



Acquisition of QuadPay and Capital Raise

Zip Co Ltd (ASX: Z1P)

2 June 2020



Transaction highlights

Zip continues to deliver on its long term growth strategy



GLOBAL EXPANSION: Zip accelerates its global expansion strategy with the proposed **acquisition of US-based, Buy Now Pay Later ("BNPL") company, QuadPay for \$403m¹.**



LEADING US PLATFORM: **QuadPay is a leading, high growth, US instalment provider** disrupting the credit card industry with a strong focus on innovation and customer centricity.



INVESTMENT FROM STRATEGIC PARTNER: To capitalise on QuadPay's market position and accelerate US growth **Zip is proposing to raise up to \$200m from leading US based growth investor, Heights Capital Management, part of the Susquehanna International Group ("SIG")** by way of convertible notes and warrants.



SIGNIFICANT SCALE AND GROWTH: With the QuadPay acquisition, **Zip cements its position as a global BNPL leader across 5 markets (AU, NZ, US, UK and SA)** with pro forma **annualised TTV of \$3b², annualised revenue of \$250m² and 3.5m customers.**

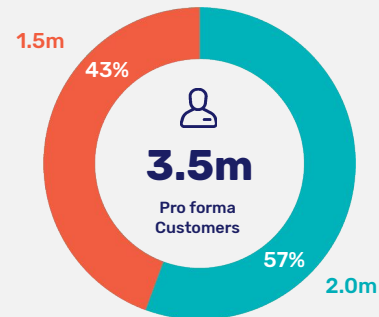
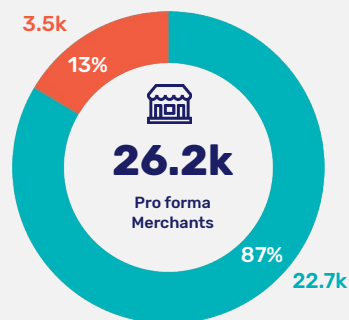
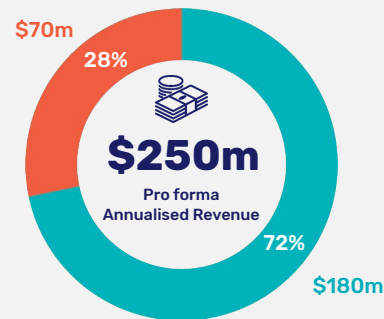
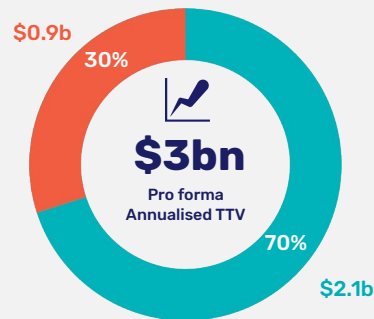
Notes: Throughout, all figures in A\$ unless otherwise specified 1. Based on Zip's 15-day VWAP of \$3.39 and approximately 119m Zip shares issued to non-Zip stockholders of QuadPay and excludes (i) any of the Performance Consideration Shares, the Tenure Consideration Shares, and the New Options issued under the QuadPay acquisition; and (ii) any shares in Zip that may be issued under the convertible note transaction; 2. Based on Q1 CY2020.

QuadPay adds significant scale and growth

Post completion, the combined Group cements its position as a global BNPL leader, with:

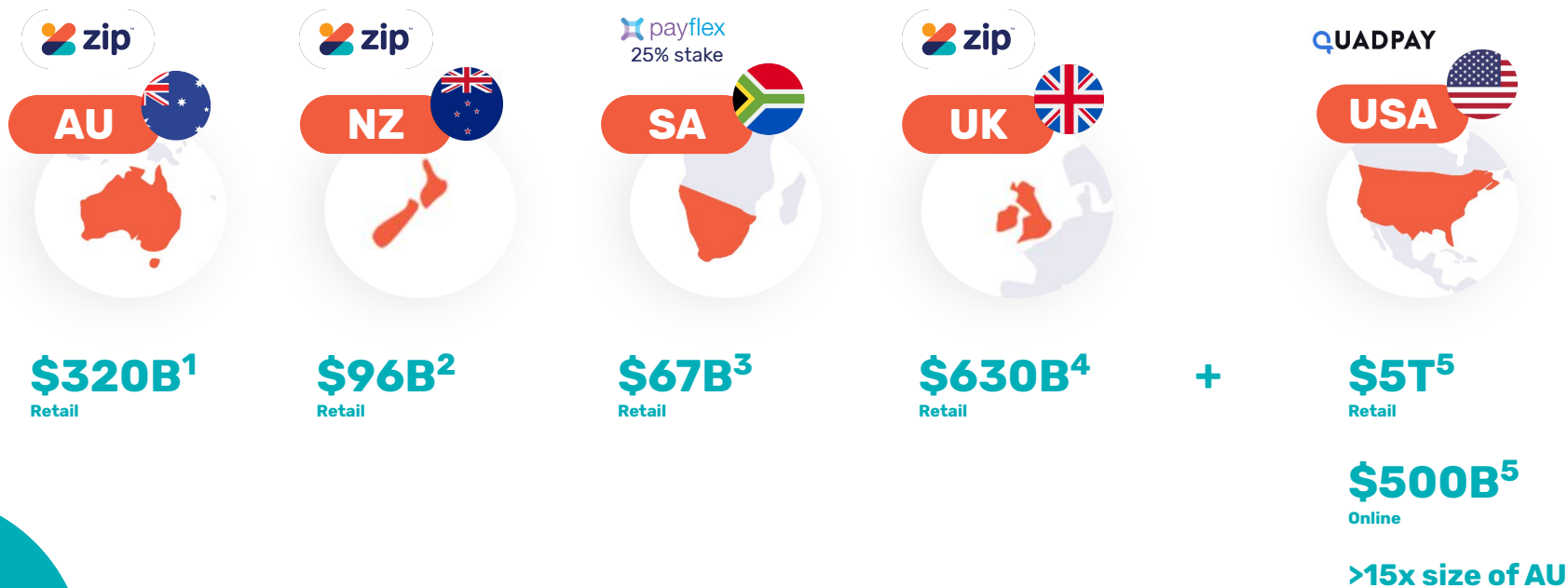
- ✓ **Annualised TTV of \$3bn**, increasing Zip's pro-forma volume by > 40%
- ✓ **Annualised revenue of \$250m** from a larger, geographically diverse footprint with exposure to some of the world's largest retail markets
- ✓ A large and growing **customer base of 3.5m+** global shoppers
- ✓ A **merchant base of 26k+** with well known brands such as Amazon, Cotton On, Kmart and Bunnings.
- ✓ A global workforce of **more than 460 staff**

● Zip ● QuadPay



Note: Totals may not sum due to rounding, figures calculated at end of Q1 CY2020.

Zip to become a global BNPL leader, with operations in 5 countries and exposure to \$6T+ of retail sales



1. NAB Online Retail Sales Index (Dec 2018); 2. Nielsen Insights 2018 (NZ); 3. Dept of Statistics South Africa (2019); 4. Retail Economics UK (2018); 5. US Census Bureau 2019 (US);



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Transaction Overview



Zip accelerates global expansion with the acquisition of US-BNPL, QuadPay and raises up to \$200m to drive growth

ACQUISITION DETAILS

- Zip has entered into an agreement to acquire 100% of the shares in BNPL player QuadPay for scrip¹, representing 23.3% of the pro forma group.
- Implies an acquisition enterprise value of US\$269m or \$403m² and is accretive on both a TTV and revenue basis.

QUADPAY OVERVIEW

- Launched in 2017 by founders Brad Lindenberg and Adam Ezra, New York headquartered QuadPay is a leading, high growth, instalment provider disrupting the credit card industry with a strong focus on innovation and customer centricity.
- The company has more than 1.5m customers, 3,500 merchants and is processing ~\$1bn in annualised transaction volume³.

ACQUISITION RATIONALE

- **Access to the world's largest retail market** – a proven US BNPL platform rapidly expanding in a US\$5t market (15x AU), during a time when interest-free instalments are transforming the credit card industry.
- **Leading global BNPL player** – post completion, the combined Group will have operations in 5 countries (AU, NZ, US, UK and SA) with combined annualised TTV of \$3b, annualised revenue of \$250m and 3.5m customers³.
- **Offers growth and strong unit economics** – QuadPay's model has demonstrated significant growth since inception (>100% YoY) coupled with industry-leading Net Transaction Margins (NTM) > 2%⁴.

Notes: 1. Zip already holds a 14% stake in QuadPay, acquired through its acquisition of New Zealand-based PartPay Limited in 2019 (which held a strategic stake in QuadPay) and concurrent investment; 2. Based on Zip's 15-day VWAP of \$3.39 as of 29 May 2020, and not including any of the Performance Consideration Shares, the Tenure Consideration Shares or the New Options to be issued under the QuadPay Acquisition; 3. Based on Q1 CY2020; Income, less variable; 4. Derived from income less transaction costs, financing costs and bad debt provisions calculated on a per transaction basis.

Zip accelerates global expansion with the acquisition of US-BNPL, QuadPay and raises up to \$200m to drive growth (cont.)

ACQUISITION RATIONALE (cont.)

- **Category innovator with leading payments app** – QuadPay was one of the first BNPL's to leverage virtual card technology in partnership with Stripe, and launch its *QuadPay Anywhere* app. The app is ranked in the top 100 US shopping apps with an App Store rating of 4.8.
- **Founder led business with strong alignment** – QuadPay's New York headquartered team of 60+ individuals is led by co-founders and joint CEOs, Adam and Brad who will join the Zip global leadership team, with ultimate responsibility for scaling the US business. Retention and performance equity has been offered, linked to aggressive growth targets.

STRATEGIC INVESTMENT

- Zip has entered into an agreement with Heights Capital Management, an affiliate of the US-based Susquehanna International Group ("**SIG**" or "**Susquehanna**") to raise up to \$200m by way of the issue of convertible notes and the exercise of warrants. The convertible notes have an initial conversion price of \$5.53284, a 50% premium to the 1-day volume weighted average price ("VWAP") of Zip's Shares on 29 May 2020², while the warrants have an initial exercise price of \$5.1639, a premium of 40% to such VWAP.
- SIG has previously made investments in Bytedance (parent company of Tik Tok), Credit Karma and Fundera.

TIMETABLE & CONDITIONS

- Subject to satisfaction of conditions precedent and shareholder approval for required resolutions, the transaction is expected to complete in Q1 FY2021.

Notes: 1. This initial conversion price is subject to adjustment in accordance with the terms of the Convertible Notes.; 2. Based on Zip's 1-day VWAP of \$3.6885 as of 29 May 2020.



02

QuadPay: A Proven US Platform

A circular inset image showing a woman with short dark hair, smiling and looking down at a smartphone she is holding in her hands. The image is overlaid with a semi-transparent blue filter.

QUADPAY

QuadPay key highlights

Accelerating growth and market position



1.5 million customers on the platform



Top 100 in the US App store shopping category.
Over 1 million downloads



Over 3,500 merchants live or signed



Annualised revenue of **\$70m** for the quarter ending March 2020



Annualised TTV **\$900m+** for the quarter ending March 2020



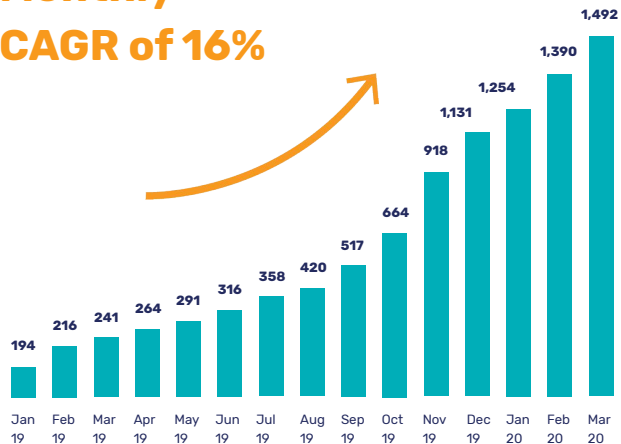
Differentiated offering with **online and instore QuadPay Anywhere app**



QuadPay has delivered exceptional growth

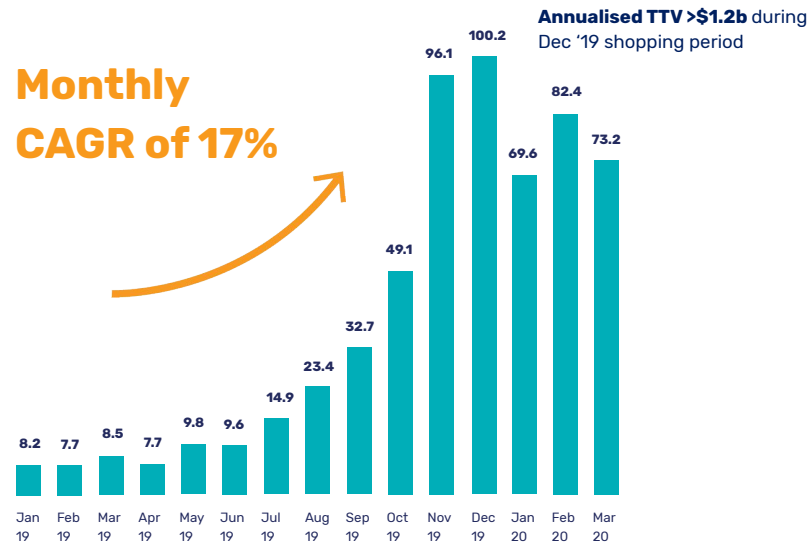
Customer Numbers ('000)

**Monthly
CAGR of 16%**



Monthly TTV (\$m)

**Monthly
CAGR of 17%**

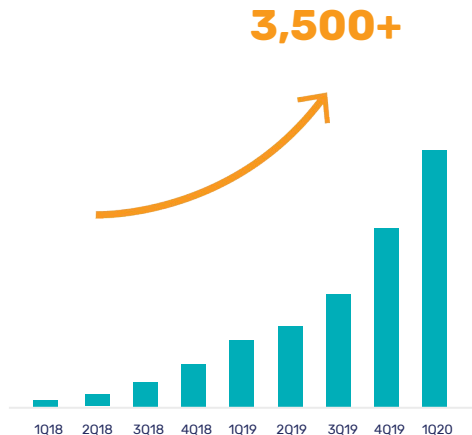


Notes: Converted at a USD/AUD of 0.6659.

