

Afterpay: Replacing the words for “buy now pay later”?

Company/ASX Code	Afterpay Limited/APT
AGM date	Tuesday 17th November 2020
Time and location	10.00am virtual
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Christine Haydon and Hans Ha
Pre AGM Meeting?	Yes, meeting with Chair Elena Rubin, Director Pat O’Sullivan, Company Secretary Amanda Street and EVP Communications and Investor Relations Marie Festa

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Elana Rubin was appointed as permanent chair.

Afterpay Limited undertook an extensive international search for 3 non - executive directors, based on agreed selection criteria to ensure a mix of skills to support growth and add key value to the board. Two of the directors are US based and experienced in operating in the global technology sector. In recommending the new non-executive directors to the shareholders for election, the board has considered the workload of each director and believes they have the capacity to devote the required attention, priority and time to Afterpay

One of Afterpay’s core strategic pillars is “Do the Right Thing” and with the impacts of COVID-19, all staff have been working from home and there has been an emphasis on taking care of staff. There also has been a focus on diversity and inclusion whereby all members of the team are made to feel respected and able to

bring their authentic self to work. There has been support for causes such as Black Lives Matter and an emphasis to give back to the community partnering with charities including the bushfire appeal.

A further focus is a sustainable energy policy with a carbon footprint as good as it can be. Afterpay also works with enterprises that are developing the circular economy in fashion and sustainable fashion and works with apps that find merchants that offer these products.

Financial performance

Afterpay has experienced a rapid acceleration in growth particularly with the shift in online spending due to the impacts of COVID-19. As lockdowns and quarantines around the globe have become the norm, customers moved towards a conservative, budget minded expenditure and Afterpay offered a transparent, simple avenue to transact without falling into a debt trap.

Afterpay also became a net beneficiary from people receiving government stimulus and the redirection of discretionary spending as people spent time at home. At the end of 2020 financial year (FY20) Afterpay had processed over \$11 billion in underlying sales, provided a service to over 10 million customers and partnered with over 55,000 merchants globally. Afterpay income margins increased to 3.9% of underlying sales and the net transaction margin sustained at 2.3% of underlying sale. Group total income was \$519.2m in line with underlying sales growth, merchant fee income increased by 116% to \$433.8m and year-on-year grew by 110% to \$250.2m.

Earnings before interest, depreciation and amortisation (EBITDA) excluding significant items at \$44.4m up from \$25.7 m in the prior period demonstrates the continued profitability of the platform. Afterpay incurred a tax loss of \$22.9m. The group has a strong balance sheet, pro forma for July 2020 capital raising the total cash available is \$1.3b and a combined liquidity and growth capacity in warehouse facilities greater than \$2b as of 30th June. The combined liquidity and growth capacity is able to fund over \$30b of underlying sales above the current run rate of approx \$15b.

Major merchants included a launch with Ebay and in Australia, Chemist Warehouse, Priceline, Amart, Qantas and Ticketek, as well as similar well-known brands in the US & UK. Strategic partnerships with Visa and Mastercard have started to deliver cost efficiencies, American Express is accepted in the US and there has been a launch of Apple Pay and Google Pay as a virtual instore product.

Key events

Afterpay is expanding globally and has commenced operating in Canada. It is also awaiting approval from the Bank of Spain in relation to the acquisition of Pagantis (item 5) and has recently acquired a Singapore based company EmpatKali who provide a buy now pay later operation in Indonesia. This is seen as a steppingstone to future Asian regions.

The Pulse loyalty program launched in the US already has a 35% uptake of eligible users. The rewards program provides benefit to people that exercise responsible behaviour and is the only one of its kind for on time payments.

Austrac (financial crime regulator) update

In response to the findings and recommendations identified in the external audit report, Afterpay has uplifted its AML/CTF compliance framework and financial crime function and completed all remediation necessary to ensure compliance.

After considering the report and the response by Afterpay, Austrac has decided not to undertake further regulatory action.

Westpac Group has announced Afterpay as the first partner for its new digital banking platform. The partnership will allow Afterpay to provide Westpac transactions and savings accounts and other cashflow management tools to its 3.3 million customers in Australia in Q2 2021.

