



Zip Co Limited

29 January 2018

Q2 FY18 QUARTERLY UPDATE
RECORD QUARTER - GROWTH ACCELERATING

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly performance for the period ending 31 December 2017 (**Q2 FY18**).

HIGHLIGHTS

- **Transaction volume of \$140 million, up \$45 million, a 47% increase on Q1 and exceeding previous guidance.**
- **Transactions on the platform up 57% on Q1. Growth driven by larger customer numbers, now over 530,000, and stronger engagement, with a 75% repeat rate.**
- **Record quarterly revenue of \$9.3 million, up 35% on Q1.**
- **Significant growth in receivables book to \$231 million, up 31% on Q1.**
- **NAB and FIIG agreed to increase facilities by \$120 million, bringing available facilities to \$360 million.**
- **Operating costs stabilised in Q2 and Zip completed the transition from its high cost funding program. The Company confirms its guidance for cashflow break-even on a monthly basis in FY18.**
- **The Zip digital wallet is now accepted at any retailer on the Zip network. Customers can now checkout at any retailer that offers zipMoney or zipPay.**
- **Iconic Australian brands continue to join the platform, including, Kogan, Fantastic Furniture, Spotlight and Anaconda.**
- **Pocketbook announces first of its kind open-banking API integration with Macquarie Bank. Adds 50,000 users to reach a total user base of over 435,000 users.**
- **Ranked #2 in Deloitte Technology Fast 50 Australia.**

Managing Director and CEO Larry Diamond said:

"We are absolutely thrilled with this quarter's record-breaking results as well as marquee retailer announcements. There is strong momentum in the underlying business with more and more retailers understanding the demand for alternative payments, and customer engagement continuing to show healthy growth. We are seeing the fruits of significant investment in the platform over the years and the accelerating network effect from our closed-loop payments ecosystem. It was pleasing to secure a significant increase in our financing from major partners NAB and FIIG, which is key to supporting the continued growth in our receivables. We thank them both for their continuing support."

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KEY OPERATIONAL METRICS

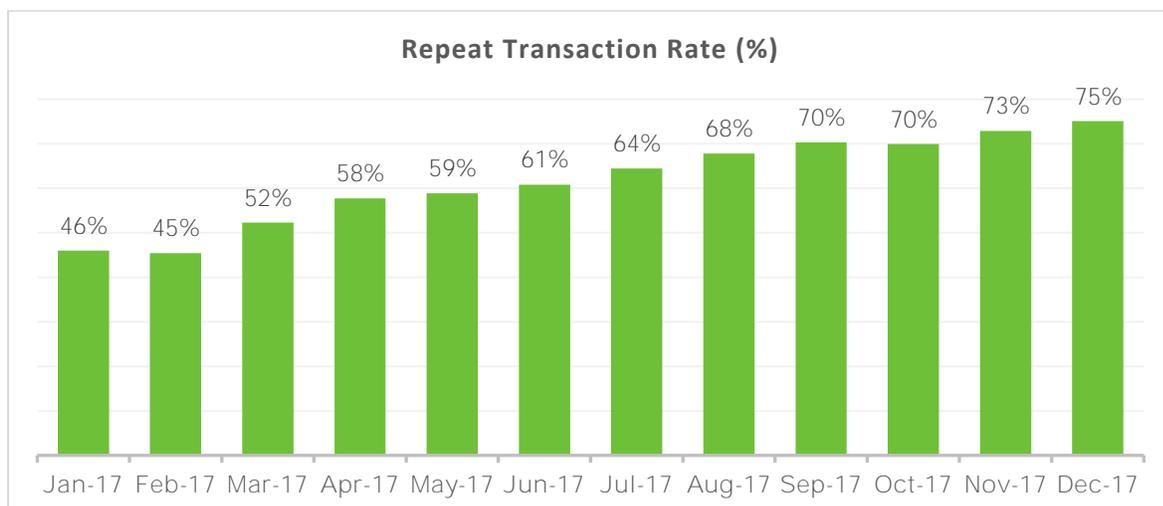
The Company has continued to deliver rapid growth in its underlying operations, as outlined below.

Financial and Operational Performance	Q2 FY18 Results (unaudited)	% increase on Q1 FY18 (unaudited)	% increase on Q2 FY17 (unaudited)
Merchants ¹	7,752	31% ↑	260% ↑
Customers ²	529,326	31% ↑	344% ↑
Receivables ³	\$231.1m	31% ↑	164% ↑
Transaction volume	\$140.2m	47% ↑	180% ↑
Transactions	487,790	57% ↑	410% ↑
Revenue	\$9.3m	35% ↑	136% ↑

1. Number of accredited merchants
2. Number of active customer accounts (not including Pocketbook users)
3. Amounts due from Customers

Customer engagement metrics also continued to improve over the quarter, with the repeat transaction rate growing to 75% (per the diagram below). This was driven by:

- More places for our Zip customers to shop, with a record 1,800 new retailers joining the platform during the quarter, including a number of key shopping destinations – Kogan, Fantastic Furniture, Anaconda and Spotlight.
- More targeted and personalised retailer co-marketing campaigns to the customer base.
- The unification of the Zip network, enabling a Zip wallet (funded by either zipMoney or zipPay) to transact at any accredited merchant.



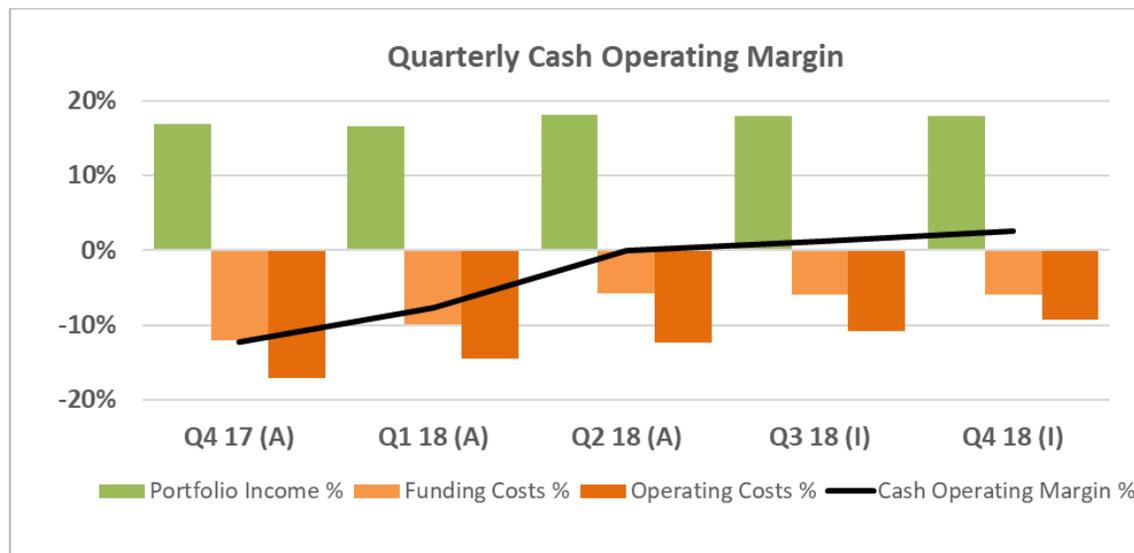
Notes: Repeat Transaction Rate defined as % of monthly transactions made by existing customers.

PATHWAY TO CASHFLOW BREAKEVEN

Zip continues to make substantial progress towards achieving its guidance of cashflow break-even on a monthly basis in FY18. Notably, the Company observed:

- **Reduction in Funding Costs Complete** – Zip refinanced the remainder of its high-cost receivables into the low-cost NAB facility in November. Q3 FY18 will be the first full quarter where Zip will enjoy the benefit of its low funding costs of approximately 6% going forward.
- **Stabilisation in Operating Costs** – The operating cost base was largely flat in Q2 FY18 with only modest increases anticipated in Q3 and Q4.
- **Increasing Portfolio Income** – Pleasingly Zip saw an increase in its portfolio income yield from 17% to 18% over the quarter. In addition, the company has implemented a number of initiatives to support the increase in yield towards the 20% target.

As illustrated in the chart below, the continuing impact of reducing funding costs and a stabilisation of the operating cost base is expected to see Zip’s cash operating margin turn positive in the coming quarters.



Notes:

1. Portfolio Income, Funding Costs, Operating Costs and Cash Operating Margin all expressed with reference to Average Receivables Balance in the quarter, on an annualised basis (i.e. % p.a). Cash Operating Margin = Portfolio Income - Funding Costs - Operating Costs (not including bad debt losses).
2. Assumptions adopted for future periods include: (i) Portfolio Income % kept constant at current levels, (ii) Funding costs to reduce from 10% to 6%, (iii) Operating costs at expected levels per quarter and 20% quarterly growth in average receivables.
3. Figure above does not represent a forecast and is illustrative only. Future periods are identified with an (I).

