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

ASX Announcement

23 August 2018

FY2018 Financial Results

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

Afterpay Touch Group Limited (the **Company**) today released its results for the full financial year ended 30 June 2018.

FY18 Highlights:

In line with the Company's business update on 19 July 2018, the key highlights in relation to the FY18 financial results are as follows:

- Strong financial performance in FY18, driven by strong growth in Afterpay and a full year contribution from Touchcorp (post-Merger)
- FY18 Group Revenue and Other Income of $142.3m, up 390% on FY17, driven by an increase in Afterpay underlying sales and a stable merchant revenue margin
- FY18 Group EBITDA (excluding significant items) of $33.8m and EBTDA of $27.7m, up 468% and 380% respectively on FY17
- FY18 Group performance materially driven by the contribution of the Afterpay business. Top line Afterpay underlying sales and revenue growth has been complemented by improving transaction profitability:
  - FY18 Afterpay underlying sales of over $2.18b, up 289% on FY17
  - FY18 Afterpay revenue and other income of $116.8m, up 302% on FY17
  - Afterpay Net Transaction Losses reduced to 0.4% of underlying sales in FY18 (versus 0.6% in FY17) demonstrating customers are continuing to use the platform responsibly
  - Afterpay Net Transaction Margin increased to 2.6% of underlying sales (versus 2.5% in FY17), despite increased finance costs in line with Afterpay's receivables book growth

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- Group Statutory Net Loss After Tax was $9.0m, which improved by 7% on FY17 despite the impact of large, non-cash related significant items (share based expenses and D&A) and one-off costs:
  - Non-cash share-based expenses ($16.4m) related mainly to the accounting impact of the Company's share price movement since the proposed grant of the Group Head's LTI in August 2017, which remains subject to shareholder approval
  - Non-cash D&A expenses of $17.3m principally related to a full year contribution of Touchcorp and the fair value uplift of Touchcorp's intangible assets resulting from the Merger
  - One-off costs (net of fx gains) were $1.6m, mainly related to the Merger and international expansion activities
- The Group will adopt AASB 9 for the FY19 reporting period. Due to Afterpay's very short receivables cycle, the impact is estimated to be relatively limited as it relates to Afterpay's receivables impairment and revenue recognition methodology:
  - FY18 pro-forma AASB 9 estimated impact on Afterpay NTL is an increase of 0.1% from 0.4% to 0.5% of underlying sales. The Company is confident that its receivables impairment methodology is currently conservative and will be even more conservative post adoption of AASB 9
  - FY18 pro-forma AASB 9 impact on Afterpay merchant fee revenue is a reduction of $3.0m, if 100% allocated under AASB 9. A deferral of merchant fee revenue in this manner is a timing difference only and does not impact the receipt of cash when an order is processed
- The Group maintains a strong balance sheet at year end with significant cash resources ($49.2m) on hand and in-trust. Additionally, Afterpay's receivable portfolio remains conservatively geared with substantial unutilised facilities in Australia and New Zealand

Significant Developments Since Business Update On 19 July 2018:

- The Afterpay business continues to grow post year-end with respect to all key metrics:
  - Active customers are currently in the order of 2.3m and approximately 17.7k merchants are on-boarded and transacting on the platform
  - New customer growth and repeat customer engagement metrics are at strong levels relative to FY18 metrics
  - Afterpay coordinated retail event ('AfterYAY' day) on 16 August 2018 resulted in the largest underlying sales day in Afterpay's history

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- Significant new retailers and merchants in Australia and New Zealand that are recently on-boarded or are in the process of integrating (no material contribution to underlying sales in FY18) include:



- Afterpay's commitment to responsible spending behaviours and continuous improvement is ongoing:
  - Approximately 95% of instalment payments received in FY18 did not incur a late fee
  - Product enhancements including late fee caps and ID Verification introduced (with no material financial impact on the business) with fraud prevention an ongoing focus
  - Pro-active and voluntary engagement with key industry stakeholders continuing, including government, regulators including ASIC, and consumer groups
- Underpinned by continued strong performance and growth in Australia and New Zealand, the Company is continuing its expansion into new and existing international markets
- Early momentum in the US continues:
  - Over 800 retailer contracts signed to date, over 400 merchants currently transacting on the US Afterpay platform, and over 150,000 registered US based customers have transacted to date
  - Afterpay commenced trading in the U.S. in mid-May 2018. Underlying sales (GMV) was approximately A$12m in June and A$20m in July (unaudited)
  - The US pipeline remains strong with underlying sales volume expected to rise as the number of integrating merchants and customers continues to increase and seasonal retail tailwinds come into play during the remainder of calendar 2018

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- In line with its retailer-led strategy, Afterpay has determined that the UK, as the world's third largest e-commerce market, represents the next logical step for international expansion:
  - To accelerate and de-risk Afterpay's entry into the UK, and consistent with its NZ and US expansion strategies to partner with local market participants, Afterpay has made a strategic acquisition of a UK-based buy now, pay later business
  - Specifically, Afterpay has entered into a Share Purchase Agreement with ThinkSmart Limited (AIM:TSL) (ThinkSmart) to acquire 90% of ClearPay Finance Limited (ClearPay), a UK-based buy now, pay later business, for 1m Afterpay shares, with the acquisition to be completed today
  - Utilising the local capabilities of the ClearPay entity and team, Afterpay will prepare to launch its globally scalable system into the UK within the next 6 months and will immediately engage with relevant retailers with a local UK presence
  - The ClearPay brand will be transitioned out and changes will be made to the business model to align ClearPay with the Afterpay brand and associated brand values
  - Given Afterpay will not launch in the U.K. for some months, U.K. operations are not expected to materially contribute to revenue in H1 FY19. Afterpay will provide more details about its longer-term UK market strategy at its H1 FY19 results presentation
- The Company has completed a A$200m Australian receivables warehouse facility with Citi. This will complement the existing NAB facility, increasing total available Australian warehouse facilities to A$500m
- To provide additional scope for near-term, accelerated global expansion and cornerstone international receivables funding debt facilities that are currently being investigated, Afterpay is undertaking a fully underwritten Institutional Placement to raise at least $108.1m. A non-underwritten share purchase plan will be offered to eligible retail shareholders
- As announced to the market on 16 January 2018, the proceeds of approximately $19m raised via the issue of shares to Matrix would be applied to fund the development of the US business prior to break-even. We expect that the UK business will require a smaller investment amount, but additional capital will be required to fund development of the receivables books in both markets prior to the finalisation of in-market receivables warehouse facilities. Cash on hand as at 30 June 2018, pro forma for the institutional placement, and available borrowing capacity (prior to establishing international debt facilities) is expected to be sufficient to fund international expansion costs and facilitate international underlying sales growth well in excess of A$1 billion
- As announced on 19 July, a review of the European E-Services business is in progress

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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 2.3 million customers and approximately 17,700 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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