

Afterpay Limited ASX: APT

ASX Announcement

20 April 2021

Q3 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 third quarter ended 31 March 2021 (Q3 FY21).

Key Highlights

- Strong operating performance in Q3 FY21 across all regions with underlying sales up 104% on the prior corresponding period (pcp).
- Quarterly performance on a constant currency¹ basis was 123% higher than Q3 FY20.
- Q3 FY21 underlying sales in the United States (US) and United Kingdom (UK) were up 211% and 277% respectively on Q3 FY20 on a local currency basis.
- Based on Q3 FY21 performance, North America² (NA) is now the largest contributor to underlying sales and outperformed the seasonally strong Q2 FY21 on a local currency basis.
- March 2021 exceeded December 2020 and delivered the second highest monthly underlying sales ever recorded, with the US becoming the first region to record more than \$1b in underlying sales in a single month.
- Active³ customers globally increased by 75% to 14.6m (up from 8.4m in Q3 FY20), with NA and the UK reaching 9.3m and 1.8m active customers respectively.
- Customer acquisition has continued to gain momentum in April, with a ~6% increase in the daily average number of new customers in the month to date (April) compared to the Q3 FY21 average.

¹ Constant currency is a non-IFRS measure and has been calculated by translating the results for the quarter ended 31 March 2021 at the effective exchange rates for the prior comparative quarter ended 31 March 2020.

² United States and Canada.

³ Have transacted at least once in the last 12 months.

- Active³ merchants increased by 77% to 85.8k (up from 48.4k in Q3 FY20), with a number of major enterprise retailers launching across all regions during the period.
- Strength of Afterpay's Shop Directory continued to drive value for merchants, with an average of ~31m lead referrals generated per month to retailers in Q3 FY21. Afterpay sent ~35m leads to its global retailers in March alone.
- Network effect of Afterpay's platform continues to drive increasing customer frequency across all regions. The top 10%⁴ of customers globally, on average, now transact 33 times per year (or ~3 times per month).
 - US - 23 times per year, ANZ - 62 times per year, and UK - 29 times per year.
- ANZ in-store volumes continue to recover and are now tracking near to pre COVID-19 levels at approximately 24% of ANZ underlying sales. The rollout of in-store in the US continues to progress well with a number of new retailers coming live post H1 FY21.
- Underlying sales from the global Afterpay Day sale⁵ increased ~117% on the same period last year and was 36% higher than the August 2020 Afterpay Day sale⁶.
- The March Afterpay Day sale drove a 40% increase in new active customers globally, generated nearly 6m referrals to merchants from the Afterpay Shop Directory and saw an average increase in basket size of ~10%⁷.
- Merchants with over \$1.5b of total addressable online sales are live, integrating or signed in the EU following the completion of the Pagantis acquisition and launch of Clearpay across Spain, France and Italy in March 2021.
- The Afterpay App was downloaded more than 2m times during Q3 FY21 with ~1m downloads in March alone.
- The recently launched partnership with global payments platform Adyen (AMS: ADYEN) means merchants that use Adyen in all regions (NA, UK and ANZ) can now offer Afterpay to their customers.
- Merchant revenue margins (unaudited) remained firm in Q3 FY21 and continued in line with what was achieved in the six months to 31 December 2020.

⁴ Top 10% of customers measured by value of underlying sales contribution over rolling 12 month period to 31 March 2021.

⁵ Afterpay Day sales were held across all regions except the EU.

⁶ Taking the first two days only, as comparative to the prior year's two day event.

⁷ Compared to August Afterpay Day 2020.

- Gross losses⁸ (unaudited) continued to remain below historical rates in all operating regions. Net Transaction Losses (unaudited) as a percentage of underlying sales likewise remained low for the quarter.
- As per the announcements made by Afterpay during Q3 FY21, Afterpay settled A\$1.5b zero coupon convertible notes that are due in 2026. The proceeds from the notes were partly used to fund an increase in ownership of Afterpay US, Inc. As announced in April 2021, Afterpay's underlying interest in Afterpay US, Inc. has now increased to approximately 91%, following completion of the tender offer made to eligible participants under the Afterpay US, Inc. 2018 Equity Incentive Plan, combined with the 3.5% underlying interest the Company recently acquired from Matrix.

