

Afterpay Limited ASX: APT

ASX Announcement

25 February 2021

Afterpay increases ownership of Afterpay US, Inc. and announces an offering of A\$1.25 billion convertible notes

Afterpay Limited (**Afterpay** or the **Company**) is pleased to announce that it has entered into an agreement with Matrix Partners X, L.P and Weston & Co X LLC (collectively, **Matrix**), and is launching a tender offer (**Tender Offer**) to eligible participants under the Afterpay US, Inc. 2018 Equity Incentive Plan (**US ESOP**) to increase its underlying interest in Afterpay US, Inc. from 80% today to up to approximately 93%.

Afterpay also announces that it will today launch an offering of A\$1.25 billion unsecured zero coupon convertible notes due 2026 (**Notes**), with an option to upsize the offering by up to A\$250 million. The Notes are convertible into fully paid ordinary shares in Afterpay (**Ordinary Shares**) (**Convertible Notes Offering**).

SUMMARY

- Afterpay has entered into an agreement with Matrix pursuant to which Matrix will waive 35% of the underlying interest it holds in Afterpay US, Inc. under the Matrix Convertible Notes for approximately A\$373 million in cash (**Matrix Transaction**). The final price will be determined by reference to the reference share price of the Convertible Notes Offering.
- The Matrix Transaction implies an acquisition price that values Afterpay US, Inc. (on a 100% basis) at 28% of Afterpay's total market capitalisation. The acquisition price is accretive to Afterpay shareholders across GMV, revenue and customer multiples.
- Concurrently, eligible US ESOP participants will be offered an ability to exchange their vested and unvested shares in Afterpay US, Inc. at the same implied valuation via the Tender Offer.
- Together, the Matrix Transaction and Tender Offer have the potential to increase Afterpay's implied ownership of Afterpay US, Inc. from 80% today to up to

approximately 93% (depending on how many US ESOP participants take up the Tender Offer) with the path to increasing ownership of Afterpay US, Inc. to 100%, consistent with our previous disclosures.

- Aligns with Afterpay's objective to simplify its corporate structure while ensuring that Matrix and US ESOP holders remain aligned with the ongoing interests and success of Afterpay as a whole.
- Afterpay intends to use the proceeds of the Convertible Notes Offering to (i) fund the Matrix Transaction, (ii) fund the cash component of the Tender Offer, and (iii) provide additional capital to continue to accelerate underlying sales growth.

MATRIX TRANSACTION

- Afterpay has entered into an agreement with Matrix to extinguish 35% of the underlying interest it holds in Afterpay US, Inc. under the Matrix Convertible Notes for approximately A\$373 million.
- The final price will be determined by reference to the reference share price of the Convertible Notes Offering.
- Matrix Transaction implies that the value of Afterpay US, Inc. (on a 100% basis) is 28% of Afterpay's total market capitalisation.
- Completion of the Matrix Transaction is contingent on settlement of the Convertible Notes Offering.
- Following completion of the Matrix Transaction, the number of Afterpay shares that may be issued upon conversion of the Matrix Convertible Notes will be calculated based on 6.5% of the future value of Afterpay US, Inc. in excess of US\$50 million. This will result in a corresponding 35% decrease in the maximum number of Afterpay shares that may be issued to Matrix in the future under the Matrix Convertible Notes.
- All other terms of the Matrix Convertible Notes will remain unchanged.

TENDER OFFER

- Eligible US ESOP participants will be offered an ability to exchange their vested and unvested shares in Afterpay US, Inc. at the same implied valuation as the Matrix Transaction via the Tender Offer.
 - Afterpay will acquire the lower of 25% of all shares (vested + unvested) held by a US ESOP participant, or all vested shares held by a US ESOP participant for cash;

- Any remaining vested shares in Afterpay US, Inc. will be exchanged for vested Afterpay shares; and
- All unvested shares in Afterpay US, Inc. will be exchanged for unvested Afterpay shares.
- Depending on the level of take up from eligible US ESOP participants, and the implied Afterpay US, Inc. valuation determined under the Matrix Transaction , proceeds utilised for the cash component of the Tender Offer could be up to approximately \$225m.
- The Tender Offer is driven by an intention to provide eligible employees with early access to liquidity, while ensuring that they remain committed to Afterpay.
- There will be no acceleration of vesting terms for US ESOP participants.
- The Tender Offer will open to all eligible US ESOP participants in the week beginning Monday, 1 March and those participants will have 20 business days to determine if they will accept the Tender Offer.
- Afterpay expects that a small tail of US ESOP securities will remain outstanding following completion of the Tender Offer.

HIGHLY STRATEGIC AND ACCRETIVE TRANSACTION

- The Afterpay Board considers the potential increase in ownership of Afterpay US, Inc. to be highly strategic and accretive:
 - The US market represents Afterpay's largest opportunity globally, with 8.1 million active customers as of 31 December 2020, comprising 62% of Afterpay's active customer base and 43% of underlying sales for H1 FY21;
 - Customer acquisition and cohort purchase frequency, together with merchant acquisition rates bodes well for continued strong medium-term growth in the US;
 - The transaction and the agreed 28% valuation ratio will be strongly accretive to Afterpay's shareholders across all key metrics – which includes active customers, underlying sales and revenue;
 - A path to increasing ownership of Afterpay US, Inc. to 100% is consistent with our previously stated strategy;

- Aligns with Afterpay's objective to simplify its corporate structure while ensuring that Matrix and US ESOP holders remain aligned with the ongoing interests and success of Afterpay as a whole; and
- US ESOP holders will remain highly incentivised given the large proportion of unvested US ESOP securities that will be exchanged for unvested Afterpay shares and subject to their existing vesting schedules. This will additionally create greater alignment with company outcomes which has become more relevant as Afterpay continues to develop a global functional organisational structure.

