

## ASX Announcement 26 February 2021

Strong delivery in H1 FY21 sets scene for new phase of Openpay's growth

### Delivering to strategy - H1 FY21 key highlights:

1. **Commenced launch into US market as Opy:** executive team in place; product being tailored for US audience; in late-stage discussions with big brand enterprise merchants and large-scale aggregators
2. **Switched gears in UK:** business growing rapidly in Retail, planning move into Healthcare and Auto verticals where longer plan lengths / higher values drive stickiness and higher average transactions
3. **Scaling / launching new products in ANZ:** through partnerships with one-to-many aggregator partners; entry into new verticals and continued integration of OpyPro (formerly Openpay for Business) with Woolworths

**Highly differentiated:** Openpay's customised higher value, longer plan length product across key verticals provides a clear differentiator, well-liked by merchants, customers, and payment processors

### Continued strong growth across all key metrics:

- Active Plans of 1,447k up 213% relative to pc<sup>1</sup>
- Active Customers of 461k up 123% relative to pc<sup>1</sup>, with 78% of new plans generated from Repeat Customers and 49% of Active Customers with more than one plan
- Active Merchants of 2,766 up 46% relative to pc<sup>1</sup>; percentage of Active Merchants per vertical strongest in key verticals of Automotive and Healthcare at 43% and 37%, respectively
- Total Transaction Value (TTV): strongest half on record, up 96% in H1 FY21 vs pc<sup>1</sup>, to \$165m; revenue of \$13.4m, up 63% relative to pc<sup>1</sup>
- Solid path to profitability, with gross revenue yield of 8.1% (H1 FY20: 9.8%); net transaction margin of 1.4% (H1 FY20: 4.0%), and net bad debt ratio of 2.0% (H1 FY20: 2.2%)

### Well-funded for continued growth:

- Openpay remains well funded with a strong mix of available cash and debt for a total funding runway of \$173m to support expected portfolio growth
- Cost of funding reduced by ~50 bps in H1 FY21, driven by optimisation of the portfolio's funding mix

MELBOURNE Australia, 26 February 2021: 'Buy now. Pay smarter.' company, Openpay Group Ltd (ASX: OPY) (**Openpay** or the **Company**) is pleased to release its half-yearly business update for the period ended 31 December 2020 (H1 FY21). Openpay delivered record Total Transaction Volumes while retaining a market-leading gross revenue yield in H1 FY21 and has commenced H2 FY21 set for a new phase of growth.

Openpay CEO, Michael Eidel commented: "H1 was a scene setter for Openpay. We announced our highly targeted and customised strategy to enter the US – one of the world's biggest payments market, leveraging deep industry experience and knowledge. Having built a strong Retail customer base in the UK, we are now preparing to bridge into Healthcare and Automotive – two verticals which have driven Openpay's differentiation in Australia. Through our B2B product, OpyPro, we are positioned to tap into the multi-trillion dollar enterprise payments market."

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<sup>1</sup> Prior comparative period H1 FY2020

*“We have carved out an attractive space in an increasingly popular global BNPL market with our customised higher value, longer duration plans. We are winning big business on the basis that we can be flexible and respond to merchant needs. While this has been successful to date, the new inflection points reached in H1 indicate we are only just getting started. The current half will be pivotal for Openpay as we enact our US strategy, grow into new UK verticals and continue with our local growth in both consumer and B2B payments.”*

### Longer-term, higher-value plans and strong growth in core verticals

Active Plans increased 213% vs pcg to 1,447k. Main growth drivers during H1 were peak Retail season, with the largest trading day/week around the Black Friday shopping event, and the recovery of bricks and mortar growth rates in Openpay’s specialised verticals (particularly Healthcare and Automotive). Another key contributor was merchant onboarding automation which was rolled out during the half, enabling growth in merchants and delivering new transaction opportunities for customers.

