



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

### **Business Update**

11 April 2018

Afterpay Touch Group Limited (ASX: APT) (**Afterpay Touch Group** or the **Company**) is pleased to provide a business update for the three-month period ended 31 March 2018 (Q3 FY18).

Quarterly Performance Update: Afterpay shows continued strong growth performance, with sales up 400% for the first three quarters of FY18 compared with the first three quarters of FY17.

### **Summary of Q3 FY18 results and business growth**

#### *Core APT business showing continued strong performance*

- *Over \$1.45b of total underlying sales processed through the Afterpay platform in first three quarters of FY18 (compared with \$290m for first three quarters of FY17)*
- *Above system growth illustrated by March 2018 underlying sales being broadly in line with December 2017 underlying sales (December represents the peak shopping month of the calendar year)*
- *Afterpay in-store is building momentum. Over 7,000 individual shopfronts are now live with Afterpay in-store, including all Super Retail Group brands with integration pipeline remaining strong (Q3 FY18 underlying in-store sales was 21% higher than Q2 FY18 despite Christmas peak season trading uplift. We recently achieved over \$1.3m of in-store transaction volumes processed in an individual calendar day)*
- *Approximately 14,000 retailers and over 1.8m customers currently live and transacted on the Afterpay platform*
- *Merchant fees, net transaction losses and net transaction margins (unaudited) remained stable in Q3 FY18 and broadly in-line with H1 FY18 performance*
- *Pay Now businesses remain stable from both a revenue and margin perspective*

#### *Continued progress on key growth enablers*

- *Significant new enterprise retailers are signing up to Afterpay, most recently including Catch Of The Day, Red Balloon, Petbarn and Lululemon*
- *Establishment of US business is proceeding according to launch plan with a further update to be provided in May*

- *Successful pilot program with Jetstar resulting in partnership extension to expand where Afterpay will be available for Jetstar customers*
- *An integration is in the final stages with global payments provider Adyen to reduce technical effort required to go live on the Afterpay platform*
- *Afterpay has been working with a large international bank for some time to establish a \$200m warehouse receivables funding facility alongside the NAB \$350m warehouse receivables facility in Australia. A non-binding Term sheet has been agreed and execution of the facility is expected in due course.*

*Consumer advocacy remains a priority*

- *In-depth, external review of Afterpay customer base and transaction history confirms Afterpay's customer-centric approach is promoting responsible customer spending outcomes (low defaults and low fraud) and building a loyal customer base (90% of monthly transactions are from returning customers)*
- *Product enhancements to be progressively implemented prior to the end of this financial year to further reduce instances of fraud and cap late fees, which we do not expect to have a material, negative financial impact on the business*
- *Pro-active and voluntary engagement with all key stakeholders: government, regulators including ASIC, and consumer groups, to ensure the differentiated nature of the Afterpay service is clearly understood and to receive constructive suggestions for improvement*

**Core APT business showing continued strong performance**

Strong underlying growth and performance continued in Q3 FY18 with respect to all key metrics (unaudited):

- Underlying Q3 FY18 sales of approximately \$530m, (up from \$145m in Q3 FY17) with the month of March 2018 being broadly in line with December 2017 (December represents the peak shopping month of the calendar year)
- Underlying sales of approximately \$1.45b for first three quarters of FY18 (up from \$290m for the first three quarters FY17) and now tracking at approximately \$2.4 billion on an annualised basis based on recent monthly performance
- Q3 FY18 underlying sales approximately 3.8% lower than Q2 FY18 sales (which includes Christmas peak season trading uplift) on an absolute basis but is less than 2% lower from an average daily underlying sales perspective (fewer days in Q3 versus Q2)
- Currently there are approximately 14,000 merchants now on-boarded (up from approximately 11,500 at end of Q2 FY18). Merchant number growth in Q3 FY18 was over 45% higher compared to Q3 FY17

- The continuing growth and contribution of Afterpay's "in-store" product is significant. Store-fronts now number in excess of 7,000. The recent go-live of the Super Retail Group brands (Rebel Sport, Supercheap Auto and BCF) has added to the in-store momentum established pre-Christmas and the pipeline of in-store merchants remains strong
- Currently over 1.8m customers (up from 1.5m at the end of Q2 FY18), still growing at approximately 3,300 new customers per calendar day (consistent with pre-Christmas 2017 calendar year growth rates)
- New to Afterpay customers in Q3 FY18 were over 30% higher compared to Q3 FY17
- Merchant fees, net transaction losses and net transaction margins (unaudited) remained stable in Q3FY18 and broadly in-line with H1 FY18 performance

### Continued progress on key growth enablers

Afterpay has developed and extended key strategic partnerships during Q3 FY18:

- It is pleasing to see major new retailers continuing to on-board onto the Afterpay platform, including retailers that have trialled other services but are now coming across to Afterpay. Some examples of new enterprise retailers recently on-boarded, integrating or contracted include:



- Establishment of U.S. business expansion is proceeding according to Afterpay's launch plan. High quality and key senior U.S. based team members have been secured to support US growth. A further update will be provided in May
- Following a successful pilot program, Afterpay's partnership with Jetstar will extend to expand where Afterpay will be available for Jetstar customers
- An integration is in the final stages to significantly reduce the technical effort required for global and local partners of Adyen to utilise the Afterpay platform. This is relevant to a number of recently contracted, large Australian retailers that are on-boarding the Afterpay platform. It also significantly expands the integration capability and speed to market for other globally relevant target retailers
- Afterpay has been working with a large international bank for some time to establish a \$200m warehouse receivables funding facility alongside the NAB \$350m warehouse receivables facility in

Australia. This is being pursued to enhance funding diversification and leverage global banking opportunities

- The \$350m NAB facility was only drawn to approximately \$125m (unaudited) at the end of March 2018, providing significant runway to expand underlying annualised sales to well over \$4 billion in Australia under this facility alone and excluding utilisation of excess cash reserves.

