

AFTERPAY TOUCH GROUP LIMITED (ASX: APT)

ASX Announcement

18 January 2019

Business Developments

(all currency figures are in Australian dollars 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.

Global Trading Update

- Strong underlying growth and performance continued in 1H FY19 (unaudited):
 - Underlying sales in 1H FY19 was over \$2.2 billion, up from \$918 million in 1H FY18 (up 240%), with December 2018 the largest ever month on record for Afterpay.
 - The US business processed \$260 million of underlying sales in 1H FY19, with annualised underlying sales now in excess of \$500 million based on 1H performance.
 - Over 23,000 merchants have transacted with Afterpay globally in the last 12 months¹.
 - Over 3.1 million active customers in the last 12 months, growing at an average of approximately 7,500 new customers per day over Q2 FY19².

Reduction in Losses and Late Fees

- Continued scale benefits and investment in risk management capabilities and processes has enabled Afterpay to reduce gross losses while also reducing late fees. Late fees as a percentage of total Afterpay income are estimated to have declined to below 20% in 1H FY19 (unaudited).
- Afterpay was created to provide customers with a better alternative to traditional credit products. It is a free service if customers pay on time and our business and operating model is designed to champion the customer and promote responsible customer spending. It is in our financial interest to only deal with customers who can and do use Afterpay regularly as a free service. We are committed to continuous improvement and it is pleasing to see initiatives such as the capping of late fees instigated in 2018 having a positive impact.
- Due to a focused risk management effort, this reduction in late fees has been achieved while maintaining a Net Transaction Loss (NTL) performance in 1H FY19 which is broadly in line with 1H FY18 and is estimated to be at the lower end of our target range of 0.6 - 1.0% as outlined previously.
- Afterpay was pleased to achieve these loss results notwithstanding scaling our US business (which as previously flagged will incur higher losses than current Australian and New Zealand levels, during its formative and scale-up period), reducing late fees, entering new verticals in the Australian & New Zealand market and maintaining high rates of customer acquisition.

¹ Going forward Afterpay will define *active* merchants and customers as those that have transacted with Afterpay at least once in the last 12 months as opposed to the previous reporting metric of *ever* having transacted with Afterpay

² as above

Australian & New Zealand Trading Update

- Approximately A\$2.0 billion in total underlying sales were processed through the Afterpay platform in 1H FY19, double the prior corresponding period. Holiday season underlying sales performance was particularly strong with a significant uplift and contribution from Afterpay's larger / enterprise merchant partners.
- Growth in both online and in-store momentum continues. In-store now represents approximately 16% of total ANZ underlying sales, growing more than four-fold on the prior corresponding period.
- Afterpay's customer profile continues to develop as we enter new verticals. The average customer age is 33 and rising.
- One in four millennials in Australia have now used Afterpay.
- In the last 12 months, approximately 2.5 million customers and over 21,500 retailers have transacted with Afterpay (in Australia and New Zealand).

New Retailers

ONLINE

BALLY (AU)	Morphe Cosmetics (AU)	Ozsale (AU)
LUSH Cosmetics (ANZ)	North Beach (NZ)	Stirling Sports (NZ)

IN-STORE

Nike (AU)	Lululemon (AU)	JAG (AU)
North Beach (NZ)	Fantastic Furniture (AU)	Officeworks (AU)

New Verticals

- Afterpay has continued to forge ahead with establishing new verticals to respond to both merchant and customer demand.
- In addition to Village Roadshow, Afterpay has recently added Luna Park (Sydney) to our entertainment vertical, which helps families budget.
- There continues to be strong momentum in particular in the health and hair & beauty sectors.
- In health, specifically optometry, Bupa Optical and OPSM have entered agreements to rollout Afterpay nationally in-store. Leading dentistry groups also continue to roll-out Afterpay and momentum is building following the launch in this area in 2018.

- Recent Hair & beauty partnerships include:

Timely	Hairhouse Warehouse	Ella Bache
Australian Skin Clinics	Toni and Guy	Stefan's

- Afterpay is continuing to develop further opportunities for new verticals for our customer base. A trial collaboration with an industry partner on the staged introduction of a new travel service is underway.