CONVERTIBLE NOTES OFFERING

- Afterpay intends to use the proceeds of the Convertible Notes Offering to (i) fund the Matrix Transaction, (ii) fund the cash component of the Tender Offer, and (iii) provide additional capital to continue to accelerate underlying sales growth.
- Afterpay will apply for the Notes to be listed on the Official list of the Singapore Exchange Securities Trading Limited (SGX-ST).
- The Convertible Notes Offering is being marketed to eligible investors with the final terms of the notes to be determined via a bookbuild process expected to be completed prior to market open tomorrow.
- Concurrent with the Convertible Notes Offering, a delta placement of Ordinary Shares will be executed to facilitate some of the hedging activity in relation to the Notes. The clearing price per Ordinary Share under the delta placement will be used as the reference share price for the Notes.
- Pricing of the Convertible Notes Offering will be determined during the course of the day via a bookbuild while Afterpay is in a trading halt.
- More details on the key terms of the Convertible Notes Offering is provided in the appendix.

ADVISERS

Highbury Partnership Pty Limited is acting as financial adviser to Afterpay across the Matrix Transaction, Tender Offer and Convertible Notes Offering.

Citigroup Global Markets Limited, Goldman Sachs International, and J.P. Morgan Securities plc are acting as Joint Lead Managers (JLMs) on the Convertible Notes Offering.

DISCLAIMER

This announcement does not constitute or form part of any offer to purchase, a solicitation of an offer to purchase, an offer to sell or an invitation or solicitation of an offer to sell, issue or subscribe for any securities.

Neither this announcement nor any copy hereof may be taken into or distributed in the United States.

The information contained in this announcement is not for distribution, directly or indirectly, in or into the United States. This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Ordinary Shares and the Notes mentioned herein have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the Securities Act), and may not be offered or sold in the United States except pursuant to registration or an exemption from the registration requirements of the Securities Act. No public offering of the Ordinary Shares or the Notes will be made in the United States.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The JLMs, together with their respective related bodies corporate, shareholders and affiliates, and each of their respective officers, directors, employees, affiliates, agents and advisers (each a Limited Party) have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this announcement and there is no statement in this announcement which is based on any statement made by the JLMs or any other Limited Party. To the maximum extent permitted by law, the JLMs and each other Limited Party expressly disclaim all liabilities (including for negligence) in respect of, and take no responsibility for, any part of this announcement, and make no representation or warranty (whether express or implied) regarding any part of this announcement, including as to the currency, accuracy, reliability or completeness of any information in this announcement.

Neither the JLMs nor any other Limited Party makes any recommendation as to whether any potential investor should participate in the Convertible Notes Offering. Further, neither the JLMs nor any other Limited Party accepts any fiduciary obligations to or relationship with any investor or potential investor in connection with the Convertible Notes Offering or otherwise, and by accessing this announcement each recipient expressly disclaims any such fiduciary relationship and agrees that it is responsible for making its own independent judgements with respect to the Convertible Notes Offering and any other transaction or other matter arising in connection with this announcement.

The JLMs and other Limited Parties may have interests in the securities of Afterpay. Further, they may act as market maker or buy or sell those securities or associated derivatives as principal or agent. Such persons may receive fees or other benefits for engaging in these activities.

Determination of eligibility of investors for the purposes of the Convertible Notes Offering is determined by reference to a number of matters, including legal and regulatory requirements, logistical and registry constraints and the discretion of Afterpay and/or the JLMs. To the maximum extent permitted by law, Afterpay, the JLMs and the Limited Parties each disclaim any duty or liability (including for negligence) in respect of the exercise of that discretion or otherwise. The JLMs may rely on information provided by or on behalf of institutional investors in connection with managing, conducting or underwriting the Convertible Notes Offering without having independently verified that information and the JLMs do not assume responsibility for the accuracy or completeness of the information.

Authorised by

Anthony Eisen

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Ends

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KEY TERMS OF THE NOTES

Item	Description
Issuer	Afterpay Limited
Base Issue Size	A\$1.25 billion
Same Day Upsize Option	Up to A\$250 million
Status	Direct, unconditional, unsubordinated and unsecured obligations of the Issuer
Maturity Date	On or about 12 March 2026 (5 years)
Coupon / Yield to Maturity	Zero
Conversion Premium	35.0 - 45.0% above the Reference Share Price
Reference Share Price	The clearing price of the Delta Placement
Delta Placement	<p>The Joint Bookrunners (and/or their respective affiliates) will facilitate some or all of the hedging activity that may be executed by investors in the Notes offering</p> <p>The clearing price of the Delta Placement will be used as the Reference Share Price to determine the Initial Conversion Price of the Notes</p> <p>The manner of conducting the Delta Placement will be determined by the Joint Bookrunners in consultation with the Issuer</p>
Conversion Price Adjustment	Standard anti-dilutive adjustments including Conversion Price adjustment for all dividends paid by Afterpay.
Listing	SGX-ST
Selling Restrictions	Reg S (Cat 1) only