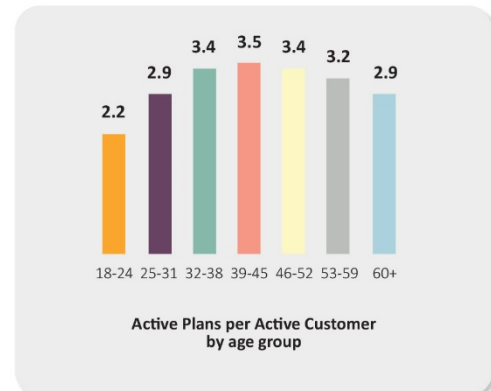
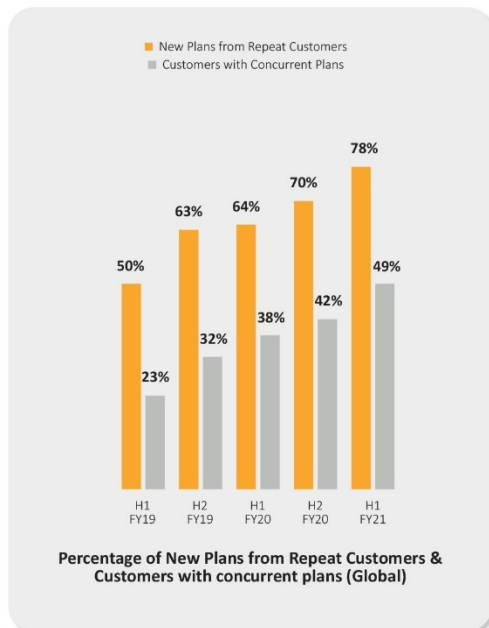
Openpay’s plan mix is strongly skewed to comparatively longer-term and higher-value plans with three to five-month plans accounting for 71% of TTV in H1 FY21. This average plan length (> 3months) positions Openpay in a space where competition is less pronounced than in the heavily contested short-term “pay-in-4” plan range<sup>2</sup>. While Retail still accounts for the majority of Active Plans, with 142% plan growth in Australia and 1,059% in the UK (overall 244%) in H1 FY21 versus pcg, Openpay is experiencing strong growth in its core verticals, with a 66% increase in Health and 41% increase in Automotive versus pcg.

An Active Customer growth rate of 123% vs pcg was achieved at an aggregate level across all merchant verticals, and Openpay finished the half with 461k Active Customers.



Strong customer engagement and awareness led to 78% of plans being held by repeat customers, with close to every second customer holding multiple concurrent plans at the end of the half.

<sup>2</sup> “Pay in 4” is a term used to describe where customers break down their BNPL purchase into four equal payments across (usually) two months or less. | \* Percentage change on pcg



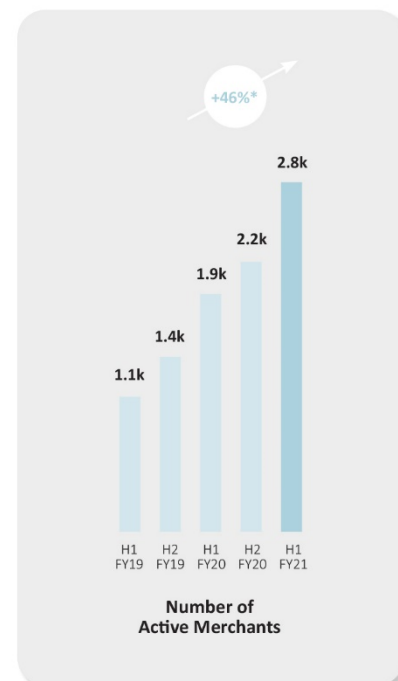
Customer usage during the half was strongest across the 32 to 52 year age categories, where Openpay plan usage as a budgeting tool across multiple verticals is highest.

Usage was strongest amongst females, who accounted for 67% of Active Plans during the half.

### **New self-service program contributes to robust H1 growth in Active Merchants**

Overall, Active Merchants grew 46% versus pcp to 2,766 as at end H1 FY21. This increase stems from the successful launch of Openpay's automated self-service program which significantly shortens and simplifies onboarding, particularly of small and mid-sized merchants.

Openpay's differentiated offering was demonstrated through an Active Merchant mix, where 43% of overall Active Merchants were in the Automotive vertical and 37% in the Healthcare vertical.



