



30 October 2019

Q1 FY20 QUARTERLY UPDATE
BUILDING FOR THE FUTURE

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly update for the period ending 30 September 2019 (**Q1 FY20**).

HIGHLIGHTS

- **Record quarterly revenue of \$31.0m, up 15% on Q4 FY19.**
- **Receivables increased to \$783.6m, up 15% on Q4 FY19.**
- **Record quarterly transaction volume of \$402.1m, up 111% year on year.**
- **Customer numbers increased to over 1.4 million, with 147k added in the quarter.**
- **Entered agreement to acquire global instalment technology platform, PartPay Limited, providing exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa.**
- **Increased investment in US BNPL provider, QuadPay to 15%.**
- **Acquired SME lender Spotcap Australia and New Zealand, fast tracking the launch of the Zip Biz BNPL product.**
- **Zip Master Trust launched in September, significantly oversubscribed, closing at \$500m. First pure play BNPL issuance globally and the largest of its nature by an Australian Fintech.**
- **Zip app ranked in the top 10 across both the Apple (#9) and Google Stores (#4).**
- **Delivered market-leading credit performance with 1.68% net bad debts.**
- **Remained cashflow breakeven whilst investing significantly in growth initiatives. Cash EBTDA 1.0% of average quarterly receivables.**
- **Big W, Carsales.com, Bailey Nelson, Sass & Bide, T2 Tea and a number of other household names joined the platform.**
- **Personal finance manager app, Pocketbook finished the quarter with a total user base of c.730,000.**
- **Key appointments to the executive team – Chief Customer Officer, Steve Brennen and Chief Product Officer, Patrick Collins.**
- **Zip Co officially joined the S&P/ASX 300 in the September index rebalance.**

Managing Director and CEO Larry Diamond said:

"We are pleased to report another record quarter with revenue of \$31.0 million, and the Company now annualising more than \$1.6 billion in transaction volume. Well known enterprise brands continue to join the platform, with BigW (part of the Woolworths Group) one of the most recent additions, and a solid pipeline of new brands looking to integrate prior to the holiday trading period. We are well on our way to achieving our mission to be the first payment choice everywhere and every day.

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Zip announced a number of marquee acquisitions to accelerate growth in both new product and market segments – global instalment technology platform PartPay, as well as SME lender Spotcap ANZ.

Although there remains a large addressable market opportunity here in Australia which remains a continued focus, the global phenomenon of BNPL is underway, and it is critical Zip plays a future role in its growth story. The PartPay acquisition provides us with a gateway into the UK market, and a platform that we are looking to expand into additional jurisdictions over the coming years. We are equally as excited about the in-pilot Zip Biz solution which offers Australian small business a simple, transparent and interest free digital line of credit that will be accepted across the Zip network early next year.”

KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q1 FY20 Results (unaudited)	% increase on Q4 FY19 (unaudited)	% increase on Q1 FY19 (unaudited)
Revenue	\$31.0m	15% ↑	107% ↑
Merchants ¹	17,890	10% ↑	55% ↑
Customers ²	1,414,584	7% ↑	66% ↑
Receivables ³	\$783.6m	15% ↑	118% ↑
Transaction volume	\$402.1m	14% ↑	111% ↑
Transactions	1,832,456	14% ↑	170% ↑

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

Zip added 146,863 net new customers during the quarter which equates to an 11% increase on Q4 FY19. A total of 57,331 accounts were closed during the quarter as a result of a once-off exercise to close aged accounts with zero balances.

The movement in customer numbers for the quarter was as follows:

Customers at 30 June 2019	1,325,052
Net additions in Q1	146,863
Once-off closures	(57,331)
Customers at 30 September 2019	<u>1,414,584</u>

EXECUTIVE APPOINTMENTS

Zip continues to expand the executive team, adding experienced leaders, as it transitions into a global player. The most recent appointments include:

- Steve Brennen to the position of Chief Customer Officer. Steve was formerly Director of Marketing at Uber, eBay and PayPal, and was recently awarded top honours in the CM050 list for 2019.
- Patrick Collins to the position of Chief Product Officer. Patrick was formerly SVP Product and Engineering at Moovweb, and founder of the Aussie Founders Network based out of Silicon Valley.

FINANCIAL DASHBOARD

Zip's intention is to continue investing in growth in FY20 capitalising on the large market opportunity present, both locally and abroad. Zip reported cash EBTDA of 1.0% of average receivables in Q1, compared to 2.2% in Q4 FY19, comprising movements as follows:

- **Revenue Yield** – The yield on the receivable's portfolio remained largely stable at 16.8% in Q1 compared to 17.0% for Q4 FY19. Yield incorporates portfolio income and excludes other income.
- **Cash Cost of Sales** – Cash Cost of Sales as a percentage of quarterly average receivables increased marginally to 8.0% in Q1 from 7.7% in Q4 FY19. Cash Cost of Sales comprise interest, bank fees, data costs and bad debts written-off.
- **Cash Operating Costs** – Cash Operating Costs as a percentage of quarterly average receivables increased from 7.1% in Q4 FY19 to 7.8% primarily driven by growth initiatives. The Company increased spending on brand and marketing in the quarter in preparation for initiatives in Q2, the seasonally strongest quarter. Permanent headcount increased, predominantly in the areas of product and engineering. Cash Operating Costs comprise all other costs, excluding non-cash costs (funding program establishment costs amortisation, share based payments, depreciation and amortisation).

CORPORATE ACTIVITY

On 20 August 2019 Zip announced it had entered into an agreement to acquire 100% of PartPay Limited, a New Zealand based Buy Now Pay Later provider, with operations in New Zealand and the United Kingdom, as well as, exposure to leading providers in South Africa (Payflex) and the US (QuadPay) that operate on the same platform. This was followed by an additional investment in New York based Buy Now Pay Later provider QuadPay Inc.

The acquisition is subject to approval at Zip's EGM on Wednesday 30 October, and comprises an upfront consideration of NZ\$50.8 million with a further NZ\$15.0 million payable over the next two years based on performance milestones relating to the achievement of minimum transaction volumes. If approved, the acquisition will be settled through the issue of shares in Zip Co Limited.

Zip invested a further US\$11.4 million in QuadPay Inc in September, which, when combined with PartPay's existing investment results in Zip having a 15% shareholding in QuadPay Inc. The Company also completed the acquisition of the Australian and New Zealand based operations of global SME lending provider Spotcap Global in September. The acquisition involves a total consideration of \$8.825 million to be settled through the issue of new shares.

Zip incurred one off costs totalling \$1.9m in the quarter in relation to the acquisitions of PartPay and Spotcap, together with the increased investment in QuadPay.

Zip also advises that the top up right previously granted to Westpac Banking Corporation has expired in accordance with the terms of the subscription agreement with Westpac and the ASX waiver announced to the ASX on 7 August 2017 and 8 September 2017, respectively.

FUNDING UPDATE

Zip established the Zip Master Trust during the quarter and successfully completed its first rated note issuance. The note issue totalled \$500m, was significantly oversubscribed, and settled in September. Importantly, this issuance forms part of Zip's longer-term funding program and over time it is expected the blended costs of debt will reduce further.

Following the launch of the Zip Master Trust, the Company's total facilities available to fund receivables increased to \$1,006.5m, of which \$757.5m was drawn at the end of the quarter (\$249.0m undrawn).

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MERCHANT AND PARTNER UPDATE

Zip's merchant base continued to expand with over 17,800 partners now accepting Zip across 45,300 points of presence both online and in-store. New partners that went live on the platform in the quarter or are currently in integration include:

Big W	Daikin Australia	T2 Tea	Carsales	Chemist Warehouse
Bailey Nelson	Barbeques Galore	Harrolds	Muscle Nation	Review
Virtus Health	RedBalloon	Stawberrynet	Aus Venue Co	Jamberoo Action Park
Sass & Bide	Marc's	David Lawrence	Provincial Home Living	Sports TG

Zip continues to build strong relationships with all parts of the payments ecosystem and is currently in integration or advanced discussions with a number of large partners. This quarter will see QR as a new payment solution added to the checkout experience for a number of terminal providers. Tyro and Adyen integrations are well advanced with a number of launch partners also planned for this quarter.

RECEIVABLES AND CREDIT UPDATE

The receivables book continues to perform well across all key metrics:

- Receivables increased by 15% over the quarter to \$783.6m.
- The monthly customer repayment rate was 13% for the quarter, in line with Q4 FY19. The rate measures repayments as a percentage of the opening receivables balance and equates to the book recycling approximately every 7-8 months.
- Net bad debt write-offs (bad debts written-off less bad debt recoveries) were stable at 1.68% at the end of the quarter compared to 1.63% at the end of Q4 FY19. Gross bad debt write offs were 1.95%, compared to 1.82% in the prior quarter.
- Reported arrears were 1.75% at the end of Q1, compared to 1.89% at the end of Q4 FY19.
- Zip wrote off \$4.9m in net bad debts in Q1, compared to \$3.4m in Q4 FY19.

POCKETBOOK

Pocketbook had another impressive quarter adding over 28,000 customers to the platform. There are now more than 730,000 users on the platform.

The development of an expanded Pocketbook offering beyond tracking, budgeting and saving is on track with a beta release this quarter and a full production release later in FY20.

REGULATORY UPDATE

As customer demand for alternative payments such as Zip grows, the need for a suitable regulatory framework comes further in focus. As previously disclosed, Zip believes all BNPL providers should recognise the responsibilities that are associated with issuing credit, the importance of ensuring products are appropriate to a customer's circumstances and that safeguards are in place should one's financial situation change. BNPL products offer a powerful tool for customers to take control of their finances without large, revolving debt balances. Compared to the outdated credit card model, Zip provides a far better, fairer alternative with a simpler product construct, interest-free terms, lower and transparent fees, and quicker repayment.

Zip continues to engage with ASIC, the Government, customers and industry on a suitable regulatory framework and to achieve the best possible outcomes for the industry. As a business,

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Zip is extremely well positioned to satisfy any potential changes to regulation with little-to-no disruption to our business model.

Zip also intends to participate in the RBA's 2020 review of payment regulation. Zip is more than a payment tender, providing retailers with a powerful tool to engage with customers – driving conversion, lifting average order values and generating demand.

FY20 PRIORITIES - STATUS REPORT

Financial Targets

- Zip currently has 1.4 million customers with an active Zip account (excluding international operation being acquired) against an EOFY 2020 target of 2.5 million.
- Zip reported transaction volumes of \$402.1m for Q1, annualising at \$1.6bn, against a target for EOFY 2020 of \$2.2bn annualised.

Local Expansion

- The Zip native app has enjoyed over 1 million downloads since launch in August 2018 and has retained a top 10 position in both the Google and Apple Stores.
- Zip Biz, the company's BNPL solution for small business is expected to launch prior to Xmas, and the integration of SpotCap is progressing to plan.
- A number of strategic opportunities, with retailer and payment channels are progressing well, and Zip continues to attract tier 1 players in all target verticals.
- Progress has been made to develop Zip's product offering to continue to deliver on its strategy of disrupting the credit card, making it a more compelling solution for everyday spend, and to accelerate acceptance.

International Expansion

- Planning for the integration of PartPay is well underway, and post a successful vote at the EGM this week, rebranding will take place both in the UK and NZ prior to the upcoming busy season in retail.
- Plans for the UK are well advanced and will be shared at Zip's AGM in late November. The UK is a core market with a large addressable opportunity, more than triple that in Australia.
- Exploratory discussions have commenced in new markets with potential progression later in FY20.

Technology and Marketing

- Zip's first brand awareness campaign is ready for launch this quarter leading into Xmas.
- New customer origination flow in place to facilitate acceptance beyond Australia.
- Zip's infrastructure platform V2 built to support future growth requirements and migration from V1 underway.
- Continuing to grow the product and engineering teams with additional product squads formed to support all aspects of the customer journey.

- ENDS -

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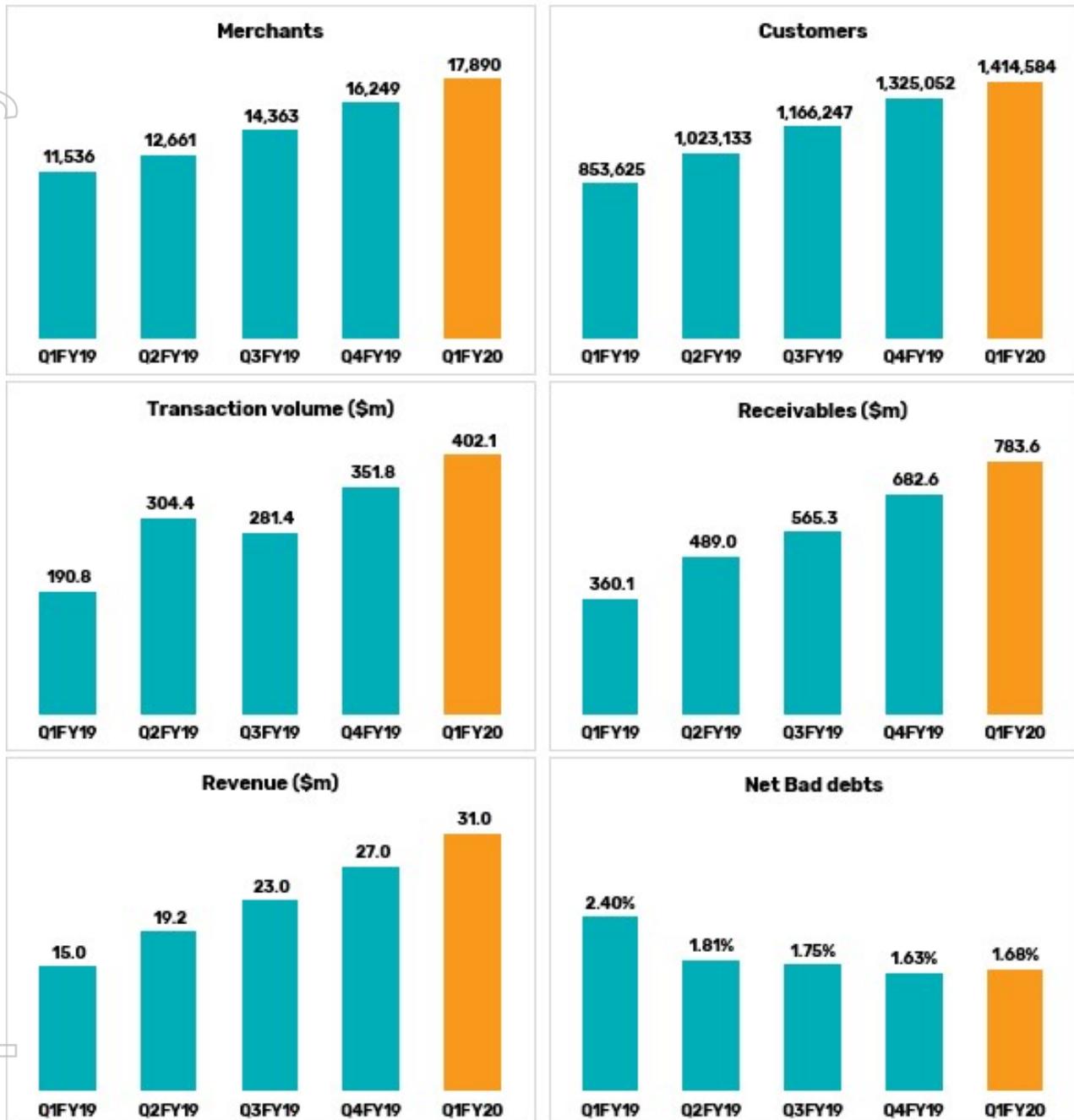
About Zip

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 Zip Pay, Zip Money 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.zip.co

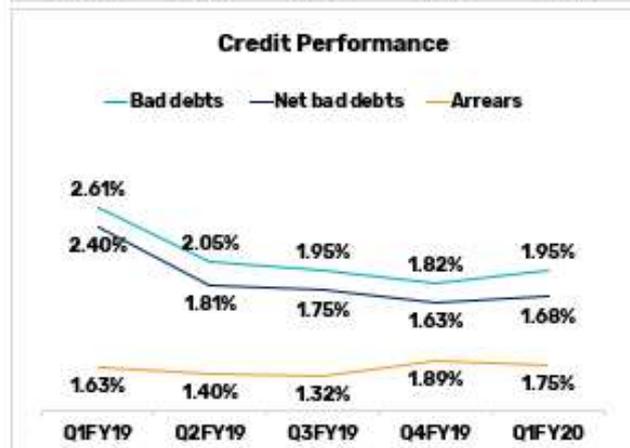
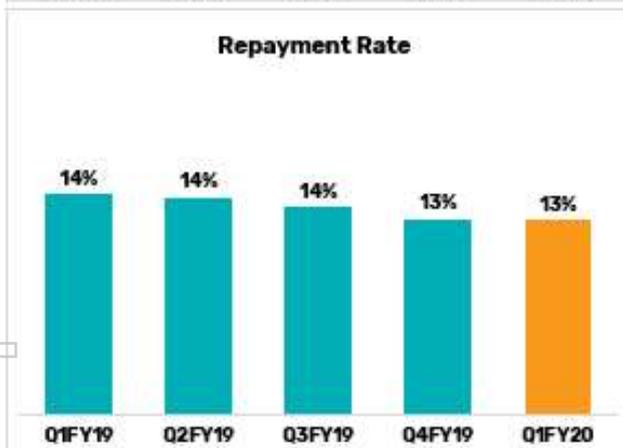
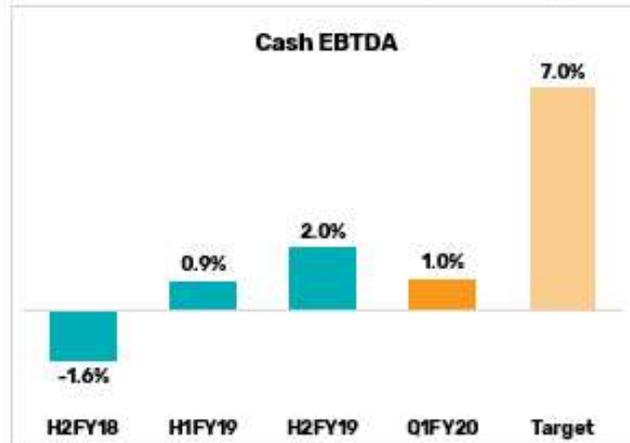
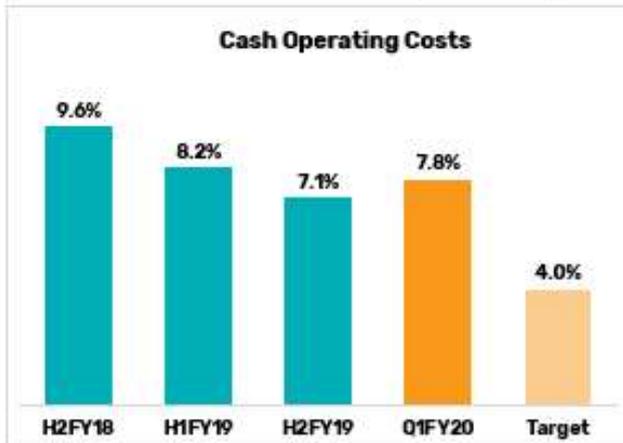
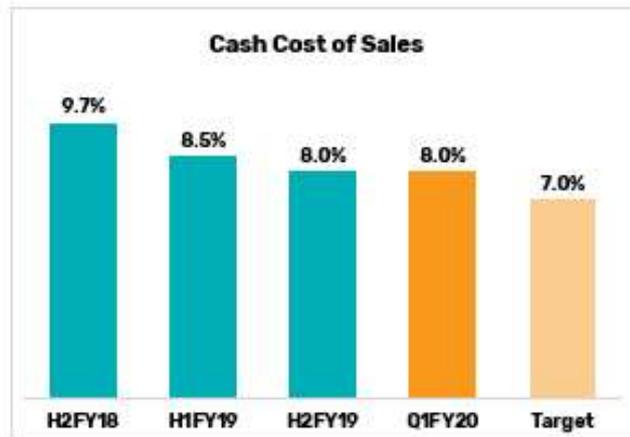
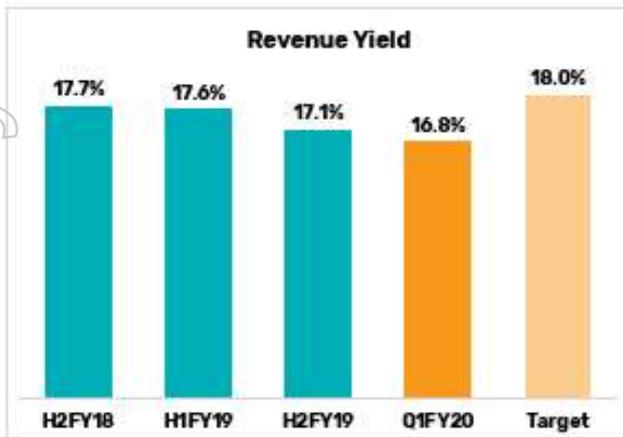
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KEY BUSINESS DRIVERS



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.

FINANCIAL DASHBOARD



Notes: (i) All figures expressed as a percentage of quarterly average receivables. All figures are on an annualised basis; (ii) Cash cost of sales includes interest, bank fees, data costs, and bad debts written-off; (iii) Cash operating costs exclude funding program establishment costs, share based payments, depreciation and amortisation.