

AFTERPAY HOLDINGS LIMITED

(ASX: AFY)

ASX Announcement

24 November 2016

Chairman's Address – 2016 Annual General Meeting

On behalf of the Afterpay Board, it is a pleasure to address shareholders at Afterpay's inaugural Annual General Meeting as a publicly listed company.

Nick Molnar and I founded Afterpay in 2014 with a clear mission to revolutionise the way people shop in this country.

Through the application of our leading and proprietary technology, our mission is about making shopping a better experience for customers while maintaining a true "win-win" for our retail partners.

Afterpay is unashamedly customer centric in everything we do – from the design of our products and to the way we drive innovation into our processes.

Our focus is entirely on evolving the retail status quo. We do not sell customers a finance product but we make it easier and simpler for customers to responsibly buy the things they love and need. In so doing we provide retailers with a valuable tool to promote brand loyalty, customer conversion, increased average order values and overall sales. We do this via an integrated technology and service offering that enhances the value chain as opposed to displacing or disrupting any existing retail or payments industry stakeholder.

Our journey is still just beginning but it is pleasing to reflect on the milestones achieved in our short history.

First and foremost, it feels that we are delighting customers with our Afterpay "buy now, pay later" service and retailers are seeing significant benefits.

Since listing on the Australian Securities Exchange in May 2016, we have achieved significant growth across all key metrics.

Our retail footprint has grown tremendously. At the time of the IPO we had approximately 100 online retailers integrated with the Afterpay System. As at today, 8 months later, we are at 1,500 retailers. More importantly, we are partnering with the best retailers in the country that have chosen Afterpay because we directly relate to their purpose, their ethics and their drive for brand loyalty and a better customer experience.

Brands like General Pants, Cue Clothing, Country Road, Top Shop, Glue, House, Peters of Kensington, Seafolly, Optus, MJ Bale, Aquila, Cotton On, Surfstitch, Pacific Brands, Sheridan – to name just a few – are all leaders in their retail verticals and it is an honour and privilege to partner with them in providing the Afterpay service to their customers. Our ability to work with well-known, highly visible and high turnover brands is driving significant volumes of reverse-enquiry from other large and SMB retailers wishing to provide the Afterpay service.

The launch of Afterpay “in-store” in June was a further key development and opens-up a very large opportunity to modernise lay-by and provide retailers with substantial value across all channels. Our “in-store” rollout is gaining momentum as more and more of our major retailers seek to expand the Afterpay online service to their physical store networks.

Customers are responding. Increasing in number from approximately 38,000 at the time of the IPO to over 250,000 today and they are now using the Afterpay service repeatedly across multiple brands.

With a strong focus on the millennial demographic, it is now pleasing to see Afterpay starting to diversify in terms of both our retailer and end customer base. In Australia alone, the online retail industry is approximately \$30b (including travel) but this excludes e-service categories such as health, ticketing, utility payments and education which is many times larger. The physical retail industry is more than \$250b per annum. From both an online and physical retail perspective, there are few categories that we see as being not applicable to Afterpay and we will continue to expand and diversify our footprint in a targeted manner.

Our continuing focus on transaction integrity and retail data analytics is enhancing the Intellectual Property base of Afterpay, particularly as the volume of transaction data and repeat customer behaviour grows through the system. We are already at a scale where we can glean deep insights into customer behaviour across retailers and retail product categories. End-customer repayment capability is an ongoing process of refinement and rules application. Our transaction integrity capability is fundamental to our ability to scale rapidly with minimal transaction losses. This pairs with our objective to achieve strong returns on capital employed without compromising our ability to offer end-customers a *bona fide* interest and fee free value proposition and not charge merchants excessive fees. At present, we are applying our transaction and retail data Intellectual Property solely for internal purposes but there will clearly be broader market applications in the future.

From a corporate perspective, we have enjoyed the strong support of our shareholders, raising additional equity capital of \$36m in October 2016. This was predominantly to support the strong growth in underlying Afterpay sales. Underlying Afterpay sales have grown from approximately \$35m on an annualised basis at the time of the IPO to well over \$300m based on recent performance post Q1 FY2017.

Afterpay has a strong balance sheet with currently over \$55m of equity capital deployable towards growing future underlying Afterpay sales. Given the short duration of Afterpay receivables from end-customers, Afterpay has an efficient funding model in the sense that a dollar of capital employed can be utilised over 12 times per annum.

Afterpay continues to experience strong Net Transaction Margins and the positive trajectory established in FY16 has continued into FY17. This means Afterpay is continuing to recycle its utilised capital at a high velocity to achieve a positive return on capital employed.

An external debt facility, structured appropriately, can significantly enhance both Afterpay's ability to support a much larger underlying sales volume as well as drive returns on equity much higher.

In this regard, I am pleased to announce that a structured receivables loan facility is in the process of being implemented with National Australia Bank (NAB). The facility will provide Afterpay with initial debt funding of \$20m via a special purpose vehicle specifically designed to fund Afterpay end-customer receivables. This funding arrangement will provide Afterpay with a highly efficient funding model, from both a scalability and low transaction cost perspective. Afterpay and NAB have been working together on establishing this facility for several months and it is intended to be operational in the coming weeks. NAB is a leading Australian domestic bank with a strong focus on innovation and Afterpay looks forward to this being an important initial step towards establishing a long-standing banking relationship.

Touchcorp is a major shareholder in Afterpay and provides Afterpay with transaction processing and technology development services. This relationship has been beneficial to Afterpay as it has enabled the Company to grow quickly with enterprise level, scalable systems and by employing the highest recognised standards of payments industry compliance.

It has been a tragic development that the former Managing Director of Touchcorp, Adrian Cleeve, passed away just a few weeks ago. Adrian was a lot more than a business colleague. First and foremost, he was a good friend to me and many members of the Afterpay team and Board. Adrian was also a true visionary. Afterpay owes much of its existence to Adrian and his willingness and enthusiasm to make our dream become a reality. He was the first person to hear our idea and the first person to commit to putting the wheels in motion to build our company. He will always remain one of the most intelligent, passionate and forward thinking people that we have had the good fortune of knowing. Always willing to challenge the status quo and to do so by investing in people in a uniquely inspiring and affirming way. Adrian will eternally remain part of Afterpay's DNA and we will continue to honour him by striving to grow and to be our best. Our relationship with Touchcorp has always been very strong and this will continue.

We are very enthusiastic about the future.

We are building momentum and the network effect of a critical mass of retailers and customers in the Afterpay ecosystem is providing an energised platform to maintain an accelerating growth profile. Our pipeline of on-boarding retailers remains very strong and we will continue to penetrate existing and new retail verticals over the course of the 2017 calendar year. Our enhanced capital structure and recent NAB banking deal will help facilitate this ambition. We also expect to develop further strategic partnerships to widen our footprint and we will continue to investigate international market development opportunities.

None of what we have done or intend to do in the future could happen without our fabulous Afterpay team. It is a rare privilege to work with such passionate, experienced and industry leading people. Led by Nick Molnar, everyone gives it their all every day and their creativity and determination has allowed Afterpay to become recognised as a relevant brand in the Australian retail sector. It is wonderful to be on this journey with you all.

I would also like to thank my Board colleagues who spend a huge amount of time in the business and continuously provide mentorship, support, guidance and inspiration to me and the entire team.

I would now like to pass over to Nick Molnar, Managing Director, to provide you with a business update.

ENDS

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