeding expectations - major new merchant brands continue to on-board.
- US underlying sales of nearly \$1 billion in FY19. Run-rate in excess of **\$1.7 billion**.<sup>2</sup>
- Over 200,000 UK customers on-boarded in the first 15 weeks, higher than the US at the same time post-launch.
- Strategic partnership with VISA to support future expansion and platform innovation in the US.
- Australia and New Zealand strong growth continues – instore growing strongly with over \$1 billion of underlying sales since inception and represents a significant growth opportunity.
- High Afterpay customer Net Promoter Score (NPS) and purchasing frequency driving customer lifetime value and stable margin performance - **Gross losses reduced to 1.1%** in FY19 from 1.5% in FY18.
- Total Afterpay pro forma income of \$251.6 million, up 115%, and Afterpay Net Transaction Margin (NTM) of \$126.1 million, up 126%.
- Pro forma EBITDA (excluding significant items) stable at \$35.5 million, notwithstanding international start-up investment.
- Underlying free cash flow of \$33.3 million, reflecting high return on capital employed (ROCE) business model and organically adding to balance sheet growth capacity.
- Strong balance sheet to scale and compete globally - Over \$230 million of cash on hand and fully undrawn receivables finance facilities of \$947 million. Capable of scaling underlying sales in excess of \$16 billion above current run-rate assuming conservative gearing levels.
- Organisational and governance changes being implemented, including transition to a majority independent Board.

<sup>1</sup> New accounting standards adopted from 1 July 2018 impacted Afterpay income, Pay Now revenue and receivables impairment expense. To enable comparability to prior year, we have presented pro forma financials removing the impact of these accounting standard changes.

<sup>2</sup> Annualised based on month of June 2019, being the last month of trading in FY19.

<sup>3</sup> As at 23 August 2019.

## Group Financial Performance

- Growth continues to outperform across all geographies and channels with global underlying sales of \$5.2 billion in FY19, a 140% increase compared to the previous corresponding period (pcp).
- Run-rate underlying sales in excess of \$7.2 billion.<sup>4</sup>
- Pro forma total income for the Group increased to \$272.5 million, up 91% on the pcp, driven by strong performance in the Afterpay business which delivered pro forma income of \$251.6 million, up 115% in FY19.
- Stable Afterpay merchant income margins were achieved during FY19 at 3.9% pro forma, a strong result in light of continued strength in Enterprise merchant underlying sales. The high margin SMB channel remains deep and prospective in all markets.
- Pro forma gross losses as a percentage of underlying sales improved significantly, down 40bps to 1.1%, reflecting the refinement of Afterpay's customer base due to the increased frequency and lower losses associated with its high proportion of returning customers and the Group's continued focus and investment in risk management to reduce losses. This was a pleasing result in light of the increased contribution of the US business which experienced higher losses.
- Late fee income as a percentage of total Afterpay statutory income of 18.7%, declining materially from 24.4% in the pcp. Late fee revenue now represents 0.9% of overall underlying sales, down 40bps on pcp. This was a pleasing result driven by the enhanced consumer protections built into our product and the benefits of our differentiated business model that is aligned to our customers.
- Pro forma Afterpay NTM as a percentage of underlying sales was relatively stable during FY19 at 2.4%, notwithstanding investment in higher losses in the US and UK given the earlier stage of lifecycle.
- Significant momentum achieved in the US and UK markets, exceeding Australian performance at the same point in their respective lifecycles:
  - US underlying sales continued beyond expectations, increasing to almost \$1 billion in the first full year of operations. Run-rate in excess of \$1.7 billion.<sup>4</sup>
  - US merchant income margin was broadly in line with Australia and New Zealand and US pro forma NTM was positive in FY19 and improved over the period.
  - Strong launch in the UK, exceeding US growth at same point in the life cycle. Contribution not material in FY19 (7 weeks)
- Pro forma EBITDA (excluding significant items) of \$35.5 million was broadly in line with pcp, with strong earnings growth in Australia and New Zealand offsetting the start-up costs in the newer US and UK markets, as part of an overall Afterpay platform.

<sup>4</sup> Annualised based on month of June 2019, being the last month of trading in FY19.

- Statutory loss before tax of \$43.8 million was impacted by one-off and non-cash items (including share-based payment expenses and the initial application of new accounting standards). Excluding these items the statutory loss before tax would be a profit.
- Underlying free cash flow, adjusting for receivables funding, remains positive (\$33.3 million), organically adding to balance sheet capacity, and is reflective of the high cash generative nature of the Afterpay platform.
- Afterpay's entire receivables book maintains a weighted average duration of less than 30 days. This allows the Group to scale with reduced amounts of working capital and generate a high ROCE. Afterpay pro forma NTM implies over 25% ROCE (annualised) in FY19.

