



Afterpay Limited ASX: APT

ASX announcement

27 August 2020

Afterpay Full Year Results to 30 June 2020

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

Afterpay Limited (Afterpay) is pleased to release its results for the full year ended 30 June 2020 (FY20).

OVERVIEW

GLOBAL (A\$)	FY20	FY19	CHANGE
Afterpay Underlying Sales	11.1b	5.2b	112%
Afterpay Active Customers ¹	9.9m	4.6m	116%
Afterpay Active Merchants ¹	55.4k	32.3k	72%
Afterpay Gross Loss ² as % of Underlying Sales	0.9%	1.1%	24% improvement
Group Total Income ³	519.2m	264.1m	97%
Afterpay Total Income	502.7m	247.0m	103%
Afterpay Net Transaction Loss	(42.8)m	(22.2)m	93%
Afterpay Net Transaction Loss as % of Underlying Sales	(0.4%)	(0.4%)	~
Afterpay Net Transaction Margin	250.2m	119.3m	110%
Afterpay Net Transaction Margin as % of Underlying Sales	2.3%	2.3%	~
EBITDA (excluding Significant Items) ⁴	44.4m	25.7m	73%
Pro Forma Total Cash ⁵	1,377.3m	233.5m	490%
Pro Forma Liquidity & Growth Capacity ⁶	2,039.9m	1,178.4m	73%

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

² Gross Loss defined as Afterpay receivables impairment expense.

³ Group Total Income includes Afterpay Income, Other Income and Pay Now Revenue.

⁴ EBITDA (excluding Significant Items) excludes foreign currency gains, share-based payment expenses, net loss on financial liabilities at fair value, share of loss of associate and one-off items.

⁵ Pro Forma Total Cash includes Cash and Restricted Cash, plus net proceeds from July 2020 capital raising.

⁶ Pro Forma Liquidity and Growth Capacity includes net proceeds from the July 2020 capital raising. Liquidity includes Cash and undrawn borrowing capacity in the debt facilities as at 30 June 2020. Growth Capacity reflects the difference between the total debt facility limit and the drawn and undrawn capacity in the warehouse facilities.

FY20 Key Operating Highlights

- Growth momentum continued in all markets with FY20 global Underlying Sales increasing 112% to \$11.1b, with a run rate of over \$15b per annum (based on Q4 trading).
- The continued rapid penetration of the US and UK markets is changing the geographic profile of the business. Combined Underlying Sales contribution from these international markets increased from 18% in FY19 to 41% in FY20.
- Active customers more than doubled in FY20 to 9.9m (exceeding 9.5m target), with the US and UK surpassing significant milestones and reaching 5.6m and 1.0m respectively.
- An average of 17.3k new customers were added to the Afterpay platform per day during FY20, increasing to 20.5k new customers per day in Q4 FY20.
- Customers are transacting more frequently the longer they remain on the platform with ~ 90% of underlying monthly sales coming from repeat customers.
- International markets are following a similar customer frequency trajectory to the blueprint established by the more mature ANZ business.
- The Afterpay platform generated an average of 14.5 million customer referrals to our retail partners per month in Q4 FY20.
- Continued strong customer growth, high retention and increasing customer frequency dynamics in all regions, creates a competitive network advantage that delivers greater benefit to our retail partners, while improving Afterpay's financial performance over time.
- The onset of COVID-19 has had an unprecedented impact on the global retail community. While remaining cautious in our ongoing response, it is clear that Afterpay's predominantly e-commerce and budgeting focused service has been a net beneficiary of the significant shift to online spending and the shift away from traditional forms of credit.
- During this challenging period, we have continued to support our global retail community in multiple ways:
 - Rapidly expanding our SMB business in all markets as the shift to online continues to outpace historic trends.
 - Supporting local communities through our Support Small and Afterpay Connect campaigns showcasing hundreds of small businesses.
 - Continuing with Afterpay Day sales events in March and August.
 - Partnering with charity partners in each region - Thread Together (AU), Dress for Success (NZ), Baby2Baby and Common Thread (US), and NHS Charities

Together (UK) - as well as launched 'Add \$1 / £1' at the checkout, with the funds going directly to partner charities.

FY21 Performance Update

- Strong performance in Q4 FY20 has continued into FY21 across all regions.
- Online sales in ANZ accelerated into July and August. The recent on-boarding of large scale, new vertical merchants in ANZ is expected to deliver continued growth into FY21.
- US underlying sales in July have continued at the record levels experienced in Q4 FY20 and customer acquisition has remained strong.
- Merchant acceptance in the UK continued strongly since 30 June 2020 with 450 additional active merchants added to the platform.
- Afterpay Day (bi-annual two day sale event where merchants offer discounts to Afterpay customers) was held on the 20 and 21 of August 2020 in each region.
 - Underlying sales were 68% higher compared to Afterpay Day in March 2020.
 - 53% more customers participated compared to Afterpay Day in March 2020.
 - UK also generated its highest ever Underlying Sales over the two day period.
- Our strong operating and financial performance in FY20, combined with the current macro tailwinds gives us confidence to continue to invest in our global opportunity and extend the leadership position we maintain in our existing markets:
 - Launch into Canada in August extends our prominent US market position across North America.
 - Acquisition of European-based Pagantis will facilitate the expansion of Clearpay into multiple European markets in FY21.
 - Initial steps to explore opportunities in select Asian markets will also be a focus in FY21. An in-region team will be established via a small acquisition of a Singapore-based company operating in Indonesia (EmpatKali).
- Afterpay will further accelerate investment for growth in FY21. With new markets tracking in line with ANZ blueprint, and additional markets coming online in FY21, we will further accelerate our investment to:
 - Enhance our platform and continue to grow our people resources.
 - Invest and pursue co-marketing opportunities with our retail partners.
 - Consolidate our market-leading position in existing markets.

- Expedite our expansion into new markets to leverage our early mover advantage.
- While global trading and capital market conditions remain uncertain, Afterpay has a strong balance sheet position with over \$1.3b of pro forma cash and over \$2b of pro forma liquidity and growth capacity⁷. This position can facilitate several years of self-sustaining high growth in Underlying Sales.

FY20 Key Financial Performance

- Strong Underlying Sales and revenue growth were matched by strong margin performance in FY20.
- Group Total Income⁸ of \$519.2m, 97% higher than FY19, driven by strong performance of the Afterpay business which delivered total income of \$502.7m, 103% higher than FY19.
- Sustained merchant margins at 3.9% of Underlying Sales, supported by a growing number of SMBs joining the platform. Average merchant margins are broadly consistent across all geographies.
- Gross Loss as a percentage of Underlying Sales of 0.9% represents a historic low. The 24% improvement on FY19 was achieved notwithstanding uncertain economic conditions and higher contributions from newer markets.
- The rapid turnover of Afterpay's receivables book, high returning customer rates, high payment recovery rates (particularly in recent months) and our increasingly sophisticated risk models and risk management techniques have led to consistent loss performance improvements in all markets over several periods.
- Net Transaction Loss (NTL) of 0.4% was in line with FY19, with the benefit of lower Gross Losses offsetting the decreasing contribution from Late Fees.
- Late Fees (Other Income) contributed less than 14% of Afterpay Total Income, down from 19% in FY19 and 24% in FY18. Late Fee revenue now represents 0.6% of Underlying Sales, validating our inbuilt customer protections and our budget-focused and differentiated business model.
- Group Net Transaction Margin (NTM)⁹ of \$261.3m, up 101% on FY19, while Afterpay NTM of \$250.2m was up 110%.

⁷ Pro forma for the net cash proceeds from the July 2020 capital raising.

⁸ Group Total Income includes Afterpay Income, Other Income and Pay Now Revenue

⁹ Group Net Transaction Margin is equal to Afterpay Net Transaction Margin and Pay Now Gross Margin

- Afterpay NTM as a percentage of Underlying Sales remained strong at 2.3% despite lower contribution from late fees and an increasing contribution from newer international markets which are initially lower margin early in life cycle.
- EBITDA (excluding significant items) of \$44.4m, up 73% on FY19, driven by growth in Underlying Sales, Income and NTM.
- FY20 Statutory Loss after Tax of \$22.9m. Statutory Loss is impacted by significant items (including one-off items, Share-Based Payments, Net Loss on Financial Liabilities at Fair Value, Share of Loss of Associate, and foreign currency gains) which totalled \$20.0m in the year on a pre-tax basis.
- Employment expenses grew to \$86.1m (\$51.4m in FY19) but declined as a percentage of Underlying Sales to 0.8%.
- Investment in our sales, technology and product functions is reflected in the growth of employees across our regions which reached 665 employees by the end of FY20 (up from 447 employees at the end of FY19).
- Operating expenses, including marketing, increased to \$146.3m (\$73.2m in FY19) representing 1.3% of Underlying Sales (down 0.1% on FY19).
 - Marketing investment in H2 FY20 was higher than H1 FY20 as we continued to invest to support sales growth and global expansion, including co-marketing investments with major brand merchants and developing the global re-brand.
- Strong balance sheet and liquidity positions were further enhanced by a successful capital raise launched in early July 2020 which delivered net proceeds of \$769.8m.
- Inclusive of proceeds from the capital raising, Afterpay's combined pro forma liquidity and growth capacity of over \$2b can fund in excess of \$30b in annualised Underlying Sales above the current run-rate of over \$15b. This excludes additional liquidity that may be created by increasing existing or establishing new receivables warehouse funding facilities.
- Other capital management initiatives in FY20 included:
 - Established a US\$200m receivables warehouse funding facility with Goldman Sachs to mature in FY22 concurrently reducing the Citi US receivables warehouse funding facility from US\$300m to US\$200m.
 - Established a NZ\$20m receivables warehouse funding facility with Bank of New Zealand to mature FY21, subsequently increasing the facility to NZ\$50m and extending the maturity to FY22.
 - Extended the existing Citi US receivables warehouse funding facility to FY22.

- Extended the existing AU receivables warehouse funding facilities with NAB and Citi totalling \$500m to FY23 achieving an average overall debt facility maturity of ~2 years as at 30 June 2020.

REGIONAL PERFORMANCE

GLOBAL	FY20	FY19	VARIANCE
Underlying Sales (A\$)	11.1b	5.2b	112%
ANZ	6.6b	4.3b	52%
US	4.0b	0.9b	330%
UK	0.6b	0.0b	na
Active Customers	9.9m	4.6m	116%
ANZ	3.3m	2.8m	18%
US	5.6m	1.8m	219%
UK	1.0m	0.0m	na
Active Merchants	55.4k	32.3k	72%
ANZ	42.8k	28.4k	51%
US	11.5k	3.8k	202%
UK	1.1k	0.0k	na

ANZ

- Strong growth continued in ANZ, our most mature market, with Underlying Sales up 52% on FY19 to \$6.6b.
- Online sales grew strongly, up 46% in FY20 on FY19, and in-store growth remained strong despite impacts of COVID-19, with volumes up 81%.
- High average purchase frequency across the customer base, including ~25 times per annum for earliest customer cohorts.
- New verticals launched and key new merchants (now live or in the process of integrating), including: eBay, Ticketek, Webjet, Chemist Warehouse, Priceline, SHEIN, General Pants (NZ). Also entered into a strategic partnership with Qantas Frequent Flyer.

US + Canada

- The US market opportunity is still developing and Afterpay is rapidly extending its prominent market position. With higher customer retention and frequency than local competitors, Afterpay delivers significant value to US retailers.
- Underlying Sales grew substantially and were up 330% on FY19, driven by new global enterprise retailers and an increase in online spend.
- US contribution to global FY20 Underlying Sales of 36%, up from 18% in FY19.
- 5.6m Active Customers at the end of June. 86% of monthly orders come from returning customers.
- In-store offering in the US is progressively being rolled out with merchant partners including: Finish Line, Forever21, Skechers, Levis, Fresh, Solstice Sunglasses as they reopen their storefronts.
- Successfully launched our loyalty program with ~35% uptake among eligible customers.
- Signed agreement with Gap Inc, specialty retailer in the U.S., to offer Afterpay across Athleta, Banana Republic, Gap, and Old Navy brands.
- New merchants contracted or in the process of integrating include: Lululemon, Charlotte Tilbury, Puma, Native Shoes, Huda Beauty, Tatcha, Fenty Skin, vineyard vines, AMOREPACIFIC Group.
- Pipeline of new and integrating merchants is more substantial than any previous period and we look forward to launching Afterpay with several globally recognised brands ahead of the end of year holiday season.
- Afterpay went live in Canada in August 2020 with a number of merchants in testing and initial launch phase. A pipeline of integrating merchants, including well-known brands on the Afterpay platform in other jurisdictions, are expected to come online during H1 FY21.

UK + Europe

- \$0.6b Underlying Sales achieved in FY20, representing 5% of the global business.
- 1 million Active Customers milestone exceeded within the first full financial year of operation.
- 1.1k Active Merchants at 30 June 2020. Strong growth in merchant acceptance has continued into FY21 with an additional 450 merchants now live on the platform.

- New merchants contracted or integrating include: Gymshark, Estee Lauder Companies brands (including MAC Cosmetics), Huda Beauty, Everything 5 Pounds, Signet Jewelers, Never fully dressed, Ren.
- Substantial pipeline of merchants targeted to integrate before the end of the calendar year.
- Accelerating Clearpay's expansion into Europe, with plans to enter Spain, France, Italy and potentially Portugal in FY21 - a combined addressable e-commerce market in excess of \$247b¹⁰ - through the acquisition of Pagantis (as announced on 24 August 2020).

