

Afterpay Limited ASX: APT

ASX announcement

28 OCTOBER 2020

Q1 FY21 Business Update

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

Afterpay Limited (Afterpay) is pleased to release its business update for the first quarter ended 30 September 2020 (Q1 FY21).

KEY HIGHLIGHTS

- Strong performance in Q1 FY21 across all regions led to underlying sales increasing 115% to \$4.1b, up from \$1.9b Q1 FY20. This was 9% higher than the record underlying sales achieved in Q4 FY20.
- Momentum towards the end of FY20 continued into Q1 FY21 with the run rate for Q1 FY21 now at \$16.4b, up from \$15.0b in Q4 FY20.
- Merchant revenue margins (unaudited) remained firm in Q1 FY21 and continued to perform in line with what was achieved in FY20.
- The trend towards lower Gross Losses (unaudited) continued throughout the first quarter with customer default payments remaining below historical rates in all regions. This has resulted in Net Transaction Losses (unaudited) as a percentage of underlying sales also remaining low.
- Consequently, strong Net Transaction Margins (unaudited) have been maintained in the first quarter.
- Active customers¹ globally increased 98% to 11.2m (up from 5.7m in Q1 FY20), with the US reaching over 6.5m.
- 45% of our like for like sales growth in Q1 FY21 was driven by Millennials, with Gen X and Gen Z driving 25% and 24% respectively.
- Active merchants¹ increased by 70% to 63.8k (up from 37.5k in Q1 FY20), with a number of major enterprise retailers launching in October.
- Merchants with over \$10b of total addressable online sales went live in the US at various points in Q1. Positive impacts on customer acquisition have started to be realised in October with an 18% increase in the daily average number of new customers month to date compared to the Q1 FY21 average.

¹ Active defined as having transacted at least once in the last 12 months.

- In-store underlying sales in ANZ recovered well in Q1 FY21, following a gradual opening of stores, and is trending back towards pre COVID-19 levels at approximately 20% of total ANZ underlying sales. Rollout of in-store in the US progressed with a number of high profile retailers now live in open stores across the country.
- Launch into Canada has progressed well with a number of large retailers now live, integrating or signed. Key new retailers include Aritzia, Lush, Ardene and Goop.
- Afterpay's network effect continues to drive value with an average of over 19m lead referrals generated per month to retailers in Q1 FY21.
- ANZ blueprint demonstrates the network effect potential globally. Top 10% of customers² in ANZ, on average, transact:
 - 54 times per year;
 - across 26 different merchants;
 - within 11 different verticals.
- Experience to date in newer international markets is showing similar trends at similar points in the ANZ life cycle.
- In October, Afterpay and Westpac Group entered into a Collaboration Agreement to facilitate the introduction of Afterpay savings accounts and cash flow tools for customers in Australia. The Afterpay-branded savings and transaction accounts, facilitated by Westpac's digital bank-as-a-service technology, will be linked to a customers' existing Afterpay accounts. The new offering:
 - will provide customers with an alternative to traditional banking products and will empower them to have greater control over their budget;
 - has the potential to facilitate new revenue streams over time and improve risk management and processing costs in Afterpay's existing activities;
 - is globally scalable as it uses cloud-native technology from 10x Future Technologies.
- Received final notification from AUSTRAC in October that it will not be taking any further regulatory action following its consideration of the external audit report examining the Company's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.
- Afterpay is the naming rights partner for Australian Fashion Week. This partnership represents our commitment to supporting Australian designers achieve success locally and abroad. Our platform provides this important industry that we grew up with, the opportunity to continue its success over the long term.

² Top 10% of customers measured by value of underlying sales contribution over rolling 12 month period to 30 September 2020

OUR PEOPLE

- Focus remains on the health and wellbeing of our people. As COVID-19 continues to have an impact on all of our communities globally we continue to roll out initiatives that focus on mental health and wellbeing and offer support to all of our employees.
- Continue to attract senior talent, with the recent appointments of Rebecca Lowde - Chief Financial Officer, Meahan Callaghan - Chief People Officer and Mark Teperson - Chief Strategy Officer.

BUSINESS PERFORMANCE

Q1 FY21

GLOBAL (unaudited)	Q1 FY21	Q1 FY20	VARIANCE
Underlying Sales (A\$)	4.1b	1.9b	115%
ANZ	2.2b	1.4b	63%
US	1.6b	0.5b	229%
UK	0.3b	0.1b	346%
Underlying Sales on a constant currency basis ³	4.2b	1.9b	119%

GLOBAL (unaudited)	As at 30 SEPT 2020	As at 30 SEPT 2019	VARIANCE
Active Customers	11.2m	5.7m	98%
ANZ	3.4m	3.0m	15%
US	6.5m	2.4m	175%
UK	1.2m	0.3m	282%
Active Merchants	63.8k	37.5k	70%
ANZ	48.0k	32.0k	50%
US	13.9k	5.4k	159%
UK	1.9k	0.2k	1038%

