

Afterpay Limited ASX: APT

ASX Announcement

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

7 July 2020

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TRADING UPDATE, CAPITAL RAISING AND CO-FOUNDER SELL-DOWN¹

Afterpay Limited (**Afterpay or the Company**) is pleased to provide a trading update for the three month period ended 30 June 2020 (Q4 FY20) and the financial year ended 30 June 2020 (FY20). Afterpay also announces a capital raising of approximately \$800m that includes a fully underwritten institutional Placement to raise \$650m, followed by a non-underwritten Share Purchase Plan that aims to raise approximately \$150m.

KEY HIGHLIGHTS

- Strong performance across the business has delivered underlying sales of \$11.1b in FY20, more than doubling the prior corresponding period (pcp) (up 112%).
- Underlying sales in Q4 FY20 was \$3.8b, 127% above Q4 FY19.
- Q4 FY20 sales performance represented the highest quarterly performance ever, reflecting the accelerating shift to e-commerce spending since the impacts of COVID-19 emerged globally.
- Merchant revenue margins for FY20 are expected to be in line with or better than H1 FY20 and FY19.
- Net Transaction Loss (NTL) for FY20 is expected to be up to 55 basis points. ANZ NTL has remained at historically low levels and NTL within the US and UK regions has improved in 2H FY20 compared to 1H FY20 as a result of improving risk performance and historically high payment recovery rates.
- Net Transaction Margin (NTM) for FY20 is expected to be approximately 2%, underpinning a pathway to longer term profitability for the overall business.

¹ All financial results shown in this announcement for the financial year ended 30 June 2020 (FY20) are unaudited and subject to change. All financial results for the FY20 period are comprised of actual results (unaudited) for the financial year to date to 31 May 2020 and a forecast for the month of June 2020.

- EBITDA (excluding significant items)² for FY20 is expected to be between \$20-25m.
- Active customers³ of 9.9m for FY20, 116% above FY19, reflects the flight to online spending, and the attractiveness of our budget-focused business model in the current environment.
- Key active customer milestones were achieved in both the US and the UK in June 2020, with the US reaching 5.6m and the UK 1m active customers. Strong new customer acquisition saw the company exceed its target of 9.5m active customers by the end of FY20.
- Active merchants⁴ reached 55.4k in FY20, 72% above FY19, driven by strong merchant acceptance in both the US (up 202%) and the UK. The UK exceeded 1k merchants in its first 12 months of operations.
- Expansion into Canada and rollout of in-store in the US expected in Q1 FY21.
- FY21 is expected to be a year of increased investment for Afterpay as it maintains the strong momentum in the business and capitalises the opportunity to scale globally.
- Afterpay is undertaking a fully underwritten institutional Placement to raise \$650m, followed by a Share Purchase Plan, that is not underwritten, to raise approximately \$150m.
- Afterpay is raising additional capital to accelerate its investment in growing underlying sales, and prioritising global expansion in the short term, to maximise shareholder value in the longer term. This includes:
 - Investing in our existing regions to maintain and grow our position in each market and expand our customer offerings;
 - Expediting our expansion into new markets to increase our relevance on a global scale and meet the needs of our valuable global retailers;
 - Fortifying our balance sheet to underpin funding of our rapid growth in underlying sales in excess of our FY22 mid-term targets; and
 - Creating the flexibility and capacity to execute on potential M&A opportunities that could present themselves in the short to medium term.

² Significant items include expenses related to one-off items, share-based payments and foreign currency gains or losses which are still being finalised. In FY20, foreign currency gains may be higher than prior periods due to favourable foreign exchange rate movements in the period.

³ Active customer is defined as having transacted at least once in the last 12 months.

⁴ Active merchant is defined as having transacted at least once in the last 12 months.

1. OUR PEOPLE

COVID-19

- Afterpay continued to prioritise the health and wellbeing of our people through COVID-19. A return to office program is being rolled out gradually across our regions and in alignment with State and National recommendations.
- Employees globally were given a paid leave day - Wellbeing Day - to acknowledge the hard work and ongoing commitment in the challenging environment.

ENHANCING TALENT AND CAPABILITIES

- During Q4 FY20 the company has continued to strengthen its capabilities across the business.
- Key additions to the leadership teams include:
 - Lee Hatton - Executive Vice President, New Platforms, joined the business in June 2020 with over 20 years' experience in the finance industry. Lee's role is focused on identifying opportunities to further enhance the customer relationship with adjacent and value-adding products or services.
 - Mark Teperson - Chief Strategy Officer, will join the business in the coming months. Mark will draw on his invaluable experience at one of Australia's leading omni-channel retailers, Accent Group, to leverage the Company's vast data assets, deepening the connection and network effect of customers and merchants.

2. TRADING UPDATE — Q4 AND FY20

GLOBAL (A\$) (unaudited)	Q4 FY20	Q4 FY19	Q4 Variance	FY20	FY19	Variance
UNDERLYING SALES	3.8b	1.7b	127%	11.1b	5.2b	112%
ANZ	2.0b	1.3b	57%	6.6b	4.3b	52%
US	1.6b	0.4b	299%	4.0b	0.9b	330%
UK	0.2b	0.0b	na	0.6b	0.0b	na

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GLOBAL (unaudited)	AS AT 30 JUNE 2020	AS AT 30 JUNE 2019	Variance
ACTIVE CUSTOMERS	9.9m	4.6m	116%
ANZ	3.3m	2.8m	18%
US	5.6m	1.8m	219%
UK	1.0m	0.0m	na
ACTIVE MERCHANTS	55.4k	32.3k	72%
ANZ	42.8k	28.4k	51%
US	11.5k	3.8k	202%
UK	1.1k	0.0k	na

NOTE: CHANGE CALCULATIONS MAY NOT EQUATE DUE TO ROUNDING.

- Strong performance across the business delivered underlying sales of \$11.1b in FY20, more than double pcp.
- FY20 underlying sales in ANZ, our most mature market, delivered strong growth (up 52% on FY19). Online sales increased by 46% in FY20 compared to FY19, while in-store volumes grew by 81%. In-store sales growth remained strong for FY20 despite COVID-19 related impacts in H2 FY20.
- The US continued to grow underlying sales substantially (up 330% on pcp), driven by the introduction of new global enterprise retailers to the platform and an acceleration of e-commerce spending.
- Strong sales growth in the UK was positively impacted by a growing retailer base. Active merchants in Q4 FY20 increased by 74% compared to Q3 FY20.
- Record global performance in Q4 FY20 led to a 48% increase in global underlying sales on Q3 FY20. This reflects the increase in online spending, various government stimulus initiatives introduced in each region and the attractiveness of our budget-focused model in the current environment.
- All regions performed well in Q4 FY20 with sales in the UK 62% higher, US 62% higher and ANZ 38% higher than Q3 FY20.
- Contribution of underlying sales from the developing US and UK markets increased to 47% in Q4 FY20 compared to 43% in Q3 FY20.

3. CUSTOMERS AND MERCHANTS

- Growth in global active customers to 9.9m has seen the company exceed its target of 9.5m active customers by the end of FY20.
- Afterpay added an average of 20.5k new customers to its platform per day in Q4 FY20, an acceleration on the Q3 FY20 rate of 15.1k per day.
- Customer engagement remained strong with 91% of global underlying sales coming from repeat purchasers during Q4 FY20.
- In FY20 there was a shift to debit card usage by customers globally with 87% of customers in ANZ, 89% in the US and 96% in the UK now using debit cards on Afterpay.
- Sustained growth in ANZ customer base continues to be driven by the expansion into new verticals, including eBay, which launched in April.
- Strong active customer growth in the US resulted in a 219% increase on pcp. Having reached over 5m customers, in only two years, further validates our ability to scale quickly in a much larger and deeper market.
- Exceeding 1m customers in the UK, within only 12 months, is a testament to our maturing brand and differentiated business model in that region.
- Customer frequency has improved across all regions. In FY20 the earliest customer cohorts in ANZ are now, on average, transacting 25 times per annum (up from 23 times in H1 FY20).
- Global average order value was \$153 for FY20.
- Over 23k new merchants have transacted on the platform in FY20 with a number of new global enterprise retailers going live in FY20.
- The number of small to medium sized retailers (SMBs) joining the platform accelerated in Q4. In June 2020, underlying sales from SMB merchants providing Afterpay in-store, was up 92% year on year, demonstrating that customers are continuing to support smaller and local retailers through the COVID-19 period.

NEW MERCHANTS

Key merchants that went live or contracted during Q4 FY20:

- **ANZ** – Aesop, Swarovski, KitchenAid Australia, Repco, Riot Stores, Drummond Golf, Catch Fitness, Sportitude, Insport, Running Warehouse, Chemist Warehouse (in-store), Direct Chemist Outlet, Wizard Pharmacy, Chempro, Ticketek, WebJet.
- **US** - American Eagle, ASOS, Birkenstock, FILA, FTD Flowers, Furla, Hanna Andersson, Herschel, Kiehl's, Lancer Skincare, Lancome, La Mer, IT Cosmetics, Living Proof, Marc Jacobs Beauty, New Balance, Perricone MD, Soko Glam, The Hut Group, Tilly's, YSL Beauty, Drunk Elephant.

- **UK** - Shein, REISS, I Saw it First, Quiz Clothing, Secret Sales, Femme Lux, Current Body, Be Inspired Clothing, e.l.f Cosmetics, Just Hype, Unilever Prestige Brands, Bare Minerals.

EBAY AUSTRALIA

- The launch of eBay in Australia has driven strong customer acquisition and a more diversified customer profile.
- Hundreds of new customers join Afterpay through eBay each day, the majority of which are male and are older than Afterpay's average customer.
- Since launch, top categories have included vehicle parts and accessories, home and garden, and electronics (including computers and tablets).

QANTAS FREQUENT FLYER

- Afterpay and Qantas Frequent Flyer have announced an exclusive partnership that allows members to earn Qantas Points through the Afterpay platform.
- Qantas Frequent Flyers can earn up to 5,000 Qantas Points on purchases made through the Afterpay platform when they link their membership to their Afterpay account.

4. GLOBAL EXPANSION

NEW MARKETS

- Planning for expansion into Canada has progressed with launch expected in Q1 FY21.
- As part of the company's strategic planning process, opportunities to accelerate our expansion into additional markets have been identified. This has the potential to see us launch into new markets in late 2020 or early 2021.
- The Company is exploring a number of small M&A opportunities to accelerate roll out across potential new international markets. Due diligence is being undertaken, however, there is no certainty that any deal will be completed.

US IN-STORE

- US in-store is expected to launch in Q1 FY21 with our merchant launch partners. With over 5m active customers already on the Afterpay platform in the US, we expect our in-store offering to be well received by customers who are accustomed to using Afterpay online.

5. INNOVATION

- Product innovations implemented in Q4 FY20 included:
 - Ability for consumers to make overdue payments at checkout which improves the recovery of late payments and enables them to continue purchasing with Afterpay

- Flexibility of payments by allowing customers to nominate any amount to be paid against an order to help manage their budgets;
- Ability for customers to request a change to payment schedules to align with pay days, or help in managing finances; and
- “Afterpay for Good” program which allows customers to “top up” purchases and donate to important causes - currently COVID-19-relief funds.
- Customer account limit transparency
 - Viewing spending limits is one of the top 3 features requested by customers as it assists with budgeting and planning of purchases with Afterpay. It will be available in all regions through the Afterpay app and Afterpay account online in Q1 FY21.
- New repayment options
 - Apple Pay was made available as a repayment option for customers in all markets in the beginning of June. This provides customers with greater flexibility in how they manage their payments.
 - AMEX is now accepted as a payment option in the US with plans to add AU and UK by the end of the calendar year.
- Visa (US) and Mastercard (AU)
 - Commenced issuing activity with both Visa and MasterCard to accelerate merchant integration in the US and AU, respectively.
 - Realised processing cost benefits from strategic agreements with both Visa and Mastercard.
- XBT
 - UK has been added to Afterpay's existing Cross-Border Trade (XBT) network in AU and NZ. Customers will progressively have access to this service over the coming months.
 - Adding future markets to the network is in the planning phase.
- Express Checkout
 - Express Checkout functionality is expected to be introduced in Q1 FY21.
 - This allows customers to view their shipping and payment information in one screen to make checkout faster and more efficient, in addition to increasing conversion.

6. REGULATORY UPDATE

AUSTRAC

- AUSTRAC is still considering the Independent Auditor's report, and Afterpay continues to fully cooperate with AUSTRAC.

BNPL CODE OF PRACTICE

- The public consultation process for the BNPL Code of Practice has now closed. An industry working group, led by AFIA, is reviewing feedback and continuing engagement with ASIC.
- Afterpay remains strongly supportive of the Code.