In Q2 FY18, the Company reported in its Appendix 4C *cash used in operating activities* of \$0.1m, a significant improvement on \$2.7m in Q1. This included:

- Cash payments for Operating Costs (staff, administration and corporate costs) of \$6.3m, compared to \$6.0m in Q1. Zip does expect a slight uplift in Q3 FY18 to ~\$6.8m taking into account the recent office relocation, higher rental costs and brand marketing expenditure.

- Interest and other finance costs reduced from \$4m in Q1 to \$3m in Q2 and is expected to remain relatively constant in Q3 as Zip enjoys the full benefit of its reduced funding costs offset by a larger drawn debt balance.
- It should be noted that both the Appendix 4C definition of *cash used in operating activities* and the *cash operating margin* above are aligned, and show a close to break-even position. The Company's target of cashflow breakeven includes the impact of bad debt write-offs, which are included in the *net movement in receivables* in the 4C.

During the quarter the Company moved offices, relocating to Level 14, 10 Spring Street. The costs of fitting out and establishing the office are included in payments to acquire property, plant and equipment in *cash flows used in investing activities* in the 4C.

FUNDING UPDATE

In the quarter, the remaining receivables from the Victory Park Capital ("VPC") backed 2015-1 Trust were transitioned to the NAB backed 2017-1 Trust and \$45.5m was repaid to VPC. This presented the natural point for VPC to exercise the 5m options granted to them as part of their initial facility, which they have subsequently done and exited the register. This brings our financing arrangements with VPC to a conclusion and both the Board and Management would like to acknowledge the support of VPC in the growth of the Company to date.

In January 2018 the Company agreed an increase of \$120m in its available 2017-1 facility commitments with financiers NAB and FIIG. This brings the total available commitments within the Trust to \$360m, of which \$206.5m was drawn as at 31 December 2017.

In total, the Company has current funding headroom of \$168.5m and continues to explore additional options to further increase and diversify the facilities available to fund its growth.

Zip currently holds equity of \$17m in the various funding programs having applied a proportion of the Westpac proceeds to repay costly mezzanine capital. Zip retains the ability to access mezzanine capital in the future, enabling the release of equity in the receivables portfolio to fund growth initiatives and capital expenditure as required.

MERCHANT UPDATE

In Q2, the platform grew by 31% with over 1,800 new merchants offering Zip, including many well-known consumer brands:

Fantastic Furniture	Kogan	Bose	Toys R Us	Spotlight
Anaconda	Scoopon	Bed Bath N' Table	PETstock	Ishka
Australian Laser and Skin Clinics	Nutrition Warehouse	GHD Hair	Pumpkin Patch	Bras N Things

During the quarter, our product team delivered on a significant project to unify the Zip network. This initiative now enables a Zip wallet (funded by either zipMoney or zipPay) to transact at any accredited merchant. This change is already having a material and positive impact on transaction volumes.

During the quarter, partnership distribution agreements were signed with Quest (a leading provider of payment terminals, payment infrastructure and retail technology) and Retail Express (a leading Australian POS system). The integration with Quest is due for completion in Q3, and, once completed, will allow merchants using Quest terminals to accept Zip payments by way of a remote software update. The team is in advanced stages with a number of significant Payment Gateway and POS Terminal Providers, with further announcements anticipated in Q3 and Q4 FY18.

The Health Team increased the number of clinics signed up to Zip by over 50% in the quarter, bringing the total signed to 1,100. The Team also made significant progress in driving brand awareness.

RECEIVABLES AND CREDIT UPDATE

As at 31 December 2017, receivables were \$231.3 million, up 31% over the previous quarter. The customer repayment profile remains at a healthy 14% of opening receivables balance repaid each month.

The reported arrears rate and bad debts, were 1.85% and 2.28%, respectively, both well below industry standards. As previously advised, as the book continues to season, bad debts are expected to trend towards 3%, which remains the basis for Zip's bad debt provisioning on its balance sheet and reflected in Zip's Income Statement.

The continuing strong performance of the receivables portfolio reflects the dynamic enhancement of Zip's risk management framework by the Data and Risk team, balancing the appetite for risk with the growth in revenue, within its 100% owned proprietary credit and fraud decisioning technology. During the quarter additional data sources were built into the various models further enhancing the credit assessment decisions.