### **Accelerated Mid-Term Growth Strategy**

- Afterpay is executing on its mid-term strategy and capturing the significant addressable global market opportunity in its current markets, as we scale towards our previously stated FY22 target of \$20 billion ++ of GMV and NTM of c.2%.
- Active merchants more than doubled during the period to over 32,300 at the end of FY19 and are approximately 35,300 currently.<sup>5</sup> The increase reflects more partnerships with large Enterprise retailers and the continued onboarding of higher margin SMBs across all regions.
- Global merchant acquisition run-rate is currently in excess of 1,900 new merchants per month.
- The Group's customer acquisition run-rate is also accelerating – currently attracting over 12,500 new customers to the global platform every day.
- First ever After-Yay Day global platform event was held over 14 - 15 August 2019. Each day was bigger than Afterpay's Boxing Day underlying sales result in 2018, illustrating Afterpay's ability to positively impact the retail economy.
- Further operating history and accumulated insights powerfully demonstrates that customer tenure on the Afterpay platform drives higher frequency of purchases, combined with lower loss rates, thereby improving lifetime value.
  - In Australia, customers who began with us three or more years ago are now transacting more than 20 times per year and early experience in the US demonstrates a frequency glidepath that is higher than Australia at the equivalent stage of lifecycle.
  - Notwithstanding strong customer growth continues, over 95% of monthly underlying sales in Australia and New Zealand is now from returning customers.
  - Low Net Transaction Losses (NTL) and high NTM in Australia and New Zealand provides 'glidepath' for new international markets, notwithstanding a greater proportion of early stage lifecycle losses and lower NTM in US and UK will be prevalent in FY20.
- NPS across our Australian, New Zealand and US markets has stayed consistently above a market leading 80 points, demonstrating the appeal of our customer-centric business model and a

<sup>5</sup> As at 23 August 2019.

material point of difference to not only traditional finance and payment methods but also other 'buy-now, pay-later' products.

## Innovation

- The Afterpay platform is an important part of our value proposition for customers and retail partners and is integral to what sets us apart from payment providers or traditional credit providers.
- Our global technology, data and risk management capability delivers unique data insights that drive business performance and ensures that our most innovative ideas are prioritised and scaled.
- We are continuing our focus on, and investing in, innovation in FY20 - particularly in relation to our global platform and data capability to provide further value to the customer and merchant experience. A number of innovations are being piloted and/or in roll-out phase, including Variable Payment Upfront (VPUF) and Merchant Cross-Border Trade (new FX revenue stream potential).
  - VPUF - this new feature, having been trialled with a key Enterprise retailer, allows customers to use their own funds to pay a higher deposit upfront - this increases the value of the transaction and conversion rate, supporting retailers without further indebting customers. Feedback to date has been positive and a wider rollout of this feature is underway globally.
- Further, Afterpay has entered into agreements with VISA which will form the basis for a strategic partnership to support the development of innovative new solutions and business growth in the US market. The agreements will facilitate the ability for Afterpay to expand the delivery of its services to merchants and customers in a more flexible and efficient manner.
  - The payments and instalments markets are very large and diverse and both Afterpay and VISA see significant scope for collaboration for our mutual benefit.
  - Afterpay looks forward to announcing further developments arising from our arrangement with VISA during implementation stage.

## Capital Management

- Successful completion in late FY19 of a \$317 million equity raising and the establishment of a US\$300 million dedicated US receivables warehouse facility has solidified Afterpay's strong balance sheet to scale and compete globally. Warehouse facilities (\$947 million) are currently fully undrawn, providing capacity to significantly scale underlying sales and enhance ROE.
  - Current liquidity is in excess of \$600 million, together with existing facilities, capable of scaling underlying sales in excess of \$16 billion above current run-rate assuming conservative gearing levels.

## Australia and New Zealand

- Australia and New Zealand underlying sales increased 99% to \$4.3 billion, almost double FY18.
- Continued growth in online and strong instore growth continues with major Australian retailers onboarding including, most recently, our partnership with David Jones.

- Instore underlying sales has now exceeded \$1 billion since inception and comprised 21% of the Group's underlying sales in the second half of FY19, up from 16% in the first half of the year. With the size of the addressable instore market in Australia and New Zealand estimated to be at least 5-8x that of online retail sales, instore will continue to be a growth focus for Afterpay in Australia and New Zealand throughout FY20.
- Merchants that have recently gone live or signed with Afterpay in Australia and New Zealand include:

#### INSTORE

|                         |                         |                       |                          |
|-------------------------|-------------------------|-----------------------|--------------------------|
| <i>David Jones (AU)</i> | <i>Myer (AU)</i>        | <i>Bing Lee (AU)</i>  | <i>Mitre 10 (AU)</i>     |
| <i>Nixon (AU)</i>       | <i>Patagonia (AU)</i>   | <i>Petstock (ANZ)</i> | <i>Shavershop (NZ)</i>   |
| <i>Gorman (AU)</i>      | <i>Dangerfield (AU)</i> | <i>T2 (AU)</i>        | <i>City Chic NZ (NZ)</i> |