Exploring options for a potential US Listing

- Afterpay is currently working with external advisors to explore options for a US listing given the US market is now the largest contributor to our business and is expected to continue to grow strongly.
- While Afterpay intends to remain an Australian headquartered company, our shareholder base is increasingly becoming more globally focused. A US listing would further accommodate this growing interest.
- There is no timeline set for a Board decision on a US listing and any listing would be subject to market conditions, approval by a US exchange and satisfying a number of other customary listing prerequisites.

Economic Impact Report

- New research by Accenture has revealed the economic impact of Afterpay on the Australian economy including job creation, driving additional business for retailers, supporting the local fashion industry, and helping consumers to avoid credit card fees.
 - \$6b in incremental sales for retailers and more than \$3b in net benefits for 48,000 Afterpay merchants in Australia, including 38,000 small and medium-sized businesses.
 - \$1.7b in sales for small and medium business owners, of which \$1.3b were incremental.
 - \$510m in sales for regional businesses.
 - 63,000 jobs, direct and indirect, supported by Afterpay.
 - \$110m in savings for consumers when compared to credit card interest and fees.
 - The report can be accessed here:
<https://corporate.afterpay.com/investors/reports-presentation>

⁸ Gross loss defined as Afterpay receivables impairment expense.

Business Performance Q3 FY21

GLOBAL (unaudited)	Q3 FY21	Q3 FY20	VARIANCE
Underlying Sales (A\$)	\$5.2b	\$2.6b	104%
North America	\$2.6b	\$1.0b	167%
ANZ	\$2.1b	\$1.5b	48%
UK	\$0.5b	\$0.1b	246%
Underlying Sales (on a constant currency basis)	\$5.7b	\$2.6b	123%

GLOBAL (unaudited)	As at 31 MAR 2021	As at 31 MAR 2020	VARIANCE
Active Customers	14.6m	8.4m	75%
North America	9.3m	4.4m	112%
ANZ	3.5m	3.2m	9%
UK	1.8m	0.8m	134%
Active Merchants	85.8k	48.4k	77%
North America	23.2k	9.1k	154%
ANZ	57.7k	38.6k	49%
UK	5.0k	0.6k	672%

North America

- Underlying sales in North America increased by 167% compared to Q3 FY20. The US was up 211% on a local currency basis.
- March underlying sales from US in-store imply a current annualised run rate of over ~\$225m (up from \$180m reported at the H1 FY21).

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- Afterpay US omni-channel shoppers shop 48% more frequently than online-only shoppers in the US⁹
- Afterpay US omni-channel shoppers spend 72% more than online-only shoppers in the US⁵
- More than 3.5m US customers have set up the Afterpay Card to shop in person¹⁰
- During the quarter approximately 17.6k NA customers joined the platform per day with a total active customer base of 9.3m reached. In April to date, that number has increased to 18.7k per day.
- Total number of customers in the US that have ever signed up to Afterpay now exceeds 17m¹¹.
- New merchants that went live, are integrating or contracted during Q3 FY21 include:
 - US Online: VINCE, Vera Bradley, SMITH, Rumble
 - US In-store: Urban Outfitters, Anthropologie, Free People, BHLDN, Terrain, Bed Bath & Beyond
 - Canada: Shiseido (NARS, Laura Mercier, Cle de Peau, Shiseido), Pandora, lululemon

ANZ

- As the most mature region, ANZ sales continued to grow (up 48% on Q3 FY20) with underlying sales momentum for both online (up 49%) and in-store (up 45%) from Q3 FY20.
- In-store volumes in Q3 FY21 continued to increase and now represent ~24% of total ANZ underlying sales, in line with pre-COVID levels.
- In-store is expected to further accelerate following the launch of the Afterpay Card (28 March) in Australia. Once customers have set up their digital Card in the app, they can checkout in-store at any Afterpay merchant by simply tapping on the payment terminal. In the first three weeks of April, more than 650k AU customers have set up their Afterpay Card.
- During the ANZ Afterpay Day sales, eBay was the most shopped merchant by both existing and new customers. This marks 12 months of a successful partnership between the two brands.
- ANZ SMBs saw an 80% increase in underlying sales against pcp as customers continued to shop local¹².

⁹ Since US in-store launch in July 2020.

¹⁰ As at 31 March 2021.