The recent credit review associated with the increase in the Company's credit facility further validates the continued performance of the receivables portfolio and investment in its intellectual property.

POCKETBOOK

The Pocketbook business now reaches over 435,000 users, having added over 50,000 users in the last quarter. In calendar 2018, the app is experiencing its biggest January ever, currently tracking at double 2017 numbers. The successful iPhone relaunch in late September saw a significant uptick in monthly active usage and the Android version is expected in Q3 FY18, the first major upgrade in over 12 months.

Significantly, the Company announced a first of kind open-banking API integration with Macquarie Bank in January 2018. Pocketbook is the first app in Australia to integrate with the open banking platform recently announced by Macquarie's Banking and Financial Services Group. The integration is significant at an industry level and leads the Federal Government's focus on establishing Australian open banking standards that will increase competition and provide consumers with the power to easily and securely share their data with third party providers.

CONCLUSION

In summary, the Zip business significantly accelerated its growth in Q2 FY18 and is rapidly moving towards cashflow breakeven supported by:

- Continued strong growth across all key operating metrics.
- Exiting costly legacy funding program.

- Demonstrating a stabilisation of the cost base.
- Continued introduction of iconic merchants, who are benefiting from the Zip platform.
- Increasing customer numbers and engagement.

– ENDS –

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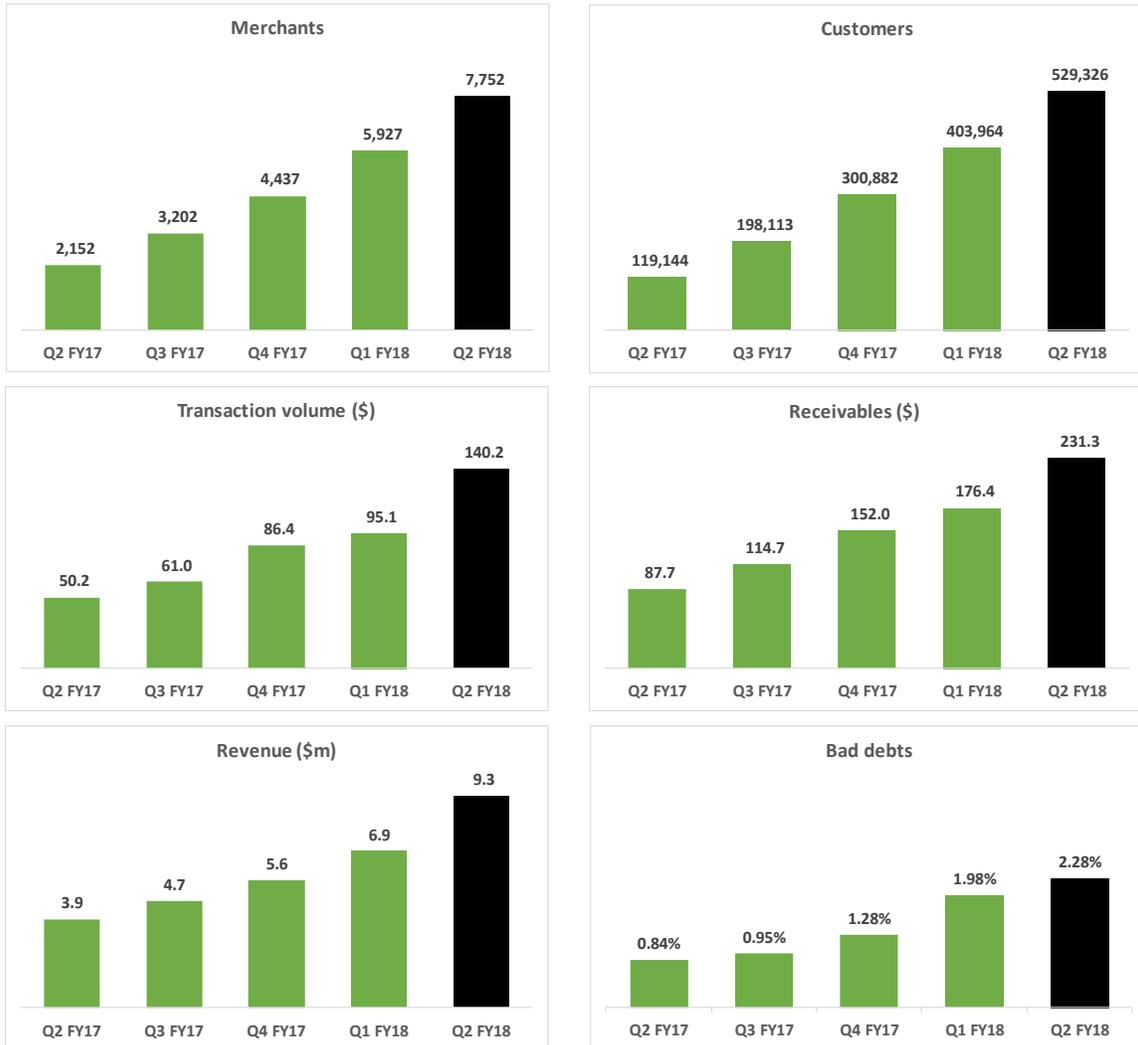
About Zip

ASX-listed Zip Co Limited (Z1P: ASX) or (“Zip”) is a leading player in the digital retail finance and payments industry. The Company offers point-of-sale credit and digital payment services to the retail, education, health and travel industries. It operates under the zipPay, zipMoney and Pocketbook brands. The Company is focused on offering transparent, responsible and fairly priced consumer products. Zip’s platform is entirely digital and leverages big data in its proprietary fraud and credit decisioning technology to deliver real-time consumer responses. Zip is managed by a team with over 50 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zipmoneylimited.com.au

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KEY BUSINESS DRIVERS



Notes: (i) Based on unaudited financials; (ii) Receivables gross, before provisions; (iii) Revenue including Portfolio and Other Income; and (iv) Bad debts defined as those accounts written off at greater than 180 days' delinquent. It is calculated as the aggregate prior 12 months as a percentage of gross receivables.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Zip Co Limited

ABN

50 139 546 428

Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,173	15,808
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(540)	(792)
(d) leased assets	-	-
(e) staff costs	(3,391)	(6,522)
(f) administration and corporate costs	(2,417)	(5,001)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	33	121
1.5 Interest and other costs of finance paid	(2,955)	(7,037)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	614
1.8 Other (provide details if material) - Funding Costs	-	-
1.9 Net cash from / (used in) operating activities	(97)	(2,809)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2,891)	(2,944)
(b) businesses (see item 10), net cash acquired	-	-
(c) investments	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
(d) intellectual property	-	-
(e) other non-current assets	(604)	(1,267)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Others		
Net movement in		
- Receivable and customer loans	(55,351)	(83,104)
- Term Deposits	-	(1,102)
2.6 Net cash from / (used in) investing activities	(58,846)	(88,417)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	500	40,500
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(15)	(308)
3.5 Proceeds from borrowings	105,500	125,500
3.6 Repayment of borrowings	(45,500)	(75,360)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	60,485	90,332

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	16,778	19,214
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(97)	(2,809)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(58,846)	(88,417)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	60,485	90,332
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	18,320	18,320

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,027	13,072
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (restricted cash)	11,293	3,706
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	18,320	16,778

6. Payments to directors of the entity and their associates

**Current quarter
\$A'000**

6.1 Aggregate amount of payments to these parties included in item 1.2

200

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7. Payments to related entities of the entity and their associates

**Current quarter
\$A'000**

7.1 Aggregate amount of payments to these parties included in item 1.2

-

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

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8. Financing facilities available

Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	260,000	211,500
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

During the quarter the Group completed the refinancing of receivables from the zipMoney 2015-1 Trust to the zipMoney 2017-1 Trust, repaying \$45.5m to Victory Park Capital the principal financier to the 2015-1 Trust.

Following the quarter end the Group reached agreement with the financiers of the 2017-1 Trust to increase the facilities available within the Trust to \$360m, up from \$240m.

Following this increase, the Group has two funding programs in place the zipMoney Trust 2017-1 (facility amount \$360m, drawn \$206.5m at quarter end) and the zipMoney Trust 2017-2 (facility amount \$20m, drawn \$5m at quarter end).

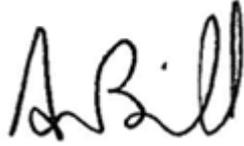
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	580
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	620
9.4 Leased assets	
9.5 Staff costs	3,520
9.6 Administration and corporate costs	2,650
9.7 Other (provide details if material)	
- Interest and other costs of finance	3,015
9.8 Total estimated cash outflows	10,385

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 29 January 2018

Print name: **Andrew Bursill**

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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