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AFTERPAY TOUCH GROUP LIMITED
(ASX: APT)

ASX Announcement

26 February 2019

H1 FY19 Financial Results and Further Business Developments

(all currency figures are in Australian dollars unless otherwise stated; where relevant figures are quoted on a pro forma basis excluding accounting changes[1] unless otherwise stated)

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

Highlights for H1 FY19

- Underlying sales (the total value of sales processed through the Afterpay platform) was $2.3 billion in the six months ended 31 December 2018, an increase of $1.4 billion or 147% on the prior comparative period (pcp)
- Over 3.1 million active customers at end of December, up 118% on pcp, and approximately 3.5 million today[2]
- Approximately 23,200 active merchants at end of December, up 101% on pcp, and approximately 25,300 merchants today[2]
- Total income of $116.1 million (pro forma), an increase of 91% on pcp
- Afterpay merchant income of $88.9 million (pro forma), up 140% from $37.1 million in pcp. Stable merchant income margin of 3.9% (pro forma) compared to 4.0% in the pcp
- Continued scale benefits and investment in risk management capabilities and processes has enabled Afterpay to reduce gross losses while also reducing late fees
- Gross losses (pro forma) of 1.1% of Afterpay underlying sales ($25.6m), down from 1.6% in pcp ($15.1m)
- Late fee income as a percentage of total Afterpay statutory income of 17.6%, declining materially from 22.5% in the pcp
- Net Transaction Loss (pro forma) of 0.5% (statutory result of 0.6%, at bottom of target range of 0.6%-1.0%)
- Net Transaction Margin (NTM) (pro forma) maintained at 2.3% in line with the pcp, notwithstanding rapid scaling in US

[1] New accounting standards adopted from 1 July 2018 impacted income and net transaction loss. To enable comparability to prior year performance we have presented pro forma financials which remove the impact of these accounting standard changes.

[2] As at 22 February 2019.

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- Maintained a strong balance sheet to support growth, including proceeds from a $142m equity issue in September 2018, as well as enhancing the diversity and maturity of bank funding including warehouse funding facilities in Australia and new facilities under negotiation in the US

- Reinvesting to further accelerate merchant and customer growth given increased understanding of size of market opportunity, with a focus on key brand relationships, international capability, platform innovation and global support and infrastructure

Afterpay's platform and innovative business model continues to resonate with customers and retail partners in Australia and internationally.

It has been a strong half year which has seen the company continue to expand into new markets, announce key new partnerships and verticals, grow revenue and reduce gross losses.

Global expansion

We continue to be an effective product fit for our customers and retail partners who both see significant benefits in Afterpay as Americans, just like Australians, move away from traditional credit products. Afterpay is responding to a generational shift in spending behaviour, with two out of three 18 to 30 year olds in the US not using a credit card.[3]

Afterpay is on track to have attracted over 1 million active customers and 2,000 active merchants in the US by end of March - these results will have been achieved in less than 11 months of operation.

In the US, the Afterpay customer base grew by approximately 40% in the 8 weeks post the 2018 Christmas/New Year period.

We welcome commitments from Urban Outfitters who have agreed to be our launch partner merchant for the UK, where we are on track to make our service available this half.

Australia and New Zealand

Growth in Australia & New Zealand continues to be strong, especially our in-store business and among our new verticals.

Afterpay is now available in nearly 20,000 shopfronts across ANZ[4] and the service is now available for dentistry, optometry and soon in radiology.

Customer base

With our average customer age increasing to 33, we're excited that the millennials are sticking with us

[3] Bankrate Money Pulse Survey, 2016.
[4] As at 22 February 2019.

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as they get older and influencing older demographics. The power has shifted to the millennial consumer, with millennials now making up 27% of the global population[5] and by 2020 will have the highest spending power at nearly $15 trillion worldwide[6].

The fact that customer engagement and average usage / spend has increased since inception in Australia, illustrates why Customer Lifetime Value should be our core focus to maximise long-term shareholder value.

Continued growth will require increased investment strategies as we focus on the value gained from customer and merchant acquisition. We have an ambitious 3-year plan where we intend to achieve over $20bn in GMV by end FY22[7].

Reduced loss rates and late fee income

We are pleased to have managed the growth concurrently with a reduced gross loss rate which was down from 1.6% in H1 FY18 to 1.1% (pro forma)[8] in H1 FY19 as a percentage of underlying sales. This is an important benefit for our business but more importantly for our customers. Afterpay is maintaining loss rates generally lower than traditional credit products governed by traditional regulations, as well as other published non-regulated comparators.

Further, late fee income has declined materially as a proportion of underlying sales. Late fees represented 17.6% of total Afterpay statutory income down from 22.5% in the H1 FY18 period.

This drop in late fee income has had no material impact on the business given the increase in transactions processed through Afterpay's platform and the corresponding decline in gross losses. This reflects the strength in Afterpay's business model which places income from merchants - not customers - at its core and means it can genuinely advocate and reward responsible spending behaviours.

Significant Progress Since Afterpay's trading update of 18 January 2019

Australia and New Zealand

- Continued strong growth in our established markets.
- As at today[9], in the last 12 months approximately 2.6 million customers and 23,400 retailers have

[5] A.T. Kearney, 2016.