\* Percentage change on pcp

### **TTV skewed toward online Retail, while differentiated verticals transacted mostly instore**

Customers using Openpay online accounted for 55% of TTV, while instore transactions accounted for 45%. In the Retail vertical, 67% of TTV originated online and 33% originated instore. In Automotive, 97% of transactions were instore; 99% were instore in Healthcare, and 98% of Home Improvement were instore.

With this business mix, Openpay captures the significant growth opportunity in Retail with its differentiating longer-term plans (at an average of 3-4 month duration), and excels in building a strong relationship-based business instore across its verticals with highly favourable economics (strong margins, fewer losses).

### **Targeting enterprise merchants, e-commerce and aggregators**

Key tenets of Openpay's strategy to drive growth at scale relate to purposeful merchant acquisition, targeting:

- Large scale aggregators: with a one-to-many approach, delivering native integrations into payment processors, point of sale systems and e-commerce platforms, in a combination of exclusive and large-scale platform deals
- Big brand enterprise merchants and master merchant channel partnerships

### ***Aggregators – sample wins from established markets***

#### **Australia**

In February integration with leading dealer management software platform (DMS), Pentana went live. Roughly 2,500 car franchise dealerships across Australia – or 60% of Australia's new car franchise dealerships, such as AHG Eagersz, Inchcape and Peter Warren, use Pentana's DMS. The Openpay / Pentana exclusive agreement enables car dealership service advisors and aftermarket consultants to offer their customers more time and a smarter way to pay.

In Healthcare, a partnership went live with leading veterinary software provider, ezyVet to provide payments solutions for the veterinary care market in Australia. Openpay also secured a strategic revenue share partnership agreement with digital health group 1st Group (ASX: 1ST) in July 2020, involving a phased rollout across the MyHealth1st network which will see Openpay plans offered to patients of dental and optometry practices that provide services through the MyHealth1st.com.au health services portal.

In the new Memberships vertical, Openpay signed a Merchant agreement and referral partnership deal with sports, leisure and hospitality SaaS technology provider, MSL Solutions Limited (ASX: MSL) to provide access exclusively to Openpay plans to MSL's 400 golf club customers and up to 135,000 golfers.

The growth into Memberships was further cemented with the signing of a fully integrated exclusive partnership with Stack Sports in Australia, New Zealand and the UK. The integration enables players, members and parents of sport clubs, associations and leagues from a grass roots to professional sporting level, with the opportunity to pay for their membership and registration fees in fortnightly instalments over 2 to 6 months, interest-free.

#### **UK (Retail vertical only)**

An integration partnership deal was signed with APEXX payment gateway. APEXX is a payments processor which works with numerous enterprise Retail brands.

A strategic partnership with omni-channel Retail system provider, Retail and Sports Systems (RSS), provides access to multiple sports brands in the RSS portfolio, with Fulham FC, Wolverhampton Wanderers FC and Brentford FC and Hull Kingston Rovers all launching through H1 FY21.

### ***Big brand enterprise merchants***

#### Australia

Delivering on our strategy to expand into original equipment manufacturers (OEM), with OEM partnerships enabling scale and strong utilisation into dealership groups, Openpay has signed a deal with Ford Motor Company of Australia Limited (Ford Australia). Under the partnership, Ford can offer the Openpay Buy Now, Pay Later (BNPL) solution to its dealership network across Australia to support customer car servicing needs (repairs, parts and accessories) well beyond the expiry of capped-price servicing. Under the terms of the agreement, Ford will endeavour to ensure that Openpay is introduced and available at every point on the customer journey via booking engines, online and instore visibility.

Launch of Openpay's partnership with leading Australian office supplies, furniture, technology and student supplies retailer, Officeworks was announced in February 2021. The partnership will see Openpay's "Buy now. Pay smarter." plans rolled out across Officeworks online and instore Australia-wide in February and March respectively, to "help make bigger things happen".

Other major Australian merchants signed included Kogan and its brands Dick Smith and Matt Blatt, as well as Barbeques Galore. JD Sports Australia signed in the Retail vertical, complementing the existing agreement with JD Sports in the UK market and demonstrating Openpay's capability to acquire leading enterprise retailers across multiple regions. Notable Retail launches in Australia during H1 FY21 included Kookai, Glue Store, Sportsmans Warehouse, Lego and Sleeping Duck.