¹¹ Since inception.

¹² Percentage growth in order value by dollars.

- New merchants that went live, are integrating or contracted during Q3 FY21 include JB Hi-Fi, The Good Guys, Mwave, Luxury Escapes and Casetify.

United Kingdom

- Underlying sales in the UK increased by 246% compared to Q3 FY20, up 277% against pcp, on a local currency basis.
- The UK performed strongly during the quarter, despite the ongoing impact of pandemic restrictions during the period.
- Clearpay announced principal sponsor of London Fashion Week from February 2021 as part of a new two-year partnership to support the UK retail industry and give consumers more access to the best of British fashion via integrated, inclusive shoppable moments and dynamic interactive concepts.
- New merchants that went live, are integrating or contracted during Q3 FY21 include: Ann Summers, Public Desire, Conturve, BargainMax, Arne Clo, Smirk, Cettire, Quiz, EGO Shoes, and Motel Rocks.

Global expansion

- Following the successful acquisition of Pagantis, Clearpay was launched in Spain, France and Italy during the quarter. Clearpay is on track to launch in Germany during H1 FY22.
- The 100 strong Clearpay EU team has since signed more than 325 brands including Shein, Romwe, MiMaO, Blue Marlin, MCLABELS, SaladCode.
- The addressable e-commerce market in the EU exceeds €300b¹³ (\$494b).

Innovation

- During March, Afterpay customers were able to use the recently launched 'Favourites' feature, enabling them to curate and personalise the sales by browsing their most-wanted items, adding them to their Favourites and revisiting them as part of the sales.
- The launch of Afterpay's partnership with Squarespace has been very positively received, with some merchants experiencing up to a 33% increase in monthly sales since the buy now, pay later offering launched.

¹³ Source: eCommerce Europe <https://retailx.net/product/europe-2020/>

Afterpay Money

- Work continues on bringing Afterpay Money to life with launch expected in H1 FY22.
- An internal pilot team is currently working on a skeleton app in production with functioning deposit and savings accounts, with iterative prototype testing continuing with customers ahead of launch.

Regulatory update

ANZ

- The Buy Now Pay Later (BNPL) Code launched 1 March 2021 recognises the diversity of the BNPL industry, and incorporates scalable standards and protections to ensure the industry continues to deliver strong consumer outcomes.
- Afterpay made a submission to the Payments System Review in February 2021, and remains engaged with the RBA Review of Retail Payments.
- Afterpay welcomes engagement with ASIC on the forthcoming design and distribution obligations, and considers itself well-placed to meet the spirit and intent of this outcomes-based regulatory framework.

UK

- Clearpay continues to engage with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempted BNPL products. We look forward to a continued dialogue.

Do the Right Thing

- During World Earth Month (April), Afterpay is enabling shoppers to 'top-up' by adding a \$1 donation at checkout to benefit Magpies & Peacock, a non-profit design house, and Surfrider, a non-profit environmental organisation. Afterpay will match every dollar raised for these worthy causes.
- Beginning mid-April, Afterpay will launch its first-ever live integrated shopping experience via the company's website providing shoppers with the opportunity to learn about sustainable brands driving the circular economy with eco-friendly fashion and beauty as they watch influencers shop live from their favorite brands.
- In March, Afterpay announced its ongoing partnership with leading Australian not-for-profit Global Sisters; an organisation empowering women who are experiencing barriers to employment. As well as committing funding, Afterpay will also be participating in Global Sisters' coaching program, which partners Afterpay team members with Sisters to offer mentoring and upskilling as they launch their own businesses.

- Afterpay continues to work with the Australian Retailers Association to develop online financial literacy courses specifically tailored for retail workers during the quarter. The program is anticipated to commence during Q4 FY21 and will be made available to more than 50k retailers over the next 12 months.

Authorised by

Anthony Eisen
Co-CEO & Managing Director

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For further information contact

Investors and Media		Company
Marie Festa EVP Investor Relations & Communications marie.festa@afterpay.com +61 405 494 705	Investors Rhianna Fursdon Director Investor Relations rhianna.fursdon@afterpay.com +61 477 020 337 Media Amanda Pires VP, Communications amandap@afterpay.com 650-208-372	Amanda Street Company Secretary amanda.street@afterpay.com