RBA SURCHARGING REVIEW

- In late 2019 the Reserve Bank of Australia (RBA) announced a review of retail payments regulation in Australia, including whether BNPL providers should be allowed to prevent merchants from surcharging customers who use BNPL schemes.
- Afterpay made submissions to the RBA as to why it should not be regulated as a payment system. The RBA has since announced that its review is on hold, and completion of the review is not expected until 2021.

GOVERNMENT POLICY UPDATE

- Afterpay continues to welcome Government support measures for consumers and businesses throughout the COVID-19 period.

US REGULATORY MODEL

- Afterpay has recently changed the legal structure of its business model in the US market, which has involved the need for some State-based licences. There has been no material business interruption to the overall US operation.

7. CAPITAL MANAGEMENT UPDATE

- Since the Business Update released on 14 April 2020, Afterpay has completed a number of capital management initiatives which optimise the Company's cost of funding and increases total funding capacity and duration:
 - Repayment of the \$50m Australian Corporate Bond, resulting in cash interest savings of approximately \$3.6m per annum on an annualised basis.
 - Increase of NZ receivables warehouse facility from NZ\$20m to NZ\$50m to fund NZ receivables, with Bank of New Zealand. This facility has been extended to March 2022.
 - Extension of the US\$200m receivables warehouse facility with Citi to May 2022, to fund US receivables.
 - Afterpay has also received terms for the establishment of a GBP100m facility to fund UK receivables with an existing global banking partner. This new facility is subject to entry into formal documentation and final diligence and approvals.

- Afterpay does not have any debt facilities maturing within the next 12 months and has increased its weighted average life of facilities to approximately 2 years through the initiatives outlined above.
- These enhancements are enabled by the continued strong repayment profile of Afterpay's receivables in each of its regions.

8. CAPITAL RAISING TO FURTHER ACCELERATE GROWTH

Afterpay has continued on its growth trajectory in FY20 and Q4 FY20. Since the impacts from COVID-19 began, we have seen consumers:

- Shift further towards online spending
- Increase their focus on budgeting
- Develop a greater aversion to traditional credit products

This compounding behavioural change organically increases the attractiveness of Afterpay's purposefully differentiated model.

Achieving \$11.1b of underlying sales in FY20 demonstrates that the Company is well positioned to exceed our underlying sales target of \$20b by the end of FY22.

Afterpay is raising additional capital to accelerate its investment in growing underlying sales, and prioritising global expansion in the short term to maximise shareholder value in the longer term. This includes:

- Investing in our existing regions to maintain and grow our leading position in each market and expand our customer offerings;
- Expediting our expansion into new markets to increase our relevance on a global scale and meet the needs of our valuable global retailers;
- Fortifying our balance sheet to underpin funding of our rapid growth in underlying sales in excess of our FY22 mid-term targets; and
- Creating the flexibility and capacity to execute on potential M&A opportunities that could present themselves in the short to medium term.

Our updated global expansion roadmap will see us launch in Canada in Q1 FY21, and has the potential to see us launch into new markets in late 2020 or early 2021. As part of this plan, we are exploring a number of small M&A opportunities to accelerate roll out across potential new international markets. Due diligence is being undertaken, however, there is no certainty that any deal will be completed.

Afterpay CEO Anthony Eisen commented:

"Today's announcement is the outcome of a lot of hard work and unwavering commitment by a world class team. Our ability to achieve such positive operating metrics in the current

environment, is a product of our purposefully differentiated business model and our loyal customer and retailer base.

“Given the ongoing impacts from COVID-19 and the uncertain global economic conditions, we have continued to focus on preserving capital and maintaining a strong balance sheet.

“The flexibility in our business model allowed us to manage risk when we needed to, but also take advantage of positive customer sentiment and behaviours. Our ongoing investment in growing our retailer and customer bases, and global expansion objectives, will ensure we continue to deliver long term benefits to our shareholders.

“By raising capital today, we believe we will be in the strongest position possible to execute on our strategic initiatives and growth aspirations.

9. CAPITAL RAISING DETAILS

FULLY UNDERWRITTEN INSTITUTIONAL PLACEMENT

Afterpay is undertaking a fully underwritten institutional Placement (Placement) to raise \$650m.

Pricing will be determined via an institutional bookbuild, with an underwritten floor price of \$61.75 per new share (New Share). The underwritten floor price represents a 9.2% discount to the closing price on 6 July 2020.

