

WHO IS AFTERPAY?

- Australian founded technology company
- Established approx. 4 years ago
- Merged with technology partner in 2017 – 20 years in Australian payments
- Top 200 ASX listed company
- Operates in Australia, New Zealand and the USA
- Launch plans for the UK in 1H 2019
- Over 3.5 million customers
- Used by 1 in 4 millennials in Australia
- ~25,300 merchant partners, mostly SMBs



WHY AFTERPAY?

- A better, safer alternative to credit cards / traditional finance to promote budgeting and avoid debt traps
- Modern retail lay-by concept
- A free service for customers who pay on time
- Must pay off discrete items in full over short time periods, 4 equal instalments - not a revolving debt line
- Afterpay pays merchant upfront and then automatically collects the 4 instalment payments from the customer
- Afterpay assumes all customer non-payment risk and applies checks to every single transaction
- Cannot keep using Afterpay unless payments are always up to date

OUR CUSTOMERS

- Customers across a broad demographic - average age is 33
- 77% of customers say they use Afterpay for budgeting purposes
- Customer's own money - over 85% of pay with debit card
- Mobile app (>2.7m downloads) clear and easy to use
- Millennials are more budget conscious and debt averse than older generations
- 41% of millennials own a credit card today v 58% in 2002
- Nearly 70% of our customers use credit cards less as a result of using Afterpay
- 26% less likely than their parents to borrow from a bank to raise \$3000
- BNPL products, however, still represent a very small payments segment:
 - BNPL < 0.5% of all purchases in 2018 v 43% by credit card
 - BNPL makes up less than <1% of the population total personal debt profile

DIFFERENT BUSINESS MODEL

- Based on generating merchant fees as opposed to customer fees
- Over 80% of revenue generated from merchant fees
- No sign-up, admin, monthly or other hidden consumer fees
- Simple, transparent terms and conditions
- Late fees designed to incentivise on-time payment
- Late fees are low, capped and act as an incentive to pay on time

- \$10 for the first missed payment and \$7 thereafter, to a max of \$68 or 25% of purchase, whichever is lower
- Late fees not a source of profit (lose more than we collect)
- Opposite to credit cards where debt revolves (i.e. not paid of) and majority revenue from interest and customer fees

CUSTOMER PROTECTIONS

- Utilise technology and transparent, unbreakable rules to promote budgeting, minimise defaults and prevent revolving debt traps
- Every single order tested utilising proprietary fraud and repayment capability checks
- Reject ~50% of new attempted transactions and 30% overall
- Low transaction values - not for everything or everyone:
 - Average purchase size: ~\$150
 - Average balance outstanding: ~\$208
 - Maximum balance outstanding: \$2,000
 - Maximum single transaction: \$1,500
- Limited value for first-time customers
- Must be in 4 fortnightly payments, in full – no exceptions
- Can't miss or extend payments - can't "kick the can down the road"
- Immediately freeze accounts if single payment is late
- Regular reminders sent to customers in advance of payments • Enhanced Hardship capabilities and programme

OUR RESULTS

- Most trusted financial service in Australia (Roy Morgan - Afterpay NTS = positive 62; Banks = minus 14)
- 95% of payments received in FY18 incurred no late fee
- Gross loss rate is low (1.1% pro forma in H1 FY19 as a percentage of underlying sales)
- Maintain gross loss rates generally lower than traditional credit products

REGULATORY PERSPECTIVES

- Afterpay is not a credit product under the National Consumer Credit Protection Act (NCCP) and is not relying on an exception or loophole (confirmed by ASIC)
- Senate Inquiry process concluded:
 - Highlighted important fundamental differences between buy now pay later sector and traditional credit products and the need for a separate regulatory framework
 - No recommendation for the extension of the NCCP or Credit Code to cover sector, reflective of ASIC's findings in its report last year
 - Support for ASIC's Product Intervention Powers, previously publicly supported by Afterpay

COMMITTED TO COLLABORATION AND CONTINUOUS IMPROVEMENT

- Demonstrated track record of continuous improvement and customer centricity
- Open-minded and engaging around further improvement areas - we can always do more
- Afterpay looks forward to working with ASIC, Government, consumers and industry on a suitable regulatory framework and the development of an industry code of practice
- Key opportunity for continued innovation and improved data sharing through better industry collaboration and the introduction of Open Banking