



Afterpay 2021 AGM Report

ASX Code	APT
Meeting Time/Date	10.am Wednesday 17 November 2021
Type of Meeting	Virtual
Monitor	Christine Haydon, Hans Ha & Richele Janjatovic
Pre AGM Meeting?	Yes, with Chair Elana Rubin, Director Pat O'Sullivan, Co-Sec. Amanda Street, Alana McGuinness and Rhianna Furston

AfterPay everywhere building for the next generation

What the Company Does

AfterPay is the leading Buy Now Pay Later Company that provides a digital platform offering to customers which allows them to purchase a product immediately and pay for it later with four instalments.

Developments in the Financial Year

AfterPay launched in Canada, Europe across Spain, Italy and France and continued to grow in US, UK, Australia and New Zealand which has cemented AfterPay as a global company with a team of more than 1300 people. The company generated \$21bn in total underlying sales and grew the active customer base to more than 16 million people. 100,000 of the world's most loved brands partnered with Afterpay with North America now the largest contributor to underlying sales. Capital raising early in the financial year and more recently with a corporate bond issue have accelerated investment in the existing regions and allowed for expansion into new locations and also means that AfterPay has the capacity to fund an additional \$40b in underlying sales. Late fees have reduced year on year.

A launch of in store card, *Money by AfterPay* (Westpac), Pulse Loyalty program and partnership with Patch (climate action tool), Thread Together (excess new clothing to vulnerable people), and the Sponsor of Fashion Week across the regions are all new activities during the year. AfterPay are also very close to achieving carbon neutral certification from Climate Active. A further initiative has been AfterPay IQ in providing customer centric analysis to merchant partners.

The most significant announcement for the year is the proposed Square takeover of Afterpay that will be put to a EGM in early December. The opportunities are that the combination of AfterPay's 16 million customers with Squares 70 million active cash application customers will supercharge the business and team 10 times over.

Summary of Historical ASA Issues with the Company

There are no significant historical issues with AfterPay.

Debate and Voting at the AGM

AfterPay released the Chair and Co-CEO's address, presentations and proxy votes to the ASX before the commencement of the meeting. All including, a transcript of the meeting are now available on the [AfterPay website](#).

The meeting, held on the virtual platform ran seamlessly, with the Chair in Melbourne, Co-CEO's in San Francisco, and other directors and Company Secretary in Sydney. General presentations from the Chair and the Co-CEO's were comprehensive, followed by the opportunity to ask questions.

Three were from shareholders as follows:

- Opportunity for dividends – the Chair stated that both AfterPay and Square have focussed on investing in the business and the decision will be with the Square Board subject to their strategy and capital management plans.
- Empatkali – a company acquired in August 2020. Despite the best intentions and effort of the Empatkali team they have been unsuccessful in securing regulatory permission from the Indonesian Financial Services Authority which have advised that the licence will not be granted. Afterpay however remains committed to the APAC region and retains a strategic foothold in Singapore.
- The differences on launch of *Money by Afterpay* from those originally announced? The original announcement for *Money by AfterPay* had the interest rate at 1% on \$1 million and then launched at 0.75% on \$50k, did AfterPay waste a big incentive for take up with higher wealth customers?
Money by Afterpay is targeted really at millennials and gen Zs as the main market, the limit that was previously flagged was just too high for their needs and wasn't relevant. They wanted access to a savers account in a simple and straightforward way.

The ASA also asked 3 questions and, before answering, the Chair thanked ASA for their engagement with the company in the lead up to the AGM and commented on the continuing good dialogue. Our questions were:

- Expenses in general significantly increasing, KPIs?
Expenses were about scaling global operations and growing underlying sales including some initiatives such as the Pay Better marketing campaign, which was targeted at growing customer awareness and engagement, particularly in the United States where buy now, pay later is still less than 2% of all payments in that region. In respect of KPIs, the earnings before interest, tax, depreciation, and amortisation (EBITDA) value used under the FY21 scorecard is aligned to how the Group reports EBITDA to the market and reflects the underlying earnings of the Group.
- Please share insights on the FY21 net transaction loss (NTL)? Is there a benchmark or expected level of NTL? Are there new measures being introduced to help reduce this?
Afterpay's net transaction loss, NTL, is a management metric which comprises gross losses, chargebacks, and debt recovery costs, less Afterpay late fees. NTL for last financial year was \$132.6 million, or 0.6% of underlying sales. This is an increase of 0.2 percentage points above the FY20 measure and reflected lower contributions from late fees. Late fees have been coming down and they represent less than 0.4% of underlying sales.
Gross loss is another key input into NTL and that represented 0.9% of FY21 underlying sales, consistent with the prior period. Holding gross losses at 0.9% is a strong result given that six million new customers and 43,000 new merchants were added to the platform last financial year.

- The use of AI data and insights to the extensive understanding of your customers, we understand that you have a small team within Afterpay that uses data analysis. Is this the future and how does that work with data privacy and the relationship between customer and merchants?

AfterPay have developed a sophisticated unsupervised machine learning algorithm which processes transactional data and assigns customers to individual personas, based on their purchasing history. It is a way of viewing performance and providing insights into areas of overperformance and opportunities for merchant partners, data privacy is of utmost importance and this portal is designed to help merchants understand their performance with Afterpay but consistent and with all the privacy safeguards. As such, the only data a merchant can see in the portal is their own, which has been de-identified by individual and only shown on an aggregated basis.

The voting part of the meeting commenced with no questions for item 1 on the group financial report.

Both directors Elana Rubin and Dana Stalder then spoke to their re-election with a 97% plus in favour.

When it came to the remuneration report the Chair outlined the 4 key focuses – moderate fixed cash, moderate annual restricted stock units – 3 year period, moderate cash short-term incentives (STIs) on a balanced score card discretion by Board (Co-CEOs have not taken any STIs for 2 years) and an long-term incentive (LTI) as an annual grant tested over 3 years. There were no questions to the remuneration report.

Outlook Statements from the Company

The Outlook for the Company will be determined by the Scheme Meeting held at 10am on Monday 6th December 2021 where shareholders will decide whether to accept the offer made by Square (US) for 0.375 new Square Security per AfterPay share representing an ownership interest in Square Class A Shares. The implied value of the Scheme consideration is A\$126.39 per AfterPay Share. ASA have been offered a briefing to assist in the understanding of the Scheme.

Meeting Statistics

Number of Holdings Represented by ASA	40
Number of Shares represented by ASA	48,063
Value of Shares represented by ASA	\$57.53m
Number Attending Meeting	187 attendees (72 shareholders, 1 3rd party proxy & 114 guests)
Market capitalisation	\$34.8bn
Were proxies voted?	Yes on poll

Monitor Shareholding

The individual involved in the preparation of this voting intention has a shareholding in this company.

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