

AFTERPAY TOUCH GROUP LIMITED (ASX: APT)

ASX Announcement

13 November 2019

Business Update

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

Afterpay Touch Group Limited (ASX: APT) (“**Afterpay**” or the “**Group**”) is pleased to announce a business update for the period ended 31 October 2019.

Highlights and Group Performance

GROUP (Unaudited)	4 month period ended 31 October 2019	Compared to: 4 month period ended 31 October 2018	Compared to: 4 month period ended 30 June 2019
Underlying Sales	\$2.7 billion	110%	23%
Active Customers¹ (as at 31 October 2019)	6.1 million	137%	32%
Active Merchants¹ (as at 31 October 2019)	39,450	96%	22%

- Growth and performance continue across all geographies and channels with **global underlying sales of \$2.7 billion** in the 4-months to 31 October 2019, a 110% increase compared to the previous corresponding period (pcp). **Current annualised underlying sales is in excess of \$8.5b.²**
- There were **6.1 million active customers globally** at the end of October, a 137% increase on pcp.
 - On average, Afterpay onboarded over **15,000 new customers per day in October**, representing its largest customer acquisition month on record and accelerating from approximately 12,500 customers per day in July.
- Purchasing frequency, loss rates and customer lifetime value are improving the longer that customers are on our platform:
 - In Australia and New Zealand, customers who joined Afterpay during FY15-17 are now purchasing, on average, **approximately 22x per year**. Newer cohorts are following a similar upward trend, with the FY18 and FY19 cohorts purchasing, on average, 14x and 7x per year respectively.
- Nearly 40,000 merchants are active on the Afterpay platform, almost double the pcp, reflecting the onboarding of both higher margin SMB merchants and key new enterprise merchants.

¹ An active customer or merchant is defined as a customer or merchant that has purchased through Afterpay within the last 12 months.

² Based on month of October 2019.

- A number of major brands have either recently integrated or are in the process of onboarding including eBay (AU), Ulta (US), Finish Line (US), Marks & Spencer (UK), David Jones (in-store AU), and Myer (in-store AU). Collectively, it is estimated that these merchants represent addressable underlying sales well in excess of \$10 billion³.
- Year to date, Group merchant revenue margin (unaudited) is in line with FY19 levels, supported by improving revenue margins in the US and UK.
- Year to date, Group Gross Loss, Net Transaction Loss (NTL) and Net Transaction Margin (NTM) (all unaudited) remain in line with FY19 levels, notwithstanding higher underlying sales contribution from the newer, higher early stage loss markets of the US and UK.
- The Afterpay platform continues to add value to our merchants with Afterpay's shop directory contributing over **10 million lead referrals globally in October alone**, representing the highest month of referrals ever.
- Strategic agreement with **Mastercard** in Australia and New Zealand will support our mid-term growth.
- A\$200 million private placement and proposed strategic partnership with leading US based technology investor, Coatue Management. Proceeds will be raised at \$28.50, representing a 2.4% discount to the last closing share price and a 3.8% premium to the 5 day VWAP, and be targeted to global platform expansion opportunities beyond mid-term plan deliverables.
- Progress made in further strengthening a majority independent board with the appointment of a new US based director, Mr Gary Briggs, from 1 January 2020.

ANZ Market Update

- Growth continues in ANZ with underlying sales of \$1.9bn in the 4-months to 31 October 2019.
- In-store continues to be the key growth driver, representing 23% of total underlying sales in FY20 year to date, up from 18% in FY19. Afterpay in-store is now available at almost 29,000 shopfronts, up from 23,600 at the end of June 2019.
- Over 3 million active customers in ANZ and over 33,000 merchants as at 31 October 2019.
- Merchants that have recently gone live or signed with Afterpay include:

Dymocks (in-store)

TerryWhite Chemmart (in-store)

Agoda (online)

Swarovski (online)

Shein (online)

Myer (in-store)

Marks & Spencer (online)

My Deal (online)

David Jones (in-store)

Appliances Online

³ Does not include in-store or the eBay partnership

- In a little over 12 months since launching health services, Afterpay is now being offered in over 2,500 practices in the dental and optical space nationally.
- Afterpay has recently entered into a partnership with Bupa Dental, Australia's largest corporate dental group, which will see Afterpay made available to the more than 500,000 patients they treat each year across more than 200 dental practices around Australia.
- Loss performance has continued to trend positively on a year to date basis relative to FY19 levels.
- Over 95% of GMV in ANZ is generated from returning customers.
- Afterpay estimates that it is one of the largest lead referrers in ANZ, with well over 4 million referrals provided to merchants in the month of October.
- Entered into a strategic partnership with Mastercard in the Australian market to help scale Afterpay's business and deliver services to merchants with greater efficiency and flexibility. In addition, Afterpay will utilise Mastercard data and services and technology capabilities. Further information on this collaboration will be provided as products and services are introduced to the Australian market.

Partnership with eBay Australia

- Afterpay is pleased to announce it has reached an agreement for our service to be offered on eBay Australia's marketplace; expected to go live in the 2020 calendar year.
- eBay Australia is the largest shopping site in the country with 11-million unique monthly visitors.
- eBay Australia will be giving its 40,000 Australian SMBs the ability to access the Afterpay service for their eBay customers.
- The partnership represents Afterpay Australia's largest online arrangement to date which allows both companies to align on a mutual approach of adding value to merchants by helping them access new and repeat customers.