Continuing to win leading merchants

Growth in Merchant Numbers

Merchants live or signed



Integrated Merchants



Simple product construct

Customers pay in 4 instalments spread over 6 weeks, interest free



Customer **splits a purchase in 4.**



With **Interest free** repayment terms.



Merchants get paid upfront with risk and fraud liability absorbed.



On average, merchants enjoy **checkout conversions** of up to 20% when adding QuadPay.



\$200

at **Ugg**

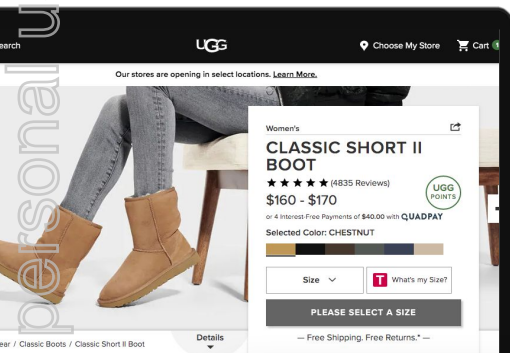
Your installment plan



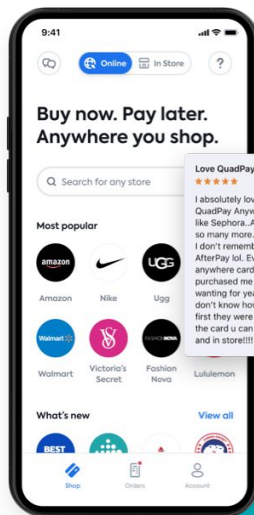
3 ways to pay with QuadPay

At checkout and anywhere, online or instore

For personal use only

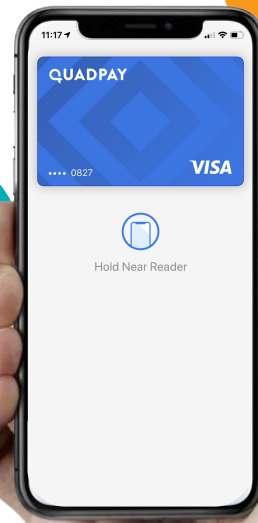


or 4 Interest-Free Payments of \$40.00 with
QUADPAY



Love QuadPay
★★★★★
Jun 12
PKAnna

I absolutely love QuadPay. I use my QuadPay Anywhere card to shop at sites like Sephora, Amazon, Walmart, Vans and so many more. I have QP and AfterPay but I don't remember the last time I used AfterPay lol. Ever since QP introduced the anywhere card I've been obsessed! I purchased me a laptop that I've been wanting for years using the card. I really don't know how it can get any better. At first they were slow to add stores but with the card u can SHOP ANYWHERE online and in store!!!! I'll always shop with QP!!!

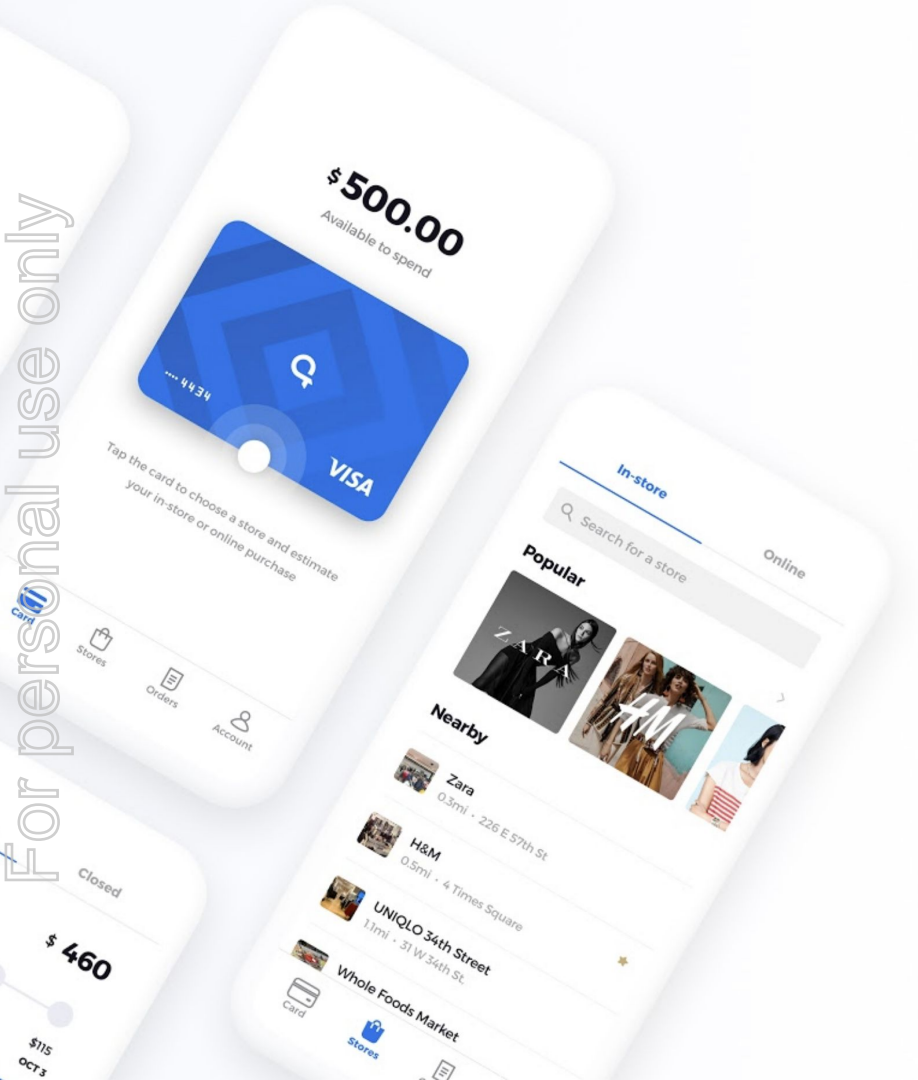


Pioneered *QuadPay* Anywhere

One of the first-to-market with this technology

- ✓ In Mar '19 QuadPay **launched its *Anywhere App*** enabling customers to pay in instalments instore or online at any merchant.
- ✓ The innovative solution leverages virtual card technology in **partnership with Stripe** issuing.
- ✓ **Highly scalable** design with lightweight **integration**.
- ✓ Strong adoption since launch with **4.8 star app rating**.

stripe

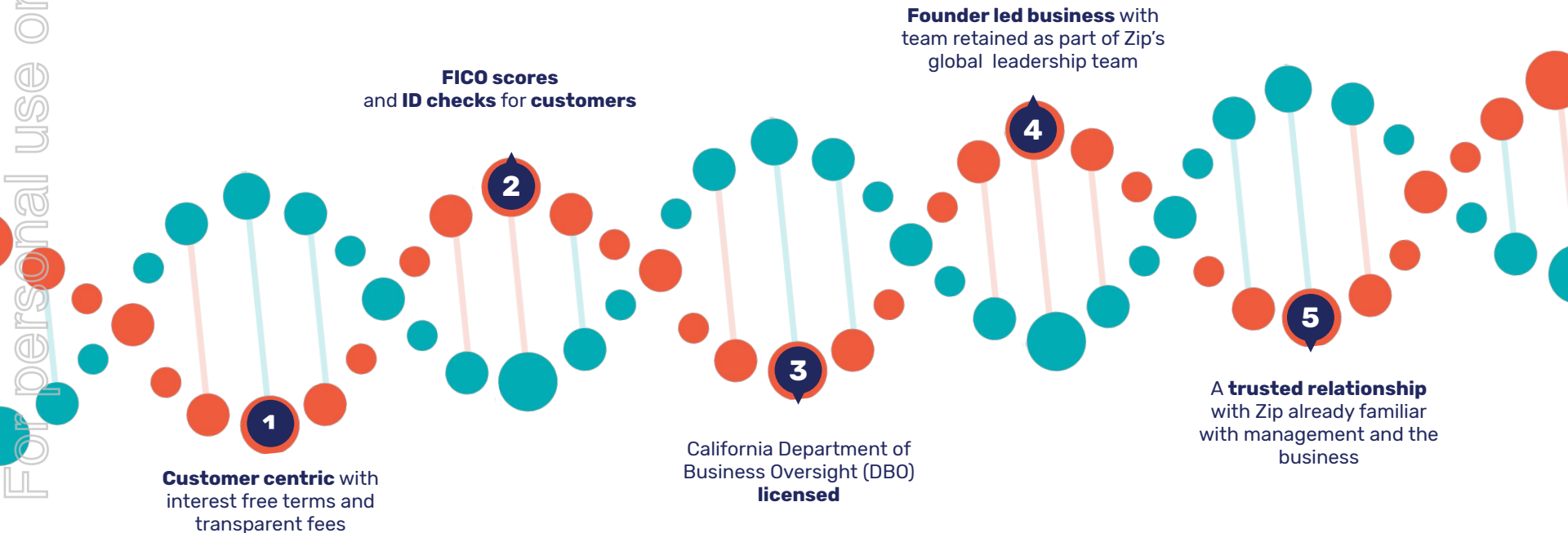


Proven, portable technology

Built on the same code base as Zip

- ✓ Leverages the same **global instalment technology platform** acquired by Zip in 2019 (through its acquisition of PartPay).
- ✓ The technology stack is currently deployed by Zip in the **UK & NZ**.
- ✓ **Proven portability and scalability** to support global growth.
- ✓ **Minimises integration costs** whilst enabling the delivery of global merchant deals.

