

23 February 2017

ASX ANNOUNCEMENT

AFTERPAY AND TOUCHCORP INTEND TO PURSUE A MERGER

Afterpay Holdings Limited (ASX:AFY) and **Touchcorp Limited** (ASX:TCH) are pleased to announce that they have signed a heads of agreement (**HOA**) relating to an in principle agreement for a proposed merger under a newly incorporated Australian holding company, proposed to be implemented by inter-conditional schemes of arrangement (**Proposed Merger**).

Merger Summary

The Proposed Merger is expected to deliver significant benefits to shareholders of both companies and enhance the attractiveness of our combined customer proposition.

The key terms of the Proposed Merger include:

- A newly incorporated Australian company (**NewCo**) will issue new shares to Afterpay shareholders (excluding Touchcorp, which currently holds approximately 26% of Afterpay shares on issue on a fully diluted basis) on a 1:1 basis and to Touchcorp shareholders on a 0.64:1 basis such that at completion of the Proposed Merger, NewCo will be owned approximately 64% by Afterpay shareholders (excluding Touchcorp) and approximately 36% by Touchcorp shareholders, each on a fully diluted basis
- NewCo will acquire Touchcorp and Afterpay by two separate interconditional schemes of arrangement, following which Touchcorp and Afterpay would each become wholly-owned subsidiaries of NewCo
- NewCo would be listed on the Australian Securities Exchange (**ASX**)
- Anthony Eisen will be NewCo's Executive Chairman and Nick Molnar will be the Managing Director and Chief Executive Officer, Nadine Lennie will be the Chief Financial Officer and Jason Van will be the Chief Technology Officer.

Conditions and Timing

The parties have entered into a 4 week period of exclusivity (subject to customary fiduciary outs) during which time they intend to conduct due diligence and negotiate and finalise a definitive Merger Implementation Agreement for the Proposed Merger.

The Proposed Merger, if formalised, would be subject to a number of conditions, including each party obtaining all necessary regulatory and shareholder approvals. The key conditions to the Proposed Merger are set out in the Annexure. It is possible that further conditions to the Proposed Merger may become necessary as due diligence and negotiations continue.

The negotiations may not lead to a definitive transaction and there is no guarantee that the parties will be able to formalise definitive transaction documentation for the Proposed Merger, or that the Proposed Merger will proceed.

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Benefits of the Proposed Merger

The boards of both Afterpay and Touchcorp support the merger in the absence of a superior proposal and believe the complementary skill sets will deliver stronger shareholder value than could be attained for shareholders of either company by acting independently from each other.

In particular, the merged group is expected to benefit from:

- The technology solution that underpins the Afterpay product will be developed and managed within NewCo to enable a direct focus on building on the success of Afterpay to date
- A broader product mix and greater financial and operational scale than either entity can expect to possess alone
- Revenue growth opportunities from the combination of Afterpay's extensive retail network and Touchcorp's strong technology offering
- A single sales channel to the retail market for products and services that Touchcorp has developed to enhance the consumer's purchase experience
- Benefits of scale with input cost synergies and process efficiencies
- NewCo being an employer of choice for existing and new talent

Further, NewCo is expected to be attractive to a wider range of investors, both institutional and retail.

The Board of Touchcorp sees the following benefits for Touchcorp shareholders:

- A strong premium to recent share price performance. The merger terms reflect an indicative premium for Touchcorp shareholders of approximately:
 - 50% to the closing price of Touchcorp's shares on 22 February 2017; and
 - 49% to the 1-month volume weighted average price (VWAP) of Touchcorp shares up to 22 February 2017,

based on the merger ratio above and an Afterpay share price of \$2.46, being the closing price of Afterpay shares on 22 February 2017

- Access to a proven sales team with capability in revenue generation
- A strong growth strategy alongside household Australian retail brands

The Board of Afterpay sees the following benefits for Afterpay's shareholders:

- A single, fully integrated technology platform to power Afterpay's rapid growth profile
- Direct access and synergy with a talented technology-led team to drive innovation as required to maximise the market opportunity
- Ability to integrate and enhance the revenue streams and product offerings Touchcorp has developed to date to better serve customers

Afterpay Executive Chairman, Anthony Eisen said, “This potential merger would be a natural evolution of the existing relationship between the two businesses, given the rapid growth in the Afterpay platform and the importance of Touchcorp technology to this. The growth of the Afterpay opportunity continues to exceed our expectations and is greater than we originally anticipated. This proposed strategic merger would enable NewCo to be fully integrated from a technology perspective, boost the earnings potential of each component company with access to new industries and benefits of scale. I am excited by the prospect of what these two companies can achieve together as a potentially merged group.”

Afterpay Managing Director, Nick Molnar said, “We are pleased to have an opportunity to work even closer together. Afterpay’s success over the past 12 months has been driven by building very strong retail relationships and engaging customers on a personal level. Underpinning this strong growth has been the hard work of the Touchcorp team and we are pleased to work even closer together.”

Touchcorp Executive Chairman, Mr Mike Jefferies said, “We are delighted to announce the intention to pursue the proposed merger. This transaction will provide Touchcorp shareholders with a compelling offer. The proposed merger would represent a unique opportunity to combine the outstanding technology set from Touchcorp with the strong sales focus and brand recognition of Afterpay to develop stronger propositions to customers and investors.”

The parties will make a further announcement on the progress of the Proposed Merger in due course.

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Annexure

Overview of the Merger Process

The Proposed Merger is expected to involve the following interdependent elements:

- Incorporation of a new Australian holding company, NewCo.
- Afterpay would propose a scheme of arrangement governed by Australian law with its shareholders (other than Touchcorp) pursuant to which NewCo would acquire all the issued shares in Afterpay not already held by Touchcorp in return for such number of new NewCo shares for each Afterpay share (**Afterpay Scheme**) that represents the Merger Ratio described below. Touchcorp currently holds approximately 26% of Afterpay shares on issue (on a fully diluted basis).
- Touchcorp would propose a scheme of arrangement governed by Bermudan law with its shareholders pursuant to which NewCo would acquire all the issued shares in Touchcorp in return for such number of new NewCo shares for each Touchcorp share (**Touchcorp Scheme**) that represents the Merger Ratio described below.
- Afterpay's and Touchcorp's currently issued employee options and other rights are proposed be cancelled or acquired by NewCo, and replaced with new options or rights (as applicable) in NewCo.
- NewCo may implement further employee incentive arrangements with a view to aligning the interests of certain executives and senior management with the long-term goals of NewCo.
- Following implementation of the Afterpay Scheme and Touchcorp Scheme, NewCo would be listed on ASX.

The NewCo Shares to be issued as consideration under the Proposed Merger will reflect the following ratio:

- (a) approximately 64% of NewCo Shares will be owned by Afterpay shareholders on a fully diluted basis (which does not include the approximately 26% of Afterpay shares held by Touchcorp on a fully diluted basis); and
- (b) approximately 36% of NewCo Shares will be owned by Touchcorp shareholders on a fully diluted basis,

(the **Merger Ratio**).

The exact Merger Ratio and premium represented by the Merger Ratio will be set out in the Merger Implementation Agreement. The Merger Ratio may be adjusted as a result of due diligence findings or other commercial matters between now and the time definitive agreements are finalised.

The board of directors of both companies support the Proposed Merger in the absence of a superior proposal.

Conditions precedent to the Proposed Merger

Completion of the Proposed Merger will be conditional upon the satisfaction (or waiver) of the following conditions precedent:

- (a) execution of all transaction documents by all necessary parties;

- (b) The independent expert engaged by Afterpay for the purpose of providing an opinion to its shareholders (and optionholders, if applicable) concluding that the Proposed Merger is fair and reasonable and in their "best interests";
- (c) The independent expert engaged by Touchcorp for the purpose of providing an opinion to its shareholders concluding that the Proposed Merger is fair and reasonable and in their "best interests" (or equivalent Bermudan formulation);
- (d) All necessary shareholder approvals being obtained by both parties, including:
 - (i) holders of Afterpay shares, other than Touchcorp, approving the Proposed Merger by the necessary majorities at the scheme meeting; and
 - (ii) holders of Touchcorp shares approving the Proposed Merger by the necessary majorities at the scheme meeting;
- (e) All necessary legal, governmental and regulatory consents and approvals being obtained for completion, including Australian and Bermudan Court approval of the schemes of arrangement, ASX waivers in relation to employee awards, and ASX approval for the listing of NewCo and quotation of its shares on ASX following completion;
- (f) Cancellation or acquisition of all Afterpay and Touchcorp employee awards;
- (g) No material adverse change (**MAC**) occurring in relation to either party. The scope of MAC parameters for each party will be specified in the Merger Implementation Agreement;
- (h) No "prescribed occurrences" occurring in relation to either party;
- (i) All consents or approvals required under material licences and regulatory authorisations, and under all material contracts, being obtained by the relevant party.

If by 30 September 2017 (or such other date as agreed in writing between the parties), the conditions precedent are not satisfied or waived, the agreement in principle constituted by the HoA will end and the parties will be released from their obligations under the HoA.

The conditions precedent listed above are those that at the date of the HoA have been identified as being necessary for the purposes of the Proposed Merger. However, other conditions precedent may become necessary as negotiations and definitive documentation (if any) progress after the execution of the HoA.