US Market Update

- Strong growth continued in the US with underlying merchant sales reaching \$0.7bn in the first 4-months to 31 October 2019. Current annualised underlying sales is in excess of \$2.5 billion based on the month of October.
- Customer uptake is increasing at a faster rate, with 2.6 million active customers at 31 October 2019, up 51% since 30 June 2019.
- Recorded highest monthly customer acquisition in the US in October, with over 9,000 new customers acquired per day on average.

- Year to date, Gross Loss experience has improved in the US relative to FY19 levels as our returning customer base increased. Merchant revenue margins are also ahead of FY19 levels on a year to date basis.
- More than 9,000 active or currently integrating merchants as at 31 October 2019, including recently onboarded brands such as:

<i>Ulta</i>	<i>Ruggable</i>	<i>FragranceNet.com</i>	<i>Madewell</i>
<i>Finish Line</i>	<i>Bombas</i>	<i>HAUS LABORATORIES</i>	<i>Outdoor Voices</i>
<i>PacSun</i>	<i>Shiseido Brands</i>		

- The Afterpay platform continues to add value to US merchants with the Company's shop directory generating over 5 million retailer referrals in the month of October.

UK Market Update

- Over \$100m of underlying sales in the 4-months to 31 October 2019. Current annualised underlying sales is in excess of \$0.4 billion based on October.
- Over 400,000 active customers since launch in May 2019.
- UK customer numbers remain higher than the US at the equivalent stage of lifecycle despite being a smaller market.
- While still in its infancy, merchant revenue margins and loss performance has trended positively on a year to date basis.
- Successful launch of the Clearpay app in October supporting meaningful lead generation with over 0.5 million referrals across the Clearpay website and app in October.
- Partnership with UK-based multinational retailer Mark & Spencer (M&S) recently commenced. It is one of Afterpay's largest merchant partnerships to date and is expected to contribute significantly to our UK performance over time.
- Approximately 330 active or currently integrating merchants as at 31 October 2019 including recently onboarded brands such as:

<i>Marks & Spencer</i>	<i>The Hut</i>	<i>Footlocker</i>	<i>Pro Bike Kit</i>
<i>Look Fantastic</i>	<i>MyProtein</i>	<i>Zavvi</i>	<i>IWOOT</i>

Investment and proposed strategic partnership with Coatue Management (“Coatue”) to support continued international expansion

- Afterpay today has entered into a subscription agreement for a A\$200 million private placement with leading US based technology investor, Coatue.
- Coatue will acquire new Afterpay shares at \$28.50, representing a 2.4% discount to the last closing share price on Tuesday, 12 November of \$29.19 per share, and representing a 3.8% premium to the 5 day VWAP⁴ up to and including Tuesday, 12 November. Completion of the placement is planned for later this month.
- The shares issued to Coatue will be subject to a 12 month escrow arrangement reflecting the strategic nature of the investment.
- Investment proceeds will be targeted to global platform expansion opportunities beyond mid-term plan deliverables.
- In connection with the investment, a non-binding term sheet has been agreed for a strategic partnership where Coatue will leverage its data science expertise to support Afterpay in its development of retail data analytics and future data driven products. Subject to formal agreement, Coatue and Afterpay will collaborate on tools and capabilities, empowering Afterpay to pursue its goal of being the world’s most loved way to pay.
- Coatue, founded by Philippe Laffont and Thomas Laffont in 1999, is one of the largest dedicated technology funds in the world, having invested in a number of global technology platforms. Coatue currently manages approximately US\$17 billion in assets on behalf of individuals, endowments, foundations, and other institutional investors.

Governance

- We have made progress in our commitment to enhance the Company’s Board with the appointment of a new independent Director.
- Mr Gary Briggs will be joining the Company as a Non-Executive Director from 1 January 2020.
 - Mr Briggs is one of the most experienced marketing leaders in the digital sector having worked in a number of senior executive positions including, most recently, Chief Marketing Officer at Facebook from 2013-2018. Prior to Facebook, Mr. Briggs led marketing at industry leading technology companies including Motorola Mobility, Google, eBay and PayPal. He is also currently a board member of Etsy and Petco.
- Our global board search for additional Directors remains ongoing, and we look forward to providing further updates at the relevant time.

⁴ Source: S&P Capital IQ, 13 November 2019

Regulatory Update (Australia)

- We welcome the opportunity to engage with the RBA in relation to surcharging, as part of its broad based, periodic review of the payments industry next year. It is important to note that Afterpay provides a far more comprehensive service to retailers than simply being a payment system.
- We welcome comments from the Government that they are supportive of new technologies bringing competition to the marketplace and the establishment of a Senate Select Committee charged with better understanding the tech sector and how it can be better supported by regulators and policy makers.
- Afterpay continues its support for a Code of Practice for the ‘buy now, pay later’ industry.
- External auditor Mr Neil Jeans of Initialism is due to deliver a final independent audit report later this month. The Company remains committed to ensuring its AML/CTF compliance is robust.

Awards

- Afterpay was honoured to be included in the global 2019 Fintech 100, recently compiled by KPMG and H2 Ventures.

ENDS

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About Afterpay Touch Group

Afterpay Touch Group (ATG) is a global technology-driven payments company with a mission to be ‘the world’s most loved way to pay’. ATG comprises the Afterpay and Pay Now (Touch) services 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 customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. As at 31 October 2019, Afterpay has over 6.1 million active customers and nearly 40,000 active merchants on-boarded. Pay Now comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia.