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Afterpay (APT)

CBA Should be Worried

Recommendation
Buy (unchanged)

Price
\$146.31
Target (12 months)
\$168.50 (previously \$140.00)

GICS Sector
Software and Services
Expected Return

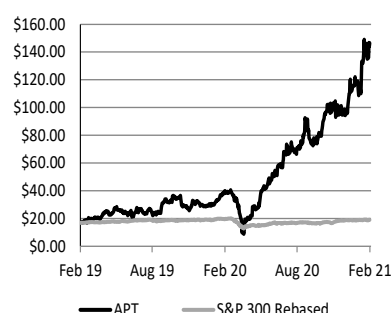
Capital growth	15.2%
Dividend yield	0.0%
Total expected return	15.2%

Company Data & Ratios

Enterprise value	\$41.1b
Market cap	\$41.7b
Issued capital	285m
Free float	87%
Avg. daily val. (52wk)	\$190.4m
12 month price range	\$8.01-\$151.22

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	118.00	96.69	38.55
Absolute (%)	23.99	51.32	279.53
Rel market (%)	21.25	37.00	282.66

Absolute Price


SOURCE: IRESS

Deep Dive into Afterpay + WBC Collaboration

In this report we perform a deep dive into Afterpay and WBC's collaboration to introduce Afterpay branded savings and transaction accounts, along with budgeting tools. We see this as a step change in APT's product offering, and as a deliberate strategy for WBC to break CBA's stranglehold on the millennial banking market. We believe CBA should be worried, and perhaps is, which is seen with comments from their CEO Matt Comyn at the Banking Summit in November last year, who noted Afterpay as a potential threat to the banking sector over time. It perhaps also explains CBA's over \$100m investment in Afterpay's competitor, Klarna. If APT is successful in launching white labelled WBC banking products in Australia it is likely the market will have confidence in APT rolling out a similar offering in all its jurisdictions, providing meaningful valuation upside.

Calendar of Catalysts

2021 is shaping up as a material year for APT, with the following key developments or catalysts noted below:

- APT is set to report its 1H20 result on Thursday 25th of February. We anticipate an update on the EU launch, Canada progress, US instore, Asia expansion, and potentially any tech collaboration developments (Tencent, WBC, Stripe, VISA, Apple, Google, Mastercard, Worldpay);
- EU Launch scheduled for March quarter;
- WBC/Afterpay product launch scheduled for June quarter; and
- Asia Expansion scheduled for September quarter.

Earnings Revisions

We have made no earnings revisions as part of this report. However, we have rolled our valuation forward, primarily impacting our average customer number utilised in our LVC based valuation, and as a result of this we have a revised Price Target of \$168.50 per share (previously \$140.00), with our Buy recommendation remaining unchanged.

Earnings Forecast

Year end June 30	2020a	2021e	2022e	2023e
Sales revenue (inc. late fees) (\$m)	519.1	944.3	1510.4	2119.0
EBITDA (Adjusted) (A\$m)	44.4	97.4	192.2	326.4
EBTDA (Adjusted) (A\$m)	32.5	77.0	152.8	271.0
NPAT (reported) (A\$m)	-22.9	15.9	65.6	149.2
NPAT (adjusted) (A\$m)	5.6	49.0	98.6	182.2
EPS (adjusted and fully diluted) (cps)	2.0	17.1	33.9	62.7
EPS growth (%)	Large	739%	98%	85%
Adjusted PER (x)	na	854.7	431.2	233.3
EV/EBITDA (x)	935.0	425.8	215.8	127.1
EV/Sales (x)	80.7	44.4	27.7	19.9
Dividend (cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	1%	4%	5%	10%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Westpac and Afterpay Collaboration

The Detail

On 20 October 2020 APT and WBC released ASX announcements confirming they have entered into a collaboration for APT to offer savings accounts and cash flow tools for customers in Australia.

The idea is for it to be a white label style arrangement, that is, for it to be Afterpay branded, but with WBC sitting behind it. WBC anticipates delivering this new digital banking service through its new technology which it is adopting from a firm called 10x Future Technologies (10x), which WBC took a stake in. 10x is a fintech based in London specialising in digital banking services as we explore in further detail below.