[6] Financial Times, 2018.

[7] This is a target only, not a forecast. Achieving it is subject to a large number of risks, many of which are out of our control. There is no assurance that this target will be met, and we do not represent that it is necessarily achievable or that our strategy will not change.

[8] New accounting standards adopted from 1 July 2018 impacted income and net transaction loss. To enable comparability to prior year performance we have presented pro forma financials which remove the impact of these accounting standard changes.

[9] As at 22 February 2019.

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transacted with Afterpay (in Australia and New Zealand).

New Retailers (last 2 months)

ONLINE

Camilla (AU)	ASOS (NZ)	Forever New (AU)	Adidas (AU)
Snooze (AU)	Lush (NZ)	Dermalogica (AU)	Reebok (AU)

IN-STORE

OPSM (NZ)	Big W (AU)	SportsCo (AU)
Ray-ban (AU)	Bupa Optical (AU)	Kitchen Warehouse (AU)

New Verticals

- Afterpay is working in partnership with Australia's largest medical imaging provider I-MED Radiology Network to trial the Afterpay service in imaging. This follows successful expansion into the dental and optometry segments

US

- Adoption in the US remains above expectations with Afterpay on track to reach over 1 million active customers and 2,000 active merchants within 11 months of operations
- As at today, active customers in the US have increased by approximately 260,000 or 40% since 31 December 2018 level
- Similarly, the merchant base continues to expand with over 1,900 active merchants as at today, up from 1,400 at 31 December 2018
- The merchant pipeline continues to be strong with a further circa 900 merchants currently being integrated but not yet active
- Merchant feedback remains consistent with the positive Australian experience in relation to customer experience, increased sales and customer basket sizes
- Co-marketing with Enterprise merchant partners is yielding strong results
- Mike Karanikolas, co-CEO and co-founder of US fashion retailer Revolve: "*We couldn't be happier with our Afterpay partnership. Our customers have absolutely loved the service. Afterpay has been incredibly easy to work with and a tremendous partner for our business*."

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- New retailers in 2019 include:

DSW	AVENUE	TRUE RELIGION	L'ANGE
SUNGLASS HUT	COVER FX	URBAN SKIN RX	NCLA BEAUTY

UK

- Preparations continue to track to plan with progress on technical set up and in-market team development
- Official launch scheduled in H2 FY19
- We welcome the intention of US partner URBN Group to work alongside Afterpay in its initial expansion into the UK, along with other local and international merchants
- Dave Hayne, Chief Digital Officer at URBN Group said: *"Afterpay has been a strong partner for URBN. Their team has been responsive and the integration was straightforward, but more importantly, customers of our multiple brands have embraced Afterpay very favourably, so we are excited to expand to new markets in the future."*

Capital management

- Afterpay maintains a strong balance sheet capable of supporting expansion plans
- Growth in debt is less than the growth in receivables as net proceeds from the September equity raise were used to repay debt and partially fund receivables
- In Australia our existing A$500 million total receivables funding facility can sustain well over $5 billion in GMV and only $133.6 million has been drawn
- Excess liquidity (over $200 million) can sustain over $2 billion in annualised GMV outside Australia and New Zealand prior to the establishment of additional international in-country facilities
- This position will be substantially enhanced by the previously announced US dedicated receivables facility of US$300 million which is expected to complete in coming months after term sheets were signed with two major international investment banks

Accelerated mid-term growth strategy

- Our experience to date confirms that the US scale-up opportunity is clear, supporting an accelerated strategy of reinvesting in the global opportunity

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- We believe that shareholder value will be maximised through the adoption of a more weighted approach towards merchant and customer growth across a mid-term three-year plan

- Our near-term focus is on accelerating US and international growth, investing in key brand relationships, platform innovation and broadening global support and infrastructure

- We expect to spend at least an additional $10m (pre FX and accounting changes) in mid-term growth acceleration investment activities in H2 FY19. This expenditure will relate to new key merchant co-marketing activities and an increase in fixed operating costs (mainly people). This may change depending on the actual rate of new merchant on-boarding during the remainder of FY19 relative to our current estimates

- This accelerated growth strategy will lay the foundations for mid-term value creation. Following the intended near-term investment, we expect significant operating leverage and EBITDA growth as we scale towards our end FY22 target of over $20 billion underlying sales and net transaction margins of c.2% (post accounting changes)

Regulation

- Senate Inquiry process in Australia has concluded

- Highlighted important fundamental differences between the buy now pay later sector and traditional credit products and the need for a separate regulatory framework

- No recommendation for the extension of the National Consumer Credit Protection Act (NCCP) or Credit Code to cover BNPL sector, reflective of ASIC's findings in its report last year

- Support for ASIC's Product Intervention Powers, previously publicly supported by Afterpay, which will bring BNPL providers further under ASIC's remit

- Afterpay looks forward to working with ASIC, the Government, consumers and industry on a suitable regulatory framework and the development of an industry code of practice

- Key opportunity for continued innovation and improved data sharing, through better industry collaboration and the introduction of Open Banking

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 around 3.5 million active customers and over 25,000 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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