³ Underlying sales on a Constant currency basis has been calculated by translating underlying sales for Q1 FY21 at the effective exchange rates for the prior corresponding period of Q1 FY20

ANZ

- ANZ grew strongly year on year (up 63% on Q1 FY20) with underlying sales momentum for both online and in-store continuing on from Q4 FY20.
- Underlying sales from SMBs was 79% above Q1 FY20 as customers continue to support local stores through the COVID-19 pandemic.
- In-store volumes in Q1 FY21 continued to increase as States reduced the levels of COVID-19 related restrictions.
- In-store now represents around 20% of total ANZ underlying sales despite the State of Victoria being in stage 4 lock down during the period.
- Adoption of Afterpay's in-store offering, particularly with SMBs, continues to grow, with 36% of Afterpay's merchants now offering Afterpay in-store.
- New merchants that went live, are integrating or contracted during Q1 FY21 include, Estee Lauder NZ, Baby Kingdom, Vinomofo, Cettire, Providoor, 99 Bikes, Urban Outfitters, The Hamper Emporium, Fossil In-store, Tommy Hilfiger In-store, Calvin Klein In-store, Deals Direct, Dr Boom Communications In-store, Miss Louise

US

- Underlying sales in the US increased by 229% compared to Q1 FY20.
- Sales grew in Q1 FY21 when compared to Q4 FY20 but were impacted by a stronger AUD currency. On a local currency basis double digit percentage growth was achieved.
- Approximately 12.5k new customers joined the platform per day during the quarter with total Active customers for the period reaching 6.5m (175% up on Q1 FY20). In October to date this average increased to over 15k new customers per day.
- Merchants that went live at various points in Q1 FY21 represent approximately \$10b of total addressable online sales and are expected to contribute significantly during the seasonally strong second quarter.
- In-store launched nationwide with major retailers including Forever 21, Levi's, Skechers, Finish Line, JD Sports, APL, Solstice Sunglasses during the period.
- New merchants that went live, are integrating or contracted during Q1 FY21 include, Gap Inc., lululemon, Fabletics, Goop, Chico's FAS, Aritzia, Lush, Carters, Cos Bar, Pandora.
- Announced national collaboration with Simon Property Group to support retailers and promote Afterpay in-store payment services to consumers ahead of the busy holiday shopping season. Simon has over 200 retail assets in the US.

UK

- Underlying sales in the UK in Q1 FY21 grew by 346% when compared to Q1 FY20.
- On a local currency basis underlying sales grew by over 40% compared to Q4 FY20.
- Active customers increased by 282% with the growth in average frequency per customer outperforming both ANZ and the US.
- New merchants that went live, are integrating or contracted during Q1 FY21 include, Jo Malone, Smashbox, Clarins, La Mer, Pandora, Hunter Boots, Karen Miller, Coast, Ernst & Jones, H. Samuel, e.l.f Cosmetics, Maniere de Voir, Medisave, Rebellious Fashion, Fabletics, Savage x Fenty, Deckers, Clinique, Shade Station.

GLOBAL EXPANSION

- Acquisition of Pagantis is progressing well and is on track for completion by the end of the 2020 calendar year, pending regulatory approval by the Bank of Spain.
 - Pagantis provides us with a licence to operate in Spain, France, Italy and Portugal as well as pending licence passport applications in Germany and Poland.
 - A cross functional detailed 100 day integration and launch plan has been developed to ensure we can launch as soon as possible post completion.
- Plans to expand into Asia are progressing well:
 - Established a base in Singapore to drive the development of the South East Asia market. Initial development of the EmpatKali opportunity in Indonesia is also underway.

INNOVATION

- Introduced Afterpay's in-store payment service to all US retailers nationwide.
- Launched Express Checkout which gives consumers the ability to complete purchases directly from retailers' product pages, driving higher conversion and average order values.
- Entered into a strategic partnership with Stripe to allow its millions of users to quickly and seamlessly offer Afterpay to their customers, driving higher conversion rates and expanding their reach among online shoppers.
- Planning and development of Afterpay savings accounts and cash flow tools for customers underway as part of the new money management services. Minimum Viable Product launch expected in Australia Q4 FY21.

REGULATION UPDATE

- AUSTRAC considered the Final Audit Report undertaken by Independent Auditor, examining the Company's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and decided it would not be taking any further regulatory action. AUSTRAC noted that Afterpay had uplifted its AML/CTF compliance framework and financial crime function, and satisfactorily completed all required remediation activity.
- Afterpay welcomed the interim report of the Senate Inquiry into FinTech and RegTech which found that regulation should be fit for purpose and that self regulation is an effective initial step for innovative industries with more formal co-regulation to occur over time.
- Afterpay has continued to cooperate with ASIC as it finalises its follow-up review of the BNPL industry. The industry-led BNPL Code of Practice is expected to be finalised post ASIC's report.
- Recent proposed responsible lending reforms by the Australian Government demonstrate a move away from a 'one-size-fits-all' approach to regulation while ensuring consumer protections. This is consistent with our support for outcomes-based regulation.
- Afterpay welcomes the Australian Government's review of the regulatory architecture of the Australian payments system, including its consideration of whether the regulatory framework adequately accommodates new and innovative systems. Afterpay will continue to engage with the RBA as it continues work on its Review of Retail Payments.
- Continuing to engage and provide information to relevant regulators in the US (at both a national and state level) and the Financial Conduct Authority in the UK to ensure they understand the Afterpay model and how we differ from other BNPL and traditional credit providers.