APT flagged the new savings accounts and cash flow budgeting tools are set to be made available in the June quarter this year.

10x Future Technologies

10x is a next generation and cloud native digital banking platform service provider. The service is a modularised design with an application stack that can integrate with its core platform, along with hundreds of legacy platforms, to provide a single efficient and seamless digital banking service. The company utilises microservices architecture, allowing for WBC to progressively rollout the features along with Afterpay.

Starting Point: Savings Accounts and Budgeting Tools

APT noted that it intends to start with a savings account and budgeting tools in the app. Within the savings account which is linked to your Afterpay account, users can pay bills, withdraw money, receive their pay, and utilise the budgeting tools to be made available.

We believe with Afterpay's strong Net Promotor Score, and branding as a 'non-bank' provide it within enormous opportunity to significantly penetrate the banking savings accounts market.

What Next: Home Loans or Investments is Our Guess

WBC's new banking digital platform is unlikely to just utilise deposit and transaction accounts. We anticipate other banking products may be integrated over time. Below we provide a brief discussion on some key retail banking products:

- **Credit Cards = Unlikely.** We believe it is unlikely that APT, which has been a champion in its users avoiding a debt spiral, would look to expand into credit cards, or small personal loans.
- **Personal Loans = Maybe.** We see personal loans, which are integrated with budgeting tools for specific purchases as a possibility. However, again, see it as too similar to credit cards and perhaps not a high priority.
- **Home Loans = Possible.** We believe, over time, this is the logical next step. The economics and structure already exists (as we discuss on the next page) for APT to create home loans via a white label arrangement, and to match it with savings products to help them reach their goal.
- **Investment Options = Possible.** We see a balanced index fund with small investments as a possible option APT may explore overtime. This may be similar to what is offered by listed provided RZI (Raiz Invest).

Afterpay to help break CBA's dominance

CBA has a tight grip on the Millennial Market

According to Research from RFI Group and included in a Telstra White Paper, CBA has around 36% market share of the millennial market when assessing the main bank. The next closest is ANZ on 14%. WBC, despite being second to CBA in total banking in Australia, appears to be forth with around 9% (Figure 1). CBA appears to have benefited from its Youthsaver accounts and the Dollarmites Club.

APT has a strong following in the millennial market and we believe WBC see their partnership with Afterpay as an opportunity to break CBA's tight grip on this segment.

According to banking websites and APT company data, CBA has around 16m customers in Australia. We see APT's 3m, which is heavily concentrated in the millennial space, as an emerging key opportunity for WBC to help shift market share in this segment. We note that the millennial market tends to be more tech savvy, and the nature of 'digital banking' is likely to be more readily taken up by this category.

Look to Investment Platforms and Mortgage Broker models

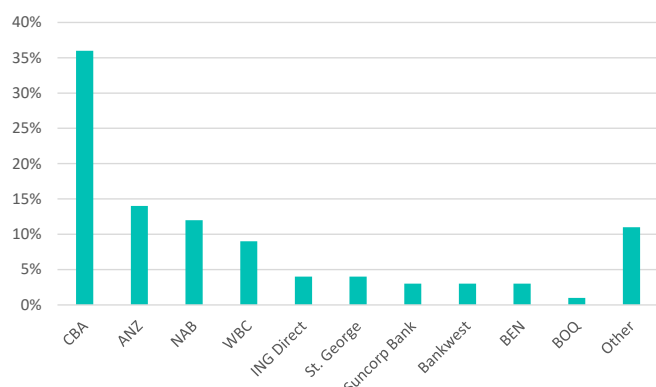
The next obvious question is what's in it for Afterpay? We see this development as the most significant change to APT's model since it commenced. There is a definite intention to introduce new products, and to build out consumer friendly (and useful) products.

The revenue opportunity will depend on the structure. But we do understand how some of this may work. For example, our analysis of NWL and PPS indicates that retail deposits are very attractive to major banks. ANZ, via a commercial arrangement, pays NWL and PPS for these deposits. NWL currently keeps this margin on its deposit accounts whereas PPS provides its investors with a margin above the 10bps cash rate (but also maintain some of this margin). We would imagine a similar commercial term, given this precedence, would be available to APT. It will become clearer how this may look when we see the product and feature launch.

Similarly, if mortgages were to become part of the mix, over time, then there is established revenue share models which exists with mortgage broker that Afterpay may be able to enjoy, without taking any balance sheet risk for the mortgages.

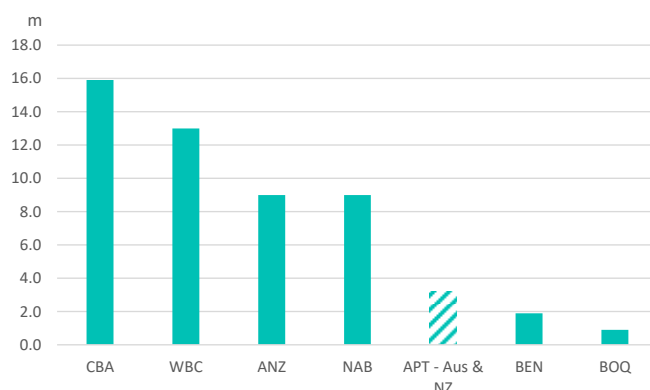
If APT is able to successfully prove its entry, with scale, into being a conduit for banking products in Australia, then it is likely APT will follow with a similar offering across all jurisdictions, which would transform perception, and the opportunity for the stock.

Figure 1 - Australia Millennial Main Bank Market Share (%)



SOURCE: RFI GROUP RESEARCH 2016 / TELSTRA REPORT

Figure 2 – Australia Customer Numbers (m)



SOURCE: BANK WEBSITES AND COMPANY DATA

Key Statistics

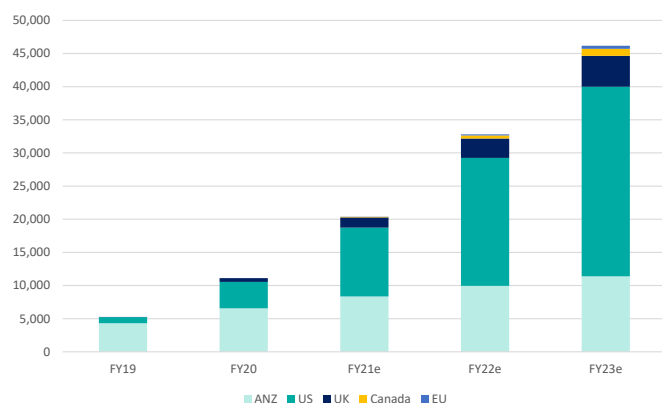
For the pending 1H21 result we are interested in how Canada has started, with our first real data point which also includes the busy Christmas period.

Figure 3 - Key Afterpay Assumptions

Active Customers (m)	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
ANZ	2.50	2.80	3.10	3.30	3.50	3.70	3.90	4.10	4.25	4.40
US	0.70	1.80	3.60	5.60	8.00	10.50	13.00	15.30	17.50	19.40
UK		0.03	0.60	1.00	1.60	2.20	2.90	3.60	4.30	5.00
Canada					0.10	0.40	0.70	1.00	1.30	1.60
EU						0.10	0.40	0.70	1.00	1.30
Total	3.20	4.63	7.30	9.90	13.20	16.90	20.90	24.70	28.35	31.70
New Users Per Day	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
ANZ	1,902	1,657	1,630	1,105	1,087	1,105	1,087	1,105	820	815
US	3,261	6,077	9,783	11,050	13,043	13,812	13,587	12,707	12,022	10,326
UK		166	3,098	2,210	3,261	3,315	3,804	3,867	3,825	3,804
Canada					543	1,657	1,630	1,657	1,639	1,630
EU						552	1,630	1,657	1,639	1,630
Total	5,163	7,901	14,511	14,365	17,391	18,232	18,478	17,680	16,667	14,946
Margin (%)	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
Merchant Fee	3.75%	3.89%	3.77%	4.00%	3.95%	3.95%	3.95%	3.95%	3.95%	3.95%
Net-Transaction Loss (NTL)	-0.60%	-0.29%	-0.46%	-0.33%	-0.35%	-0.40%	-0.40%	-0.40%	-0.40%	-0.40%
Processing and Financing	-1.09%	-1.16%	-1.17%	-1.34%	-1.45%	-1.43%	-1.44%	-1.44%	-1.44%	-1.44%
Net-Margin	2.06%	2.44%	2.14%	2.33%	2.15%	2.13%	2.11%	2.11%	2.11%	2.11%
Breakdown of NTL	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
Gross Loss	-1.2%	-1.1%	-1.0%	-0.7%	-0.8%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
Late Fees	0.8%	0.9%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Other (inc. recovery cost)	-0.2%	-0.2%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
NTL	-0.6%	-0.3%	-0.5%	-0.3%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Transaction Value GMV (A\$m)	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
ANZ	2,009	2,305	3,119	3,448	4,080	4,267	4,879	5,073	5,629	5,760
US	264	664	1,437	2,553	4,486	5,910	8,914	10,396	13,687	14,911
UK		6	202	355	650	898	1,252	1,659	2,094	2,564
Canada					11	66	168	299	445	617
EU						8	50	117	191	273
Total	2,273	2,975	4,758	6,356	9,227	11,150	15,264	17,545	22,046	24,125
Average Spend Per Customer (A\$)	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
ANZ	864	870	1,057	1,078	1,200	1,185	1,284	1,268	1,348	1,332
US	659	531	532	555	660	639	759	735	835	808
UK		373	642	444	500	473	491	511	530	551
Canada					213	266	306	352	387	426
EU						167	200	213	225	238
Cost/Income Operating Expense	1H19	2H19	1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
Afterpay (includes Marketing)	48.3%	52.1%	67.3%	57.1%	60.0%	58.0%	56.0%	55.0%	53.0%	51.0%
Currency Estimates			1H20	2H20	1H21e	2H21e	1H22e	2H22e	1H23e	2H23e
AUD/USD			0.70	0.68	0.72	0.72	0.72	0.72	0.72	0.72
AUD/GBP			0.54	0.52	0.55	0.55	0.55	0.55	0.55	0.55
AUD/CAD					0.94	0.94	0.94	0.94	0.94	0.94
AUD/EUR						0.60	0.60	0.60	0.60	0.60

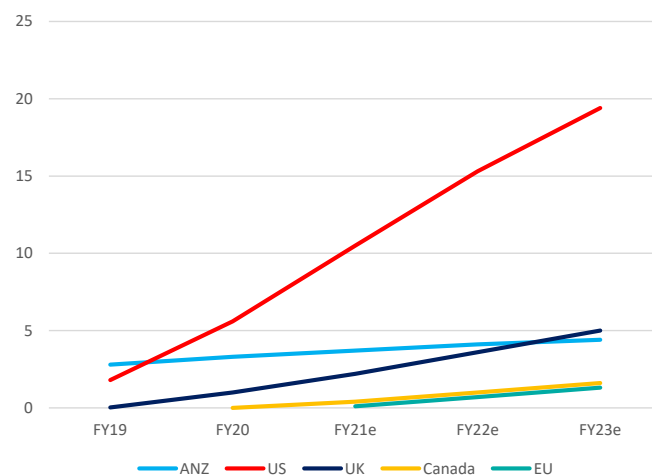
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – GMV estimates (\$m)



SOURCE: COMPANY DATA, COMPANY WEBSITES AND BELL POTTER SECURITIES ESTIMATES

Figure 5 – Customer growth estimates (m)



SOURCE: COMPANY DATA AND BELLPOTTER SECURITIES ESTIMATES

Valuation and Changes

Valuation

We utilise a Sum-of-the-Parts Valuation, with the key Afterpay component relying on a Customer Lifetime Value (CLV) based methodology. The key assumptions in our valuation can be found in the table below. Our total APT valuation is noted below and forms the basis of our \$168.50 per share Price Target (previously \$140.00 per share), and is supportive of our Buy recommendation on the stock.

Figure 6 - Valuation

Sum-of-Parts Valuation

Afterpay Customer Lifetime Value based methodology	
Discount rate (%)	9%
Weighted three year customer numbers*	21,891,250
Customer annual spend (\$0.00)	1,526
Gross margin (%)	2.11%
Afterpay CLV based valuation (\$m)	50,523
Net-cash (\$m)	602
Pay Now valuation	123
Corporate	-444
Total APT value (\$m)	50,805
Fully diluted share count (m)	291
Valuation per share pre US&UK staff ownership dilution (\$0.00)	174.87
US&UK&EU equity ownership dilution (in subsidiaries)	-6.36
Valuation per share pre AUSTRAC dilution (\$0.00)	168.51

* (50% weighting to Year 0, 35% to Y1e, and 15% to Y2e)

SOURCE: BELL POTTER SECURITIES ESTIMATES

Customer numbers and earnings revisions

We have made no earnings revisions as part of this report. However, we have rolled our valuation forward, primarily impacting our average customer number utilised in our LVC based valuation, and as a result of this we have a revised Price Target of \$168.50 per share (previously \$140.00), with our Buy recommendation remaining unchanged.

Figure 7 - Earnings revisions

Earnings Revisions	FY21e (new)	FY21e (previous)	Change (%)	FY22e (new)	FY22e (previous)	Change (%)	FY23e (new)	FY23e (previous)	Change (%)
Revenue (\$m)	944	944	0.0%	1,510	1,510	0.0%	2,119	2,119	0.0%
Customer numbers	16,900,000	16,900,000	0.0%	24,700,000	24,700,000	0.0%	31,700,000	31,700,000	0.0%
EPS (Cash) (cps)	17.1	17.1	0.0%	33.9	33.9	0.0%	62.7	62.7	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Interim Earnings

