



# ASX Release

2 June 2020

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

*Dollar references are in AUD unless otherwise noted*

**Zip Co Limited** (ASX: Z1P) ("**Zip**" or the "**Company**") is pleased to announce today that it has entered into an agreement to acquire the remaining shares<sup>1</sup> in the New York based "Buy Now, Pay Later" ("**BNPL**") provider QuadPay Inc. ("**QuadPay**"), for scrip consideration (the "**QuadPay Acquisition**"). QuadPay stockholders will be entitled to receive up to a maximum of approximately 119m fully paid ordinary shares of Zip ("**Shares**"), equivalent to 23.3% of the issued share capital of Zip at completion<sup>2</sup>. The QuadPay Acquisition implies an enterprise value of approximately US\$269m or \$403m<sup>3</sup> for QuadPay and is accretive for Zip on both a total transactions volume ("**TTV**") and revenue basis.

The QuadPay Acquisition builds on Zip's global strategy and the Zip Board believes this is a compelling investment proposition for shareholders:

- **Access to the world's largest retail market** – QuadPay is one of the leading BNPL platforms in the US, the world's largest retail market (US\$5+ trillion and >15x size of Australia) during a time when interest-free instalments are transforming the way people pay.
- **Leading global BNPL player** – Post-completion, the combined group will have operations across the world in 5 countries (AU, NZ, US, UK and SA) with combined annualised TTV of \$3.0b, annualised revenue of \$250m, 3.5m customers and 26.2k merchants<sup>4</sup>.
- **Increases scale, growth potential and provides strong unit economics** – QuadPay's model has demonstrated significant growth since its founding in 2017:
  - o at the end of March, QuadPay had more than 1.5m customers and 3.5k merchants, including brands such as Fashion Nova and Deckers (UGG); and
  - o annualised revenues of \$70m in Q1' CY20 and annualised TTV of \$900m in Q1' CY20
  - o industry-leading Net Transaction Margins (NTM) >2%<sup>5</sup>
- **Category innovator with leading payments app** – QuadPay was amongst the first BNPLs to leverage virtual card technology in partnership with Stripe, demonstrating a strong culture of innovation. QuadPay's proprietary *QuadPay Anywhere* technology:
  - o facilitates instalments anywhere within the Visa acceptance network online and offline, and enables in-store rollout with no POS integration; and
  - o is ranked in the top 100 US shopping apps with an App Store rating of 4.8<sup>6</sup>.
- **Founder led business with strong alignment** – QuadPay's team is New York headquartered and led by co-founders and joint CEOs Adam Ezra and Brad Lindenberg, who

<sup>1</sup> Zip already holds a 14% interest in QuadPay, acquired through its acquisition of New Zealand-based PartPay Limited in 2019 (which held a strategic interest in QuadPay) and concurrent investment.

<sup>2</sup> 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 (as those terms are defined in Appendix A of this release); and (ii) any shares in Zip that may be issued on conversion of the convertible notes and/or exercise of the warrants to be issued under the financing transactions described in this announcement ("**Convertible Note Raising**").

<sup>3</sup> 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 (as those terms are defined in Appendix A of this release).

<sup>4</sup> Based on Q1' CY2020.

<sup>5</sup> Derived from income less transaction costs, financing costs and bad debt provisions calculated as a percentage of transaction volume.

<sup>6</sup> As at 29 May 2020, in the Appstore.

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.

Zip has entered into an agreement with CVI Investments, Inc., an affiliate of Heights Capital Management, which is 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 \$5.5328<sup>7</sup>, a 50% premium to the 1-day volume weighted average price ("**VWAP**") of Zip's Shares on 29 May 2020<sup>8</sup>, while the warrants have an initial exercise price<sup>9</sup> of \$5.1639, a premium of 40% to such VWAP.

