

# Afterpay Touch Group Ltd



## Growth Portfolio

**Overview:** Afterpay Touch Group Ltd ("Afterpay", "the Company") is an Australian technology company focused on payment technologies. The Company enables retail merchants to offer their customers the ability to buy goods and services on instalment plans at no extra cost to the end-user. As of November 2018, Afterpay had 2.9 million customers and 21,000 retail merchants on-boarded. The combined entity listed on the ASX in June 2017 following the merger of Afterpay Holdings Ltd and Touchcorp Ltd.

START UP

GROWTH

MATURITY

**Catalysts:** Afterpay has experienced rapid growth in Australia and New Zealand across all key operational metrics – active customers, total transactions and integrated retailers – and we see potential for this trend to accelerate as the international expansion gathers pace. Afterpay launched into the US and UK in 2018 and early traction in the US has been promising with Afterpay successfully expanding its footprint in a market 25x larger than Australia. Successful adoption of its payment technology in foreign markets could be a long-term revenue growth driver.

**Hurdles:** Afterpay's valuation assumes ongoing growth and there is no guarantee that the Company's international expansion will be sustainable. Operating in the highly regulated payments market, Afterpay could be sensitive to legislative changes. There are risks of deteriorating consumer sentiment or customer's ability to make repayments, which may put downward pressure on its operating margins. Afterpay operates in a highly competitive environment and may be subject to rising competition.

**Investment View:** Afterpay offers speculative exposure to online retail trends and emerging payment technologies. We are attracted to its revenue growth trajectory, penetration of the AUS/NZ market and early signs of success in the US market. Risks include regulatory changes, changes in consumer sentiment, competition and potential failure of its aggressive international expansion strategy. The US market has a inherently higher credit risk than Australia, however, to date management have demonstrated a strong track record of scaling-up the business via organic growth and acquisition. Following a 30% share price correction we initiate coverage with a "buy" recommendation.

CHECKLIST		
MANAGEMENT	Strong track record of value creation	✓
FINANCIALS	Sales increasing, \$xx cash	✓
CATALYSTS	Launch in US & UK markets, ongoing growth	✓
SHARE REGISTER	Rising institutional support	✓
STOCK PRICE	Long-term uptrend	✓

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18 January 2019

Price: \$14.25

### BUY

Stop: \$11.20

Target: \$20.50

#### DISCLOSURES

REPORT COMMISSIONED BY	Wise-owl
AUTHOR OWNS THIS SECURITY	No
COMPANY OWNS THIS SECURITY	No

#### CORPORATE SUMMARY

TICKER	APTASX
INDUSTRY	Technology
SHARES ON ISSUE	234.3m
OTHER SECURITIES	~14.5m options (\$0.20-\$16.96)

MARKET CAP	\$3.3bn
CASH	~\$140m
ISSUED CAPITAL	~\$310m

#### FINANCIAL OVERVIEW FY18

REVENUE	\$113.9m
EBITDA	\$27.7m
GROWTH YOY	300%+
PE	N/A
DIVIDEND YIELD	N/A

#### BOARD OF DIRECTORS

CHAIRMAN	Anthony Eisen
GROUP HEAD	David Hancock

#### TRACK RECORD

VALUE CREATION	Strong
OPERATIONS	Strong
CAPITAL MARKETS	Strong

#### SHAREHOLDERS

ANTHONY EISEN	10.3%
NICHOLAS MOLNAR	10.3%
TOP 20	63.5%

#### SHARE PRICE



18 January 2019

## GLOSSARY

<b>Buy</b>	Increasing value of established business operations is likely to yield share price appreciation
<b>Spec Buy</b>	Increasing value of a new or developing business operation is likely to yield share price appreciation.
<b>Hold</b>	There exists an even balance of risks.
<b>Sell</b>	There is elevated risk of share price depreciation
<b>Stop</b>	Our recommended, pre determined sell price, to be executed if the share price fails to appreciate
<b>Start Up</b>	The earliest phase of a company's life cycle, and typically the most risky as new ventures are tested in the market place. These businesses are usually reliant on external capital to fund day to day operations.
<b>Growth</b>	Refers to companies that are seeking to expand their presence after achieving a degree of market success. External capital may be required to fund their expansion.
<b>Maturity</b>	Refers to companies that are well established in their market place with little to no external capital requirements.

## ARCHIVES – GROWTH PORTFOLIO

GENETIC SIGNATURES	SEP – 18
ALS LIMITED	AUG – 18
NONI B LIMITED	AUG – 18
FLEETWOOD CORPORATION	JUL – 18
REGIS RESOURCES	JUN – 18
INDEPENDENCE GROUP	APR – 17

## ANALYST

### WISE-OWL

@ admin@wise-owl.com

1300 306 308

www.wise-owl.com



## ABOUT US

Wise owl is a global supplier of intelligence, strategic solutions, and expansion capital for emerging companies and investors. Established in 2001, wise owl drives efficient capital allocation towards developing assets.

### MEDIA PARTNERS:



## CONTACT

Wise-owl Holdings  
Level 12, 6 O'Connell St  
Sydney NSW 2000

Phone Australia 1300 306 308  
International +61 2 8031 9700

Intelligence Centre  
[www.wise-owl.com](http://www.wise-owl.com)

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