### **Customer Advocacy remains a priority**

Afterpay is clearly resonating as an alternative to credit for discretionary purchases to customers who can and do use our service regularly. Afterpay recently conducted an in-depth review of its service, customer base and results utilising external resources and data. The review involved large, randomly selected sample sets of Afterpay transactions since inception to the end of 31 December 2017, including a large survey of customers<sup>1</sup>. Key findings:

#### *Customers value Afterpay*

- Afterpay's customers are loyal. Returning customers account for approximately 90% of monthly transactions
- Without Afterpay, many (39%) customers say they would look elsewhere or not purchase at all (23%)
- One-third of customers say the availability of Afterpay is critical to their decision on where to shop
- The Afterpay Store directory continues to develop as a significant differentiator as it is a major source of referrals for our retailers
- Customer originated Facebook groups, including the group "We Love Afterpay", now have more than 200,000 combined members

#### *Customer profile and insights*

- The majority of customers (77%) use Afterpay as a budgeting tool
- Over 85% of all Afterpay transactions are via a linked debit card
- Afterpay is mainly used for discretionary purchases (\$140 - \$150 average transaction size) – items that do not require a loan
- Compared to the general population, Afterpay customers are much more likely to be female (over 80%) and the largest age demographic band is 25-34. The current average age of Afterpay's customer base is 32 and the median age is 29
- Afterpay customers have lower overall debt than similar peers and the general population (up to \$5,000 less) and 75% don't use other deferred payment instalment services

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<sup>1</sup> Review conducted by Alphabeta Advisers with data supplied by Afterpay, IPSOS and Illion

*Afterpay model promotes responsible customer spending*

- Afterpay applies a proprietary fraud and repayment capability check for every order approved and rejects approximately up to 30% of attempted transactions on an average basis between first time and returning customers (up to 50% rejection rate for first time customer orders)
- Customers cannot “revolve” and use Afterpay as a line of unpaid, accumulating credit. If a customer does not meet the due payment date, their account is suspended until they make good
- Because of the very short duration of the payment cycle (4 payments, every 2 weeks) and the inability to revolve, bad debt is detected quickly and usage suspended
- As well as the proprietary fraud and repayment capability check, an initial 25% payment is required upfront for new account applicants. Limits are set low until a regular on-time repayment record is established
- The effectiveness of this system is evidenced by the high rate of returning customer monthly transactions, low balances outstanding and Afterpay’s low default rates:
  - Afterpay’s net transaction loss is at 0.7% (gross less than 2%) in H1 FY18, which is low compared to industry standards
  - Outstanding account balances are low (>90% of accounts are less than \$500; >75% of accounts are less than \$350)

*Afterpay does not charge unreasonable fees*

- Over 90% of orders do not attract a late fee and 78% of customers have never paid a late fee
- Late fees are transparently labelled. Afterpay does not charge customers any hidden fees (e.g. “admin”, “monthly” or “account management” fees)
- Late fees (1.2% of underlying sales in H1 FY18) are less than losses incurred – the business model is underpinned by customers paying on time and we communicate clearly with customers in advance of payments falling due. Simply put, Afterpay would be more profitable if customers paid on time and did not incur a late fee
- The top 1% of late fee-paying customers (measured as a proportion of total purchases) use the product the least, have the lowest outstanding balances, had average annual late fees in calendar 2017 of less than \$110, representing less than 30% of purchase values
- Afterpay displays its responsible spending message prominently on its website

*Product enhancements to be implemented in FY18*

Afterpay has grown rapidly and while losses associated with fraud are low (a subset of our total losses), instances of fraud and default occur in our system and the risk is to Afterpay’s account.



We are committed to continual improvement of our offering in all respects. We do this because it is the right thing to do for our customers, merchants and shareholders and it allows us to grow.

That's why we are introducing a number of product enhancements that will reduce such instances and are part of our ongoing product evolution. This includes:

- ID checks: We are supplementing Afterpay's proprietary transaction engine with external ID verification checks. Integration activities with Illion (formerly Dunn and Bradstreet) commenced in 2017 and are being tested
- Capping fees: As a result of our in-depth external review and consultation with a range of stakeholders, late fees are to be capped at 25% of the purchase value (maximum fee \$68 per order). Based on the current customer profile and experience to date this will not impact most customers or accounts for whom Afterpay is a free service. Over 90% of orders do not attract a late fee and as Afterpay does not charge monthly account keeping fees, establishment fees or interest, the 25% cap is on total customer fees charged to the minority of relevant Afterpay customers
- The above will be progressively implemented prior to the end of FY18 and is not estimated to have a material financial or performance impact on the business

#### *Regulatory considerations*

Afterpay is not a regulated credit product under the National Credit Code. This has not been challenged by any regulatory authority. Since the early introduction of Afterpay in the Australian market, Afterpay has voluntarily opted into the Credit and Investments Ombudsman dispute resolution service.

Afterpay has always and continues to proactively and voluntarily engage with regulators and stakeholders. ASIC has announced a review into all buy now, pay later services. We welcome that review and continue to actively engage with the regulator.

#### **Awards**

Afterpay was delighted to be recognised by its peers and the industry by recently being awarded "Payments Innovator of the Year" and the "Fintech Business Excellence" award at the recent Australian FinTech Awards.

**ENDS**



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**About Afterpay Touch Group**

Afterpay Touch Group (ATP) is a technology driven payments company with a mission to make purchasing feel great for a global customer base. ATP 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 1.8m customers and approximately 14,000 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.