Key Board or senior management changes

Afterpay is a fast-paced business with a strong global growth agenda, the right leadership team is essential and the following new appointments are part of the evolution.

Rebecca Lowde, Chief Financial Officer

Mark Teperson, Chief Strategy Officer

Meahan Callaghan Chief People Officer

Summary

(As at FYE)	2020	2019	2018
NPAT (\$m)	(22.9)	(43.8)	(9.0)
UPAT (\$m)	(16.5)	(36.3)	(6.0)
Share price (\$)	62.24	25.07	9.35
Dividend (cents)	0	0	0
TSR (%)	148.26	168.13	-
EPS (cents)	(0.08)	(0.18)	(0.04)
CEO total remuneration, actual (\$m)	*0.495	*0.348	**4.566

*The CEOs STIs are being withheld until the Austrac final audit is released and have not been included in the calculation

**This includes \$4.175 mil worth of options vested by the CEO and the figure is a result of significant increases in the share price. Share prices were \$9.35 at the time of vesting and the options had a strike price of \$1, which was the value at the grant date.

For 2020 the CEO's total actual remuneration was 5.38 **times** the Australian Full time Adult Average weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualized) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings"..

Item 2a	Election of Gary Briggs, independent non-executive Director
ASA Vote	For

Gary Briggs was appointed as a director on 1 January 2020. Gary brings extensive marketing knowledge in the digital and technology sectors. Most recently he was chief marketing officer at Facebook, he has had senior marketing roles in technology companies including Motorola Mobility, Google, Ebay and PayPal. Currently on the Boards of Etsy Inc and Petco and chairman of the digital agency Hawkfish. Gary is US based and currently has 2630 shares and therefore has ample skin in the game. We support this resolution.

Item 2b	Election of Pat O’Sullivan, independent non-executive Director
ASA Vote	For

Pat O’Sullivan was appointed as a Director on 1 March 2020. Pat brings over 30 years of experience in various financial and operating roles having worked in Ireland, US, Australia and New Zealand. Previously the chief financial officer of Optus and the chief operating officer and financial director of Nine Entertainment/PBL Media. He is currently chairman of carsales.com, deputy chair of Calvary Health and chairman of dreams2live4, both unlisted organizations. He is chair of audit, risk and compliance committee and currently holds 7169 shares We support this resolution

Item 2c	Election of Sharon Rothstein non-executive Director
ASA Vote	For

Sharon Rothstein as appointed as a Director on 1 June 2020. Sharon brings deep expertise across leading consumer brands with key retailer insights and ability to assist in development of new relationships and networks globally. Previously executive vice president, global chief marketing officer of Starbucks and senior vice president of marketing of Sephora. She is currently a member of the Boards of Yelp Inc and the Intercontinental Hotels Group. Sharon is US based and currently holds 2300 shares. We support this resolution

Item 2d	Re-election of Nick Molnar, Co-founder, Global Chief Revenue Officer and Executive Director
ASA Vote	For

Nick Molnar was appointed as a Director on 5 July 2017. He is co-founder of Afterpay and currently holds the following shares

20450659 ordinary shares

1,500,000 unlisted options exercise price of \$1.00 per option expiry date 31st Dec 2020

125,000 unlisted options exercise price of \$37.31 per option expiry date 1 July 2024

We support this resolution

Item 3	Adoption of Remuneration Report
ASA Vote	For

Afterpay made significant changes to remuneration for 2020 including an equity component to their Fixed Annual Remuneration in the form of Restricted Share Units (RSU)

The co-founders (CEO & CRO) elected to forgo any STI or RSU component under the FY20 framework and took a 20% reduction in their base salaries for 3 months from May 2020. This reflects the current Covid circumstances and the focus on long term performance in the interests of the shareholders

The global CFO was the only executive KMP to receive an STI which was \$344,000 paid in cash and representing 86% of the maximum against the scorecard weighted 50/50 financial and non-financial measures.