SIG is one of the world's largest privately-held financial services firms with over 2,000 employees in 6 countries. Founded in 1996, Heights Capital Management ("**Heights**") invests SIG's internal capital through direct investments in listed companies in the U.S., Europe, and Asia. Heights has supported many leading companies and manages a diverse investment portfolio of high-growth small to medium-sized companies. SIG has also made investments in Bytedance (parent company of Tik Tok), Credit Karma and Fundera.

### **QuadPay Overview**

Launched in 2017 by founders Brad Lindenberg and Adam Ezra, New York headquartered QuadPay is a leading, high growth, US-based instalment provider disrupting the credit card industry with a strong focus on innovation and customer centricity. QuadPay enables customers to pay in 4 interest-free instalments over 6 weeks online and instore. It offers a proven and scalable BNPL platform and a market leading app with over a million downloads and strong customer satisfaction demonstrated by its 4.8 app rating. The pipeline for new merchants and partnerships remains strong and is being accelerated as a result of the increasing focus on online spend due to COVID-19 and the ongoing customer preference for simple budgeting tools.

Within the US BNPL category, QuadPay offers a unique and differentiated model:

- **Interest free** – All instalments are interest-free and payable within a 6-week period.
- **Anywhere, online and instore** – QuadPay's unique technology, *QuadPay Anywhere*, allows customers to shop interest-free, not only with its 3.5k integrated merchants, but also with leading global retailers including Walmart, Nike, and Michael Kors.
- **Strong focus on risk management and responsibility** – QuadPay's use of proprietary risk assessment processes and algorithms underpinned by FICO credit scores and ID verification have driven strong and continually improving credit performance, aligning with Zip's core DNA.

QuadPay continues to deliver significant growth across all of its key operating metrics:

<b>Calendar Quarter:</b>	<b>Transaction Volume (\$m)<sup>10</sup></b>	<b>QoQ (%)</b>	<b>Revenue (\$m)</b>	<b>QoQ (%)</b>	<b>New Customers</b>
2Q19	\$27.2	11%	\$1.5	3%	75,759
3Q19	\$71.0	161%	\$5.4	262%	201,115
4Q19	\$245.3	246%	\$18.0	235%	613,586
1Q20	\$225.1	(8%)	\$17.8	(1%)	360,581

<sup>7</sup> This initial conversion price is subject to adjustment in accordance with the terms of the Convertible Notes.

<sup>8</sup> Based on Zip's 1-day VWAP of \$3.6885 as of 29 May 2020.

<sup>9</sup> 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).

<sup>10</sup> Converted at a USD/AUD exchange rate of 0.6659.

Zip has been encouraged by QuadPay’s continued strong growth and performance especially during the COVID-19 outbreak. Similar to Zip, QuadPay’s focus on decision technology and responsibility has meant all applicants since inception have undergone real-time assessments and credit and ID checks. QuadPay has also adjusted risk tolerances to account for current market conditions and has implemented a number of credit quality safeguards, across both new originations and its existing portfolio. Similar to Zip, there has been no deterioration in its loan book performance, demonstrating the resilience of the BNPL model, with better outcomes and accelerated adoption as a result of customers’ aversion to long-term debt and high interest costs inherent in credit cards.

Post-completion, the combined group is set to be a leading global BNPL player. The following table sets out a pro forma analysis of Zip assuming completion of the QuadPay Acquisition:

<b>Based on 1Q CY20 Quarter</b>	<b>(1) Zip</b>	<b>(2) QuadPay</b>	<b>(1) + (2) Pro Forma</b>
Employees <sup>11</sup>	377	91	468
Customers	2.0m	1.5m	3.5m
Merchants	22.7k	3.5k	26.2k
Annualised TTV (\$bn)	\$2,075m	\$900m	\$2,975m
Annualised Revenue (\$m)	\$180m	\$70m	\$250m

Zip strongly believes that the expansion into the US is both significantly de-risked and accelerated through collaboration with a strong, known and trusted partner. As the largest stockholder of QuadPay other than its co-founders, Zip is already highly familiar with the QuadPay management team and business.