Figure 8 - Interim earnings

INTERIM INCOME STATEMENT											
Y/e June 30 (\$m)	2019	1H20	2H20	2020	1H21e	2H21e	2021e	1H22e	2H22e	2022e	2023e
Afterpay											
Transaction Values	5,247	4,758	6,356	11,114	9,227	11,150	20,377	15,264	17,545	32,809	46,171
Revenue (Merchant Fee)	200.9	179.6	254.2	433.8	364.5	440.4	804.9	602.9	693.0	1,295.9	1,823.8
Processing Fee	48.3	49.4	79.6	129.0	124.6	147.7	272.3	201.5	231.6	433.1	609.5
Finance Expense	11.0	6.5	5.4	11.9	9.2	11.2	20.4	18.3	21.1	39.4	55.4
Gross Profit	141.6	123.7	169.2	292.9	230.7	281.5	512.2	383.1	440.4	823.5	1,158.9
Net Transaction Loss [^] (see below for split)	22.2	21.8	21.0	42.8	32.3	44.6	76.9	61.1	70.2	131.2	184.7
Operating Expenses	71.5	83.2	96.6	179.8	138.4	163.3	301.7	214.5	242.2	456.8	602.1
Afterpay EBTDA	47.9	18.7	51.6	70.3	60.0	73.6	133.6	107.5	128.0	235.5	372.1
add back interest for Afterpay EBITDA	11.0	6.5	5.4	11.9	9.2	11.2	20.4	18.3	21.1	39.4	55.4
Afterpay EBITDA	58.9	25.2	57.0	82.2	69.2	84.8	154.0	125.8	149.0	274.9	427.5
Pay Now											
Revenue	17.1	8.1	8.4	16.5	8.5	8.7	17.1	8.7	8.9	17.7	18.2
Cost of sales	6.7	3.1	2.3	5.4	2.3	2.4	4.7	2.4	2.4	4.8	5.0
Gross Profit	10.4	5.0	6.1	11.1	6.2	6.3	12.4	6.3	6.5	12.8	13.2
Pay Now EBITDA	4.9	2.7	3.8	6.5	3.9	3.9	7.8	4.0	4.1	8.0	8.3
Corporate EBITDA	-35.1	-21.2	-23.2	-44.4	-29.2	-35.2	-64.4	-42.2	-48.5	-90.7	-109.4
Group Summary											
Group Revenue	218.0	187.7	262.6	450.3	372.9	449.1	822.0	611.7	701.9	1,313.6	1,841.9
Gross Profit	152.0	128.7	175.3	304.0	236.8	287.8	524.7	389.5	446.9	836.3	1,172.1
Group EBITDA	28.7	6.7	37.7	44.4	43.9	53.5	97.4	87.6	104.6	192.2	326.4
Interest Expense	11.0	6.5	5.4	11.9	9.2	11.2	20.4	18.3	21.1	39.4	55.4
Adjusted EBTDA	17.7	0.2	32.3	32.5	34.7	42.3	77.0	69.3	83.5	152.8	271.0
Depreciation	2.0	1.1	6.5	7.6	4.0	4.0	8.0	4.0	4.0	8.0	8.0
Amortisation (ex acq. related)	11.7	8.2	11.1	19.3	10.0	10.0	20.0	10.0	10.0	20.0	20.0
EBT	4.0	-9.1	14.7	5.6	20.7	28.3	49.0	55.3	69.5	124.8	243.0
Operating income tax expense	1.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	18.8	26.2	60.7
Underlying NPAT	3.0	-9.1	14.7	5.6	20.7	28.3	49.0	47.8	50.8	98.6	182.2
Share based payments	-30.5	-13.8	-16.7	-30.5	-15.0	-15.0	-30.0	-15.0	-15.0	-30.0	-30.0
Acquisition related amortisation	-8.7	-4.5	-4.5	-9.0	-4.5	1.4	-3.1	-1.5	-1.5	-3.0	-3.0
Significant items (after tax)	-16.2	-4.1	15.2	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit (A\$m)	-43.7	-31.6	8.7	-22.9	1.2	14.7	15.9	31.3	34.3	65.6	149.2
Loan Receivables											
Y/e June 30 (\$m)	2019	1H20	2H20e	2020e	1H21e	2H21e	2021e	1H22e	2H22e	2022e	2023e
Net customer loan receivables	453	761	782	782	1,615	2,007	2,007	2,747	3,158	3,158	4,343
[^]Afterpay Net Transaction Loss Split											
Y/e June 30 (\$m)	2019	1H20	2H20e	2020e	1H21e	2H21e	2021e	1H22e	2H22e	2022e	2023e
Gross Loss	-58.7	-47.8	-46.7	-94.5	-73.8	-94.8	-168.6	-129.7	-149.1	-278.9	-392.5
Late Fees	46.1	32.6	36.2	68.8	55.4	66.9	122.3	91.6	105.3	196.9	277.0
Other including cost of recovery	-9.6	-6.6	-10.5	-17.1	-13.8	-16.7	-30.6	-22.9	-26.3	-49.2	-69.3
Net Transaction Loss	-22.2	-21.8	-21.0	-42.8	-32.3	-44.6	-76.9	-61.1	-70.2	-131.2	-184.7

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Company Description

Afterpay (APT) is an emerging financial technology company that enables retail merchants to offer customers the ability to buy goods and services on a simple instalment plan with an easy and non-invasive application process, and at no additional cost to the end-customer. It is the combined entity of Afterpay (AFY), which was founded in February 2014 by Anthony Eisen and Nicholas Molnar and Touchcorp (TCH) the company that developed the payment technology.

Risks to Investment Thesis

Key risks for the stock include although are not limited to:

- **Merger/Integration risk** - Following the completion of the AFY/TCH merger, the combined group may fail to achieve the anticipated benefits, or may incur unforeseen costs in connection with the integration of both businesses which may have a material impact on the group's earnings;
- **Credit risk** – APT extends credit to end-customers via its receivables book for which the merchants pay a fee. While this is not a traditional lending model, the company is still exposed to the risk of default or a loss of principle. Therefore, the ability of APT's technology to adequately prevent and recover bad debt is crucial to the company's ongoing viability;
- **Funding risk** – APT currently funds its loan book through a combination of equity and debt, having now secured a debt financing agreement. APT's growth may be limited if it is unable to expand its receivables book through securing further increases in debt financing facilities or raise additional equity;
- **Key person risk** – Similar to other small capitalised stocks, the loss of any key personnel may be detrimental to APT;
- **Competition risk** – APT has first mover advantage offering reverse lay-by within Australia, however there is significant risk of new entrants and increased competition, particularly from established foreign companies;
- **Technology risk** – APT's algorithms assess an end-client's repayment capabilities and the risk of fraud automatically and in real-time. APT relies on its technology to process transactions and store client data. Any failure or breach of the technology could result in an interruption of service, or the loss/theft of private data and information;
- **Regulation & licensing risk** – While APT does not currently require an Australian Credit Licence (ACL), it is still subject to a range of legal and regulatory requirements. Any changes to regulations, policies, or laws could adversely impact the efficacy of AFY's business model;
- **Fraud risk** – APT guarantees payment to merchants and is therefore exposed to the risk of fraudulent end-customers. Failures in APT's algorithms to prevent fraud would adversely affect APT's performance;
- **Market risk** – A prolonged recession, economic crisis/shock, or other factors that may lead to a sustained weak market environment have the ability to increase the levels of defaults and adversely affect the earnings potential of the company. In addition, being a listed stock, the share price may be subject to volatility and fluctuations in price; and
- **Operational risk** – The operation APT relies on internal policies and technologies in relation to lending practices and anti-fraud. Any failure in internal controls could be harmful to AFY's performance.

Afterpay

as at 4 February 2021

Recommendation

Buy

Price

\$146.31

Target (12 months)

\$168.50

Table 1 - Financial summary

Afterpay Touch Group (APT)						Price Target (A\$)	168.50	Share Price (A\$)			146.31
						Recommendation:	Buy	Market Cap (A\$b)		41.7	
INCOME STATEMENT						VALUATION DATA					
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e
Group Revenue (Inc Late Fees)	264.1	519.1	944.3	1,510.4	2,119.0	Adjusted NPAT (\$m)	3.0	5.6	49.0	98.6	182.2
Group Revenue	218.0	450.3	822.0	1,313.6	1,841.9	Adjusted EPS (fully diluted) (c)	1.2	2.0	17.1	33.9	62.7
Gross Profit	152.0	304.0	524.7	836.3	1,172.1	EPS growth (%)	large	large	large	98%	85%
Group EBITDA	28.7	44.4	97.4	192.2	326.4	Diluted adjusted P/E ratio (x)	na	na	854.7	431.2	233.3
Interest Expense	11.0	11.9	20.4	39.4	55.4	CFPS (c)	-98.8	-63.4	-24.6	33.6	67.6
Adjusted EBTDA	17.7	32.5	77.0	152.8	271.0	Price/CF (x)	-148.0	-230.7	-595.9	435.4	216.5
Depreciation	2.0	7.6	8.0	8.0	8.0	DPS (c)	0.0	0.0	0.0	0.0	0.0
Amortisation (ex acq. related)	11.7	19.3	20.0	20.0	20.0	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EBT	4.0	5.6	49.0	124.8	243.0	Franking (%)	na	na	na	na	na
Operating income tax expense	1.0	0.0	0.0	26.2	60.7	EV/EBITDA (x)	1445.1	935.0	425.8	215.8	127.1
Underlying NPAT	3.0	5.6	49.0	98.6	182.2	EV/Sales (x)	158.6	80.7	44.4	27.7	19.9
Share based payments	-30.5	-30.5	-30.0	-30.0	-30.0	Price/book (x)	56.7	42.1	23.8	23.3	21.5
Acquisition related amortisation	-8.7	-9.0	-3.1	-3.0	-3.0	NTA/share (\$)	2.58	3.48	6.15	6.29	6.81
Significant items (after tax)	-16.2	11.0	0.0	0.0	0.0						
Reported profit (A\$m)	-43.7	-22.9	15.9	65.6	149.2						
CASHFLOW						PROFITABILITY RATIOS					
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e
EBITDA	17.7	32.5	77.0	152.8	271.0	EBIT/sales (%)	1.8%	1.2%	6.0%	9.5%	13.2%
Change in provisions	4.6	11.9	15.8	21.5	22.1	Return on assets (%)	0.5%	0.5%	1.8%	2.2%	3.1%
Working capital changes	-233.8	-164.3	-161.5	-52.4	-40.0	Return on equity (%)	0.7%	0.7%	3.6%	5.5%	9.6%
Interest earned	0.3	0.7	0.0	0.0	0.0	Dividend cover (x)	na	na	na	na	na
Tax paid	-0.3	-4.3	0.0	-26.2	-60.7	Effective tax rate (%)	25.0%	0.0%	0.0%	21.0%	25.0%
Associated company dividends	0.0	0.0	0.0	0.0	0.0	LIQUIDITY AND LEVERAGE RATIOS					
Other operating items	-21.8	-41.0	0.0	0.0	0.0	Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e
Operating cash flow	-233.3	-164.6	-68.7	95.7	192.4	Net debt/(cash) (\$m)	-181.2	-137.0	513.2	1,693.5	2,812.4
Stay in business capex	-1.7	-1.7	-7.6	-8.0	-8.0	Net debt/(cash) (ex SPV)*	-230.9	-601.8	-1,288.2	-1,322.9	-1,454.3
Growth capex & acquisitions	-15.7	-29.6	-20.0	-20.0	-20.0	Net debt/equity (%)	-27.9%	-14.5%	29.1%	92.7%	142.3%
Disposals	0.7	-1.8	0.0	0.0	0.0	Current ratio (x)	575.9	1,211.7	3,365.7	4,647.6	6,048.4
Investing cashflow	-16.7	-33.1	-27.6	-28.0	-28.0	Segments					
Dividends	0.0	0.0	0.0	0.0	0.0	Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e
Other investing items	4.0	-16.7	-30.0	-30.0	-30.0	Afterpay					
Share issues/(buy backs)	461.5	195.4	0.0	0.0	0.0	Revenue (Merchant Fee)	200.9	433.8	804.9	1,295.9	1,823.8
Other	96.9	339.4	-9.9	-9.0	-9.0	Processing Fee	48.3	129.0	272.3	433.1	609.5
Financing cash flow	562.4	518.1	-39.9	-39.0	-39.0	Finance Expense	11.0	11.9	20.4	39.4	55.4
Increase in cash/(debt)	312.4	320.4	-136.1	28.7	125.4	Gross Profit	141.6	292.9	512.2	823.5	1,158.9
Cash at end of period	231.5	606.0	1292.5	1327.2	1458.5	Net Transaction Loss	22.2	42.8	76.9	131.2	184.7
BALANCE SHEET						Operating Expenses	71.5	179.8	301.7	456.8	602.1
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	Afterpay EBTDA	47.9	70.3	133.6	235.5	372.1
Cash	231.5	606.0	1292.5	1327.2	1458.5	add back interest for Afterpay EBITDA	11.0	11.9	20.4	39.4	55.4
Loan receivables	452.7	781.9	2118.5	3333.5	4583.8	Afterpay EBITDA	58.9	82.2	154.0	274.9	427.5
Other receivables	3.0	10.7	18.2	70.2	96.2	Pay Now					
PPE	4.2	5.1	5.1	5.1	5.1	Revenue	17.1	16.5	17.1	17.7	18.2
Intangibles	49.3	66.8	66.8	66.8	66.8	Cost of sales	6.7	5.4	4.7	4.8	5.0
Other	70.7	131.3	242.8	306.8	372.6	Gross Profit	10.4	11.1	12.4	12.8	13.2
Total assets	820.5	1608.5	3750.7	5116.3	6589.7	Total Expenses	5.5	4.6	4.7	4.8	5.0
Payables	110.0	180.7	138.3	201.8	253.6	Pay Now EBITDA	4.9	6.5	7.8	8.0	8.3
Funding facilities	50.2	469.0	1805.7	3020.7	4271.0						
Interest bearing liabilities ex SPV	0.6	4.3	4.3	4.3	4.3	Corporate EBITDA	-35.1	-44.4	-64.4	-90.7	-109.4
Provisions	3.5	6.6	38.2	59.7	81.8						
Other	6.4	4.2	4.2	4.2	4.2						
Total liabilities	172.0	662.7	1988.4	3288.4	4612.7						
Contributed equity	677.7	978.0	1778.0	1778.0	1778.0						
W/A shares on issue	236.0	259.4	279.7	284.7	284.7						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Lafitani Sotiriou, authoring analyst, holds long positions in APT.

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