The former global chief operating officer ceased as an Executive KMP on 12 June 2020 and as an employee of the Group 25 November 2020. Following a review this global reporting line roll was made redundant and after being recruited from US to Sydney the COO returned back to US. As a “good leaver” there was a one-off cash payment for relocation from San Francisco to Sydney, no STI cash bonus, first tranche of RSU’s only, LTI options to be pro-rata for time served and a “buy-out payment” in the form of RSUs with a total face value of \$900,000.

The LTI component of the remuneration framework is tested against two equally weighted measures being the group’s GMV (underlying sales) and the NTM (net transaction margin) over the three year performance period, reflective of the key value drivers of the business over the long term. The co-founders maximum LTI was \$1,500,000 respectively. LTI’s are calculated over a 3 year period (ASA prefers 4/5 Years) and share grants are at face value.

The independent non- executive directors elected take a 20% reduction in their board base member and committee fees for a 3 month period from 30 May 2020. Other changes in board members fees reflect the permanent appointment of the chair who receives an “all inclusive fee” of \$350,000 and FY20 statutory remuneration of \$388,333. The board retains a discretion to provide overseas directors with an uplift to the base member fee of up to 50% and this has been provided to Gary Briggs and Sharon Rothstein the two new United States based directors.

The change to the remuneration framework, accompanying charts and explanations in the Annual Report provide easy to understand information.

CEO rem. framework	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.45	37.5%	0.45	23%
STI	0	0%	0	0%
LTI	0.75	62.5%	1.5	77%
Total	1.2	100.0%	1.95	100%

We support this resolution.

Item 4	Ratification of issue of shares pursuant to July 2020 placement
ASA Vote	For

Summary of ASA Position

This resolution seeks shareholder ratification of the issuance of 9,848,484 shares at 13 July 2020 at an issue price of \$66 to certain institutional and professional investors as part of its capital raising. Approving this resolution will refresh the 15% placement capacity of the company and the proceeds will be used to accelerate investment in growing underlying sales and prioritising global expansion in the short term in order to maximize shareholder value in the longer term. We support this resolution

Item 5	Approval of issue of convertible note pursuant to Pagantis acquisition
ASA Vote	For

The convertible note issue facilitates the acquisition of Pagantis as part of the global expansion plans. Pagantis acquisition gives access to Spain, France, Italy, Portugal and potentially Germany which in turn offers the opportunity of a “passport” to the entire European Union countries. It is a sensible utilisation of the balance sheet in making an acquisition that will ultimately provide further growth opportunities to benefit the shareholders. We support this resolution.

Item 6	Application of supplementary terms of the Afterpay Equity Incentive Plan to equity awards issued to participants in California
ASA Vote	For

Summary of ASA Position

At the 2019 AGM shareholders approved the new Afterpay Equity Incentive Plan however for employees in California there are certain security laws that must be met. The board adopted these terms as supplementary, under the California Corporations Code it is a requirement for Afterpay to seek approval from shareholders in respect of supplementary terms within 12 months of adoption. Voting in favour allows the Californian employees to participate within the approved Afterpay Equity Incentive Scheme

Item 7	Approval of LTI grant to CEO and Managing Director Anthony Eisen
ASA Vote	For

This resolution seeks shareholder approval to grant 40,203 options to Mr. Anthony Eisen, co-founder and CEO/MD as part of his LTI remuneration.

The proposed LTI grant is aligned with the Company's KMP framework which applied from FY20. Mr Eisen has elected to forgo any short-term incentive and restricted stock units under this new framework

The LTI has 2 performance hurdles Gross Merchandise Value (GMV) and Net Transaction Margin (NTM) Both are equally weighed and 50% of the LTI's will vest at target and 100% at maximum

The options will have an exercise price of \$98.97 calculated on a 20% premium to the market value of the Company shares equal to the 10 day volume weighted average price (VWAP) after 3 years. We support this resolution

Item 8	Approval of LTI grant to Global Chief Revenue Officer and Executive Director Nick Molnar
ASA Vote	For

This resolution seeks shareholder approval to grant 40,203 options to Mr. Nick Molnar, co founder and Global Chief Revenue Officer as part of his LTI remuneration.

ASA will support this resolution as mentioned in Item 7 as the terms are identical for the co-founders

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