Late fee income

- Late fee income has declined materially as a proportion of underlying sales. Late fees represented less than 20% of total income (unaudited) for the 1H FY19 in Australia and New Zealand. This compares to 25% of total income in FY18.
- 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 associated increase in merchant fees and the corresponding decline in gross losses. This reflects the strength in Afterpay's business model which places revenue from merchants - not customers - at its core and means it can genuinely advocate and reward responsible spending behaviours.
- Factors associated with late fee reduction include the introduction of a cap to late fees in June 2018 as previously outlined, and optimisation of our risk strategy, using data and analytics to assign limits which promotes more responsible spending.
- We also continue to achieve over 90% of monthly underlying sales from returning Afterpay customers.

Regulatory Environment

- Afterpay welcomes the opportunity to further illustrate the unique features of our business model and in-built customer protections as part of the current Senate Inquiry into Credit and Financial Services targeted at Australians at risk of financial hardship.
- We have spent considerable time talking directly with Government, regulators, consumer advocacy groups, customers, merchants and shareholders about Afterpay and how it is different to traditional credit products. We look forward to our discussion with Senators participating in the Inquiry about both the Afterpay business and effective regulatory models for the Buy-Now-Pay-Later (BNPL) sector.
- Afterpay believes regulation should be proportionate to the protections and lower risk profiles associated with certain products, and that it should recognise and facilitate new business models and real-time decision making driven by innovative technology. Afterpay has previously stated that it supports ASIC's currently proposed approach to have product intervention powers extended to the BNPL industry. Afterpay is committed to not only the implementation of an appropriate regulatory regime in Australia for its unique services but also to a path of continuous improvement as evidenced by its actions to date.

US Trading Update

Platform growth

- Over A\$260 million of underlying sales have been processed through the Afterpay US platform in 1H FY19.
- Afterpay acquired over 650,000 new customers and 1,400 plus retailers have transacted with Afterpay in the US. The pipeline continues to be strong with a total of 2,200 retailers having signed agreements with Afterpay or are in the process of integrating on our US platform.
- As a comparison, in the first 8 months of operations in Australia, the business generated \$560,000 of underlying sales (unaudited). It took the Australian business approximately 28 months to deliver the \$260 million of underlying sales that the US business achieved in 1H FY19.

New retailers

Sunglass Hut	Forever21	Everlane	Beauty
Kim Kardashian West	Avenue	Charlotte Russe	Boohoo
Nasty Gal	Colourpop	Sole Society	Alexis Bittar
Supergoop	Jill Stuart	Mansur Gavriel	

US Funding Facility

- In 2018, Afterpay launched a process to establish a warehouse receivables funding facility for the US business. This will further diversify our lender relationships and provide Afterpay's US business with direct access to external funding to support growth. Multiple term sheets have been received from global investment banks in line with our transaction timetable and these reflect a strong level of interest.
- Afterpay is progressing to formal documentation with two major US investment banks for a total facility size of up to US\$300 million. It is anticipated that the facility will be completed in H2 FY19. A US\$300 million facility is able to fund well in excess of US\$4 billion in annual underlying US sales. While subject to final documentation and relevant final approvals, the term sheets received to date reflect efficient and flexible funding proposals similar in form, term and pricing to the existing \$500 million Australian and NZD\$20 million New Zealand facilities provided by National Australia Bank, Citigroup and ASB.

UK Update

- Work continues on our UK expansion plans. Much progress has been made in developing the technology platform as well as the business processes and procedures designed to support it.
- Recruitment of key talent into the UK based team has progressed with a number of key roles being

filled including the appointment of Carl Scheible as CEO. Carl is a seasoned Fintech veteran with over 20 years of leadership experience in technology, financial services and payments. Carl held a variety of leadership positions at PayPal, most recently serving as VP & Managing Director for the UK & Ireland.

- Discussions with retailers have been progressing well and responses have been positive.

Half Year Results

- Afterpay will release its half year results on 26 February 2019.

ENDS

For further information, contact:

Investors:	Company:	Media:
David Hancock Group Head davidh@afterpay.com.au	Christopher Stevens General Counsel & Company Secretary christopher.stevens@afterpay.com.au	Melissa Patch - Cato & Clegg t) 0412 124 195 melissa@catoandclegg.com

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 over 3.1 million customers and over 23,000 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.