Importantly, QuadPay operates on the same core technology and source code as Zip’s other international businesses (UK, NZ), minimising integration costs and enabling the delivery of global merchant deals and new product features across the different markets.

### **Key terms of the QuadPay Acquisition**

Zip’s acquisition of QuadPay is subject to Zip shareholder approval (and other conditions precedent), and upon completion it is expected that QuadPay stockholders (excluding Zip) will be entitled to receive approximately 119m Shares of Zip (the “**Merger Consideration Shares**”), representing 23.3% of the issued capital of Zip<sup>12</sup>. The Merger Consideration Shares will be subject to certain voluntary escrow arrangements. In addition, Zip will issue up to 12m options to purchase Shares of Zip to the existing option holders of QuadPay.

As part of the QuadPay Acquisition, Zip has also agreed to issue to the QuadPay co-founders additional Shares of Zip subject to the satisfaction of prescribed performance milestones (up to US\$60m in value) and/or tenure milestones (up to 5m Shares) as part of retention arrangements (and subject to Zip shareholder approval). The performance milestones align the delivery of the Zip Shares awarded to QuadPay’s co-founders, to aggressive growth targets.

Refer to Appendix A to this release for further information about the material terms of the QuadPay Acquisition.

Zip CEO and Co-Founder, Larry Diamond said:

*“We are delighted and excited to have the QuadPay team join the Zip family. As a strategic investor in the business, we have spent considerable time with the founders, Adam and Brad, and share a united vision of disrupting the outdated credit card with a digital, and fairer alternative. The US is a critical part of our global strategy and vital as merchants increasingly*

<sup>11</sup> Employee numbers are as at the end of May 2020 and include contractors and part-time/casual employees.

<sup>12</sup> Refer to footnote 2 above.

*look for a global payments solution. We have been impressed by QuadPay's continued innovation. They were first to market with a virtual card solution in the BNPL space and have continued to evolve and innovate their offering. We look forward to this exciting new chapter in the Zip journey."*

QuadPay Co-CEOs and Co-Founders, Adam Ezra and Brad Lindenberg, said:

*"We are thrilled to join Zip. This is a great opportunity for QuadPay and our team to join Zip in establishing a truly global BNPL platform and scaling even faster. A generational change is underway – customers are changing the way they pay, leaving behind credit cards and gravitating towards interest free instalments. By combining Zip's resources, geographic coverage, data capabilities, category leadership and experience, we look forward to driving strong growth together in North America and across core markets."*

### **Up to \$200m in capital from SIG to support global growth**

SIG through its affiliate CVI Investments (the "Noteholder") is providing financing to Zip through a combination of convertible notes and warrants:

- \$100m in convertible notes – The notes have a maturity date of 5 years from issue and a fixed coupon of \$0.75m per semi-annual instalment. (a) Every 6 months, 10% of their initial principal amount (i.e. \$10m) and accrued interest amounts (i.e. aggregate of A\$10.75m) can at the election of the Noteholder be converted into Shares in Zip at the then current market price up to the ceiling price and above the floor price described below (subject to certain conditions being satisfied) or deferred until the next instalment date; and (b) the Noteholder also holds the option to convert the convertible notes into Shares in Zip after the occurrence of certain conversion events at the then prevailing conversion price, with an initial conversion price of \$5.5328, a 50% premium to the 1-day VWAP of Zip's Shares on 29 May 2020. The semi-annual fixed coupon of \$0.75m on the convertible notes may be paid in Shares in Zip issued at the then current market price (provided certain conditions are met) or may be cash settled. The conversion price (other than for the semi-annual instalments) adjusts for certain prescribed terms and dilutive events and resets semi-annually to a price equal to 93% of the prevailing current market price but is subject to a maximum ceiling price of \$5.5328 and a minimum floor price of \$1.8443, a 50% discount to the VWAP of Zip's Shares on 29 May 2020.
- As part of the capital raising, Zip will also grant to SIG 19,365,208 warrants to subscribe for up to 19,365,208 Shares in Zip. The warrants will have an initial exercise price<sup>13</sup> of \$5.1639, a 40% premium to the 1-day VWAP of Zip's Shares on 29 May 2020<sup>14</sup>. If fully exercised at the initial exercise price, the warrants will provide Zip with an additional \$100 million in capital.

The capital raised from SIG will help accelerate Zip's growth in the US and other core markets.

The issue of the convertible notes and the grant of the warrants to SIG are subject to Zip shareholder approval (and other conditions precedent). Refer to Appendix B to this release for further information about the material terms of the Convertible Note Raising.

Zip CEO and Co-Founder, Larry Diamond said:

*"We are pleased to announce the proposed capital investment from Susquehanna which will allow Zip to hit the ground running as we scale up our global operations while protecting shareholder interests by limiting dilution. The terms of the investment are a strong endorsement*

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<sup>13</sup> Refer to footnote 9 above.

<sup>14</sup> Refer to footnote 8 above.

*of the growth potential of the Zip business and we look forward to working with such a highly regarded growth investor.”*

### **Timetable and other information**

Subject to Zip shareholder approval being obtained at an extraordinary general meeting and the satisfaction or waiver of other conditions associated with the QuadPay Acquisition and the Convertible Note Raising, Zip expects to complete both the QuadPay Acquisition and the Convertible Note Raising during Q1 FY2021. Further information about the date of the shareholder meeting to consider the necessary resolutions required to proceed with the QuadPay Acquisition and the Convertible Note Raising will be provided in due course.

A summary of the key terms of the QuadPay Acquisition and the Convertible Note Raising is included in the Appendices attached to this release. An investor presentation, which further explains the transactions, has also been lodged with the ASX.

### **Advisors**

Zip is advised by:

- Financial advisor and Placement Agent: BofA Securities
- Australian legal adviser: Arnold Bloch Leibler
- US legal adviser: Skadden, Arps, Slate, Meagher & Flom LLP
- Accounting and tax adviser: EY

QuadPay is advised by:

- US legal adviser: DLA Piper
- Australian legal adviser: Gilbert + Tobin

SIG is advised by:

- Australian legal adviser: Ashurst

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

– 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, home, health, automotive and travel industries. Zip has operations across Australia, New Zealand and the United Kingdom, with associates in the USA and South Africa. Zip also owns Pocketbook, a leading personal financial management tool and SME lending provider Spotcap. The company is focused on offering transparent, responsible and fairly priced consumer and SME 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 100 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: [www.zip.co](http://www.zip.co)

**About Heights Capital Management**

Heights Capital Management is an affiliate of Susquehanna International Group LLP ("SIG"), which was founded in 1987 and is one of the world's largest privately-held financial services firms with over 2000 employees in 6 countries. SIG is active in trading, institutional services, private equity and venture capital. Founded in 1996, Heights Capital Management ("Heights") invests SIG's internal capital through direct investments in listed companies in the U.S., Europe, and Asia. Heights has supported many leading companies and manages a diverse investment portfolio of high-growth small to medium-sized companies.

## **Appendix A: Details of Transaction Terms of the QuadPay Acquisition**

### **Conditions Precedent**

Completion of the QuadPay Acquisition is subject to certain conditions, including, among others:

- Zip shareholders approving the issue of securities in connection with the QuadPay Acquisition, including the issue of the Merger Consideration Shares, the Performance Consideration Shares, the Tenure Consideration Shares and the New Options (as each of those terms are defined in this release) 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 completion<sup>15</sup>;
- QuadPay stockholders not exercising their appraisal rights under Delaware law for more than 5% of the outstanding shares of QuadPay<sup>16</sup>; and
- 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 described in this Appendix (and providing other prescribed documents).

Either party has the right to terminate the QuadPay Acquisition agreement if completion has not occurred by 1 December 2020.

