



AFTERPAY ECONOMIC IMPACT

AUSTRALIA 2020

Commissioned by

afterpay 

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Note: All dollar figures are in Australian dollars and accurate as of 2020.



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AFTERPAY'S ECONOMIC IMPACT IN AUSTRALIA

Merchant benefits of Afterpay



Afterpay connected **48,000 Australian merchants** to **3.0M Australian customers**, generating **\$7.6B in total sales** in 2020



This includes **38,000 Australian small and medium-sized businesses (SMBs)** who generated **\$1.7B in total sales**



Australian merchants derived **\$3.0B in net benefits** from Afterpay through **incremental sales and cost efficiencies**



Spending by consumers on Afterpay supported **63,000 jobs** across the economy



Afterpay helped **12,800 regional merchants** to connect with **0.5M customers**. **Regional merchants generated \$510M in sales**



Afterpay helped merchants generate **\$41M in export sales** through the cross-border trade program

Consumer benefits of Afterpay



Australian consumers derived **\$135M** in value from using Afterpay



90% of users say that Afterpay **helps with budgeting**



Consumers **saved \$110M in fees** when using **Afterpay** instead of credit cards



Vulnerable consumers **gain** the most from **switching from credit cards to Afterpay**. The most vulnerable credit card users pay up to 7 times more in fees than compared to Afterpay users

Executive Summary

The impact of COVID-19 and subsequent economic recovery have created permanent shifts in consumer behaviour in Australia's retail sector. This has been compounded by broader structural shifts already underway – including the continued growth of e-commerce, digital payment technologies and changing consumer values.

In response to these changes, Australian businesses have proven highly resilient and adapted quickly. New distribution channels, online marketplaces, home delivery, and new financial and regulatory technology are all being developed in record time by thousands of businesses. Encouragingly, much of this innovation is being led by small businesses; who are leveraging the scale, efficiencies and new markets that digital technologies can provide.

Afterpay was at the heart of this transition in 2020, helping **48,000 Australian merchant partners generate \$7.6 billion in sales to its 3 million active Australian users.**

Further analysis in this study finds that **Afterpay generated \$3.1 billion in total net benefits to the Australian economy in 2020.**

Key findings of this study are as follows:

- **Afterpay delivered \$3 billion in net benefits to 48,000 Australian merchants in 2020**

During a global pandemic and Australia's first recession in 30 years, merchants partnering with Afterpay saw average sales increase by 7.7 per cent in 2020 driven by:

- Improved online conversion rates;
- Larger basket sizes;
- New customer exposure;
- Deeper customer engagement; and
- More repeat purchasing.

Total incremental sales generated by Afterpay reached \$6 billion in 2020. Afterpay also delivered increased sales in products and verticals where overall sales across the economy were down.

In addition, Australian merchants enjoyed \$340 million in cost efficiencies through Afterpay including:

- Lower cost of servicing online sales;
- Reduced customer acquisition costs through the Afterpay shop directory; and
- An 18 percentage point reduction in return rates for products purchased online.

- **Afterpay supported 63,000 Australian jobs in 2020**

11,000 people were employed directly by merchants to support Afterpay sales in 2020. An additional 33,000 jobs were supported indirectly through the supply chain and a further 19,000 jobs were supported by increased consumption of workers directly and indirectly employed by Afterpay merchants.

- **Afterpay delivered \$135 million in ‘consumer surplus’ benefits in 2020**

Afterpay’s 3 million active Australian users derived \$45 each in ‘consumer surplus’ benefits in 2020; through Afterpay’s budgeting capability, ability to smooth out each individual purchase and the convenience benefits of accessing the Afterpay online shop directory.

- **Afterpay saved Australians \$110 million in consumer fees and interest compared to credit cards in 2020**

Afterpay’s zero interest and zero account fee model saved its users \$110 million in credit card fees across all purchases in 2020. By including late fees, Afterpay users paid on average 0.6 per cent in costs over their purchase price, compared to an average of 2.1 per cent in costs per credit card purchase.

Benefits were evident across the entire distribution, with vulnerable Australians benefiting most in switching from credit cards to Afterpay.

- **Future innovation beyond retail will compound these benefits to the Australian economy**

Technology and regulatory innovation in personal money management will allow new offerings that increase competition and lower costs for users.

Australia’s financial services sector is highly concentrated compared to other jurisdictions. Open banking and Banking-as-a-Service (BaaS) reforms will work together to allow customers to control their own financial data and leverage the same increase in choice and benefits they have enjoyed in the retail and payments space.

AFTERPAY AND THE AUSTRALIAN ECONOMY IN 2020

1.

Since its launch in 2015, Afterpay has helped change the face of Australian retail trade and consumption. Younger consumers chose to use Afterpay initially and, over time, their confidence and trust in Afterpay has increased along with their use.

Today, Afterpay’s no-fee model reflects the underlying expectations of highly influential Millennial and Gen Z consumers – facilitating their choice, purchasing power, transparency and control over their finances.

As a consequence, Afterpay has become highly valuable to merchants across the economy – and small business in particular. By partnering with Afterpay, merchants engage with a valuable user community at low cost and with significant returns.

The power of this connection was evident in 2020 – a year of major disruption to the Australian economy.

During Australia’s first recession in 30 years, Afterpay’s 48,000 Australian merchants, including 38,000 small businesses, achieved \$7.6 billion in overall sales to Afterpay’s 3 million active Australian users.

The analysis in this study breaks down this substantial economic activity to identify a **total of \$3.1 billion in net**

benefit to Australian merchants and consumers in 2020.

This includes \$6 billion in incremental merchant sales through higher customer conversion rates online, larger basket sizes, and an increase in repeat purchasing. On average, merchants experienced a 7.7 per cent increase in sales by partnering with Afterpay.

Merchants in particular benefited from Afterpay’s online shop directory, which materially reduced the cost of new customer acquisition and engagement.

Overall ‘consumer surplus’ analysis confirms Afterpay’s 3 million active Australian users shared these net benefits in 2020.

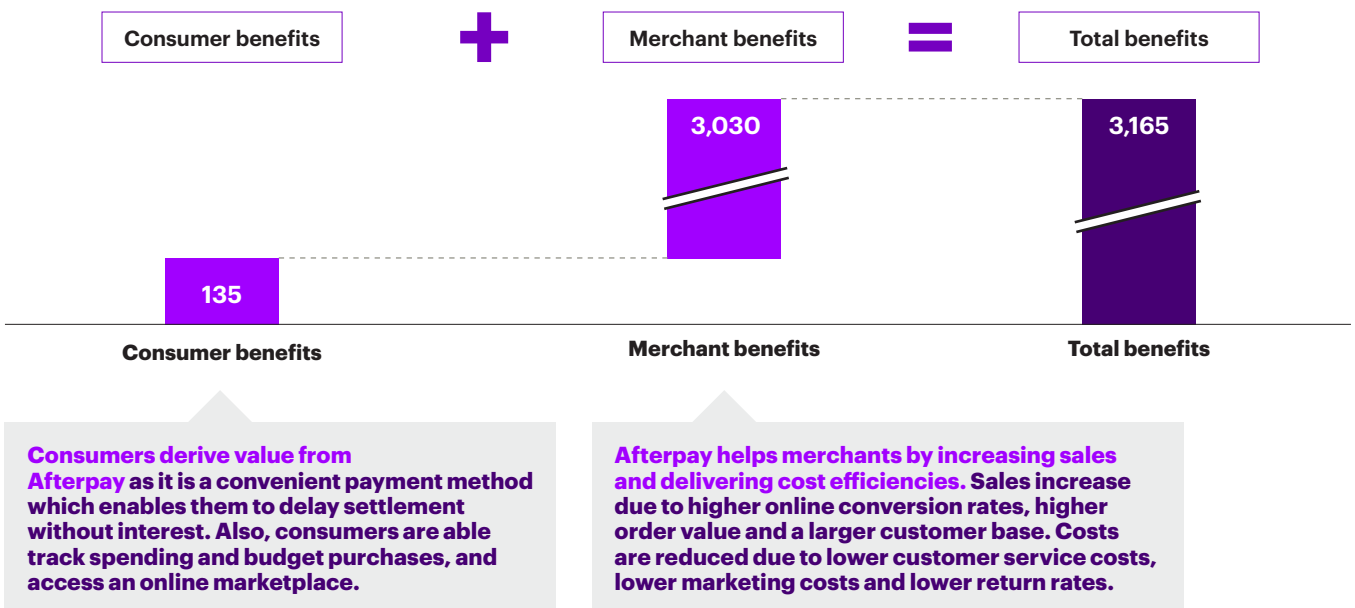
Budgeting, purchase smoothing, convenience and removal of interest and account fees helped every Afterpay user in 2020. In total, the Afterpay community enjoyed \$135 million in ‘consumer surplus’ benefits during the disruption of 2020 – further cementing confidence in Afterpay among an increasingly diverse Australian user group.

With the advent of Australia’s open banking regime and BaaS, Afterpay’s customer-centric model is likely to reshape more sectors of the economy and further empower Australian consumers.

EXHIBIT 1

Afterpay merchant and consumer benefits

Afterpay merchant and consumer benefits \$M p.a, 2020



Source: Accenture analysis

BUSINESS BENEFITS



The full impact of COVID-19 on the Australian economy will not be known for some time. Changing work patterns, consumption trends, supply chains, international trade and regulations will continue to play out in 2021 and beyond.

COVID-19's immediate impact on the retail sector was significant, forcing wholesale adaptation to new forms of commerce. For the most part, these new forms of trade accelerated underlying structural changes already occurring in the retail economy.

For example, e-commerce has become ubiquitous in Australia over the past decade. However, Covid has sped up its growth and most retailers now have their own online presence where purchasing is an option with many leveraging third party platforms to sell.

In parallel, consumer choice about what to buy and how to buy it has been matched by changes in how consumers pay.

Early dependence on traditional credit cards for non-cash payments in Australia provided the initial infrastructure for online purchasing – despite growing consumer concerns about the cost of revolving debt models. Following the Global Financial Crisis in 2008 these concerns, led by a generation

of younger consumers, sparked demand for new products that facilitated choice, supported safe online shopping and increased consumer control over their own finances.

Afterpay has been at the heart of this confluence of new retail platforms and new payment technologies – reflecting the deeper underlying trend of conscious and empowered consumers, with clear expectations about how new technologies will benefit them.

These trends were supercharged in 2020 - with 48,000 Australian Afterpay merchant partners generating \$7.6 billion in sales to Afterpay users. This included 38,000 small and medium-sized business partners and resulted in the establishment of new sales channels, new online stores and entirely new verticals.

EXHIBIT 2

Estimated benefits to Australian merchant partners from the Afterpay platform



Afterpay connected **48,000 Australian merchants to 3.0M Australian customers**, generating **\$7.6B in total sales** in 2020



This includes **38,000 Australian small and medium-sized businesses (SMBs)** who generated **\$1.7B in total sales**



Australian merchants derived **\$3.0B in net benefits** from Afterpay through **incremental sales and cost efficiencies**



Spending by consumers on Afterpay supported **63,000 jobs** across the economy



Afterpay helped **12,800 regional merchants** to connect with **0.5M customers**. **Regional merchants generated \$510M in sales**



Afterpay helped merchants generate **\$41M in export sales** through the cross-border trade program

Source: Afterpay data, Accenture analysis

2.1 Afterpay Sales Channel generated \$7.6 billion sales in Australia in 2020

Among other impacts, the COVID-19 pandemic led to Australia’s first recession in 30 years.

This recession led to sharp increases in unemployment from 5.2 per cent in March 2020 to 7.5 per cent in June 2020. As a result, Australian households cut back on spending, with household consumption decreasing by 12.5 per cent in the June quarter of 2020.

Amidst this recession, Afterpay proved a valuable sales channel for its 48,000 Australian merchant partners, by connecting them with its 3 million Australian active users to generate \$7.6 billion in sales in 2020.

The positive impact of Afterpay sales was particularly evident in comparison to wider sector retail trends during the June quarter of 2020.

Despite an overall reduction in consumer spending in apparel and footwear/accessories in Australia, Afterpay users increased purchases on these items by 39 per cent and 78 per cent respectively in the June quarter of 2020.

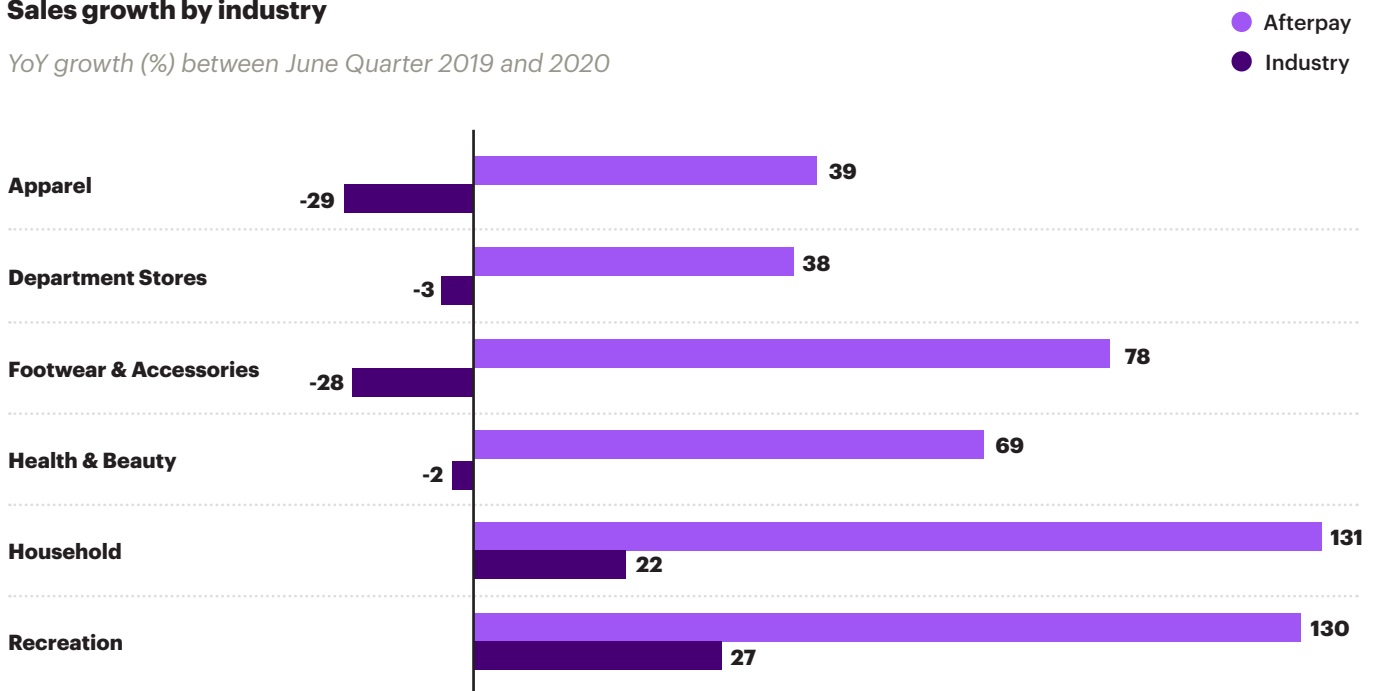
Similarly, declines in overall Department store purchases of 3 per cent were countered by a 38 per cent increase in Department store purchases by Afterpay users.