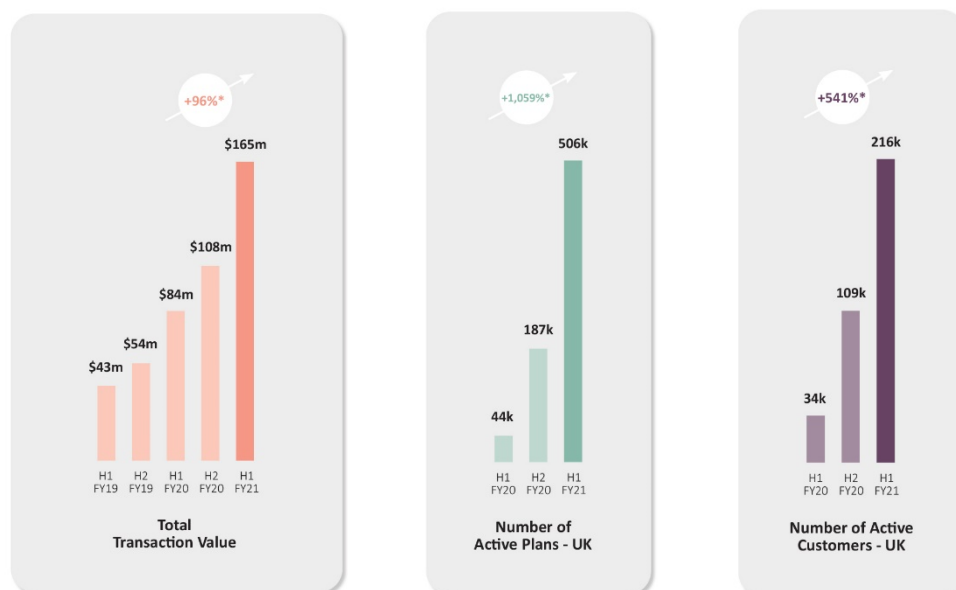
Referral partnerships were signed with The Invisible Orthodontist (100 orthodontic locations), and United Health Services (150 allied health businesses), both of whom have been promoting Openpay to their members from January.

#### UK (Retail vertical only)

Significant UK post H1 agreements signed included established fashion and accessories brands Monsoon and Accessorize, which are well aligned to the Openpay target demographic, and consumer electronics brand Maplin. The Hut Group (THG) launched with nine brands during the half including lookfantastic.com, myprotein.com, Zavvi.com and Probikekit.com.

### **TTV growth reaches new inflection point in H1 FY21**

In H1 FY21, Openpay recorded a new TTV inflection point, up 96% vs pcip to \$165m. A daily TTV record of >\$1m was achieved following on from Black Friday trading, and more than \$5 million TTV was achieved during that trading week. Openpay continued to record additional >\$1 million TTV days during the remainder of Q2 FY21, as a result of increased awareness and availability of Openpay and a growing merchant base.



### Growth accelerates in the UK

Strong momentum continued in Openpay's UK business during H1 FY21, with Active Plans increasing 1,059% to 506k and Active Customers up 541% to 216k, contributing 47% and 72% of overall growth in Active Plans and Active Customers respectively for the half.

### OpyPro (formerly Openpay for Business) revenue and sales pipeline building

OpyPro, the capital light, SaaS-based B2B product, recorded continued revenue growth through H1 FY21. The main contributor to this growth was Woolworths Group, which is transitioning business customers onto the Openpay platform, exclusively. During H2 FY21, Openpay expects the roll-out across all stores to be complete, enabling all trade customers the ability to transact at Woolworths Group banners, including Woolworths Supermarkets and BigW, instore and online.

Openpay is working closely with Austrade to explore global opportunities in parallel to the maturing Australian pipeline build.

### Continued strong financial performance during H1 FY21 with a clear path to profitability

Openpay recorded a Net Loss Before Tax for the half of \$(25.5)m, which was an increase of 60% vs pcp, and is representative of the Group's stage of overall development. By maintaining positive gross revenue and net transaction margin momentum the Company expects to be able to support its global fixed cost base, and become profitable in the medium-term.

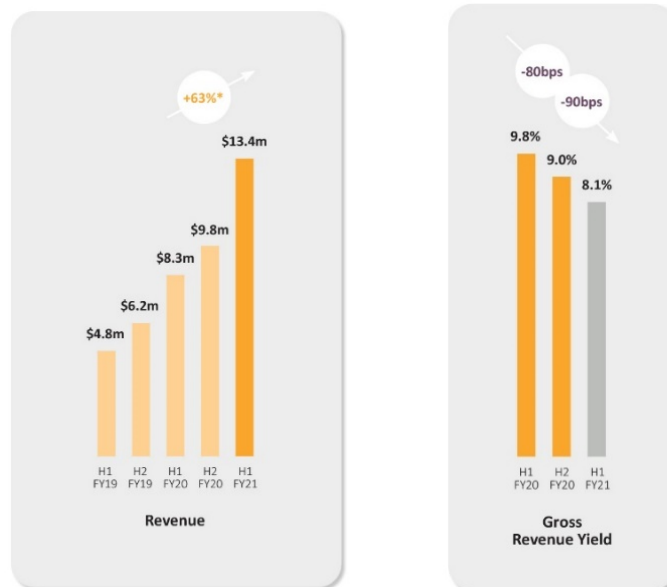
#### Revenue and margins

Revenue for H1 FY21 increased to \$13.4m (H1 FY20: \$8.3m), up 63% vs pcp. The gross revenue yield as a percentage of TTV recorded was 8.1% for H1 FY21, down from 9.8% for H1 FY20, with the net transaction margin (NTM)

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\* Percentage change on pcp

following a similar pattern to the gross revenue margin, recording 1.4% for the half. The lower NTM in the first half represents the mix shift toward the Retail vertical during peak season trading, with a reversion to higher margins during Q3 FY21 expected, when other vertical TTV become more prominent. This trend has thus far been confirmed during Jan21-Feb21. Additionally, during Q3 FY21 there has been a notable increase in B2B customer on-boarding that will additionally enhance the overall revenue margins of the Group.



Pleasingly, Openpay notes an improvement in operating leverage, through the reduction in its funding cost rate by ~50 bps in H1 FY21, driven by the optimisation of the portfolio's funding mix. This is a key part of the Group's funding strategy, and path to profitability, with a focus on less capital intensive funding vehicles (such as warehouse funding) included in the roadmap.

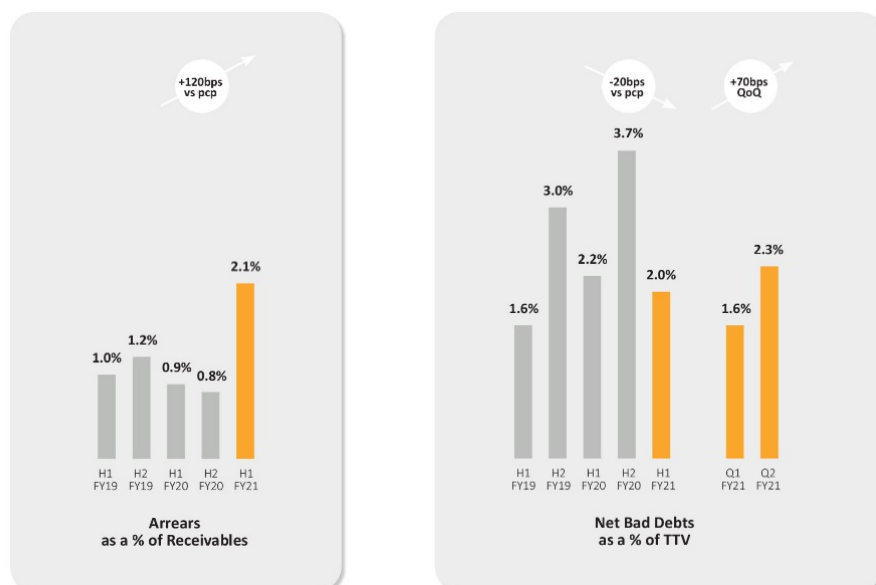
#### Portfolio performance

The Net Bad Debt ratio as a percentage of TTV as at H1 FY21 remains stable and within expected levels, at 2.0% compared to the pcp level of 2.2%. Whilst the overall loss rate has been stable the Group notes an increase in loss rate and arrears, attributable to a combination of peak seasonal TTV growth within the Retail vertical, combined with early-stage loss performance evidenced within a new geography, such as the UK.

The Group expects loss rates to reduce and stabilise over time, as each portfolio matures and a presence in all verticals balances overall performance with lower loss rates.

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\* Percentage change on pcp



### Operating expenses

In H1 FY21, Openpay invested in its technical platform to enable its self-service and automated onboarding facilities for merchants, funding management platforms and other parts of its corporate infrastructure in the UK and the US. Total operating expenses for the period were \$39.1m (H1 FY20: \$24.2m), reflecting continued investment in growth, commencing US launch and driving further growth in the UK, including into new verticals.

Notably, key areas of investment during the period included strengthening human resource capability to allow for continued business growth in existing geographies, as well as readying for entry into the US. Thus, the employee benefits expense grew by 61% to \$11.6m. Additionally, advertising and marketing expenditure increased to \$3.9m within the period, to support record TTV growth, whereas the growth in receivables impairment expense by 92%, to \$5.8m, maintains the overall loss rate within the period at 3.5% of TTV (as compared to H1 FY20 at 3.6%).

### Cashflows and funding

Cash as at 31 December 2020 totalled \$39.3m (30 June 2020: \$70.1m), reflecting anticipated high disbursements made to merchants, relating to seasonally heightened trade. As repayments related to peak season trade are made by customers during the second half of the financial year, a reversion to more normalised levels is expected in Q3 FY21.

Cash receipts in H1 FY21 were \$166.4m – a 117% increase over the previous corresponding period, comprised of accounts receivables, consumer and merchant fees collected during the period. The movement in Openpay's accounts receivables balance reflects the timing difference between the collection of TTV from customers and payments made to merchants at the time of purchase.

As a result, net operating cash outflows for the half totalled \$37.2m (H1 FY20: \$30.2m), driven by increases in Active Plans, TTV volumes and continued investment for future growth.

In addition to its cash position, of \$39.3m, as at H1 FY21, Openpay has \$45.0m available in undrawn Australian debt facilities, and £50m in UK undrawn facilities (\$88.4m), translating into a total funding runway of \$172.7m to support further expected portfolio growth.



#### Balance sheet and financial position

Record TTV performance during H1 FY21 translated into a receivables position of \$61.1m, representing a 32% increase from 30 June 2020, with the only other notable asset movement being the seasonal outflow of cash due to merchant disbursements (as outlined in the above section).

Borrowings of \$46.2m increased by 24%, as compared to 30 June 2020, which represents principally the growth in utilisation of funding facilities to support portfolio growth.

#### **Openpay UK prepares to bridge into Health and Auto**

Openpay UK is preparing to move into other highly attractive verticals – Automotive and Healthcare. This expansion comes after Openpay's rapid growth in the UK and follows the stated strategy of first developing a strong Retail customer base, then cross pollinating into the specialist verticals where the Company has been successful in Australia.

#### **Upcoming rollout in the US with key strategic partners**

Identifying a significant market opportunity, in December, Openpay commenced its launch into the nascent US BNPL market under the brand, Opy with the appointment of a highly regarded US executive team, led by payments and fintech industry veteran, Brian Shniderman.

The San Diego, California based Opy is focused on delivering to its customised US market strategy under the following six pillars:

1. **Recruiting strong leadership** – with the core four leaders on board, a modest number of additional, focused appointments will be made to drive the US business in H2 FY21
2. **Launch a wholesale merchant strategy and distribution model** – currently in advanced discussions with partners regarding the initial inaugural launch of OpyPay into the US
3. **Create large-scale sustainable ecosystem partnerships** – prioritised negotiations are in progress with potential funding partners, payments processors and foundational merchants in core verticals
4. **'Americanise' the platform** – development work in progress to prepare Openpay's flexible tech platform to support US-centric payment options
5. **Product tuning: designed by US merchants, for US merchants** – focusing on regulated product that can enable larger transactions in markets ripe for disruption
6. **Pivot, expand and scale from our areas of strength** – focusing first on Healthcare, Auto (repair and services) Education and Home Improvement

In February, Opy expanded its US executive team with Larry Wine joining as US Chief Commercial Officer. Larry has a proven track record of success, outstanding growth and exceptional value creation. Larry has led multiple successful high growth initiatives in the payments space, most notably in growing Worldpay / RBS Lynk to a multi-vertical leader as well as the transformation of Paymetric to a global leader in enterprise integrated, secure payments for ERP from on-premise to SaaS.

Prior to joining Openpay he was President of Bridge2 Solutions, the market leader in enterprise loyalty and rewards solutions for the financial services, fintech and airline industries. Bridge2 Solutions was recently acquired by Bakkt where Larry subsequently served as Chief Operating Officer.

### **Regulatory update – acting responsibly is core to everything we do**

Customer centricity and responsibility are core to Openpay's business, and we seek to design our products to be beneficial and fair for consumers, providing flexible plans with no hidden catches.

In Australia, Openpay is a code compliant member of the Australian Finance Industry Association (AFIA). It is expected that the AFIA Buy Now Pay Later Code of Practice will commence in March 2021.

In February, Openpay communicated its support of the Financial Credit Authority's Woolard review, stating its commitment to continuing its work with the FCA to help ensure that any further regulatory changes ensure consumer choice, product innovation and strong consumer protections.

Openpay embraces modern and proportionate regulation in all markets. As outlined prior to the FCA Woolard Review, the Company is seeking to become authorised by the FCA to support growth ambitions, irrespective of whether regulations change. Accordingly, Openpay does not anticipate that any regulatory changes in the UK will have an adverse impact on Openpay's financial performance.

### **Outlook – a new period of growth**

**Openpay's customised higher value, longer plan length product across key verticals provides a clear differentiator, well-liked by merchants, customers, and payment processors.**

Leveraging its core capabilities, key differentiators and geographic footprint, Openpay is positioned for a new growth evolution from H2 FY21 onwards, focused on the following areas:

1. **US market development:** executive team in place; product being tailored for US audience with focus on regulated product; in late-stage discussions with big brand enterprise merchants and large-scale aggregators
2. **UK business development:** business growing rapidly in Retail, progressing move into Healthcare and Auto Home Improvement verticals where longer plan lengths / higher values drive stickiness and higher average transactions
3. **Scaling / launching new products in ANZ:** through partnerships with one-to-many aggregator partners; entry into new verticals and additional OpyPro business development opportunities

### **Investor conference call**

Investors are invited to attend a conference call **today at 11:30 am AEDT** (Sydney time) to discuss today's H1 FY21 results update. Please register ahead of time, using the following link:

[https://us02web.zoom.us/webinar/register/WN\\_RSptL8q9RCKW0SqeJ0Ijlw](https://us02web.zoom.us/webinar/register/WN_RSptL8q9RCKW0SqeJ0Ijlw)

Openpay looks forward to making regular market updates regarding its substantial growth plans.

Authorised by  
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### About Openpay

Openpay Group Ltd (ASX: OPY) is a fast-growing and highly differentiated player in the global 'Buy now pay later' (BNPL) payment solutions market. The Company's strong platform enables it to deliver the most flexible plans in the market with durations of 2–24 months and values of up to \$20,000.

Openpay focuses on industries where it can make a true difference: Automotive, Healthcare, Home Improvement, Memberships and Education; and its target customers are finance-savvy and of an older demographic who use Openpay plans as a cashflow management tool.

Openpay also has a unique B2B offering, OpyPro (formerly Openpay for Business), a SaaS-based platform that allows companies to manage trade accounts end-to-end, including applications, credit checks, approvals and account management in the one system.

Openpay provides services to Customers and Merchants in Australia, New Zealand, the UK and entered the US market, under the brand name Opy, in December 2020.

See more at [www.openpay.com.au](http://www.openpay.com.au).