THE NETWORK EFFECT IN ANZ AS A BLUEPRINT FOR GLOBAL EXPANSION

- Afterpay's model seeks to add value to both customers and retailers. This value is driven by creating a win-win outcome for all stakeholders.
- Afterpay's flywheel drives an important symbiotic relationship between our retailers and customers.
 - As more retailers join our platform and as we add new verticals, the flywheel drives both acceptance and new customer acquisition into the Afterpay network.
 - Acceptance amplifies network usage and drives frequency of customers utilisation across the network and with customers' preferred merchants.

- When the compounding impact of frequency and active customers reaches a tipping point we see an acceleration of our network effect.
- The value of this network effect positively impacts the customer, the retailer and Afterpay.
- ANZ experience to date demonstrates this impact and we are seeing the rate of frequency growing faster with new customers today than they have historically.
- Experience to date in newer international markets is showing similar trends at similar points in the ANZ life cycle.

ANZ TOP CUSTOMERS (based on value of underlying sales) ⁴					
Customers	Frequency	Merchants	Verticals	Millennials	Gen Z
TOP 10%	54	26	11	52%	16%
TOP 30%	34	18	8	50%	21%

INTERNATIONAL TOP CUSTOMERS AVERAGE FREQUENCY (based on underlying sales) ⁴				
	Customers	Frequency	Millennials	Gen Z
US	10%	19	55%	17%
UK	10%	24	58%	18%

UNDERSTANDING OUR CUSTOMER AND RETAIL'S NEXT GENERATION CONSUMERS

- Afterpay's customer base cuts across Millennials, Gen Z and Gen X. Afterpay's top customers by value of underlying sales over-index in the Millennial demographic.

CUSTOMER COHORTS BY AGE AND REGION (based on number of customers) ⁵			
	Gen X	Millennials	Gen Z
GLOBAL	21%	48%	25%
ANZ	22%	45%	25%
US	21%	48%	25%
UK	19%	51%	26%

- As Millennials and Gen Z customers reach their peak earning years over the next 10 years, the percentage of total retail spend globally coming from these generations will increase significantly.
- In Australia, Millennials and Gen Z represent:

⁴ Based on rolling 12 month period to 30 September 2020

⁵ Based on active customers in Q1 FY21

- 50% of the labour force (37% and 13% respectively)⁶, and account for 30% of all dollars spent in the economy.⁷
- 36% of total retail spend (35% and 1% respectively). By 2030, this will increase to 48% of total retail spend.⁸
- In the US, Millennials and Gen Z represent:
 - 46% of the labour force (35% and 11% respectively)⁹, and account for 27% of all dollars spent in the economy.¹⁰
 - 32% of total retail spend (27% and 5% respectively), increasing to 48% by 2030.¹¹
- In the UK, Millennials and Gen Z represent:
 - 46% of the labour force (36% and 10% respectively)¹², and account for 26% of all dollars spent in the economy.¹³
 - 25% of total retail spend (22% and 3% respectively) increasing to 39% by 2030.¹⁴

Afterpay's model was developed to meet the needs of these two important generations and align with their core values.

The trust and ongoing loyalty of our customer base is evidenced by the growing frequency per customer the longer they remain on the platform. The Lifetime value of a customer therefore compounds over time as a result of this habitual use. This is being replicated in new regions as we expand globally.

The new money management services being developed will expand our ecosystem while reinforcing our value proposition to our customers. The network effect from this offering and any future complementary product offerings, will not only drive incremental revenue streams, but also enhance the lifetime value of our customers.

Authorised by:

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CEO & Managing Director

Ends

⁶ ABS Labour Force Survey - Detailed

⁷ ABS Household Expenditure Survey

⁸ Forecasts based on: HILDA Waves 6-18; ABS Household Expenditure Survey 2015-2018

⁹ Current Population Survey - U.S. Census Bureau & U.S. Bureau of Labor Statistics

¹⁰ Bureau of Labour Statistics CE Generation Tables

¹¹ Forecasts based on: University of Michigan Panel Study of Income Dynamic 2005-2017; Bureau of Labor Statistics CE Generation Tables and Census Bureau Population projections for United States

¹² ONS Labour Force Survey

¹³ Living Costs and Food Survey 2015-2019

¹⁴ Forecasts based on: Living Costs and Food Survey 2015-2019

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