EXHIBIT 3

Spending on Afterpay was robust across all categories during the June quarter of 2020

Sales growth by industry

YoY growth (%) between June Quarter 2019 and 2020



Source: ABS, Afterpay data, Accenture analysis

CASE STUDY**Australian Retailers Association – Paul Zahra**

Australia's largest retail industry group, the Australian Retailers Association (ARA), and Afterpay, have entered a strategic partnership to help support and promote Australia's \$325 billion retail sector.

As part of the partnership both ARA and Afterpay share information on retail trends, innovation and structural shifts to help inform and support Australian retail and the businesses. This includes, training and mentoring programs on financial literacy and digital transformation to assist in response to the impact of Covid-19.

ARA CEO Paul Zahra said: "Retail is undergoing a profound transformation, with the Covid-19 pandemic bringing forward a decade's worth of change and innovation."

"Retailers are investing in their online sales strategies and increasingly looking to new channels to engage with their customers. Meanwhile, people now opting to shop more locally are increasingly focused on convenience. This includes large growth in services like kerbside collection, personal shoppers and 'click and collect'."

"As a leader in retail payments and also one of Australia's most innovative retail brands, Afterpay offers powerful insights, global benchmarking capabilities and important resources that will help us equip our retailers for the transformative years ahead."

"Afterpay is a great resource for our members, customers, employees and partners to recover, respond and re-imagine a thriving Australian retail Industry. We look forward to continuing to work with them during our recovery."

"While there's no doubt it's a very challenging time for the sector, the death of retail has been greatly exaggerated. This crisis will see the rebirth of retail, not the death of retail."

Source: Stakeholder analysis by Accenture

"Afterpay is a great resource for our members, customers, employees and partners to recover, respond and re-imagine a thriving Australian retail Industry."

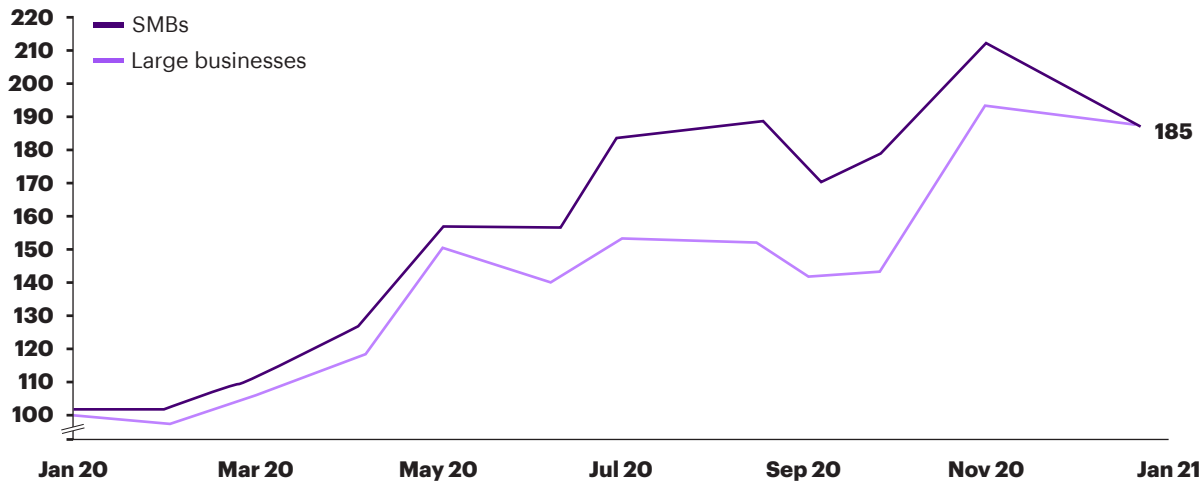


EXHIBIT 4

Small and medium sized businesses (SMBs) account for 23% of sales. Sales to SMBs and larger businesses were up 85% in 2020

Index of consumer spending by merchant tier

100 = January 2020



Source: Afterpay data, Accenture analysis

The power of convergent shopping and payment technologies was particularly important for Australian small/medium businesses in 2020. In total, Afterpay’s 38,000 Australian small and medium business partners generated \$1.7 billion in sales in 2020, of which \$1.3 billion sales were incremental. Also, small and medium business partners derived \$78 million in cost efficiencies from using Afterpay. 90 per cent of these efficiencies arose from lower customer service and acquisition costs on Afterpay purchases, and a reduction in return rates compared to non-Afterpay purchases. Overall, when the cost of merchant fees and the cost of goods sold is subtracted, small and medium businesses derived \$700 million in net benefits from using Afterpay.

These benefits include important growth in new export channels for SMBs generating \$13 million in export sales to the UK and New Zealand. This trend is set to continue as Afterpay rolls out its cross-border sales model to the US in 2021.

In addition, Afterpay facilitated \$510 million in sales for its regional Australian merchant partners in 2020. Many of these businesses faced twin crises in 2020 with the pandemic impact following closely after the devastation of wide-spread bushfires at the start of the year.

The total economic impact of the bushfires in Australia’s southern and eastern states was estimated at 0.4 per cent of GDP in the March quarter of 2020. Subsequent public health limitations on movement and social contact directly impacted critical tourism and supply chains in regional areas.

Via the Afterpay platform 12,800 regional merchant partners were able to connect with 0.5 million Afterpay users. Through this connection, Afterpay’s regional merchant partners were able to increase sales to local and metropolitan customers by 75 per cent in 2020.

In the face of multiple crises with far ranging economic impacts, Afterpay’s regional merchant partnerships generated much needed revenue and employment support across these communities.

CASE STUDY**The Grampians Goods Co**

Amanda Cochran started The Grampians Goods Co. in 2016 with a range of aromatherapy candles made as a way to solve a personal frustration. “I really loved scented candles, but I’m also quite sensitive to synthetic fragrances – they give me a headache,” she says. “I couldn’t very readily find what I was looking for, so I started to make my own.”

What started as a small but passionate side-business quickly ramped up in 2018. Amanda overhauled her website, set clear targets and thoroughly analysed sales data. “I realised that the blankets, which I’d been thinking of phasing out, were responsible for a lot of traffic to the site, so there was a real opportunity there.”

2020 marked the next stage of the Grampians Goods Co’s evolution. “Covid meant I had to adapt much faster than I would have otherwise. Up until then, I was hand writing names on parcels and managing customer’s tracking requests manually. Almost overnight I had to integrate systems and allow customers to track their own order to keep up with demand among many other changes.”

“Being a regional and online-only business, I’ve always been conscious of creating the best possible experience remotely and bring the Grampians region right to our customers’ door. In the absence of walking into a store, you need to create a really memorable experience to compensate. For us that includes beautiful cards, packaging and hand-written notes. I also put a hint of organic essential oils to evoke people’s sense of smell as they open their package.”

“When you have an experiential brand it’s also important to give people control and options throughout their entire shopping journey. How you pay is no exception to that. I’ve always offered Afterpay to provide flexibility for people to choose what suits their needs. Our brand is about practical, unpretentious luxury. As part of that we want to make things inclusive, rather than exclusive. Afterpay is one way to help us do that.”

Source: Stakeholder analysis by Accenture



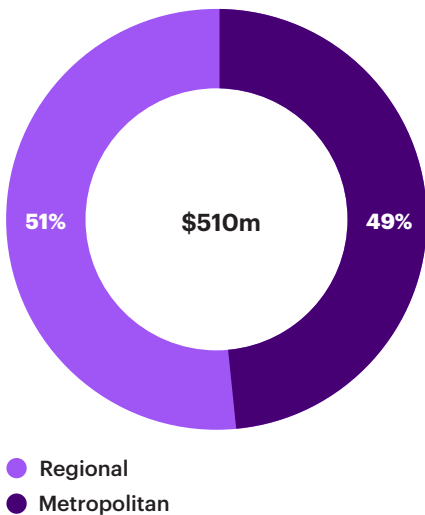
“I’ve always offered Afterpay to provide flexibility for people to choose what suits their needs”

EXHIBIT 5

Afterpay supported regional merchant sales to local and metropolitan customers in 2020

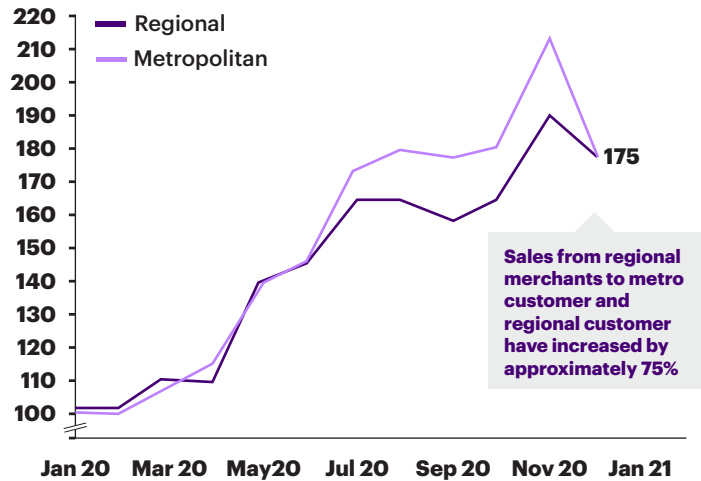
Regional merchant sales by customer location

% of regional merchants sales by customer location, 2020



Index of regional merchant sales by customer location

100 = January 2020



Note: Location of a business is determined by their registered postcode on the Commonwealth ABN directory. Location of a customer is determined by their registered postcode on Afterpay.
Source: Afterpay data, Australian Business Register, Accenture analysis

2.2 \$3.0 billion net benefit to Australian merchants in 2020

Within the \$7.6 billion in total Australian Afterpay sales in 2020, merchant partners secured \$3 billion in net value through:

- Incremental sales increase; and
- Cost efficiencies

Incremental Sales delivered by Afterpay to Australian merchant partners reached \$6 billion in 2020 through higher customer conversion rates online, larger basket sizes, and an increase in repeat purchasing.

Also, Afterpay provided Australian merchant partners with \$0.3 billion in cost efficiencies in 2020 – including lower customer acquisition costs. Afterpay’s online shop directory is a significant central shopping experience for Afterpay’s 3 million Australian active users. The strength of this marketplace generates millions of customer referrals to merchant partners every year – including smaller businesses that do not have the scale to manage their own high profile marketing campaigns.

Reflecting the power of this platform, the majority of Afterpay generated sales are online, in turn reducing the cost of servicing customers compared to in-store sales – and benefiting those SMB businesses that do not have a physical storefront.

The unique relationship between Afterpay and its users similarly impacts merchant return rates. Afterpay customers generally use the platform as a budgeting tool, supporting more considered purchases rather than “try before you buy” options. As a result, Australian merchant partners experienced an 18 percentage point reduction in return costs for online Afterpay sales compared to other online sales in 2020.

Together, Afterpay delivered \$6.3 billion in gross benefits to Australian merchants in 2020 – made up of combined incremental sales (\$6 billion) and cost efficiencies (\$0.3 billion).

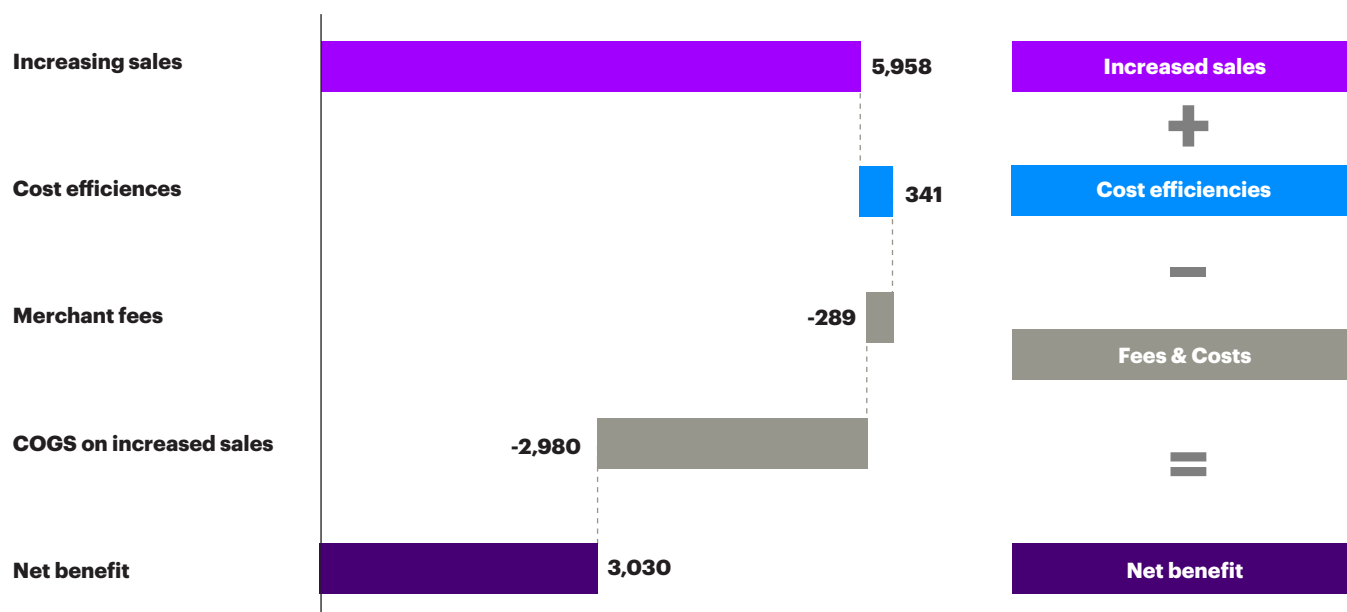
When the cost of merchant fees and the cost of goods sold is subtracted, this produced a total net benefit to Afterpay’s Australian merchant partners of \$3 billion in 2020.

EXHIBIT 6

Afterpay has delivered \$3.0 billion in net benefits to Afterpay merchant partners in 2020

Breakdown of benefits for Australian merchants

\$M across all Australian merchants, 2020



Source: Various including Afterpay Merchant Survey (n = 1043), Accenture analysis

2.3 Afterpay merchant fees are low compared to comparable service providers

On average Afterpay charges a 4 per cent fee to merchants per purchase order.

This fee includes:

- The cost of processing each order; and
- The cost of absorbing each customer's fraud and credit risk.

Afterpay pays each merchant upfront once an order is completed, net of the merchant fee, before recouping that purchase price from the Afterpay user in four equal amounts.

Aside from the benefits of immediate payment and reduced risk, Afterpay's merchant fees are low compared to similar services providing increased sales and cost efficiencies.

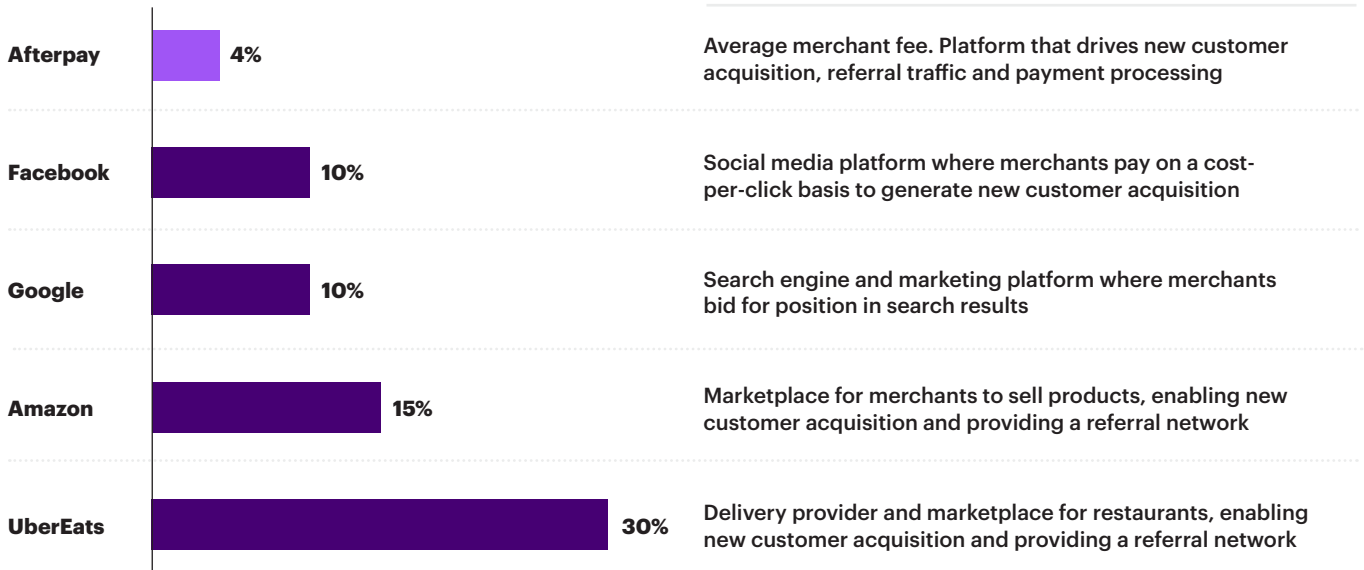
For example, Afterpay merchant fees are 6 percentage points lower than Facebook and 11 percentage points less expensive than Amazon. This forms a material cost saving for retailers.

EXHIBIT 7

Afterpay's merchant fees are low compared to other similar services

Merchant fee by customer acquisition channel

% of transaction value (average), latest data



As different services offer different features, this affects comparison between channels

Key features of service

Average merchant fee. Platform that drives new customer acquisition, referral traffic and payment processing

Social media platform where merchants pay on a cost-per-click basis to generate new customer acquisition

Search engine and marketing platform where merchants bid for position in search results

Marketplace for merchants to sell products, enabling new customer acquisition and providing a referral network

Delivery provider and marketplace for restaurants, enabling new customer acquisition and providing a referral network

Source: Company websites, Accenture analysis

2.4 Afterpay delivered \$6 billion in incremental sales to Australian merchants in 2020

The Afterpay platform delivered \$6 billion in incremental sales to Australian merchant partners in 2020, helping generate \$3 billion in net merchant benefits.

The Afterpay platform allows merchants to offer customers more choice and control in critical areas which drive incremental sales including:

- 1. Improved checkout conversion online:** More and better payment options are directly linked to improved conversion of web traffic to sales online.
- 2. Larger customer basket size:** Customer control over payments removes barriers to purchase at the checkout and gives customers confidence to increase purchase size.

3. Exposure to new customers: Afterpay's user community is particularly strong, allowing merchants of all sizes to leverage Afterpay's trusted online shop directory to increase exposure to new customers.

4. Increased brand relevance and customer engagement: The strength of connection within Afterpay's user community means large and small brands providing Afterpay are seen as trusted and relevant. This is particularly important for merchants given the Afterpay community is significantly made up of Millennial and Gen Z users – an increasingly high value, conscious and difficult to access market segment.

5. Rise in repeat purchasing: Afterpay's payment structure gives users more control and support for budgeting, generating more frequent repeat purchases for merchants offering the platform.

EXHIBIT 8

Drivers of Afterpay incremental sales to Australian merchant partners



Improved checkout conversion online
Increased conversion of web traffic to sales as consumers have more payment options.



Larger customer basket size
Increased order value of customers now likely to spend more due to the availability of delayed settlement without interest.



Exposure to new customers
Higher number of sales experienced from increased number of customers.



Increased brand relevance and customer engagement
Higher awareness of merchant brands through Afterpay's established relationship with customers.



Rise in repeat purchasing
Increased frequency of purchases as customers now likely to spend more due to the availability of delayed settlement without interest.

Source: Accenture analysis

The end result of these sales drivers for merchants is consistent increases in sales after partnering with Afterpay.

On average, Afterpay's Australian merchant partners saw a 7.7 per cent increase in sales by offering the platform option in 2020.¹

Of merchants identifying increased sales:

- 23 per cent report sales increases between 5 and 10 per cent; and
- 43 per cent report sales increases greater than 10 per cent.

Based on survey responses, Australian merchant partners report multiple drivers of improved sales following partnership with Afterpay:

- 53 per cent report higher online checkout conversion compared to non Afterpay sales opportunities as a major driver; and
- 47 per cent identify larger customer basket size as a major reason for increased turnover.

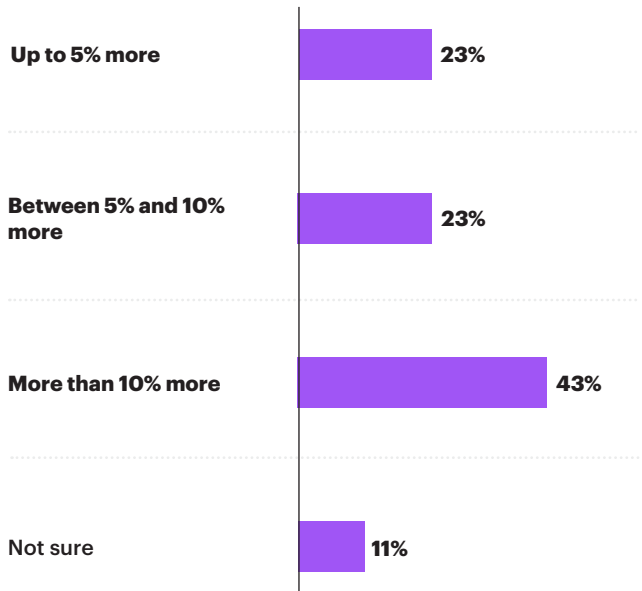
¹ The sales uplift figure of 7% assumes that the 11% of merchants who were not sure if their sales increased saw no increase in sales. Also it assumes that the merchants who were not sure of the magnitude of the increase sales were allocated to the lowest sales uplift bracket.

EXHIBIT 9

Reported sales increases and drivers by Australian Afterpay merchant partners

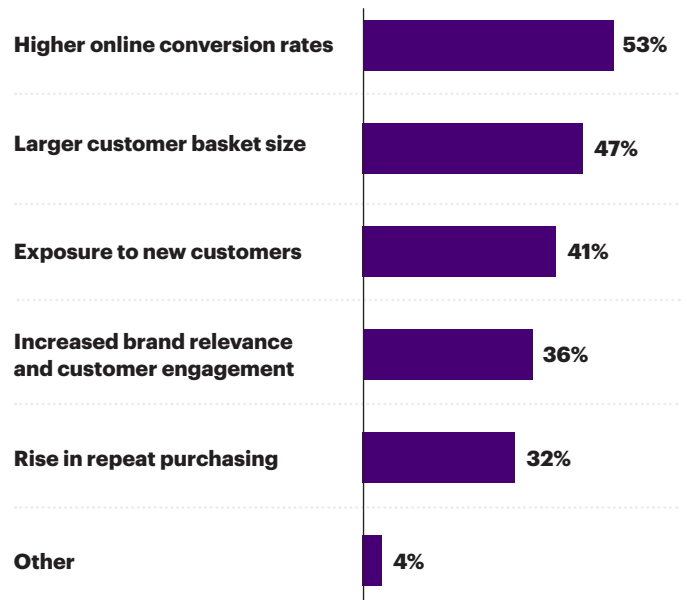
Distribution of sales increase after adopting Afterpay

% of merchants that experienced an increase in sales



Benefits of Afterpay to which merchants attribute increased sales post-adoption

% of merchants surveyed



Source: Afterpay Merchant Survey (n = 1043)

Drawing on this merchant data to break down incremental sales drivers, 70 per cent of Afterpay’s incremental sales uplift is generated by increased online conversion rates, larger basket sizes and more frequent repeat purchases.

Overall, the \$6 billion of incremental sales generated by Afterpay for Australian merchants constituted 80 per cent of total Australian sales facilitated by the platform in 2020.

CASE STUDY**Restated Vintage – Ben Randall**

Restated Vintage is an online store of 80s and 90s vintage clothing for nostalgia lovers around the world. Their team handpicks the best vintage clothing from brand people love from across the globe.

Ben Randall founded Restated Vintage in 2018 from his bedroom in Sydney. Despite having no experience in fashion, Ben started taking photos of op-shop clothing which quickly became something bigger. Today Restated Vintage is Australia and New Zealand's largest online vintage store recycling over 100,000 clothes and selling to over 50 countries.

Like most businesses, Covid-19 required Restated Vintage to adapt quickly. "Restrictions saw recycled clothing facilities closing, making it really challenging to source new products. We had to adapt by seeking out new suppliers, revising our product offering and marketing to completely new customer segments."

"We were also able to jump on some great opportunities you wouldn't suspect. Working from home meant a big jump in people looking for hoodies and comfort clothing for example. While people were at home watching the Michael Jordan documentary, we saw Chicago Bulls merchandise run out the door" says Ben.

Adapting has also meant accommodating changes in how customers want to pay and manage their budget. "We have a young customer base and offer a lot of premium and unique products. A lot of people want to pay in installments for the 'must have' item that they can't get anywhere else. When we introduced Afterpay on Restated Vintage we saw turnover roughly double, which was a great surprise".

Source: Stakeholder analysis by Accenture

"When we introduced Afterpay on Restated Vintage we saw turnover roughly double, which was a great surprise"

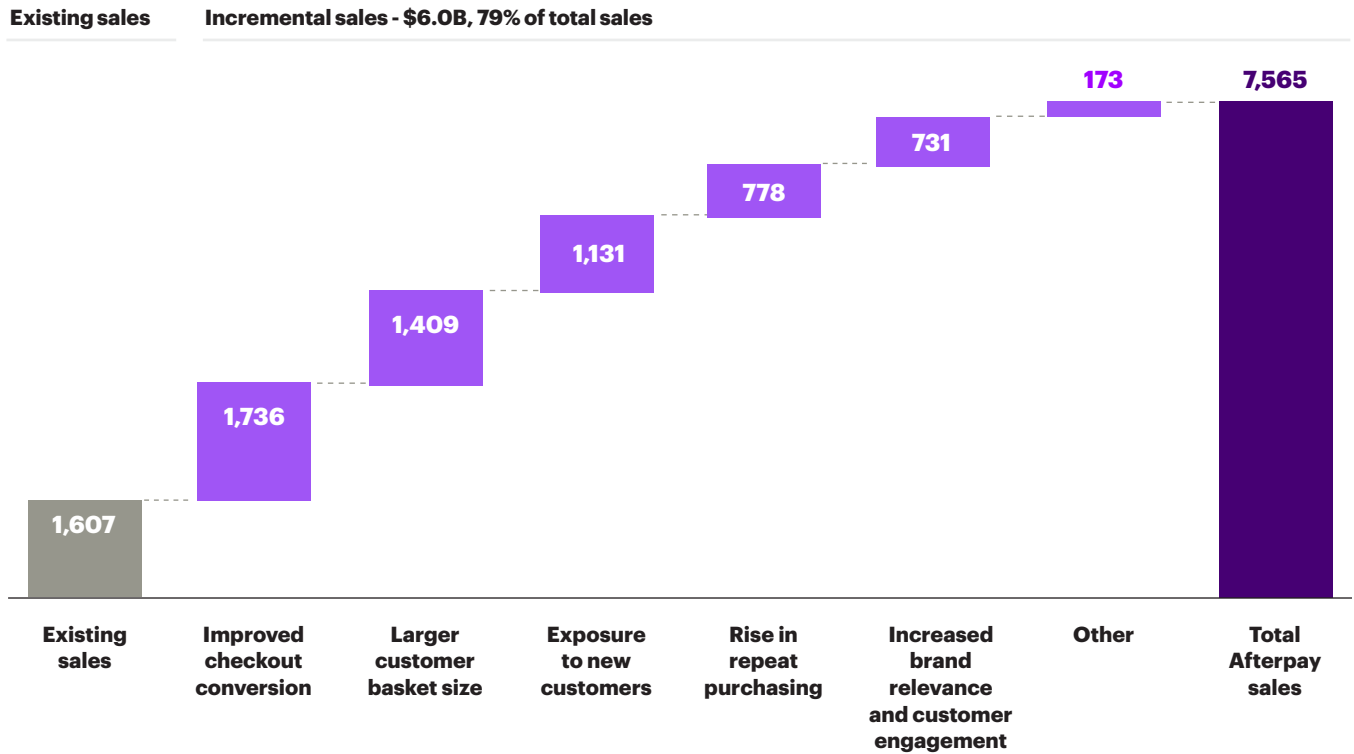


EXHIBIT 10

Afterpay delivers \$6.0 billion incremental sales to merchants, equivalent to around 80% of total Afterpay sales in 2020

Breakdown of merchant sales on Afterpay

\$M across all Australian merchants, 2020



Note: Merchants could choose more than 1 answer
 Source: Afterpay Merchant Survey (n =1043), Accenture analysis

In addition to the powerful online sales benefits, Afterpay delivered important benefits for in-store retail sales in 2020.

Notwithstanding strong growth in online sales and e-commerce, 85 per cent of all Australian retail shopping today takes place in-store.

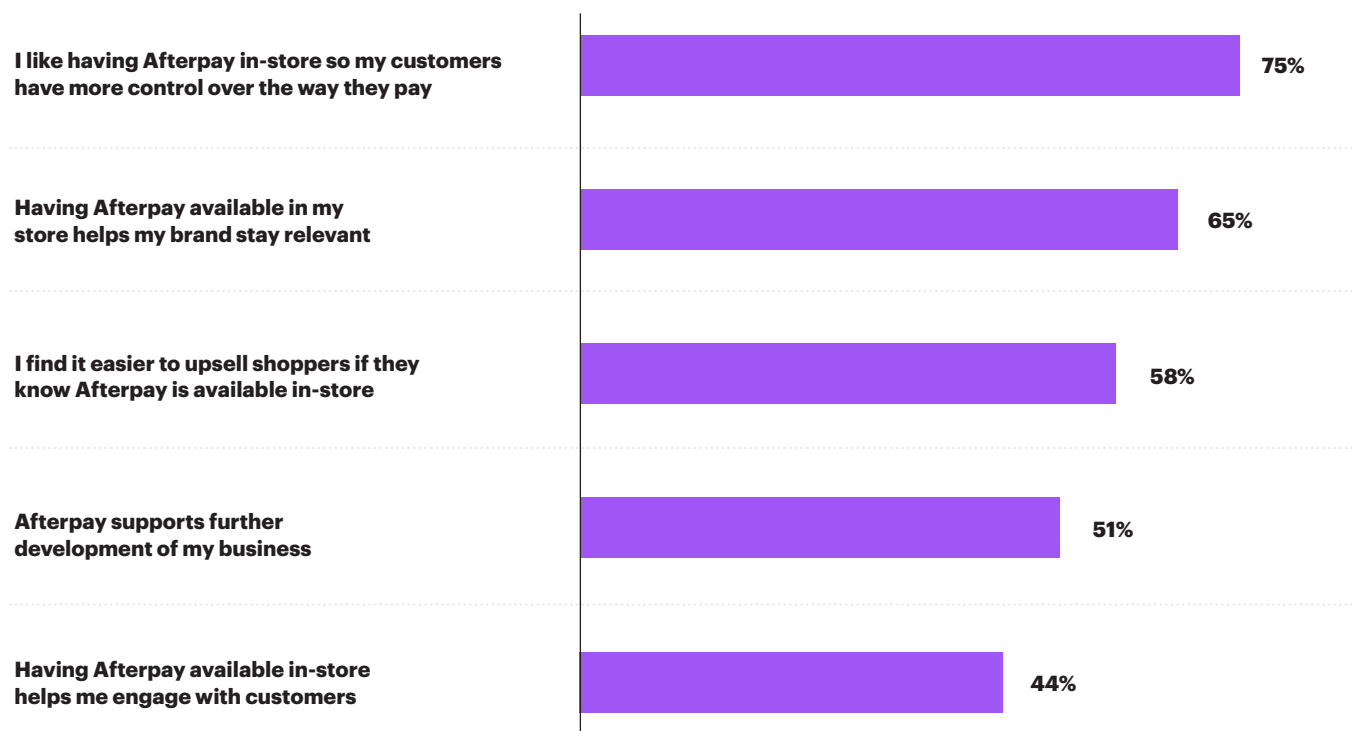
Although Afterpay began as an online only service, the platform has been extended to in-store, to provide customers with more payment choices for their shopping.

After adopting Afterpay in-store, Australian merchants reported a number of benefits to customers including:

- 75 per cent reported that Afterpay gives customers greater flexibility and choice over how they pay;
- 65 per cent reported that Afterpay helps their brand stay relevant; and
- 58 per cent reported that Afterpay makes it easier to upsell in-store.

EXHIBIT 11

Merchant reported benefits of Afterpay in-store

Benefits of adopting Afterpay in-store*% Afterpay in-store merchants surveyed*

Note: Based on per cent of respondents that 'Agree' or 'Strongly Agree' to statement
Source: Afterpay Merchant Survey (n = 194 in-store merchants of 1043)

CASE STUDY

Sandy Chong – Suki Hair salon

For over 35 years Sandy Chong has run Suki Hair salon in Newcastle, NSW. Sandy created Suki with a philosophy to empower, train and educate emerging hairdressers. Suki has helped create some of the industry's finest hairdressers, and succeeded in making some of the most memorable waves in hair and fashion. During this time they've won numerous award-winning photographic collections and major industry titles.

"Our salon has never relied on walk-by trade. We focus on providing the best possible experience so that we create long-term relationships with our clients and as well as a lot of new people coming in because of word-of-mouth. We have a really diverse clientele and I've been so grateful to the many fantastic people who have come back to Suki for decades" says Sandy.

"At the beginning of 2020 we were very sensitive to the bushfires, not only due to their proximity to our homes and the salon, but also what it meant for the environment. This was really important to us as we run a sustainable and animal friendly salon and raised funds for local environmental charities. Little did we know that our industry would face its biggest ever shock only months later when Covid struck.

Following a very challenging 6-week shutdown of our salon, there was enormous pressure to get things up and running safely. This meant changing rosters to accommodate social distancing, sourcing organic sanitiser designed especially for our equipment and temperature checks. It also meant many of the nice things we used to offer - like coffee, magazines and having friends and family around weren't possible in the same way. Hairdressing is a community and it completely changed what that was about.

In my role as CEO of the Australian Hairdressing Council, we also worked with governments to develop an industry-wide strategy to allow salons across the country to re-open. Keeping staff and customers safe was absolutely critical, but we also had to manage a lot of pent up demand. We needed to make sure older people and people with disabilities could get their hair cut even if it meant some other customers had to wait a little longer. We had salons in Victoria open until midnight once restrictions loosened.

This year has seen our industry face a rapid transition to more online channels. Many smart operators in the beauty sector in particular have started offering online consultations along with improved websites and online purchasing experiences. Some have actually ended up selling more online than they did pre-Covid. Creatively marketing your business has never been more important and giving customers different ways to engage with you, including new online services and options like Afterpay, have become a key part of that."

Source: Stakeholder analysis by Accenture



"Creatively marketing your business has never been more important"

2.5 Afterpay delivered \$340 million in cost efficiencies for merchants in 2020

In addition to driving increased sales, the Afterpay platform materially reduced the costs of serving customers for merchants.

In total, Afterpay delivered \$340 million of cost savings and efficiencies to Australian merchant partners in 2020 – made up of five elements:

1. Lower customer service costs

Cost benefit of servicing online sales compared to in-store, generating \$200 million in merchant savings in 2020.

2. Customer referrals

Afterpay’s shop directory made over 20 million customer referrals per month in 2020, with a large portion of these referrals directed towards Australian merchant partners – saving them \$70 million in customer acquisition costs..

3. Lower return rates

Afterpay customers use the platform as a budgeting tool, making more considered purchases and generating substantially lower return rates – particularly for online purchases.

4. Co-marketing initiatives

Total Afterpay co-marketing initiatives saved merchant partners \$10 million in 2020.

5. Reduced fraud costs

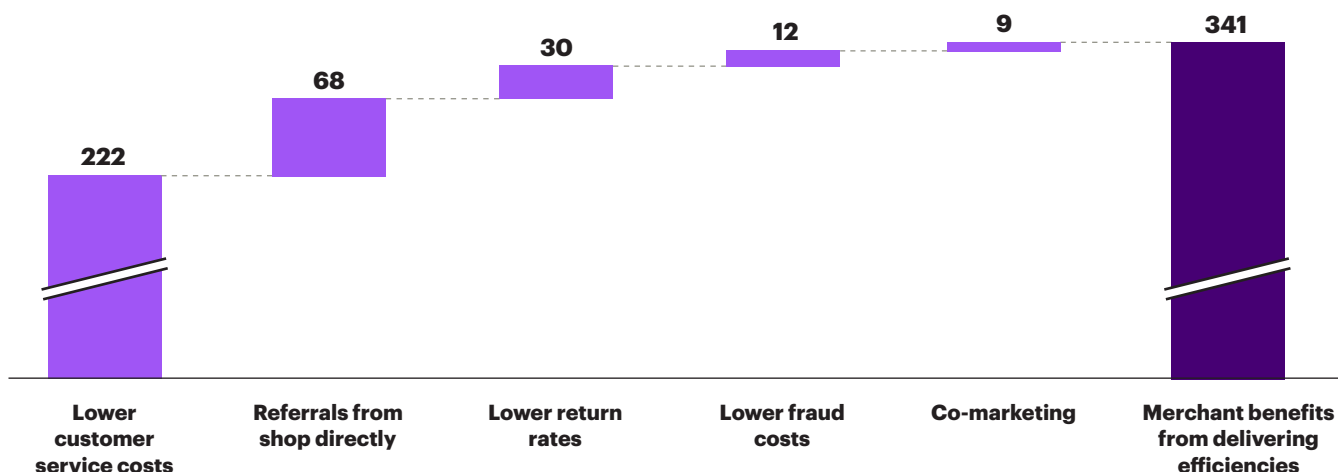
Afterpay takes liability for customer fraud loss and associated chargeback fees, saving merchant partners \$10 million in 2020.

EXHIBIT 12

Breakdown of Afterpay’s \$340 million cost efficiencies for merchants in 2020

Breakdown of merchant benefits due to cost efficiencies

\$M across all Australian merchants, 2020



Source: Various including Afterpay Merchant Survey (n = 1043), Accenture analysis

2. BUSINESS BENEFITS

Lower Servicing Costs

Afterpay attracts a significantly higher proportion of online sales compared to an average Australian retailer. In 2020, Afterpay online sales accounted for 79 per cent of all sales by value, compared to only 15 per cent for the average retailer.

Servicing online sales is materially lower-cost for merchants – through reduced rent costs and the lower cost of packaging and transporting products compared to face-to-face sales.

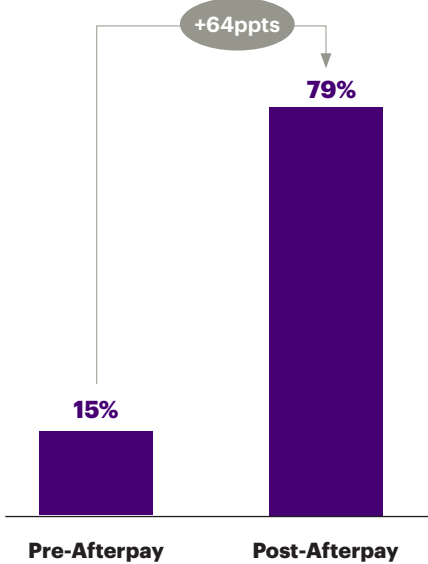
Assuming that merchants would have had the same proportion of online and in-store sales as the average retailer pre-Afterpay, an increase in the share of online purchases after joining Afterpay reduces customer service costs by 3 per cent of revenue.

EXHIBIT 13

79% of Afterpay sales are online, which reduces customer service costs for merchant partners

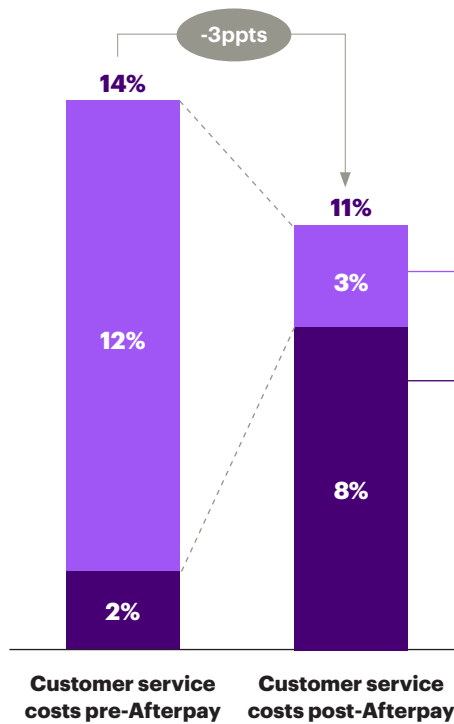
Share of online sales before and after adopting Afterpay

% share of online sales by purchase value, 2020



Customer service costs for Afterpay vs. non-APT sales

% of revenue, 2020



● In-store costs ● Online costs

In-store customer service costs: includes cost of labour to run a physical store. This falls for sales made on Afterpay as the share of in-store Afterpay sales is lower than on the equivalent value of retail sales pre-Afterpay.

Online customer service costs: includes cost of materials and labour to package and transport items. This increases for sales made on Afterpay as the share of online Afterpay sales is higher than on the equivalent value of retail sales pre-Afterpay.

Source: ABS, Afterpay data, Australia Post, PayScale, Accenture analysis

Afterpay Customer Referrals

Afterpay’s online shop directory is at the centre of its growing customer and merchant community.

Brands included in the directory are trusted, relevant and attractive to Afterpay’s 3 million Australian active users – including strong Millennial and Gen Z representation.

In 2020, Afterpay’s shop directories made over 20 million customer referrals per month to merchant partner websites, with a large portion of these referrals directed towards Australian merchant partners. In total, these referrals – to large and small merchants alike – saved merchant partners \$70 million in customer acquisition costs.

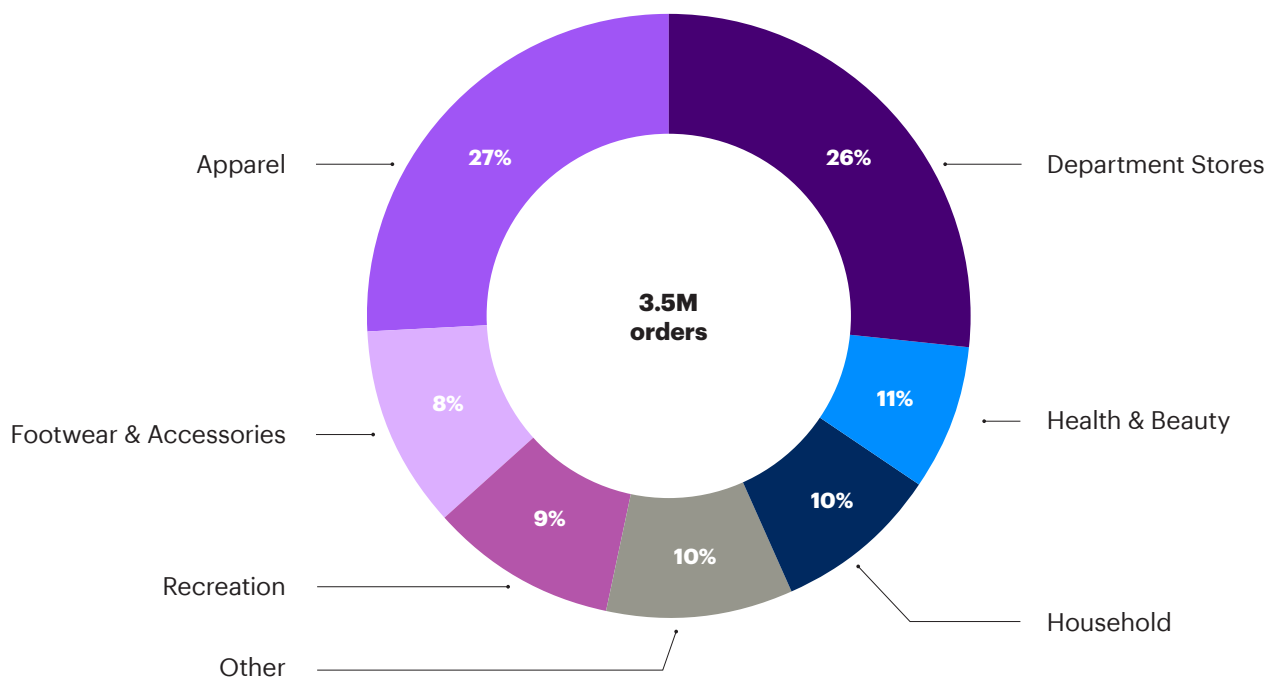
Overall, this referral channel converted into 3.5 million orders for Australian merchants, with 53 per cent going to Australian fashion retailers and department stores.*

EXHIBIT 14

Afterpay generated 3.5 million orders for Australian merchants from customers referrals in 2020

Share of orders generated from customer referrals in Australia by industry

% of total orders generated from customer referrals by industry, Australia, 2020



Source: Afterpay data, Accenture analysis

* Corrected 21 April 2021

2. BUSINESS BENEFITS

Customer referrals are critically important to all retailers. During COVID-19, online customer referrals became significantly more important for retailers facing constraints on in-store traffic.

In particular customer referrals through Afterpay:

- Drive increased web traffic for large and small merchants;
- Increase brand exposure to millions of high value customers; and
- Help all businesses engage with new consumer groups.

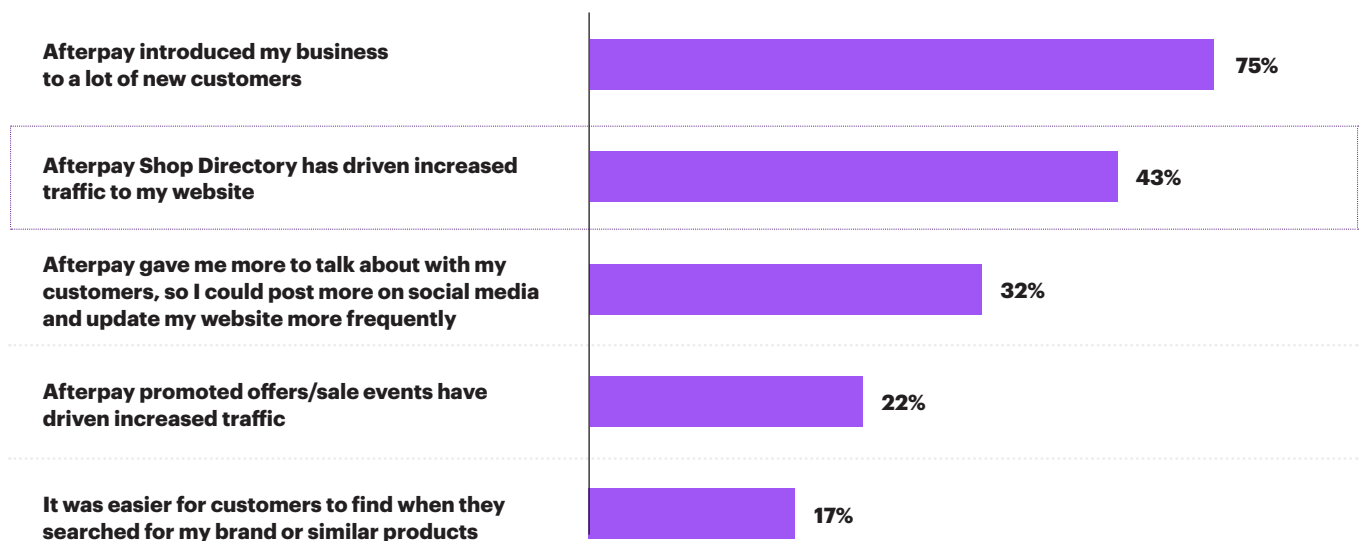
Of the Afterpay merchants which saw increased web traffic in 2020, 43 per cent attributed the rise in web traffic to referrals from Afterpay's shop directory.

EXHIBIT 15

Merchants report Afterpay Shop Directory drove increased web traffic in 2020

Reasons for the increase in web traffic after adopting Afterpay

% of responses



Source: Afterpay Merchant Survey (n = 1043)

Reduced return rates

Afterpay’s reduced return rates saved Australian merchant partners \$30 million in 2020.

For the average Australian retailer, purchase return rates sit at 9 per cent for in-store purchases and 20 per cent for online.² Afterpay return rates are much lower, with 6 per cent for in-store purchases and just 2 per cent for online purchases.

These striking benefits are the result of demographic and financial factors.

In terms of demographics, Afterpay users report valuing the platform as a budgeting tool – driving more considered purchases with a lower likelihood of return.

Afterpay’s model also allows customers to spread purchase costs over four instalments, assisting them to better manage repayments in line with their budget plan.

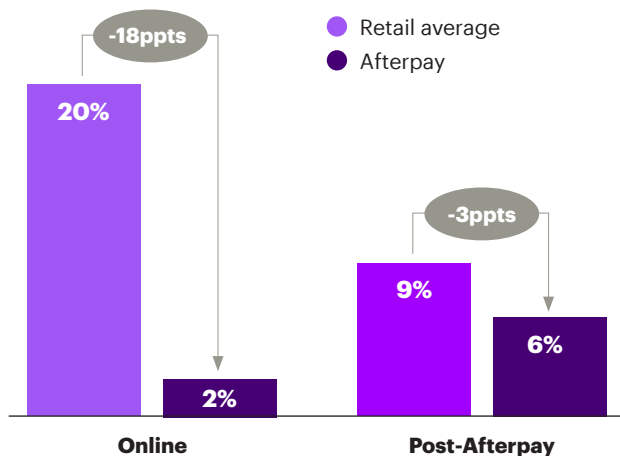
Of the total \$30 million in cost savings generated through lower return rates in 2020, 80 per cent were due to lower depreciation costs. Shipping and handling make up the remaining cost savings as fewer items need to be transported back to merchants, and less labour is required to sort and handle these returned products.

EXHIBIT 16

Afterpay customers return products 18ppts less online and 3ppts less in-store than the average retail customer, saving \$30m in costs

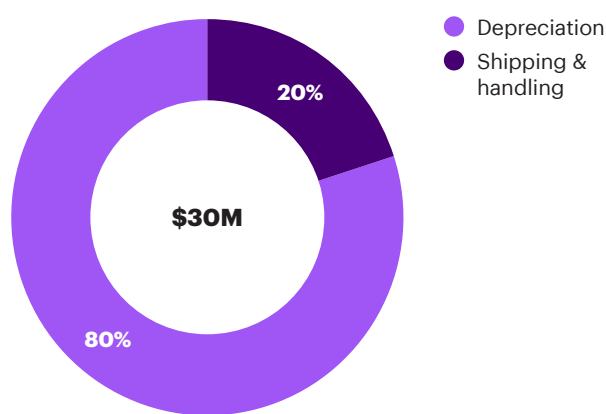
Return rates by product channel

% of purchase value by product channel



Merchant savings from lower returns

% by reason, 2020



Note: Labour costs based on warehouse and call centre wages; based on total retail trade turnover and number of retail businesses in Australia as the majority of Afterpay merchants are in the retail industry; analysis uses a per unit cost and assumes an average cost and weight per item.

Source: Afterpay data, Australia Post, Data via eMarketer (2018), Forrester via the WSJ (2015), Star Business Journal (2017), USPS, UPS, Accenture analysis

² Data via eMarketer (2018), Forrester via the WSJ (2015), Star Business Journal (2017).

2.6 Afterpay supported 63,000 Australian jobs in 2020

Afterpay’s 48,000 Australian merchant partners make significant contributions to the Australian economy – across large businesses, small and medium businesses, and across cities and regions.

One of the most important contributions made by these businesses is local employment – which became particularly important during the COVID-19 induced recession.

Across merchant businesses, their supply chains and the industries supporting employee consumption, Afterpay sales in 2020 supported 63,000 jobs in Australia during our first recession in 30 years.³

This figure includes 11,000 jobs directly employed by Afterpay’s 48,000 Australian merchant partners to support Afterpay customers.

A total of 33,000 supply chain jobs were supported indirectly across logistics and marketing – reflecting the bulk of Afterpay sales arriving through online platforms.

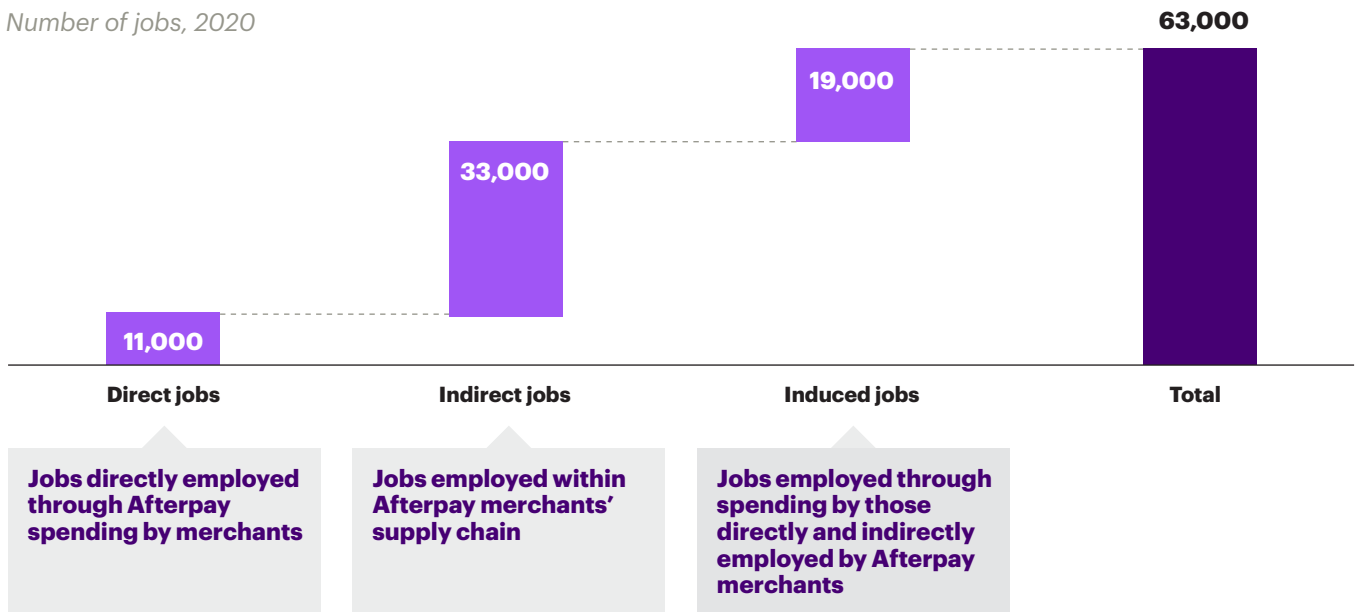
A further 19,000 jobs were supported through the ‘consumption effect’ of workers directly and indirectly supported by Afterpay sales consuming in the local economy – including jobs in retail, cafes and restaurants.

EXHIBIT 17

Afterpay supported 63,000 jobs across the Australian economy in 2020

Jobs supported by Afterpay across the Australian economy

Number of jobs, 2020



Note: To estimate the number of Australian jobs supported by Afterpay, input-output (I-O) modelling was used.
Source: ABS, Afterpay data, REMPLAN, Accenture analysis

³ The total jobs calculated are supported but not necessarily created by Afterpay (see Appendix for detailed methodology). This methodology does not attempt to estimate the incremental impact of Afterpay on the Australian economy relative to a hypothetical scenario in which Afterpay did not exist.

CASE STUDY**Australian Fashion Council**

The Australian Fashion Council (AFC) is a not-for-profit membership organisation, with members drawn from across the fashion and textile industry. The AFC's mission is to promote the growth of Australia's highly diverse fashion and textile businesses; from major designers, up and coming fashion students, retailers to fabric producers.

"Australian fashion has a fantastic reputation both home and abroad, but this year has been the most challenging on record. We've seen Aussie fashion businesses having to adapt and innovate to rapidly changing trends, supply chains and economic circumstances. We've seen some incredibly creative responses in the face of this adversity, such as pivoting to manufacture Personal Protective Equipment (PPE) or rapidly changing supply chains." says Leila Naja Hibri, CEO of the AFC.

"As one of our strategic partners, we've worked closely with Afterpay to help promote Australian fashion to support our members. This includes using their data and insights to understand and respond to changing customers needs.

While people clearly love the convenience of online fashion, they are also looking for interesting and integrated in-store experiences. We are looking to help build on this by working with our partners including Afterpay and Vicinity Group to deliver unique in-store experiences. One of our programs showcases emerging Australian designers in unique pop-up stores.

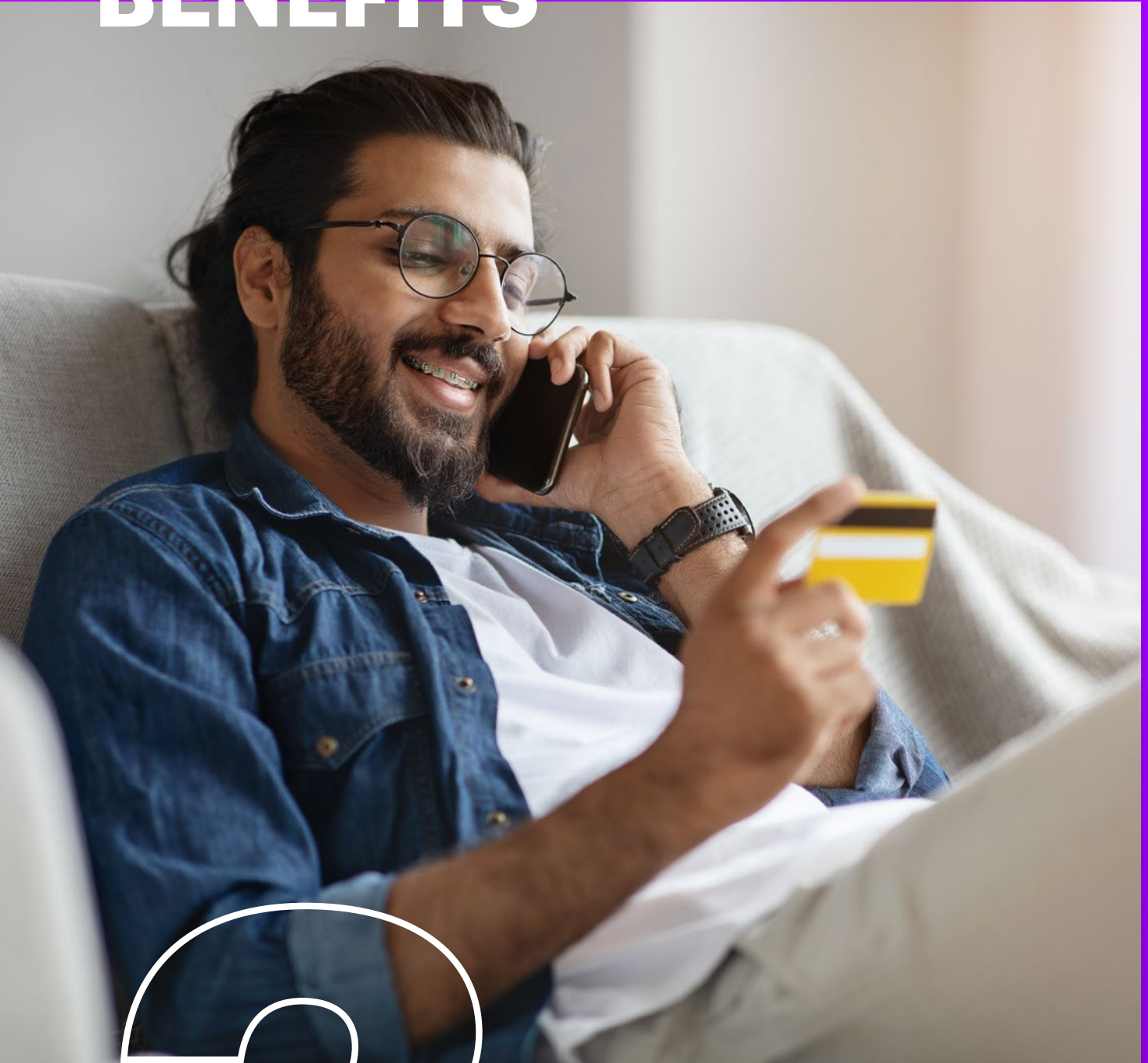
Along with our partners we are really focused on helping build Australia's national brand as a global fashion leader. Uncertainty can often bring opportunity, and we believe it is a unique time to leverage Australia's great existing reputation and cement our position as a global fashion destination".

Source: Stakeholder analysis by Accenture

"Uncertainty can often bring opportunity, and we believe it is a unique time to leverage Australia's great existing reputation and cement our position as a global fashion destination."



CONSUMER BENEFITS



3.

Australian consumers continue to drive wholesale changes in the economy. Australians today expect to be able to purchase any product from anywhere online, and select from payment and delivery options without increasing their cost of purchase.

Underlying these changes is a deep sense that changing technology and commerce will empower the individual.

In many respects this is a rational response to social and economic uncertainty since the Global Financial Crisis in 2008. The result has been progressive re-evaluation of how consumers manage their personal finances. This includes embracing greater flexibility in spending patterns, placing greater value on work-life balance and adopting new technology to help manage budgets.

Contrary to the 'smashed avocado' stereotype, younger Australians are driving greater financial responsibility through a willingness to explore commercial platforms which reflect their values, and through a deep aversion to traditional debt products.

Afterpay has been at the centre of this transition, providing payment options and a community of merchants and other users which reflect changing consumer values.

These trends were particularly evident in 2020, as merchants and consumers relied more on platforms which allowed them to connect, find value and maintain control over their finances.

Australian consumers benefited from Afterpay in 2020 in multiple ways.

Afterpay helped 2.7 million Australians, or 90 per cent of Afterpay users, to budget during 2020.

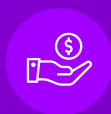
Afterpay users avoided significant additional costs they would have faced purchasing with traditional credit cards – with vulnerable users enjoying the greatest benefit from avoiding revolving debt incentives built into credit card products.

And the overall 'consumer surplus' benefit enjoyed by Australian Afterpay users reached \$135 million in 2020 – through budgeting, consumption smoothing and access to the Afterpay online shop directory.

These benefits to the Afterpay community reflect important shifts in both the makeup of that community, and wider trends in Australian attitudes to payment services and technology.

EXHIBIT 18

Benefits to Australian consumers of using Afterpay in 2020



Australian consumers **derived \$135M** in value from using Afterpay



90% of users say that Afterpay **helps with budgeting**



Consumers **saved \$110M in fees** when using Afterpay instead of credit cards



Vulnerable consumers **gain** the most from **switching from credit cards to Afterpay**. The most vulnerable credit card users pay up to 7 times more in fees than compared to Afterpay users

Source: Afterpay data, Accenture analysis

Changing payment preferences

Since the Global Financial Crisis in 2008, Australian payment preferences have shifted overwhelmingly to non-cash digital options. According to the RBA, card purchases are now preferred over cash for all purchases over \$5 – with digital payments surging as consumers seek convenience and choice. The share of payments made via the internet or mobile/app options also increased from 26 per cent in 2010 to 35 per cent in 2019.⁴

Within this broader shift away from cash, the COVID-19 crisis has accelerated a structural shift away from credit card payments and toward debit card and Buy Now Pay Later options, including Afterpay.

In the past year, 1 million credit card accounts have been cancelled. As more Australians move away from credit cards, the gap between the value of debit and credit card payments increased from 8 per cent in January 2020, to 35 per cent in December 2020.⁵

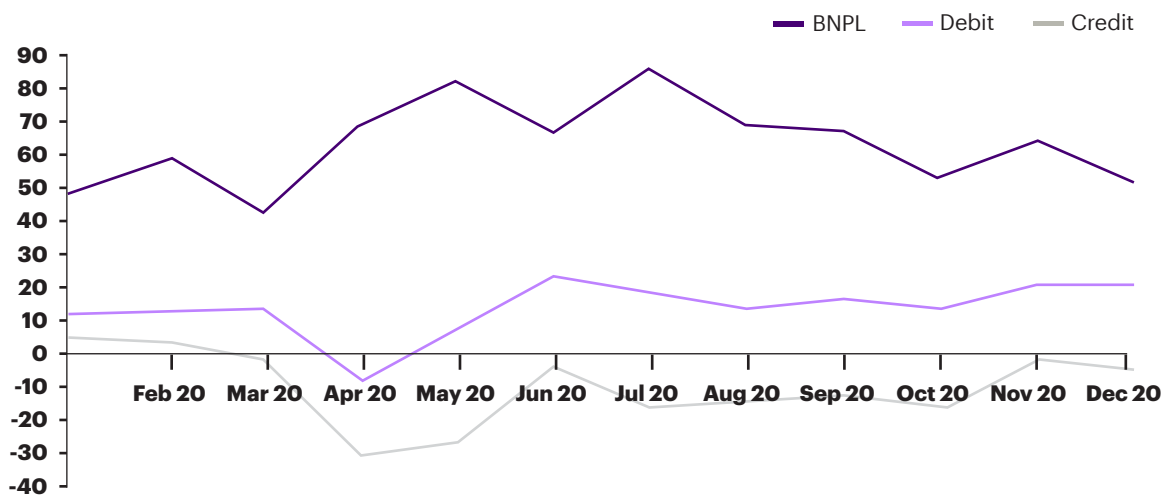
Similarly, in each month of 2020 BNPL sales in Australia experienced year over year growth in excess of 40 per cent – while the total value of credit card purchasing declined every month from March 2020 to the end of the year.

EXHIBIT 19

BNPL sales experienced year-over-year (YoY) growth in excess of 40 per cent in 2020

Spending growth by payment type

% (YoY change)



Source: Illion, RBA payments data, Accenture analysis

⁴ Reserve Bank of Australia (2020) - Consumer Payment Behaviour in Australia: Evidence from the 2019 Consumer Payments Survey.

⁵ Accenture analysis based on RBA payments data.

The Afterpay community

Afterpay has an increasingly broad range of users in Australia.

Afterpay users are typically younger female Australians. 18-34 year old users (55 per cent) and female users (67 per cent) are over-indexed in the Afterpay community compared to the population.

Afterpay users are also more likely to have higher household incomes than the general population – with 48 per cent in the two highest household income brackets compared to 43 per cent of the population.

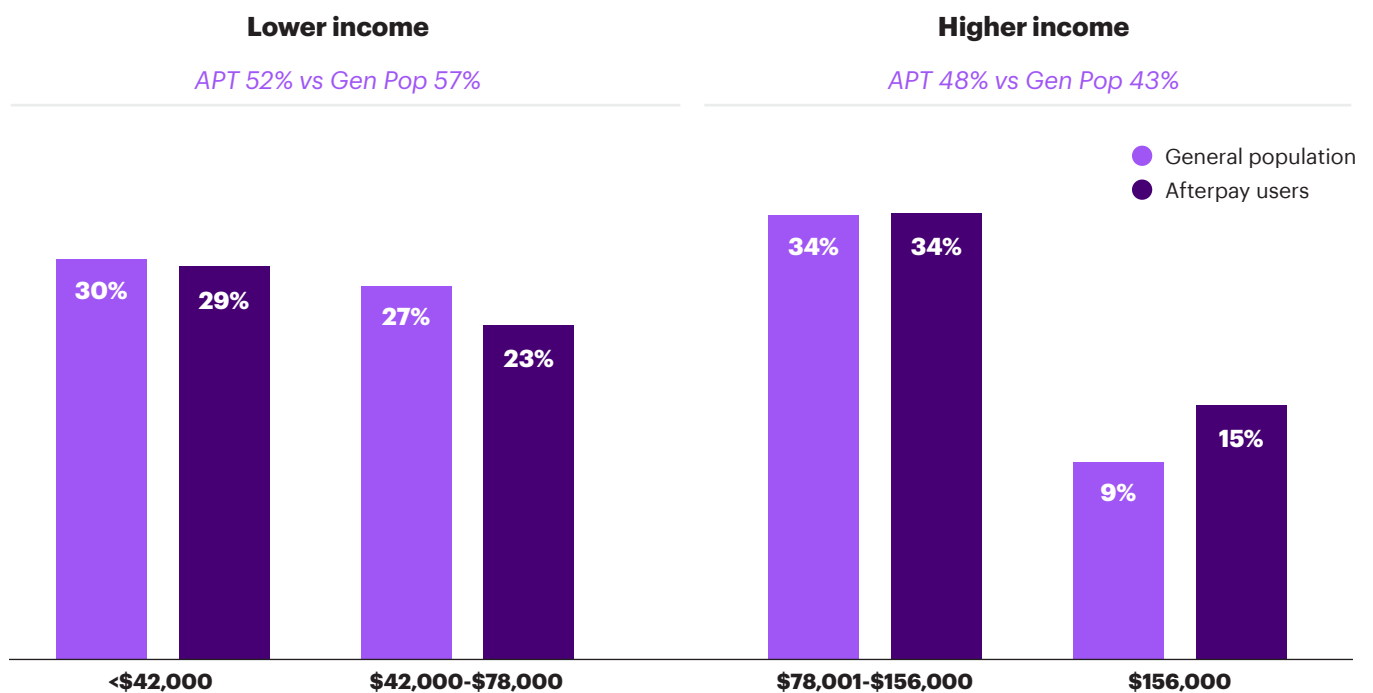
At the same time 29 per cent of Australian Afterpay users come from the lowest household income bracket, compared to 30 per cent of the Australian population..

EXHIBIT 20

Afterpay community over-indexes among higher income Australians

Household income distribution: Afterpay users vs general population

% of Afterpay users and general population in each household income bracket



Source: Afterpay Consumer Survey (n = 620), HILDA Wave 18, Accenture analysis

3.1 Afterpay generated \$135 million in 'consumer surplus' benefits for Australian consumers in 2020

Afterpay benefits consumers in a number of ways, enabling them to:

- Smooth consumption between pay periods;
- Track and budget their purchases;
- Browse a broad variety of brands and merchants via the online shop directory; and
- Access a convenient and secure alternative to traditional credit products.

The value generated by these intangible benefits can be estimated by calculating the 'consumer surplus' provided by Afterpay.

'Consumer surplus' is the value of consumer benefits derived from using a product or service. This measure is calculated by identifying the difference between the price a consumer would have been willing to pay to access a product or service (in addition to the purchase price), and the price they did pay – which is zero in the case of Afterpay users.

In this study the 'consumer surplus' value has been identified through a combination of consumer survey responses and analysis of the time value benefit of smoothing out consumption.

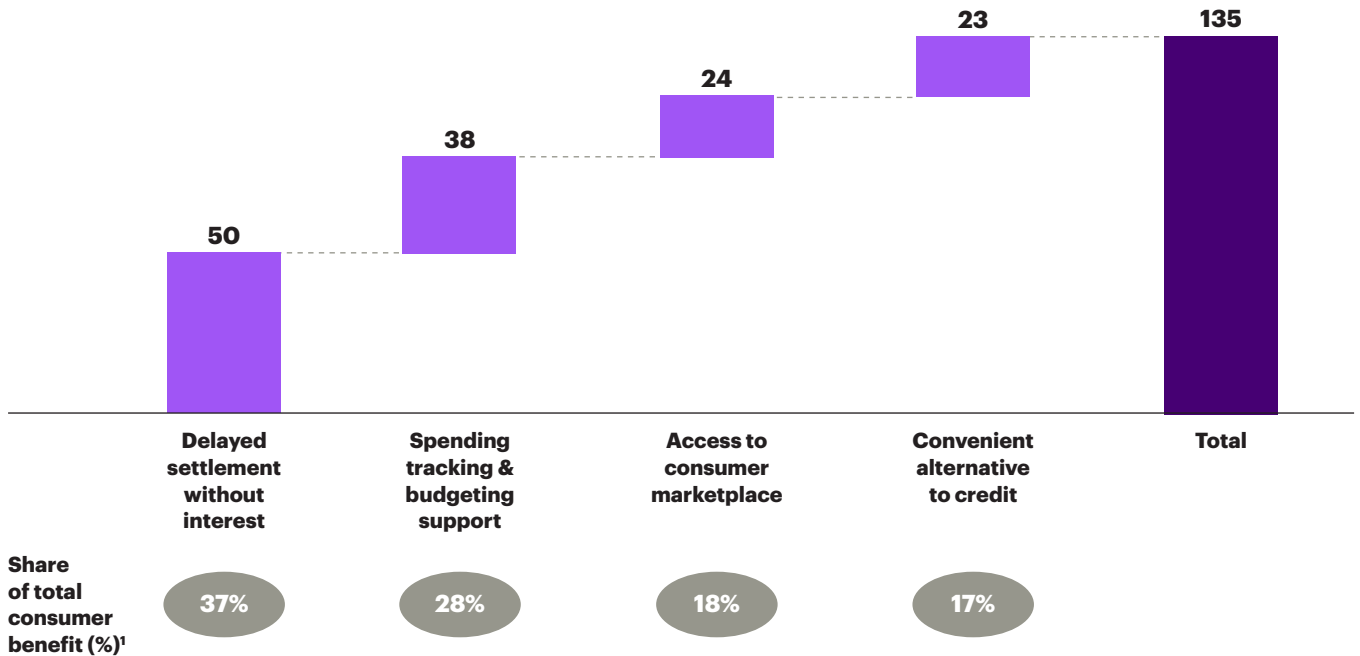
The result is an overall 'consumer surplus' value to Australian Afterpay users in 2020 of \$135 million. The vast majority of which is derived from Afterpay users' ability to budget purchases and spread payments via the platform.

EXHIBIT 21

Afterpay delivers \$135 million in value to consumers

Breakdown of consumer surplus generated by Afterpay

\$M value across all users, 2020



Note: (1) Consumers were asked to rate different attributes of Afterpay on a scale of "Not important at all" to "Very important". An attribute was deemed "important" if the consumer rated it as "Fairly important" or "Very Important". Responses that reported an attribute as "Very important" were given a higher weight. Once weighted, responses for each attribute were then added together and converted into a percentage of total responses. This percentage is used to represent the share of total consumer benefit each attribute brings.
Source: Afterpay consumer survey (n = 620), Afterpay data, Accenture analysis

3.2 Afterpay saved users \$110 million in credit card fees and charges in 2020

Afterpay users are protected from the costs of traditional credit products.

Unlike credit cards, Afterpay is always free to consumers that pay on time and never charges interest. For those that pay late, late fees are capped and users cannot purchase through Afterpay until their account is settled.

In this way Afterpay users are protected from falling into revolving debt – which is incentivised into the business model of traditional credit card providers.

In 2020 Afterpay users saved \$110 million compared to what they would have paid making the same purchases with credit cards.

This benefit is identifiable by comparing the average user cost of credit cards to the average user cost of Afterpay – which is made up solely of late fees, where payments are not made on time.

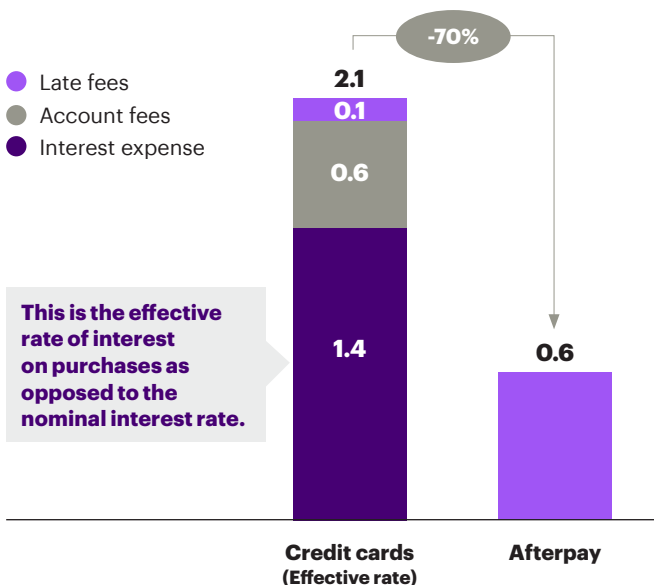
In 2020 the average cost to Afterpay users was 0.6 per cent of their purchase price. By contrast the average cost to Australian credit card users was 2.1 per cent of their purchase price.

EXHIBIT 22

Relative to the cost of credit, Afterpay saves users \$110 million in credit card fees

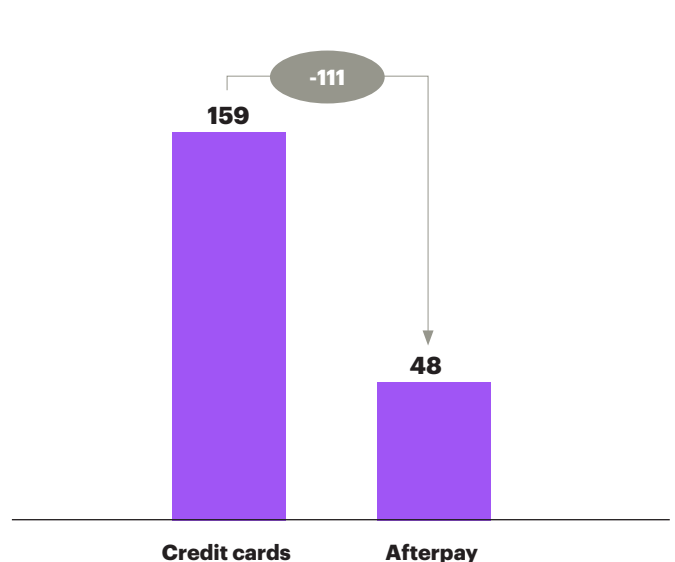
Fees on credit cards and Afterpay across all consumers

% of purchase value, 2020



Cost of fees if all Afterpay sales were made on credit cards

\$M, 2020



Source: Afterpay data, RBA Payments data, Accenture analysis

3. CONSUMER BENEFITS

Importantly, the benefits to Afterpay users from avoiding credit cards are greatest for the most vulnerable consumers.

By ranking Afterpay and credit card customers according to fees/interest paid as a percentage of purchase price, results show that Afterpay delivers lower fees for customers at every percentile.

The highest late fee Afterpay users face is 25 per cent of purchase price. In contrast, credit card users can face revolving debt costs up to 7 times higher, at 180 per cent of their total purchase value.

This reflects the underlying business model of traditional credit products, where users are incentivised to purchase beyond their capacity in order to generate larger fees over a longer period through ongoing revolving debt.

In contrast, Afterpay’s growth reflects its alignment with the consumer – where users are incentivised to plan, budget and pay on time or they are stopped from making further purchases with Afterpay until their account is settled.

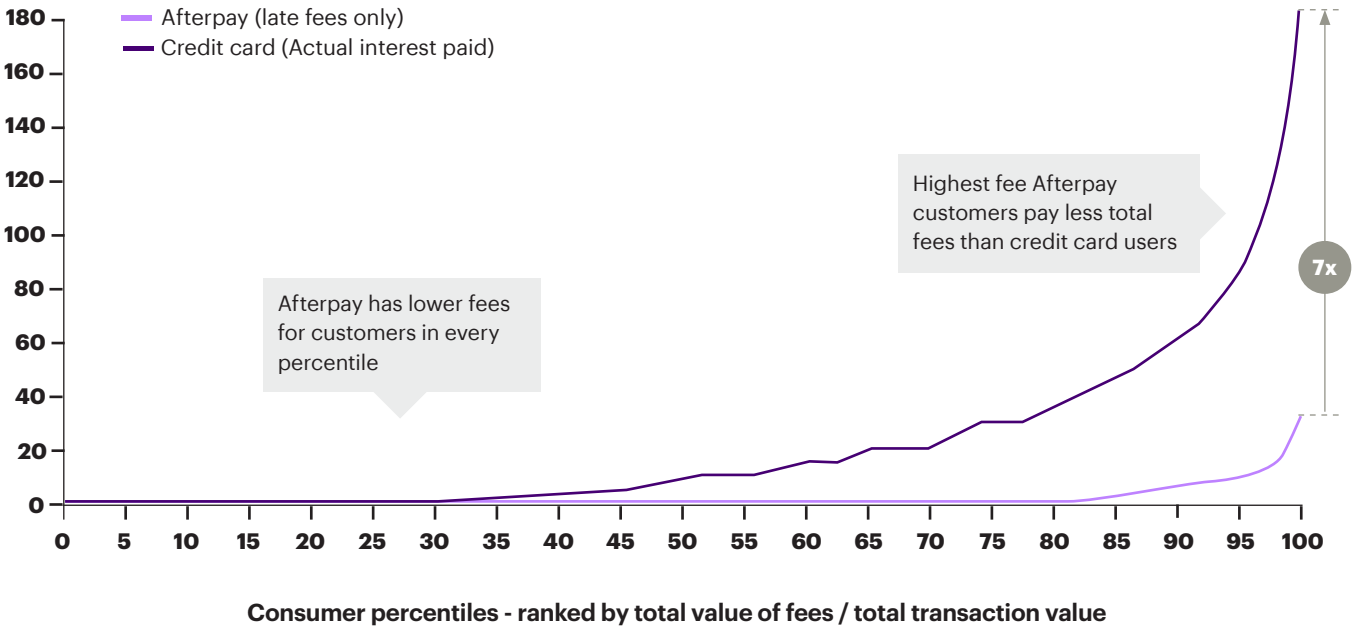
In 2020, this structure benefitted all Afterpay users, and the most vulnerable in particular.

EXHIBIT 23

Vulnerable consumers gain the most from switching from credit to Afterpay

Afterpay user fees vs. credit card user fees

% of purchase value, latest data



*Note: Assumed interest rate of 17% (national average in RBA data). Credit cards users assumed to pay interest on 58% of their balance (national average in RBA data). Outliers have been removed.
Source: Afterpay data, HILDA Wave 18, RBA Payments data, Accenture analysis*

3.3 Afterpay supported 2.7 million Australians to budget in 2020

A critical component of Afterpay's 'consumer surplus' value in 2020 is user reliance on the platform as a budgeting tool.

While the benefits of avoiding traditional credit card use were greatest for vulnerable Afterpay users in 2020, the Afterpay user community is increasingly skewing towards users from higher income households.

Afterpay users are generally highly considered and careful in their purchasing. They are less likely to return products than non-Afterpay purchasers. They are more likely to use their own money to make Afterpay purchases. And after trialing the Afterpay model to establish trust, they tend to increase use over time.

The Afterpay user community reflects a strong desire for control over personal finances during periods of economic and social uncertainty, such as occurred in 2020, as well as a deep and growing aversion to revolving debt and traditional credit products.

Surveys confirm that 90 per cent of Afterpay users rate the platform's budgeting features as fairly or very important to them – the most commonly identified feature of the Afterpay platform.

Other critical features of the Afterpay platform identified by users in 2020 included:

- Consumption smoothing between pay periods (71 per cent);
- Access to Afterpay's online shop directory (66 per cent); and
- Alternative to credit cards (61 per cent).

EXHIBIT 24

Afterpay budget features identified by 90 per cent of Australian users in 2020

Attributes of Afterpay's service that users deem important

% of responses that considered each attribute as fairly or very important



Source: Afterpay Consumer Survey (n = 620), Accenture analysis

TESTIMONIALS



“It’s a massive boon for consumers - the no-fee layby of the future, except you get to experience your goods today and the ancient layby system now largely attracts fees anyway. It’s also a cheeky double gut-punch to credit card providers with their 20%+ credit card interest rates and to the other consumer finance shysters, which feels amazing.”

“I love the fact that by using Afterpay I feel my children didn’t need to miss out on having Christmas presents under the Christmas tree. I often use Afterpay to buy the kid’s new clothes or things that they need. I also use Afterpay for things that we need for the future e.g. travel things for a holiday. I love the way you can see how much money fortnightly I need to pay on my bill and the reminders are fantastic!!”



“Being a single parent, I struggle with having time for myself and is always prioritising the most important things in life such as primary needs over personal needs. My mantra is to always save, save and save. However, I also feel the need to reward myself after a hard day’s work or a difficult week or any achievements. I find that buy now, pay later options help me to spend and manage my finances responsibly while still sticking to my budget without sacrificing the more important things.”



“I live rural in Tasmania and work full time in my country town so getting to the city to shop is often not possible. And when it is possible, I’ve often missed the sale. Using Afterpay, I can shop from home online and still get the benefit of bargain without racking up a credit card.”

“I like Afterpay because it allows me to budget so I can purchase things that I need now, without having to pay interest. My husband & I refuse to use credit cards or personal loans, due to high interest rates. It makes it so much easier for low income families & pensioners, who normally could not manage.”



Source: Afterpay Consumer Survey 2020

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FUTURE INNOVATION – BEYOND RETAIL



4.

Afterpay has helped revolutionise how Australians pay and created structural shifts in the traditional credit card market. This has delivered substantial benefits for how customers manage their money.

Australia's broader financial services sector is set to experience similar change in the coming years. Innovations such as the open banking regulatory regime and emerging Banking-as-a-Service (BaaS) offerings have the potential to empower individuals like never before.

Control over personal financial data, low/no-commitment customer relationships, greater product choice, more competition and lower fees are all likely to reshape how customers access and use a range of financial services.

Both open banking and BaaS technologies will enable innovative companies to work with traditional financial institutions to create new products that give customers greater control over their finances

At its core, open banking will allow customers to approve third parties to access their data from

traditional banks and financial institutions. Through this data, future money management tools will draw on deep customer insights to structure highly personalised products that incentivise savings goals and responsible spending behaviour.








By February 2022, all banks will be required to provide customers with their own financial data. Australia's 'Consumer Data Right', (which includes open banking reforms) will also extend to other sectors including energy and telecommunications.

By giving individuals control over their own data, Australia's 'Consumer Data Right' will open the way for individuals to drive structural reforms across multiple sectors beyond retail.

A more customer-centric model has the potential to rebalance multiple sectors across the economy in favour of the individual, as has occurred in retail and payments.

EXHIBIT 25

Australia's open banking regime compared to other jurisdictions

		Rollout start date of data sharing between banks and third parties						
	Country	Approach	2015	2016	2017	2018	2019	2020
Regulation driven	United Kingdom 				●	Phase 1 implemented across the UK's 9 largest banks		
	EU 	Mandates ability for customers to share data between banks and third parties	Payment Services Directive Two enforced, full enforcement delayed to 2020				●	
	Australia 					Phase 1 of 'Consumer Data Right' Right Implemented		●
	Hong Kong 					Phases 3 and 4 of Open APSS Framework to be implemented		●
Market driven	Singapore 	Strong support by government but no mandate		●	OCBC Bank launches first open API developer platform in Asia			
	United States 	No binding legislative framework		●	JP Morgan Chase signs official data sharing agreement with third parties			
	Japan 	Binding legislative framework with no mandate				Government encourages opening of APIs by 2020		●

Note: Early adoptions of open banking in the private sector used as the rollout start dates for market driven approaches

Source: Various including European Banking Authority, Hong Kong Monetary Authority, The Australian Government the Treasury (2017), 'Review into Open Banking'

Increased Competition

Australia’s retail banking and financial services sector remains highly concentrated compared to advanced economies (G7 countries).

According to the World Bank and Productivity Commission, this concentration has increased over the last decade, as measured by concentration of assets and by consumer switching activity.⁶

As customers gain access to their personal finance data, a wider range of providers and products are expected to generate greater competition in money management.

Importantly, this will not necessarily require the creation of more banking institutions. There are already over 130 APRA-licensed authorised deposit-taking institutions in Australia - suggesting there is scope for greater competition among the existing cohort of licensed banks.

The recent exit of a number of neobanks in Australia indicates there are significant hurdles for entities seeking to replicate existing financial infrastructure. As a result, global technology companies such as Google are electing to partner with existing banks and financial institutions to extend innovative financial services to consumers.

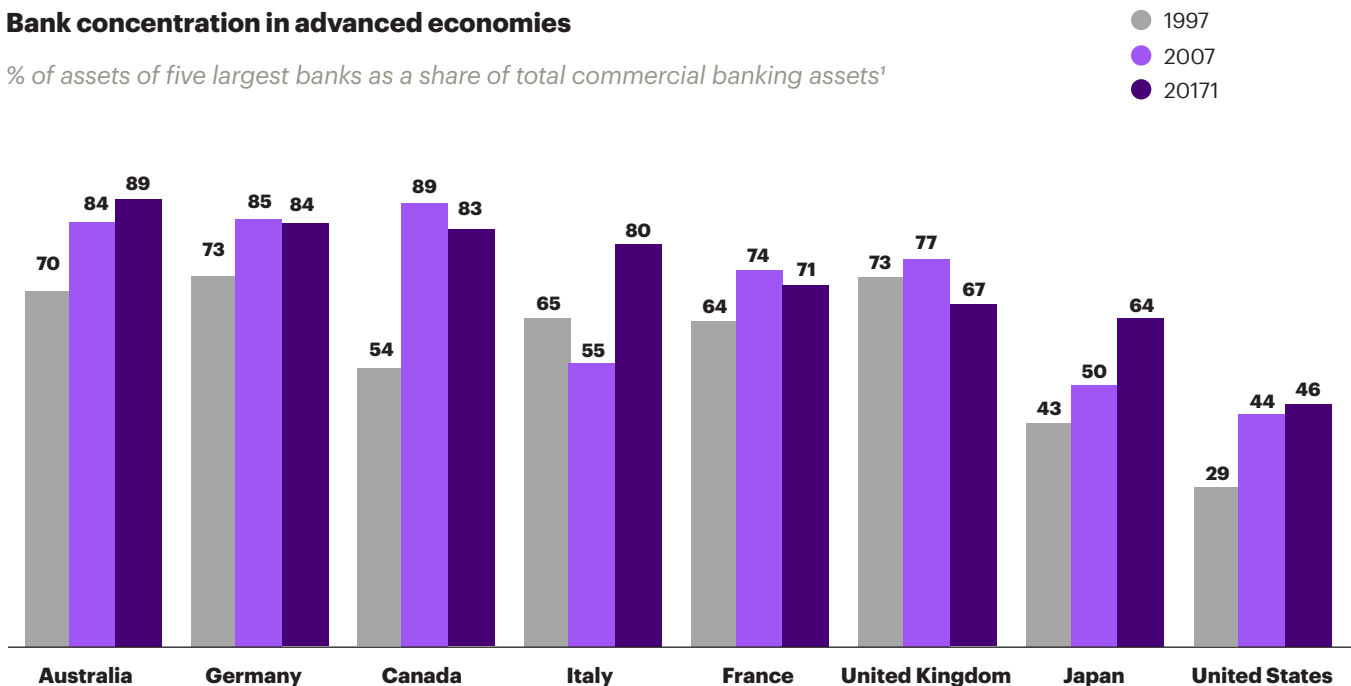
Through transition to a BaaS regime, innovative businesses will be able to deliver an improved front-end customer experience while leveraging existing bank infrastructure. Under this model consumers can benefit from additional choice, lower fees and better user experiences, within existing prudential and consumer protection regimes.

EXHIBIT 26

Australia’s retail banking sector remains highly concentrated compared to advanced economies

Bank concentration in advanced economies

% of assets of five largest banks as a share of total commercial banking assets¹



Note: 1. Australia’s ratio is accurate as of Jun-20, whereas the ratios for other countries are accurate as of 2017. If the data point for 2017 was chosen for Australia, the figure would increase to 93%.
Source: APRA, World Bank, Accenture analysis

6 World Bank - Global Financial Development dataset, Productivity Commission (2018), ‘Inquiry report - Competition in the Australian Financial System.’

Lower money management costs

Open banking reforms will increase competition by lowering switching costs, as customers take control over their own data.

Reducing switching costs will be critical to reducing customer inertia in the Australian banking sector – which can lead to higher costs through differential pricing between new and existing customers.

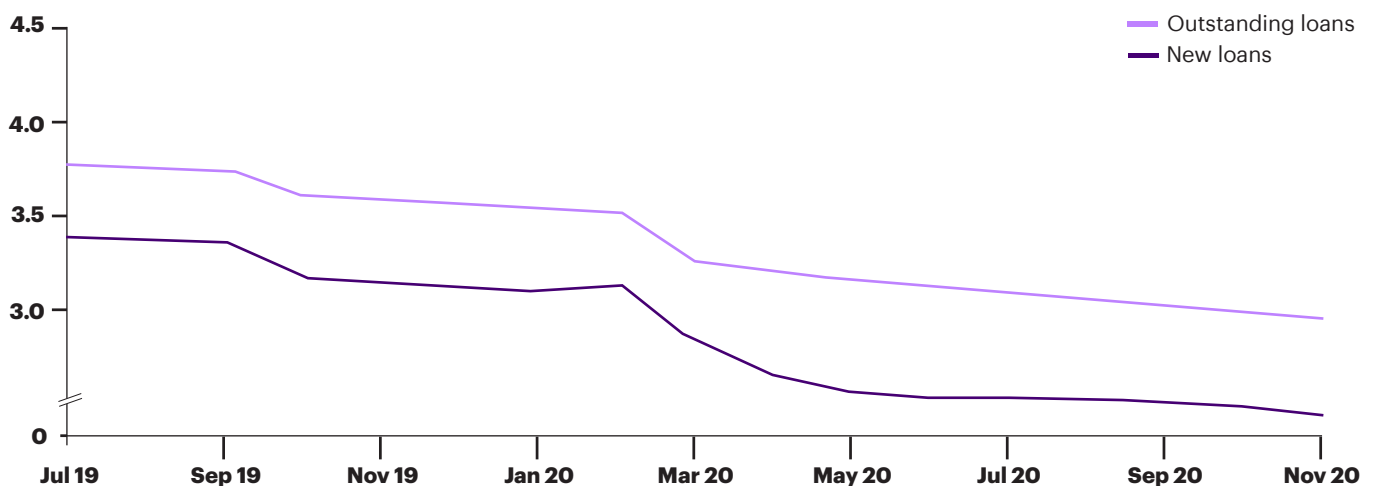
In Australia, this cost is evident across multiple products – including the owner-occupied housing credit market.

EXHIBIT 27

Cost of credit for existing vs. new customers in Australia

Lending rates for all loans for owner-occupied housing credit

Monthly % p.a.



Source: RBA Statistical Table F6 – Housing Lending Rates

Innovation and choice in money management

Increased competition and lower costs will further incentivise financial services providers to develop new and valuable products to attract customers.

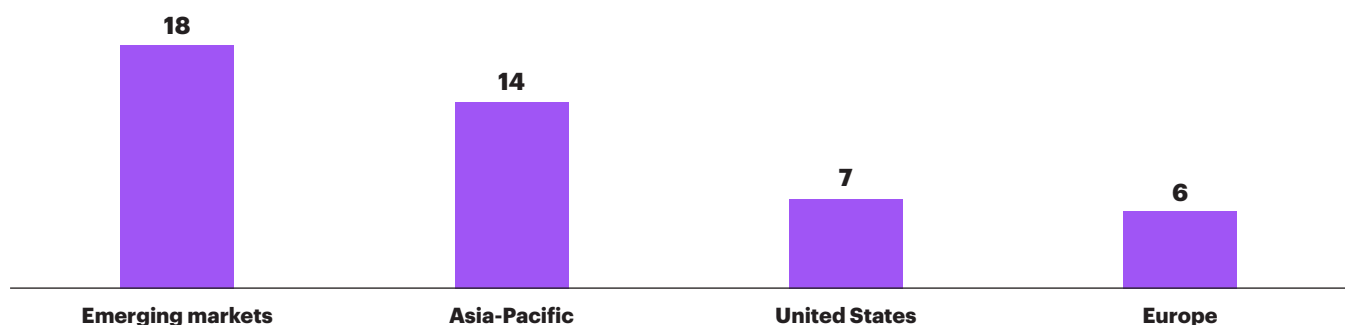
Financial institutions around the world acknowledge the importance of innovation in the modern economy. It is expected that BaaS will better equip the industry to deliver greater competition and better customer outcomes.

EXHIBIT 28

Bank and financial institution preparedness for innovation

Preparedness for innovation in banking by country/region

% of executives who responded that their financial institution was very prepared for innovation within the banking industry



Source: PwC Banking 2020 Survey

Personalised solutions for more Australians

FinTechs will benefit from open banking by accessing previously unavailable consumer data. This will allow innovative new companies to develop highly personalised and cheaper financial services.

This has the potential to make personal money management more accessible to the community – including customers traditionally excluded by established financial institutions.

In the future, information will be pooled from multiple sources to understand individual financial circumstances in more detail – helping provide tailored solutions to support better budgeting and financial literacy.

The Afterpay user community has demonstrated that lower costs, greater trust and the right incentives can fundamentally change how individuals interact with the economy and their personal finances.

In the coming years Australia’s ‘Consumer Data Right’, open banking reforms and BaaS changes will allow this type of customer-led change to reshape the wider economy, beyond retail.

APPENDIX

Methodology



Economic impact on Australian customers: \$135M in ‘consumer surplus’ benefits

To estimate the ‘consumer surplus’ derived from Afterpay’s service, we first estimated the surplus derived from delayed financial settlement without interest.

This is calculated as the average time value benefit of using Afterpay to consume products now whilst paying

for them later. Then, using consumer survey results that provide an insight into the relative value of different Afterpay product attributes, we derived the estimated ‘consumer surplus’ of the remaining three intangible benefits to calculate their value as well as the total consumer surplus.

EXHIBIT 29

The methodology to derive the value of consumer surplus from Afterpay’s service relies on academic papers and a customer survey

Consumer benefit	Definition	Calculation
Delayed settlement without interest	The benefit consumers derive from being able to buy items that they might not be able to afford at the time of purchase.	% of consumers who identify consumption smoothing as an important reason why they use Afterpay X Total Consumer Surplus.
Spending tracking and budgeting support	The benefit that consumers derive from being able to manage their budget by tracking purchases and scheduled payments.	% of consumers who identify budget management as an important reason why they use Afterpay X Total Consumer Surplus.
Access to consumer marketplace	The benefit of having access to Afterpay’s on-line directory of merchants, that offer Afterpay as a payment option.	% of consumers who identify access to Afterpay’s online directory of stores as an important reason why they use Afterpay X Total Consumer Surplus.
Convenient alternative to credit	The benefit of a simple platform to complete transactions.	% of consumers who identify dislike for credit cards as an important reason why they use Afterpay X Total Consumer Surplus.

Total Consumer Surplus is derived by:

- a) Calculating the average time value benefit of using Afterpay to pay for purchases (net present value) – this is used as a proxy for the benefit associated with ‘delayed financial settlement without interest’¹
- b) Using consumer survey results that provide an insight into the relative value of different Afterpay product attributes, to understand the relative benefit of delayed settlement without interest, and calculating the value of other product attributes as well as the total consumer surplus²

Notes: (1) The discount rate assumed was based on Individual Time Preferences and Energy Efficiency (Richard Newell and Juha Siikamaki), published in the American Economic Review (2) Consumers were asked to rate different attributes of Afterpay on a scale of “Not important at all” to “Very important”. An attribute was deemed “important”, if the consumer rated it as “Fairly important” or “Very Important”. Responses that reported an attribute as “Very important” were given a higher weight. Once weighted, responses for each attribute were then added together and converted into a percentage of total responses. Source: Afterpay consumer survey (n = 620), Afterpay data, Accenture analysis)

Economic impact on Australian merchants: supporting 63,000 Australian jobs

To estimate the number of Australian jobs supported by Afterpay, input-output (I-O) modelling was used. I-O modelling assesses the contribution an industry makes to the economy to analyse the potential impacts of a change in production.

I-O modelling can be used to estimate the number of jobs created from the number of merchants that Afterpay has helped connect to consumers and generate revenue. This is achieved by comparing output implied via industry multipliers to a ratio of employment to output for each industry. The I-O modelling of jobs implied by expenditure has been complemented with a 'bottom up' approach to estimating direct jobs supported by Afterpay, calculated as the number of employed persons in 'Other Store-Based Retailing' and 'Non-Store Retailing' multiplied by the proportion of online and in-store Afterpay revenue to total industry revenue. This estimates the number of persons employed by Afterpay merchants through the total number of persons employed by the 'Other Store-Based Retailing' and 'Non-Store Retailing' industries using the proportions of revenue generated by merchants on Afterpay relative to the total industry. Additionally, the level of indirect jobs from the I-O modelling takes into account direct jobs substituted by indirect jobs from online sales which require less direct labour than in-store sales.⁷

I-O analysis can be used to decompose three effects of Afterpay on jobs:

- Direct effects: the impact of Afterpay on merchants who are able to use the service to connect to customers and make sales
- Indirect effects: the impact of Afterpay's buying goods and services from suppliers and these suppliers buying goods and services from their suppliers
- Induced effects: the impact in the economy of wages and salaries earned and spent by workers who are directly and indirectly employed by Afterpay merchants

I-O analyses reflect a snapshot of an economy in a given period and therefore reflects the structure of the economy at that time. To assess impact, I-O modelling relies on four critical assumptions: prices remain constant, technology is fixed, import shares are fixed and there is an unlimited supply of resources.

As I-O modelling assumes unlimited resources, the results do not consider the potential for resource constraints and displacement effects caused by Afterpay.

Economic impact on Australian merchants: delivering the equivalent of \$3.0B billion in net economic value for merchants

To calculate the net benefits Afterpay provides for merchants, we approximate the benefits from a range of data sources from both proprietary data, including a merchant survey and Afterpay data, as well as public data, including from the ABS (see Exhibit below).

⁷ Terzi, N. (2011), The impact of e-commerce on international trade and employment. *Procedia*, 24, 745 – 753

EXHIBIT 30

The methodology to derive the value of merchant benefits from Afterpay’s service relies on proprietary and public data

Merchant benefit	Lever	Definition	Calculation				
1 Increasing sales	Larger customer basket size	Increased order value of customers now likely to spend more due to availability of delayed settlement without interest.	Increase in sales post-APT due to larger customer basket size (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Increase in conversion rates	Increased conversion of web traffic to sales as consumers have more payment options.	Increase in sales post -APT due to higher conversion rates (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Rise in repeat purchasing	Increased frequency of purchases as customers now likely to spend more due to the availability of delayed settlement without interest.	Increase in sales post -APT due to rise in repeat purchasing (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Increased brand relevance and customer engagement	Increased number of sales experienced from customers gained through increased brand exposure and greater customer engagement	Increase in sales post -APT due to improved brand relevance and customer engagement (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Exposure to new customers	Access to new audience of customers who know the Afterpay brand.	Increase in sales post -APT due to exposure to new customers (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Other	Other drives observed by merchants	Increase in sales post -APT due to other reasons (%) Source: merchant survey	X	Average revenue per merchant pre-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
2 Delivering efficiencies	Lower customer service costs	Reduced cost associated with higher share of online transactions reducing in-store costs.	Reduction in costs due to greater mix of online sales (% of revenue) Source: Aus Post, PayScale	X	Average revenue per merchant post-APT (\$) Source: ABS	X	Number of merchants that offer APT ('000) Source: APT data
	Free referrals from shop directory	Reduced cost associated with online marketing as referrals are provided for free from Afterpay’s shop directory.	Average cost per referral pre APT (\$) Source: Google, facebook cost per click of ads	X	Number of customer referrals from APT shop directory Source: APT data		
	Lower return rates	Reduced cost associated with Afterpay customers returning purchases less due to reduced ‘buyers remorse’.	$\left(\begin{array}{l} \text{Total cost of returns for Australian industry for 1 year (\$)} \\ \text{Source: ABS, USPS, UPS, PayScale, Aus Post, expert interviews, APT} \end{array} \right) - \left(\begin{array}{l} \text{Total cost of returns at APT return rates for 1 year (\$)} \\ \text{Source: APT data} \end{array} \right) \times \left(\begin{array}{l} \text{Total APT turnover for 2020 (\$)} \\ \text{Source: ABS, APT data} \end{array} \right) \div \left(\begin{array}{l} \text{Total retail industry turnover for 1 year (\$)} \\ \text{Source: ABS} \end{array} \right)$				
	Lower fraud rates	Reduced cost associated with the removal of fraud costs and chargeback fees.	Cost of fraud (% of revenue) Source: merchant survey	X	Average revenue per merchant post-APT (\$) Source: ABS, APT data	X	Number of merchants that offer APT ('000) Source: APT data

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About Afterpay

Founded five years ago in Sydney, Australia, Afterpay has millions of global customers and tens of thousands merchant partners now using the platform globally across Australia, US, Canada, UK and Southern Europe (where it is called Clearpay), and New Zealand. Afterpay's global team is currently made up of more than 900 people and growing.

Afterpay's business model is completely free for customers who pay on time – helping people spend responsibly without incurring interest, fees or extended debt. Afterpay empowers customers to access the things they want and need, while still allowing them to maintain financial wellness and control, by splitting payments in four, for both online and in-store purchases.



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