QuadPay and Zip are culturally aligned, with responsibility and innovation at their core



Market-leading risk decisioning technology

Machine Learning

Advanced machine learning algorithms that get smarter over time enabling QuadPay to maintain industry leading approval rates while minimising losses

Advanced Verification

QuadPay utilises low friction ID verification methods that maximise conversion rates, reduce fraud and verify users automatically at scale

Real-time controls

Ability to control and adapt risk tolerance in real-time at the merchant and customer level in response to changes in leading loss rate indicators

Like Zip, QuadPay experienced strong credit performance during the recent Covid-19 trading period...

- ✓ QuadPay's focus on **responsibility** aligns with Zip, as applicants are credit/FICO and ID checked.
- ✓ QuadPay implemented a number of **defensive measures across its origination and portfolio management** to account for market conditions.
- ✓ As a result net loss rates improved marginally during April/May 2020, delivering Net Transaction Margins above 2%, with no deterioration in loan book performance.

...and accelerating customer adoption

- ✓ During the recent period, the **BNPL model has proven its resilience** as customers continue to show aversion to long-term debt and exorbitant interest costs.
- ✓ Customer growth has continued in April and May.



03

SIG Investment



Up to \$200m investment by SIG



**Leading US
growth
Investor**



**\$100m
Convertible
Notes**



**Up to additional
\$100m in Warrants**



**Capital to be used
to fast-track
growth**

SIG partnership offers significant opportunity

- Capital provided via an affiliate of Susquehanna International Group ('SIG'), Heights Capital Management ('Heights') through its affiliate CVI Investments, Inc.
- SIG is one of the largest privately-held financial services firms globally and Heights invests SIG's internal capital through direct investments in listed companies in the U.S., Europe, and Asia
- Heights' investment can be used by Zip to grow and expand in target markets
- SIG has an established track record of investing in high-growth, high calibre companies
- Heights has supported many leading companies and manages a diverse investment portfolio of high-growth small to medium-sized companies

credit karma

fundera

highradius
Recurables, Payments

Payoneer

Wecash 网银高昇

ByteDance

Overview of investment terms¹

CONVERTIBLE NOTE TERMS

- \$100m convertible notes.
- Tenor of 5 years and a fixed coupon of \$0.75m per semi-annual installment.
- Standard events of default, and change of control clauses in place.

CONVERSION MECHANICS

- Every 6 months, 10% of the convertible notes (i.e. \$10m) and accrued interest amounts (i.e. aggregate of \$10.75m) may at the election of the Noteholder be converted into ordinary shares at the then current market price up to the ceiling price described below (subject to certain conditions) or otherwise deferred until the next semi-annual date (up until maturity).
- If the Noteholder defers each installment until the maturity date, then Zip will redeem each convertible note at their face value so that the aggregate cash payment received by the Noteholder is \$100m (plus all accrued interest).
- Every 6 months, the conversion price is reset at 93% of the current market price with a ceiling price of \$5.5328² and a floor price of \$1.8443². The ceiling and floor prices are themselves subject to adjustment for standard anti-dilution and other prescribed events.
- The Noteholder also holds the option to accelerate conversion of up to two future installments (i.e. total of \$30m), exercisable at any time between 12-18 months; and again between 18-24 months, following the issue date of the Notes. This exercise can only occur into shares in Zip, and then at the prevailing market price (with any accrued interest also payable in shares in Zip at this price).
- The Noteholder has a conversion right in other scenarios, including: anytime after the third year of issue, if the prevailing conversion price is higher than the ceiling price and other triggers such as change of control, events of default or if ordinary shares or equity-linked securities are issued at an effective price less than the ceiling price.

Notes: 1. Subject to conditions precedent including shareholder approval; 2. Calculated using Zip's 1-day VWAP price of \$3.6885 as of 29 May 2020.

Overview of investment terms (cont.)¹

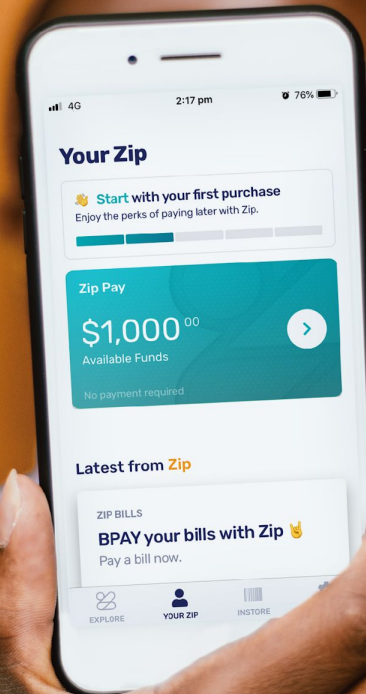
WARRANT TERMS	<ul style="list-style-type: none"> Up to \$100m warrants. Exercise period of 3 years. Variable exercise price, with an initial exercise price of \$5.1639, a premium of 40% to Zip's 1-day VWAP price of \$3.6885 as of 29 May 2020². If these Warrants are fully exercised at the initial exercise price, Zip will receive an additional \$100m of capital.
FULL-RATCHET PROTECTION	<ul style="list-style-type: none"> If Zip issues ordinary shares or equity-linked securities at an effective price below (1) the conversion price; or (2) warrant exercise price, the relevant conversion or warrant exercise price will be reduced to the effective price of such security (the "Base Share Price") or, in the case of the convertible notes, the higher of the Base Share Price and Floor Price of \$1.8443 other than for certain prescribed excluded securities. The Full Ratchet Protection is subject to the Floor Price, implying the maximum potential issuance of shares as being 57,064,630 shares over the term of the Convertible Notes³.
OTHER ANTI-DILUTION FEATURES	<ul style="list-style-type: none"> The full-ratchet protection covers both the convertible note and warrants. Standard anti-dilution protections / carve outs also apply. The number of shares to be issued under the warrants will not increase pursuant to the Full-Ratchet Protection.
LOCK UP	<ul style="list-style-type: none"> As part of these arrangements, Zip has agreed to lock up arrangements prohibiting it from issuing any ordinary shares or equity-linked securities for a period of 3 months after the issue date of the Notes, other than for certain prescribed excluded securities.

Notes: 1. Subject to conditions precedent including shareholder approval; 2. The exercise price of each warrant is variable which will be reduced to match the price of any Shares or equity securities issued by Zip below the initial exercise price of \$5.1639 (subject to certain exclusions for permitted securities issues for certain business as usual and agreed strategic transactions) 3. However this maximum number is subject to change if the Floor Price is adjusted.



04

Terms, Funding and Timetable



QuadPay Founder incentives

Retention package in place to ensure alignment and drive aggressive US growth

- ✓ QuadPay is a founder led business. The **founders will remain with the business** and be responsible for driving growth in the US and successfully scaling a business that shares Zip's cultural values.
 - ✓ As the largest shareholder in QuadPay (~14%) behind the QuadPay founders, **Zip is familiar with the QuadPay management team** and knows the business well having conducted fulsome diligence.
 - ✓ In order to ensure alignment, as part of the transaction, Zip has offered retention equity to the co-founder shareholders, the delivery of which is linked to demanding growth targets.
- ✓ The terms of this retention equity are summarised as follows:
 - **Up to 5m shares** in Zip Co delivered for tenure (over a **2 year period**, split between Adam Ezra and Brad Lindenberg in equal instalments).
 - **Up to US\$60m delivered in cash or stock linked to TTV** (Total Transaction Volume) performance targets. The **final payout based on the business achieving US\$1,200m TTV of TTV in any consecutive 3 month period** until 30 June 2022.
 - Scope for retention package to be accelerated subject to certain prescribed events.

Terms and funding: QuadPay

ACQUISITION VALUE

- QuadPay is to be acquired for scrip consideration.
- Upon completion, QuadPay stockholders (excluding Zip) will be entitled to receive up to a maximum of 119m fully paid ordinary shares of Zip ("Merger Consideration Shares"), representing 23.3%¹ of Zip's issued share capital.
- The QuadPay acquisition implies an enterprise value of approximately US\$269m or \$403m² and is accretive on both a total transactions volume (TTV) and revenue basis.

DEFERRED CONSIDERATIONS

- As part of the acquisition, Zip has also agreed to issue to QuadPay co-founders additional shares of Zip subject to the satisfaction of prescribed performance (up to US\$60m in value) and/or tenure milestones (up to 5m shares) as part of retention arrangements.

ESCROW ARRANGEMENTS

- The Merger Consideration Shares are subject to voluntary escrow arrangements as follows:
 - Certain QuadPay stockholders, including the QuadPay founders, will have 70% of their Merger Consideration Shares escrowed until the first anniversary of the signing date, with 20% of their of the Merger Consideration Shares escrowed until the second anniversary of the signing date; and
 - All other QuadPay stockholders will have 70% of their Merger Consideration Shares escrowed until the six-month anniversary of the signing date, with 20% of the Upfront Consideration Shares escrowed until the the first anniversary of the signing date.

Notes: 1. This is on a non-diluted basis and excludes: (i) any of the Performance Consideration Shares, the Tenure Consideration Shares, and the New Options issued under the QuadPay acquisition; and (ii) any shares in Zip that may be issued under the convertible note transaction; 2. Based on Zip's 15-day VWAP of \$3.39 and approximately 119m Zip shares issued to non-Zip stockholders of QuadPay and excludes (i) any of the Performance Consideration Shares, the Tenure Consideration Shares, and the New Options issued under the QuadPay acquisition; and (ii) any shares in Zip that may be issued under the convertible note transaction

Terms and funding: QuadPay

FUNDING

- The Purchase Price will be settled entirely by the issue of Zip ordinary shares¹.

TIMING AND CONDITIONS

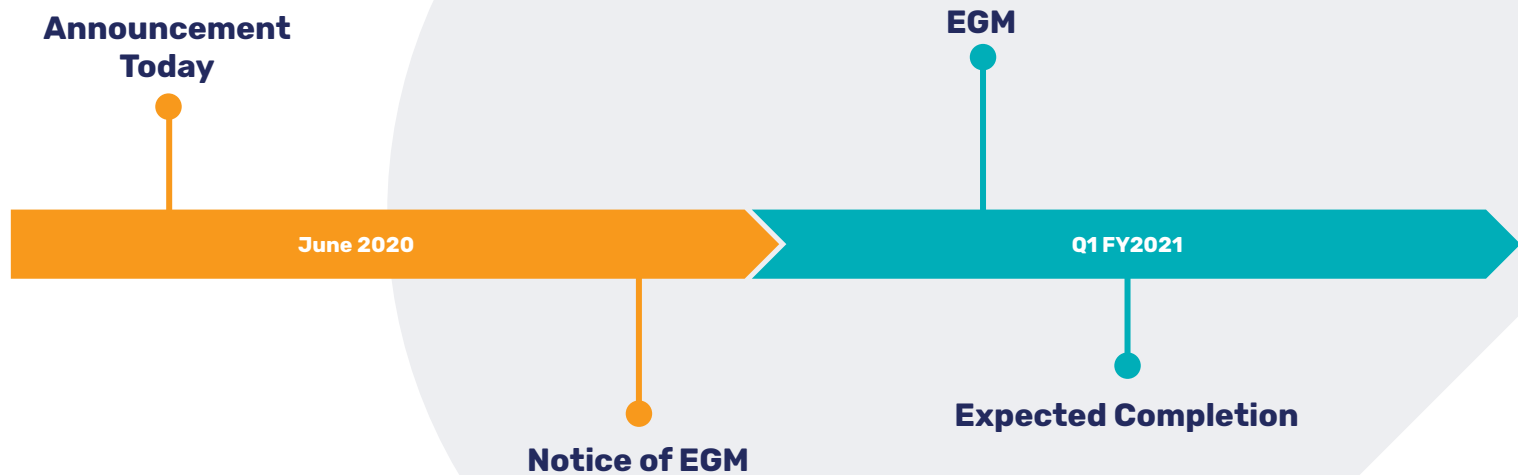
- Zip shareholder approval for the purposes of ASX Listing Rules 7.1 and 10.19 and section 200B of the Corporations Act 2001 (Cth) (as applicable).
- Receipt of US antitrust clearance.
- No material adverse event having occurred in respect of QuadPay prior to completion².
- QuadPay stockholders not exercising their appraisal rights under Delaware law for more than 5% of the outstanding shares of QuadPay³.
- QuadPay stockholders holding at least 90% of the outstanding shares of QuadPay entering into their voluntary escrow agreements in respect of their holding lock arrangements.
- Anticipated to complete during Q1 FY2021.

VENDOR OWNERSHIP IN COMBINED GROUP

- QuadPay shareholders to own 23.3%⁴ of Zip post-transaction.

Notes: 1. Subject to certain limited exceptions due to foreign securities law restrictions and other legal restrictions; 2. A "material adverse event" expressly excludes the COVID-19 virus or any other epidemic, pandemic or other outbreak of illness or public health even to the extent there is no disproportionate effect on QuadPay; 3. Under Delaware law, such rights entitle QuadPay stockholders within a certain time period to seek an appraisal of the fair value of their QuadPay shares and to receive such appraised value in cash in lieu of the consideration proposed under the QuadPay acquisition; 4. Based on Zip's 15-day VWAP of \$3.39 and approximately 119m Zip shares issued to non-Zip stockholders of QuadPay and excludes (i) any of the Performance Consideration Shares, the Tenure Consideration Shares, and the New Options issued under the QuadPay acquisition; and (ii) any shares in Zip that may be issued under the convertible note transaction.

Indicative timetable





A

Appendix



Disclaimer and important notice

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The Company's products may contain programming errors, which could harm its brand and operating results.

The Company will rely on third party providers and internet search engines (amongst other facilities) to direct customers to Zip's products. Other risks may be present such as competition, changes in technology, security breaches, insurance, additional requirements for capital, potential acquisitions, platform disruption, ability to raise sufficient funds to meet the needs of the Company in the future, the Company's limited operational history, reliance on key personal, as well as political and operational risks, and governmental regulation and judicial outcomes.

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Thank you