INNOVATION

- Afterpay's one-of-a-kind loyalty program, Pulse, successfully launched in the US in July 2020. ANZ and UK launches will follow. Pulse is the only mass market program of its kind, incentivising customers to make payments on time and rewarding responsible spending.
- Enhanced flexibility for customers, including introducing limit transparency, the ability to make changes to payment schedules, Variable Payment Upfront.
- Cross border trade rolled out between ANZ and UK with the US and Canada to be completed in early 2021. New regions will follow once launched. Cross border will enable a global platform that removes borders between our customers and retailer partners and facilitate an additional revenue stream for Afterpay in due course.
- Successfully launched virtual in-store card in the US with Apple Pay and Google Pay, with Apple Pay also rolled out as a repayment method for customers globally.
- Global strategic partnerships with Visa and Mastercard began delivering cost efficiencies and accelerating merchant integration. American Express was introduced as a payment option in the US.
- Integrated with Plaid, as part of enabling direct debits from consumer bank accounts in the US. Plaid enables consumers to connect their financial accounts at more than 11,000 institutions with more than 3,000 digital apps and services across the world.
- Worldpay is live with Afterpay globally for payments processing, realising cost and scale synergies as well as an ability to accelerate international expansion.

¹⁰ eCommerce Europe, <https://www.ecommerce-europe.eu/research/figures-per-country/>

DOING THE RIGHT THING

- While a lot has changed in the five years since the company began, Afterpay's core principles and purposefully different model remain, and continue to resonate with customers around the world:
 - Average order value is low at \$153¹¹.
 - Repayment periods are short (4 fortnightly payments).
 - Accounts are paused as soon as a repayment is missed.
 - We do not provide a line of credit.
 - We do not allow customers to “revolve” in debt.
 - Customers always start on low limits that increase slowly with positive repayment behaviour.
 - Our late fees are low and capped.
 - We never report adverse information about customers to credit bureaus.
 - We have a highly accessible hardship program.
- Afterpay has consistently maintained significantly lower loss rates than our peers and traditional credit products.
- Other Buy Now Pay Later (BNPL) and traditional credit providers employ credit checks to determine lending decisions, price credit, and potentially impact customers' credit scores and ability to borrow.
- Afterpay's budget focused and differentiated approach achieves positive outcomes for consumers, which is reflected in the fact that average outstanding balances have remained consistently low across the portfolio (\$190), and ~90% of customers use a debit card on the Afterpay platform.
- A recent study¹² to understand the profile of our largest and rapidly growing US customer base is indicative of our differentiated model:
 - Afterpay users are more likely to be in employment than the general population with 78% of users in part-time or full-time work.
 - Afterpay users over-index among middle-to-high income Americans and only 25% of users have a household income of less than \$40,000 p.a.
 - Without Afterpay, 55% of customers now say that would have looked for another store that did have Afterpay or not purchased.

¹¹ Group average for FY20

¹² Independent study commissioned undertaken by AlphaBeta, Accenture and Ipsos in August 2020.

Regulation

- AUSTRAC is still considering the Independent Auditor's Report and Afterpay continues to cooperate fully with AUSTRAC.
- Feedback from public consultation on the BNPL Code of Practice is being considered by the industry working group, and engagement with ASIC on the Code is continuing.
- Afterpay has cooperated with ASIC as it has undertaken its follow-up review of the BNPL industry. We expect a public report from ASIC in September 2020.
- During COVID-19, Afterpay has also responded to regular requests for information from ASIC as it monitors the BNPL market (and other markets).
- Afterpay welcomes positive engagement with members of the Senate Select Committee on Financial Technology and Regulatory Technology regarding how best to cultivate Australia as a global FinTech leader.

People

- Afterpay continues to prioritise the health and wellbeing of our team through COVID-19 with the majority of our people still working remotely. All measures are in line with State and National recommendations.
- We have developed a new Diversity and Inclusion Policy that focuses on driving for greater diversity and inclusion. In FY20 a specific focus on gender balance resulted in a 41% representation of females on the Global Leadership Team.
- Afterpay supports the Black Lives Matter movement and continues to identify ways to raise awareness relating to racial injustice, and other under-served communities across the world including our indigenous communities in Australia.

Board

- Three independent non-executive Directors joined the Afterpay Board in FY20. Gary Briggs (January 2020) and Sharon Rothstein (June 2020) are based in the US. Pat O'Sullivan (March 2020) is based in Australia and is the Chair of the Audit and Risk Committee. Cliff Rosenberg retired from the Board in May 2020.

Authorised by
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Ends

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