Final pricing and allocation decisions will be determined on behalf of Afterpay by an independent sub-committee of its Board in consultation with the joint lead managers and financial adviser. It is intended that eligible shareholders, who bid for up to their ‘pro-rata’ share of New Shares under the Placement, at the final price, will be allocated their full bid, on a best endeavours basis.

For the remaining shares under the Placement, Afterpay will seek to prioritise allocations to existing shareholders and then introduce new shareholders, in each case based on factors including likelihood of long term support, the strategic alignment of the investor, support to date and the size and timeliness of bids into the book. 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 8 July 2020 or such other time as the completion of the Placement is announced to the market.

CO-FOUNDER SELL-DOWN

Concurrent with the Placement, Afterpay co-founders, Anthony Eisen and Nicholas Molnar have each agreed to sell 2.05m shares, representing 10% of their respective holdings in Afterpay (Co-founder Sell-down). The Co-founder Sell-down represents approximately 1.5% of total shares outstanding in Afterpay.

The Co-founder Sell-down will be fully underwritten with pricing determined under the bookbuild for the institutional Placement.

Mr. Eisen and Mr. Molnar are each expected to remain Afterpay's largest shareholders (subject to allocation of New Shares under the Placement and the Co-founder Sell-down) with a relevant interest in approximately 18.4m shares each. Mr. Eisen and Mr. Molnar remain committed to Afterpay and have each confirmed that they will not sell any further shares until after the Company's 2020 AGM.

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 6 July 2020 (Record date), with a registered address in Australia or New Zealand will be entitled to subscribe for up to \$20,000 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 despatched 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 \$150m. Afterpay may decide to scale-back applications under the SPP at its absolute discretion. New Shares under the SPP are 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.

ADVISERS

Highbury Partnership Pty Limited is acting as financial adviser to Afterpay; Baker McKenzie is acting as legal adviser.

ADDITIONAL INFORMATION

Further details about the Placement are set out in the investor presentation which has also been provided to the ASX today. The investor presentation contains important information including key risks and foreign selling restrictions with respect to the Placement.

Nothing in this announcement constitutes investment, legal, tax or other advice. You should seek appropriate professional advice before making an investment decision.

Authorised by:

Anthony Eisen
CEO & Managing Director

ENDS

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FUTURE PERFORMANCE

This announcement contains certain “forward looking statements”. Forward looking statements can generally be identified by the use of forward looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target”, “outlook”, “guidance” and other similar expressions and include, but are not limited to, indications of, or guidance or outlook on, future earnings or financial position or performance of the Company, the outcome and effects of the Offer, and the use of proceeds from the Offer. The forward looking statements contained in this announcement are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Company, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Neither the Company, nor any other person, gives any representation, assurance or guarantee that the occurrence of the vents expressed or implied in any forward looking statements in this announcement will actually occur.

You are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19. Any such statements, opinions and estimates in this announcement speak only as of the date hereof and are based on assumptions and contingencies subject to change without notice, as are statements about market and industry trends, projections, guidance and estimates. Forward-looking statements are provided as a general guide only. The forward-looking statements contained in this announcement are not indications, guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of APT, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Forward-looking statements may also assume the success of APT’s business strategies. The success of any of these strategies is subject to uncertainties and contingencies beyond APT’s control, and no assurance can be given that any of the strategies will be effective or that the anticipated benefits from the strategies will be realised in the period for which the forward-looking statements may have been prepared or otherwise. Refer to the key risks set out in this announcement for a non-exhaustive summary of certain key business, offer and general risk factors that may affect APT.

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There can be no assurance that actual outcomes will not differ materially from these forward-looking statements. Several important factors could cause actual results or performance to differ materially from the forward-looking statements, including (without limitation) the risks and uncertainties associated with the ongoing impacts of COVID-19, the Australian and global economic environment and capital market conditions and other risk factors set out in this announcement. Other risks may materially affect the future performance of APT and the price of APT Shares. Additional risks and uncertainties not presently known to management or that management currently believe not to be material may also affect APT's business.

No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including APT or any of its advisers). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual operations, results, performance, production targets or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. To the maximum extent permitted by law, the Company and its directors, officers, partners, employees, advisers, agents and intermediaries disclaim any obligation or undertaking to release any updates or revisions to the information to reflect any change in expectations or assumptions. Except as required by law or regulation (including the ASX Listing Rules), the Company undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements.