

Afterpay Limited ASX: APT

ASX Announcement

24 August 2020

Afterpay to expand into Europe

Afterpay Limited (**Afterpay or the Company**) is pleased to announce that its wholly owned subsidiary, Clearpay (Europe) Limited (**Clearpay EU**), has entered into a Share Purchase Agreement (**Agreement**) with NBQ Corporate SLU (**NBQ**) to acquire 100% of the shares outstanding in Pagantis SAU and PMT Technology SLU (**collectively, Pagantis**).

SUMMARY

- Afterpay is expediting its expansion into new markets to capitalise on strong consumer and merchant demand and to increase its global footprint.
- Afterpay has identified the European Union (EU) as the next logical step for international expansion due to its large millennial population, vast fashion and beauty retail markets, and significant debit card usage.
- The addressable ecommerce market in the EU exceeds €300b¹ (\$494b).
- Afterpay has entered into an Agreement to acquire Pagantis. Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy with regulatory approval to also operate in Portugal. The addressable ecommerce market in these 4 countries exceeds €150b¹ (\$247b).
- This acquisition accelerates and de-risks the roll-out of Afterpay's Clearpay branded platform across the EU market with launch targeted for Q3 FY21.
- The acquisition provides a fully staffed and experienced team, an existing technology stack and intellectual property as well as an immediate regulatory right to operate across all EU member states (subject to regulatory approval).

¹ Source: eCommerce Europe, <https://www.ecommerce-europe.eu/research/figures-per-country/>

- Pagantis' current business which includes its existing technology and traditional credit style products (**Pagantis Legacy Business**) will be managed as follows on completion of the acquisition:
 - Existing technology will be re-configured to provide the Afterpay core product, and the business will be rebranded to Clearpay, enabling an expedited launch into Spain, France, Italy and Portugal with local language compatibility.
 - Pagantis' existing consumer fee instalment and credit card offerings will be discontinued post completion of the acquisition.
 - Existing loan book will be retained by NBQ and is excluded from the transaction.
- As part of the Agreement, NBQ will receive a minimum €50m in consideration (subject to customary adjustments), payable as follows:
 - Upfront Consideration - €5m in cash payable at completion; and
 - Deferred Consideration - €45m in cash, payable 3 years post completion. Deferred Consideration can exceed €45m, with any excess being payable in cash or Afterpay shares (at Afterpay's election), provided the equity value of Pagantis exceeds €45m, 3 years post completion.
- Completion of the acquisition is expected to occur in or before December 2020, subject to Bank of Spain regulatory approval to the proposed change of control.

EXPANSION INTO SPAIN, FRANCE, ITALY AND PORTUGAL

- Afterpay has entered into an Agreement to acquire Pagantis. Pagantis currently provides a range of buy now, pay later and traditional credit services across Spain, France and Italy, with regulatory approval to also operate in Portugal and a pending application to passport its payment institution licence into Germany.
- Afterpay is acquiring the Pagantis corporate entities, regulatory licences, multilingual technology stack and platform, intellectual property, contracts with relevant service providers, and an experienced, fully staffed team (69 FTEs) with local knowledge of the EU market and regulatory landscape.
- Pagantis is authorised and supervised by the Bank of Spain and has a Payment Institution licence (Licence). This Licence is eligible for "passporting" to other EU

member states and will provide Afterpay with the regulatory structure that is required to operate across all EU member states (subject to regulatory approval).

- This acquisition accelerates and de-risks the roll-out of Afterpay's Clearpay branded platform across the EU market with launch targeted for Q3 FY21.
- Pagantis has ~1,400 active merchants and ~150k active customers.² Merchants and customers that are relevant to Clearpay EU's launch strategy will be invited to transition onto the re-configured product upon launch.
- Afterpay has protections against losses from the operation of the Pagantis Legacy Business under the Agreement, with NBQ indemnifying Afterpay for various material loss situations that may arise out of the Pagantis Legacy Business.
- Afterpay anticipates that the level of investment to rollout the Clearpay brand across Spain, France, Italy and Portugal will be consistent with the investment in the UK. The annualised fixed cost base that Afterpay is acquiring is estimated to be approximately €8m p.a. (excluding marketing costs).

STRATEGIC RATIONALE

The rationale behind the plan to enter the EU market and acquire Pagantis is as follows:

- The addressable ecommerce market in the EU exceeds €300b³ (\$494b), while the addressable ecommerce market in Spain, France, Italy and Portugal exceeds €150b³ (A\$247b).
- The buy now, pay later sector remains nascent or non-existent in many EU countries, presenting an opportunity to capitalise on first / early mover advantage.
- Expansion into the EU is consistent with demand from our marquee global retailers. The ability to service Afterpay's retailers in all their key markets strengthens our relationships and contributes to our competitive moat.
- The acquisition will accelerate the planned launch into the EU and continues the preferred model of partnering with a local market presence to de-risk global expansion (consistent with our successful NZ, US and UK expansion strategies).
- Pagantis provides an established operational footprint in the EU with an existing multilingual technology stack, as well as a fully staffed and highly experienced team (69 FTEs).

² Active is defined as having transacted at least once in the last 12 months.

³ Source: eCommerce Europe, <https://www.ecommerce-europe.eu/research/figures-per-country/>

- The Licence will immediately provide Afterpay with the regulatory structure that is required to operate across all EU member states (subject to regulatory consents). The complete Licence application process typically takes in excess of 12 months.
- Spain, France and Italy all have internet penetration in excess of 90%, approximately 30m millennial inhabitants and debit card usage that is higher than credit card usage.⁴

COMMENTS FROM AFTERPAY CEO AND MANAGING DIRECTOR, ANTHONY EISEN

“Our momentum to date has given us the confidence to expedite our expansion into new global regions. Entering into such internationally relevant markets like the US and the UK and seeing our growth outpace what we experienced in our more mature Australian market, validates the appeal of our product on a global scale.

“Acquiring Pagantis provides us with the necessary regulatory licencing, resourcing and infrastructure to expedite the launch of Afterpay into key countries in Southern Europe and beyond.

“The new markets we will be entering will provide our global retailers with the opportunity to offer Afterpay in more regions and for us to provide a whole new customer base with access to our differentiated and customer centric model.”

TIMETABLE

Completion of the acquisition is expected to occur in or before December 2020, and is subject to Bank of Spain regulatory approval. Afterpay is working with the Pagantis team and engaging with retailers in preparation for launch, targeted for Q3 FY21. Clearpay will commence trading in the EU as an online-only platform with an intention to introduce in-store capability in due course.

DETAILS OF THE ACQUISITION CONSIDERATION

TOTAL CONSIDERATION

As part of the Agreement, NBQ will receive a minimum €50m in consideration (subject to customary adjustments), payable as follows:

- Upfront consideration (**Upfront Consideration**) - €5m in cash payable at completion; and

⁴ Source: Worldpay: Retail Global Payments Report 2019, JPMorgan: 2019 Global Payments Trends Report. Statista. UN Population data. Millennial defined as 20-34 year olds.

- Deferred consideration (**Deferred Consideration**) - €45m in cash, payable 3 years post completion. Deferred Consideration can exceed €45m provided the equity value of Pagantis exceeds €45m, 3 years post completion.

DEFERRED CONSIDERATION

Deferred Consideration received by NBQ will be determined by reference to the equity value (**Equity Value**) of Pagantis, 3 years post completion.

If the Equity Value of Pagantis:

- Is less than or equal to €45m; NBQ will receive €45m in Deferred Consideration payable in cash; or
- Exceeds €45m; NBQ will receive €45m, payable in cash, plus:
 - 50% of any Equity Value above €45m, up to €100m; plus
 - 40% of any Equity Value above €100m, up to €150m; plus
 - 10% of any Equity Value above €150m in Deferred Consideration.

Any Deferred Consideration above the €45m minimum is payable in cash or Afterpay shares, at Afterpay's election.

MAXIMUM DEFERRED CONSIDERATION

The maximum Deferred Consideration payable (whether in cash or Afterpay shares) will be capped at 3% of the total Afterpay shares on issue at completion, multiplied by the 5 day volume weighted average price, 3 years post completion.

The Equity Value will be determined by agreement between Afterpay and NBQ or, failing that, independent experts with reference to agreed valuation principles.

Payment of Deferred Consideration may be accelerated if Afterpay is subject to a change of control.

ADVISERS

Highbury Partnership Pty Limited is acting as financial adviser to Afterpay; Baker McKenzie is acting as legal adviser.

Authorised by:

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ENDS

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