#### ONLINE

|                           |                             |                      |                          |
|---------------------------|-----------------------------|----------------------|--------------------------|
| <i>Farfetch (AU)</i>      | <i>Mighty Ape (NZ)</i>      | <i>Nixon (AU)</i>    | <i>Luxo Living (AU)</i>  |
| <i>Kora Organics (AU)</i> | <i>LeLabo (AU)</i>          | <i>Clinique (NZ)</i> | <i>Estee Lauder (NZ)</i> |
| <i>NZ Sale (NZ)</i>       | <i>Adore Beauty NZ (NZ)</i> | <i>Cloud 9 (AU)</i>  |                          |

- Diversification into new verticals, including the health, hair, skincare and travel sectors, continues to progress.

#### United States

- Merchant, customer and underlying sales growth have continued to track above expectations with current run-rate in excess of \$1.7 billion.<sup>6</sup>
- Over 6,500 merchants are onboarded or currently integrating<sup>7</sup> on the platform who can access over 2.1 million active US customers.<sup>8</sup>
- The rate of US customer acquisition is accelerating as the network effect of our platform plays out. The US is currently acquiring 50% more new customers per day than the FY19 daily average.
- Over 3.8 million retailer referrals via the Afterpay platform in July 2019, demonstrating the value proposition and increasing market opportunity for our retail partners.

<sup>6</sup> Annualised based on month of June 2019, being the last month of trading in FY19.

<sup>7</sup> Includes active and integrating merchants, as at 23 August 2019.

<sup>8</sup> As at 23 August 2019.

- New major retail partnerships, recently signed and in the process of integrating include Ulta Beauty, as well as:

*MAC Cosmetics*

*Anastasia Beverly Hills*

*Untuckit*

*BCBGeneration*

*Rebecca Taylor*

*Dockers*

*Hourglass Cosmetics*

*Sakara*

*Kylie Skin*

- Merchant revenue margin is trending in line with Australia and New Zealand and is supported by strength in the number of higher margin SMB merchants joining the platform.
- Pro forma NTM contribution was positive in FY19, driven by strong merchant revenue margin and improving loss experience as our risk systems are optimised and customer base grows. We are targeting future opportunities to reduce processing costs as well as losses.

#### United Kingdom

- Successful launch at scale into the UK market, further demonstrating the global appeal of the Afterpay platform (trading as Clearpay in the UK) and management capability to execute on our international expansion plans.
- Over 200,000 active customers in the first 15 weeks of trading, higher than the US at the same time post-launch.
- Continuing to add to our local presence with a best in market team of 29 professionals.
- New retail partnerships, including:

*Pretty Little Thing*

*boohoo*

*JD Sports*

*Missy Empire*

#### **Continuous Improvement**

- Our team is our greatest asset and we are committed to operating as a globally aligned workforce, with scale, efficiency and opportunities for our people, as well as clear accountability, shared rewards and a focus on diversity and inclusion.
- Our business model generates more money when customers pay on time - more than 95% of our transactions incur no late fees - and is built on encouraging responsible spending habits through inbuilt customer protections such as low spending limits and caps on late fees.
- Over 32,000 of our merchant partnerships are with SMBs<sup>9</sup> and in recognition of this, we operate a global mentorship program linking some of those SMBs with some of the world's most successful retailers.
- We remain committed to good governance and self-improvement throughout all levels of the Group.

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<sup>9</sup> As at 23 August 2019.

- Organisational and governance changes are being implemented, including transitioning to a majority independent Board and independent Chair, with a global search for new Directors underway.
- We continue to work with regulators, customers, retailers and industry in a collaborative and transparent manner.

## Regulation

- Afterpay welcomed the Government's introduction of new Product Intervention Powers that sees the industry formally regulated by ASIC.
- We continue to support a Code of Practice for the 'buy now, pay later' industry with minimum standards and consumer protections.
- Continued commitment to ensure our AML/CTF compliance is robust. External auditor appointed by AUSTRAC, Mr Neil Jeans of Initialism due to deliver an interim report by 24 September 2019 and a final report by 23 November 2019.

## ENDS:

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## About Afterpay Touch Group

Afterpay Touch Group (ASX: APT) is a global technology-driven payments company with a mission to be 'the world's most loved way to pay'. APT comprises the Afterpay and Pay Now (Touch) services 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 customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. As at 23 August 2019, Afterpay has over 5.2 million active customers and approximately 35,300 active retail merchants on-boarded. Pay Now comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia.