



8 April 2020

Q3 FY20 TRADING UPDATE DELIVERING ON THE NUMBERS, COVID-19 RESPONSE

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to provide a trading update for the quarter ended 31 March 2020 (**Q3 FY20**).

GROUP HIGHLIGHTS

- **Record quarterly revenue of \$45.0m, up 96% YOY (up 17% on Q2 FY20).**
- **Receivables increased to \$1,168.2m, up 107% YOY (up 12% on Q2 FY20).**
- **Quarterly transaction volume of \$518.7m, up 84% YOY.**
- **Customer numbers increased to 1.95 million, up 67% YOY (194k added in quarter).**
- **Merchant numbers increased to 22,744, up 58% YOY (1.9k added in quarter).**
- **Zip signs first global payments deal with the Cotton On Group across Australia, New Zealand, UK, South Africa and the US.**
- **City Chic, Grill'd, Nandos, Barbeques Galore, PVH Brands (Calvin Klein, Tommy Hilfiger) and a number of other major retailers went live or joined the platform.**
- **Launched "Shop Everywhere", a product allowing Zip customers to pay at any website globally within the Zip app using a virtual card number.**
- **The Zip app continues to rank in the top 10 across both the Apple (rating 4.9) and Google Stores (rating 4.6).**
- **Decisive action taken in response to COVID-19, including a number of cost-cutting initiatives.**
- **Continuing to strengthen the executive leadership team with the global appointment of Anna Buber-Farovich as Chief People and Culture Officer (ex Google).**

Managing Director and CEO Larry Diamond said:

"COVID-19 has presented an unexpected and significant challenge to many in the community, and our priority remains ensuring the safety of our staff and supporting our customers and retail partners. Despite the economic impact of COVID-19, the Zip ANZ business continues to perform strongly, with healthy customer growth, transaction volume, and a strong pipeline of new partners in the March quarter.

Zip is well funded and uniquely positioned to trade through the current environment, given our product differentiation, strong proprietary credit platform, healthy repayment profiles and penetration into defensive, everyday spend categories. We continue to believe the credit card model is broken with customers in need of flexible, responsible, interest free alternatives.

Zip applauds the Government's bold and decisive action in response to COVID-19 to keep Australians employed, small business supported, and ensuring a strong banking sector – to help bridge the economy to the other side of this global pandemic. Zip would also like to encourage the Government to broaden the eligibility of the financial sector-specific packages to include Fintechs, who add a vital, competitive and innovative segment to the market."

KEY OPERATIONAL METRICS (ZIP ONLY)

All key operating metrics include Zip's operations in New Zealand from November 2019 (following the acquisition of PartPay).

Financial and Operational Performance	Results Q3 FY20 ⁴	% increase on Q2 FY20 ⁴	% increase on Q3 FY19 ⁴
Revenue	\$42.2m	17% ↑	83% ↑
Merchants ¹	22,744	9% ↑	58% ↑
Customers ²	1,947,731	11% ↑	67% ↑
Receivables ³	\$1,127.6m	12% ↑	99% ↑
Transaction volume	\$518.7m	8% ↓	84% ↑
Transactions	2,868,256	1% ↓	132% ↑

1. Number of accredited merchants
2. Number of active customer accounts
3. Amounts due from Customers
4. Unaudited management accounts

QUARTERLY PERFORMANCE AND OUTLOOK

The Company delivered a strong set of quarterly numbers against a backdrop of economic uncertainty that emerged during March 2020. The Company generated \$45m in revenue over the quarter, which was 96% higher than the same period in 2019, with ANZ transaction volume annualising at \$2.1bn. In April, trading month-to-date (the first 7 days of the month), Zip has seen a 6% uplift in transaction volume compared to March, and a 15% increase to February – demonstrating sustained demand for Zip's services and a pleasing result given the COVID-19 outlook.

During the quarter, Zip launched the "Shop Everywhere" feature, allowing Australian app users to pay with Zip at any online store. The functionality works by generating a single-use virtual card number at the checkout. This feature together with the current Zip digital wallet functionality allows customers to pay for their everyday needs (such as groceries, petrol and bills) and smooth their repayments over time interest free – a well-received initiative in the current climate and further diversification from discretionary retail spend.

Zip believes it is uniquely placed to trade through the current economic environment:

- *Exposure to defensive, recession-proof sectors and online:* There has been an increasing shift in shopping behaviour to online as well as strong demand for everyday categories, bills, home improvements and office supplies, electronics and gaming, whitegoods and furniture. This has offset a reduction in sales across fashion and apparel, travel and leisure, personal care and hospitality.
- *Exposure to credit-verified, older millennials:* The average age of a Zip customer is close to 35, representing a slightly older, more financially savvy customer segment that has gone through a fully underwritten application and wishes to be in control of their everyday finances.
- *Investment in credit-decision technology:* Strong investment in proprietary market-leading credit-decision technology has been proven via superior credit performance. Credit and ID checks have been conducted on every customer since inception, and in many cases a real-time review of their banking data. Zip's ability to adjust credit scorecards in real-time and the healthy repayment profile, ensures any acquisition or portfolio management

adjustments quickly flow through the receivables book.

- *Unique, ‘account-based’ concept:* The Zip product construct offers significant more payment flexibility vs traditional BNPL ‘pay in 4’ models, whereby customers can choose their repayment frequency, and repay from as little as \$10/week (although many choose to pay more than this).

COST REDUCTIONS IN RESPONSE TO COVID-19

Since inception, Zip has consistently invested in and delivered c.100% year-over-year revenue growth. Although current trading volumes have not significantly deteriorated, the full impact of COVID-19 on the global economy, and on specific retail segments, is fast evolving. As a result, Zip has taken deliberate steps to position the business for the possibility of a protracted downturn and has significantly reduced its cost base.

In the last week, Zip has restructured its Australian and global operations resulting in:

- a reduction in company headcount of 78 (including 14 furloughed), representing c.20% of the fulltime workforce, resulting in a reduction of Zip’s annual operating cost base by just under \$8m.
- a reduction in planned capital expenditure to \$1.2m in Q4, compared to \$3.2m in Q3 and \$6.6m in 1H FY20.
- a considered delay in the UK launch date and a hold on any increases of the current team on the ground.
- the board, executive team and senior leaders have taken a voluntary 20% reduction in salaries.

Other related activities include the renegotiation of key supplier and premises contracts across markets.

ZIP AU

Following a strong Q2 FY20, transactions fell marginally in the quarter in line with seasonality - 1% by number and 9% by value (although still up 77% YoY). Over the quarter Zip added 156k customers and 1.8k merchants, whilst maintaining strong risk management disciplines.

Zip signed its first global agreement with the Cotton On Group, one of the world’s largest speciality fashion and lifestyle retailers. Zip partnered with Payflex in South Africa (Zip holds a 25% strategic stake) and QuadPay in the USA (Zip holds a 15% strategic stake) to provide BNPL as a payment option for customers shopping at Cotton On Group Brands (Cotton On, Cotton On Body, Cotton On Kids, Rubie, Factorie and Typo). Zip will also be offered as a payment option in-store within Australia.

Other brands that joined the platform in the quarter included: City Chic, Grill’d, Nandos, Barbeques Galore, PVH Brands (Calvin Klein, Tommy Hilfiger, Van Heusen), Space Furniture, Open Shop, Universal Store and Mighty Ape.

Zip’s market-leading credit-decision technology continues to drive superior performance across its receivables:

- Receivables increased by 13% over the quarter to \$1,126.2m.
- The monthly customer repayment rate was 12.0% for the quarter (calculated as % of the opening receivables balance) and equates to the book recycling every 7-8 months.
- Net bad debts (bad debts less recoveries) were 1.84% at the end of the quarter compared to 1.68% at the end of Q2 FY20. Gross bad debts were 2.08%, compared to 1.91% in the prior quarter.
- The small increase in write-offs reflects management’s previously stated objective of managing the receivables portfolio to target levels – maximising revenue without significantly increasing bad debts and was not related to COVID-19.

- Reported arrears were 1.55% at the end of Q3, compared to 1.58% at the end of Q2.
- Zip has insignificant pre-payment exposure to the travel vertical and no single merchant accounts for more than 5% of transaction volume. Furthermore, our Merchant Risk team is proactively monitoring our merchant base to mitigate any counterparty risk.

In response to the potential impact of COVID-19, Zip has already adjusted its application underwriting algorithms and is leveraging real-time portfolio management tools to actively monitor account behaviour and adjust limits accordingly.

Zip believes its investment in its credit-decision technology, proven track record in the management of its receivables portfolio, credit checks from day one, along with steps already taken to mitigate the impact of COVID-19 mean that the business is well positioned to trade strongly through and out of the current environment.

ZIP NZ

Zip NZ generated revenue of \$1.0m on transaction volume of \$22.1m from 143k transactions in the March quarter. Customer numbers increased to over 204k (with 38k added in the quarter) and merchant numbers grew by 150 to over 1,250.

With New Zealand going to its highest Alert Level 4 towards the end of March and most online and instore retail closed, volumes dropped significantly. However, with key retailers such as the Warehouse Group and Noel Leeming providing essential goods online, transaction volumes have begun to normalise. Bunnings instore integration has been completed with a roll-out pending the re-opening of its physical retail outlets.

SPOTCAP

In Q3, Spotcap reported quarterly revenue of \$2.8m on receivables of \$40.6m. Drawdowns totalled \$18.7m for the quarter.

The current COVID-19 pandemic is likely to have a direct impact on the unsecured SME lending environment. Spotcap continues to support its clients through the current environment based on their individual circumstances. Given the rapid changes in the economic environment, the Company has adjusted its credit policies and procedures, and is engaging in Government initiatives such as the Australian Government SME Guarantee to support small business through the next 6 months.

POCKETBOOK

Pocketbook continued its growth in Q3 FY20. Over 775,000 Australians use Pocketbook, making it one of the leading and most loved personal finance management apps in Australia. In CY2020, we are reinventing Pocketbook with a brand-new app that makes intelligent use of banking data to help our users improve their personal finances, achieve tangible savings and lifestyle goals.

The launch of Pocketbook 2.0 in Q4 FY20 will be timely in helping more Australians take greater control of their personal finances and getting through the current economic environment.

CAPITAL MANAGEMENT

Zip has three funding warehouses in place to support its customer receivables portfolio:

Facility Type	Facility Limit	Drawn	Maturity
Zip Master Trust			
- Rated note series	\$475.0m	\$475.0m	August 2021
- Variable funding note	\$139.5m	\$54.5m	February 2022
2017-1 Trust	\$460.0m	\$450.0m	May 2021

2017-2 Trust	\$70.0m	\$63.5m	December 2020
Total	\$1,144.5m	\$1,043.0m	

Zip has total available facilities of \$1,144.5m, with \$101.5m currently undrawn. These undrawn facilities coupled with our healthy repayment profile provide sufficient headroom to meet Zip's medium-term receivable funding requirements. Zip continues to work closely with its funding partners to ensure adequate funding capacity to meet the continued growth of the business.

Zip invests excess funds (above subordination) in notes in its various warehouses. Total liquidity available to meets Zip's corporate and general expense needs amounts to over \$30.0m. Together with the disclosed cost-cutting initiatives, Zip has sufficient liquidity to support the growth of the business.

Through the acquisition of Spotcap in 2019, Zip has facilities of \$47m (\$37m drawn) supporting its SME lending operations. Zip is working closely with its funding partner to navigate the impact of the current environment, including access to Government-led initiatives to support SME lending in both Australia and New Zealand.

FY20 FINANCIAL TARGETS

Zip set itself two financial targets for FY20:

- Annualised transaction volumes at EOFY 2020 of \$2.2bn – based on Q3 volumes Zip has an annualised transaction volume of \$2.1bn.
- A global target of 2.5 million customers at EOFY 2020 – Zip currently has 1.95 million customers with an active Zip account.

The current economic conditions and delayed launch in the UK, has impacted the Company's ability to reach its global customer target. However, Zip is comfortable that the annualised transaction volumes will meet or exceed the stated target.

Release approved by the Chief Executive Office on behalf of the Board.

- ENDS -

For personal use only

For more information, please contact:

Larry Diamond
Chief Executive Officer
larry.diamond@zip.co

Martin Brooke
Chief Financial Officer
martin.brooke@zip.co

Mathew Abbott
Head of Corporate Affairs
mathew.abbott@zip.co

For general investor enquiries, email investors@zip.co

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