

Afterpay Limited ASX: APT

ASX Announcement

2 August 2021

FY21 Trading Update¹

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

Afterpay Limited (Afterpay) is pleased to release its business trading update for the financial year ended 30 June 2021.

Summary FY21 Key Metrics (unaudited)²

GLOBAL (unaudited)	FY21	FY21 (constant currency) ³	FY20	VARIANCE to pcp ⁴	VARIANCE to pcp ⁴ (constant currency) ³
Underlying Sales (A\$B)	21.1b	22.4b	11.1b	90%	102%
North America	9.8b	11.1b	4.0b	148%	177%
ANZ	9.4b	9.4b	6.6b	44%	44%
Clearpay ⁵	1.8b	1.9b	0.6b	227%	242%
Group Revenue⁶ (A\$m)	925m	978m	519.2m	78%	88%
Merchant Revenue⁷ (A\$m)	822m	875m	433.8m	90%	102%

¹ All financial results shown in this announcement for the financial year ended 30 June 2021 (FY21) are estimates only and based on preliminary unaudited financial results.

² Percentage change calculations may not equate due to rounding.

³ Constant currency is a non-IFRS measure and has been calculated by translating the results for the full year ended 30 June 2021 at the effective exchange rates for the prior comparative period ended 30 June 2020.

⁴ Prior corresponding period.

⁵ Includes Clearpay UK and EU

⁶ Group Total Income

⁷ Revenue net of deferred revenue but excludes late fees and other revenue (Pay Now, Money etc).

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Gross Profit⁸ (A\$M)	675m	710m	384.9m	75%	84%
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GLOBAL (unaudited)	As at 30 JUN 2021	As at 30 JUN 2020	VARIANCE to pcp
Active⁹ Customers	16.2m	9.9m	63%
North America	10.5m	5.6m	88%
ANZ	3.6m	3.3m	8%
Clearpay	2.1m	1.0m	104%
Active Merchants	98.2k	55.4k	77%
North America	28.4k	11.5k	148%
ANZ	63.1k	42.8k	47%
Clearpay	6.7k	1.1k	501%

FY21 Key Highlights

- Continued global growth during FY21 and strong operating performance achieved across all regions.
- FY21 underlying sales of \$21.1 billion, a 90% increase on the prior corresponding period (pcp).
- On a constant currency³ basis, the Group delivered a 102% increase in FY21 underlying sales on pcp (\$22.4 billion).
- This result sees Afterpay exceed its previously stated objective to reach \$20 billion in underlying sales 12 months ahead of target¹⁰.
- Active customers during FY21 grew to 16.2m, an increase of 63% on pcp (9.9m at 30 June 2020), and approximately 25k new customers joining the platform globally, per day

⁸ Afterpay Gross Profit is defined as Group Total Income less Cost of Sales. As noted on pages 19 and 24 of the separate Square and Afterpay Transaction Presentation Materials (2 August 2021), FY21 Gross Profit this is stated as USD 506 and converted from AUD to USD using an average exchange rate of 0.7492

⁹ Active is defined as having transacted at least once in the last 12 months.

¹⁰ Afterpay FY2019 ASX Market Disclosure page 11, <https://www.asx.com.au/asxpdf/20190828/pdf/447v85zk8g127f.pdf>

during FY21. North America¹¹ (NA) and the United Kingdom (UK) reached 10.5m and 2.1m active customers respectively.

- Length of customer tenure on the Afterpay platform continues to result in higher frequency in transaction behaviour with ~93% of FY21 underlying sales coming from repeat customers. Afterpay's longest-tenured consumers are now transacting more than 30 times per annum.
- Afterpay's active merchant network now exceeds 100k globally. During FY21 active merchants increased by 77% to 98.2k (up from 55.4k as of 30 June 2020), driven by strong partnership momentum in both North America with 28.4k (up 148% on pcp) and the UK with 6.7k (up 501% on pcp).
- Group revenue⁶ (unaudited) of approximately \$925m grew 78% on pcp and was 88% higher in constant currency.
- Afterpay merchant revenue⁷ (unaudited) of approximately \$822m was achieved in FY21, representing an approximate 90% increase on FY20.
- On a constant currency basis³, Afterpay merchant revenue was approximately \$875m, representing an approximate 102% increase on FY20.
- Afterpay merchant revenue margin (unaudited) remained firm during FY21 and is in line with what was achieved in FY20. Merchant revenue margins remain consistent across all major regions.
- In June, Afterpay announced that an initial cohort of consumers could begin shopping using a one-time-use card at merchants that account for more than 50% of US e-commerce¹². Afterpay's affiliate and in-app one-time card programs are expected to contribute meaningfully to FY22 performance, as we continue to progressively open them for use by a greater proportion of the US customer base. During FY21, usage¹³ of the Afterpay App increased 131%.
- The underlying sales contribution from Afterpay's in-store card exceeded \$2b during FY21. The Afterpay in-store card is available across Australia, New Zealand, and the US with the Afterpay in-store card to commence roll out in the UK during Q2 FY22.
- The rapid turnover of Afterpay's receivables book, high returning customer rates, high payment recovery rates, and increasingly sophisticated risk models and risk management techniques have ensured comprehensive management of gross losses in all markets over several periods.

¹¹ United States and Canada

¹² APT US Media Release, 23 June 2021

¹³ Monthly Average App Usage

- Gross losses¹⁴ (unaudited) remained low and are expected to be below 1% as a percentage of underlying sales for FY21 and broadly in line with FY20, while Net Transaction Losses¹⁵ (unaudited) as a percentage of underlying sales are expected to be slightly above FY20 as a result of a lower contribution from late fees.
- The above loss performance has been maintained notwithstanding a shift in underlying sales and revenue mix from the more mature ANZ markets to newer and initially higher loss North American and European regions. ANZ represented ~60% of group underlying sales in FY20, reducing to ~45% in FY21 (decreasing from approximately 49% in H1 FY21 to approximately 41% in H2 FY21).
- Net Transaction Margin¹⁶ (NTM) (unaudited) for FY21 is expected to be above 2%. H2 FY21 declined moderately from H1 FY21 predominantly driven by a higher contribution from international markets during the period.

FY21 Performance by region

- All regions performed strongly during the period with FY21 underlying sales in the United States (US) and UK up 175% and 242% respectively compared to FY20 on a local currency basis.

North America

- Rapid growth of the NA region continues to change the geographic profile of Afterpay, generating \$9.8b in underlying sales during FY21 or \$11.1b on a constant currency basis (up 177% on pcp).
- 10.5m active NA customers at the end of FY21 up from 5.6m at 30 June 2020. Total US customers that have ever signed up to Afterpay in the US exceeds 19.5m¹⁷. Approximately 90% of monthly orders in the US are from repeat customers.
- Physical retail in the US has been materially impacted by COVID during the period. Notwithstanding, US in-store continues to accelerate with customers, sales and orders in the US tracking materially above Australia when compared to the same point in time.
- June underlying sales from US in-store imply a current annualised run rate of over ~\$319m (up 30% from Q3 FY21). Across all operating regions, omnichannel consumers shop more frequently and spend more than single-channel customers.

¹⁴ Gross loss defined as Afterpay receivables impairment expense.

¹⁵ Net Transaction Loss is an Afterpay management metric comprised of the sum of Gross Loss, Chargebacks, Debt Recovery Costs, less Afterpay Other Income (Late Fees).

¹⁶ Afterpay Net Transaction Margin is calculated as Afterpay income, less NTL, less Other variable transaction costs (incl. Finance costs).

¹⁷ Since inception

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- Afterpay US omnichannel shoppers shop 160% more frequently than online-only shoppers in the US
- Afterpay US omnichannel shoppers spend 176% more than online-only shoppers in the US¹⁸
- Announced a multi-year national partnership agreement with Unibail Rodamco Westfield (URW)¹⁹, owner of Westfield shopping centers to support the return of in-person shopping post-pandemic and consistent with Afterpay's intention to grow its omnichannel retail offer for customers.
- In May, Afterpay confirmed a multi-year, presenting partnership of New York Fashion Week (NYFW). The partnership will focus on supporting emerging and national talent and making NYFW more accessible to consumers. Programming is slated to start in September 2021.
- Pipeline of new and integrating merchants is substantial. Globally recognised brands that went live, are integrating or contracted during FY21 include:
 - US Online: Alternative Airlines, The Container Store, The Children's Place, Babylist, ShoeDazzle, Bare Necessities, Dermstore, Unique USA Reeds Jewellers, Swarovski, LensCrafters, Rhone, Tuft and Needle, Solvo Store, Johnny Was
 - US In-store: The Children's Place, The Container Store, Aldo, REEDS, Johnny Was, NAPA Auto LUSH, Lululemon, Alo Yoga, Dick Sporting Goods, Freebird, Vuori, Madrag and Vanilla Sky, John Elliott
 - Canada: Revolve, Volcom, Morphe, Swim Co

ANZ

- FY21 underlying sales grew 44% on FY20 to \$9.4b. The region saw strong momentum from in-store (up 48% on pcp) and continued growth in online (up 42% on pcp). In-store gained further momentum during FY21 and following the successful launch of the ANZ Afterpay Card, more than 1.4m AU customers have added the Afterpay Card to their digital wallet.
- Money by Afterpay launched in July, with Afterpay staff now trialing the product ahead of a full-scale launch anticipated in October 2021. Money customers will earn a competitive

¹⁸ Since US in-store launch in July 2020

¹⁹ [Afterpay Media Release](#) 8 July 2021

interest rate of 1% p.a.²⁰ on up to 1 million dollars across up to 15 different savings accounts and no fees²¹.

- ANZ SMBs saw a 58% increase in underlying sales against pcp as Afterpay customers continued to shop local²² during FY21.
- During FY21, Afterpay went live, integrated or signed with a number of prominent hospitality, electronics, lifestyle, and travel brands. These include:
 - Online: Mr Yum, JB Hi-Fi, The Good Guys, 4WD Supacentre, Ticketmaster NZ, Webjet NZ, and Step One.
 - In-store: JB Hi-Fi, The Good Guys, Mecca Cosmetica NZ, and Meriton Suites.

Clearpay UK + EU

- Clearpay underlying sales increased by 227% compared to FY20 and were up 242% against pcp, on a local currency basis.
- Notwithstanding intermittent pandemic restrictions during FY21, Clearpay performed strongly, doubling its active customer base to 2.1m customers compared to pcp.
- Merchant acceptance in the UK continued strongly with more than 5,000 new merchants added during FY21. New merchants that went live, are integrating or contracted during FY21 include: Lazy Oaf, Cox and Cox, Lick, Serenata Flowers, Bottle Club, Lucy and Yak, T.M Lewin, Steve Madden, Rat & Boa, Feel Unique.
- Clearpay was announced as the principal partner of London Fashion Week in February 2021. Aimed at reigniting the UK retail economy and bringing fashion week back to British consumers, the partnership celebrated the first of several integrated, inclusive shoppable moments with the unveiling of the “Clearpay Quarter”, a three-day event held during June.
- Following the launch of Clearpay EU across Spain, France, and Italy in March 2021, merchants with over \$1.5b of total addressable online sales are live with Afterpay. Brands that have gone live are integrating or signed include JD Sports, Size?, Footpatrol, Kylie Cosmetics, Dermalogica Italia, Huda Beauty, Giordano Shop, Shein, and Nove25.

²⁰ Rates are indicative only as at 2 August 2021, and subject to change. Westpac is the regulated deposit account and card issuer.

²¹ Customers should be aware that receiving or sending financial institutions may charge transaction fees; non major domestic ATMs will charge an ATM operator fee; and overseas ATM operators may charge a fee. This product feature is proposed as at 2 August 2021 as subject to change at any time.

²² Percentage growth in order value by dollars.

- Launched partnership with PrestaShop, a significant player in Central Europe. This follows similar regional and global partnerships announced with Stripe, Squarespace, Adyen, and others during FY21.

- The total addressable e-commerce market in the EU exceeds €300b²³ (\$494b).

Extending power of the platform with new revenue streams

- Afterpay drove ~1m lead referrals per day to its merchant partners during FY21, demonstrating the power of its platform for merchants. Approximately 55% of referrals come from consumers browsing the home page on the Afterpay mobile app. Likewise, 34% of referrals come from customers who are searching for specific brands.
- Afterpay continues to progress the rollout of the Affiliate program and Afterpay enabled one-time use card. The initiatives are already having a compounding effect on Afterpay's network with a growing number of eligible customers having used the one-time use card via the Afterpay App.

Connecting the world's most loved brands with the next generation of customers

- Revamped global Pulse Loyalty program that is more attainable and rewarding for customers with additional benefits launched in June and already driving increased customer frequency.
- The top 10%²⁴ of Afterpay customers globally, on average, now transact ~34 times per year (or ~3 times per month).
 - NA - 25 times per year, ANZ - 64 times per year, and the UK - 32 times per year.
- For merchants, Afterpay has demonstrated an ability to drive strong retention, enable higher conversion and order size, attract new customer leads, and increase repeat purchases. Integrated Afterpay merchants report²⁵:
 - >25% lift in Average Order Value (AOV)
 - >20% lift in conversion
 - >20% lift in customer purchase frequency

²³ Source: eCommerce Europe <https://retailx.net/product/europe-2020/>

²⁴ Top 10% of customers measured by value of underlying sales contribution over a rolling 12 month period to 30 June 2021.

²⁵ Bain & Company Merchant Analysis, 2021 and management estimates.

Regulatory update

UK

- Clearpay continues to engage with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempted Buy Now Pay Later (BNPL) products.

EU

- Updated customer Credit Directive (released during July 2021), recognised the rapid growth of BNPL and product differentiation from traditional customer credit. Proposals to protect customers from exploitative high-interest credit products are welcomed by Afterpay. Clearpay (EU) continues to operate under a license from the Bank of Spain.

ANZ

- Afterpay continues to engage 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.
- Separately, Afterpay is proactively engaged with the New Zealand Ministry of Business, Innovation, and Employment (MBIE) concerning the BNPL industry in that jurisdiction.

Square, Inc. announces plan to acquire Afterpay

- As separately announced today, Square, Inc. (NYSE: SQ) and Afterpay Limited (ASX: APT) today announced that they have entered into a Scheme Implementation Deed under which Square, Inc. has agreed to acquire all of the issued shares in Afterpay by way of a recommended court-approved Scheme of Arrangement in a transaction with an implied value of approximately US\$29 billion (A\$39 billion) (Transaction) as of the close of trade on July 30, 2021.
- The full terms of the Transaction, including all applicable conditions, are set out in the Scheme Implementation Deed, a copy of which is attached to Afterpay's transaction announcement. The Transaction is expected to close in Q1 CY2022.

Authorised by

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