### **Merger Consideration Shares**

Upon completion of the QuadPay Acquisition, the non-Zip stockholders of QuadPay (that own 86% of QuadPay) will be entitled to receive up to a maximum of approximately 119m Shares of Zip as the Merger Consideration Shares, representing a maximum of 23.3% of the issued capital of Zip at completion of the QuadPay Acquisition<sup>17</sup>. The Merger Consideration Shares will be issued at an issue price equal to Zip's volume weighted average price of its Shares on the ASX in the 15 trading days prior to completion of the QuadPay Acquisition.

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 of the QuadPay Acquisition agreement, with 20% of their of the Merger Consideration Shares escrowed until the second anniversary of such 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 of the QuadPay Acquisition agreement, with 20% of their Merger Consideration Shares escrowed until the first anniversary of such signing date.

### **Retention Arrangements**

As part of the QuadPay Acquisition, Zip has agreed to the following retention arrangements with the QuadPay founders

- **Tenure Consideration Shares** - Up to 5 million Shares in Zip (split between Adam Ezra and Brad Lindenberg equally) to be issued in equal instalments over the 2 year period after completion of the QuadPay Acquisition, subject to their continued employment with QuadPay

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<sup>15</sup> A "material adverse event" expressly excludes the COVID-19 virus or any other epidemic, pandemic or other outbreak of illness or public health event to the extent there is no disproportionate effect on QuadPay.

<sup>16</sup> 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.

<sup>17</sup> Refer to footnote 2 above.

(the “**Tenure Consideration Shares**”). Any Tenure Consideration Shares will be issued at an issue price equal to Zip’s volume weighted average price of its Shares on the ASX in the 15 trading days prior to their applicable issue date.

- **Performance Consideration** - Up to US\$60 million payable at Zip’s discretion either in cash or by the issue of up to a maximum of 24,570,024 Shares in Zip<sup>18</sup> (the “**Performance Consideration Shares**”), subject to the achievement of certain prescribed minimum TTV performance targets on the QuadPay platform being achieved during the period from 1 January 2020 to 30 June 2022 (split between Adam Ezra and Brad Lindenberg equally and subject to their continued employment with QuadPay). If payable, this performance consideration may be paid in up to 3 payment tranches, relating to the 12-month periods ending 30 June 2020, 30 June 2021 and 30 June 2022. The maximum payout of US\$60 million is based on QuadPay achieving US\$1,200m of TTV in any consecutive 3-month period until 30 June 2022. This US\$60 million amount may also become payable early in full or in part (depending on the circumstances) as a result of specific acceleration events as agreed between the parties. Any Performance Consideration Shares will be issued at an issue price equal to the higher of \$3.70 per Share and Zip’s volume weighted average price of its Shares on the ASX in the 15 trading days prior to their applicable issue date.

### **New Options**

As part of the QuadPay Acquisition, Zip has agreed to grant up to 12m new options in Zip to the existing option holders of QuadPay in replacement of their existing vested and unvested options in QuadPay (the “**New Options**”). The New Options will be granted on the same terms as the current QuadPay options, except that on exercise of the New Options, the option holder will be able to purchase Shares in Zip (rather than in QuadPay). The grant of the New Options is subject to Zip shareholder approval.

### **Other terms and information**

The following is a summary of some other key terms relating to the QuadPay Acquisition:

- **Cash settlement:**
  - o Zip will pay those QuadPay stockholders that do not satisfy certain securities law requirements cash for their QuadPay shares instead of issuing Zip Shares to these QuadPay stockholders.
  - o Separately, Zip may also be required to pay certain QuadPay stockholders cash for their QuadPay shares if those QuadPay stockholders exercise their appraisal rights under Delaware law.
- **Escrow Agent:** If any QuadPay stockholders have not provided to Zip (or its agent) prior to completion certain required documents in accordance with the terms of the QuadPay Acquisition agreement (for example, an executed counterpart of their escrow agreement), the Merger Consideration Shares that those QuadPay stockholders would have otherwise been entitled to receive, will be issued to Computershare Trust Company, N.A. (the “**Escrow Agent**”) until the applicable QuadPay stockholders provide those required documents. Whilst held by the Escrow Agent, 100% of these Merger Consideration Shares will be subject to a voluntary escrow while held by the Escrow Agent. Computershare, the exchange agent for the QuadPay Acquisition, will distribute such portions of these Merger Consideration Shares to the relevant QuadPay stockholder on certain prescribed dates following receipt of each

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<sup>18</sup>The maximum number of Zip Shares has been determined based on the agreed minimum price of \$3.70 per share and the fixed USD / AUD exchange rate of 0.66 USD / AUD. However, in certain circumstances Zip is also required to pay a cash true up amount, as described in Appendix A of this release.



relevant QuadPay stockholder's required documents, following which the voluntary escrow terms described above will apply to those Merger Consideration Shares.

- **Cash true-up:** If, when any Performance Consideration Shares are issued as part of the retention equity arrangements with QuadPay's Co-Founders Adam Ezra and Brad Lindenberg, Zip's share price is less than the prescribed minimum issue price of \$3.70 per Share, Zip will be required to pay a true up amount in cash to them for this difference.
- **ASX waiver:** The ASX has granted Zip a waiver from ASX Listing Rule 7.3.4 in connection with the proposed issue of the Merger Consideration Shares, Performance Consideration Shares and the Tenure Consideration Shares, and the terms of this ASX waiver will be disclosed in the notice of shareholder meeting to be provided to consider the necessary resolutions required to proceed with the QuadPay Acquisition.

## **Appendix B: Details on the Transaction Terms of the Convertible Note Raising**

### **Transaction Overview**

Zip has entered into an agreement whereby an affiliate of SIG (the “**Noteholder**”), has agreed to subscribe for \$100m of convertible notes (the “**Convertible Notes**”) and concurrently Zip will issue to SIG 19,365,208 warrants, with the right for the warrant holder to invest up to an additional \$100m into new Shares in Zip based on the initial exercise price<sup>19</sup> of the warrants by exercising the warrants (the “**Warrants**”). This capital raising is intended to accelerate the growth of Zip’s global operations.

### **Conditions Precedent**

The issuance of the Convertible Notes and the Warrants are subject to certain conditions, including, among others:

- Zip shareholders approving the issue of the Convertible Notes and the Warrants, including for the purposes of ASX Listing Rules 7.1;
- the ASX approving the terms of the Convertible Notes and the Warrants for the purposes of ASX Listing Rule 6.1; and
- no material adverse event having occurred in respect of Zip prior to completion as it relates to Zip’s ASX listing and other limited matters.

### **Coupon cost and redemption terms of the Convertible Notes**

The Convertible Notes will not be quoted on the ASX or registered or listed on any relevant exchange or trading venue.

The Convertible Notes have a maturity date of 5 years from issue and bear interest payable semi-annually in an amount of \$752k per \$10m in principal amount. The initial conversion price of the Convertible Notes is \$5.5328<sup>20</sup> and is adjustable on the occurrence of certain dilutive events. In addition, the conversion price resets semi-annually to a price equal to 93% of the then prevailing current market price of the Shares of Zip, subject to a minimum price of \$1.8443 (the “**Floor Price**”)<sup>21</sup> and a maximum price of \$5.5328 (“**Ceiling Price**”)<sup>22</sup>.

At each 6 month payment date, the Noteholder has the option to elect to either defer the outstanding principal and accrued interest to a later semi-annual payment date (up until the maturity date) or for one of the following:

- A. If Zip’s Shares are trading above the Floor Price but below the Ceiling Price and other prescribed conditions are satisfied, \$10m (10% of the Convertible Notes initial principal balance) will be redeemed by converting such balance (together with the accrued interest in respect thereof) into Shares in Zip. These shares will be issued at a conversion price equal to the then prevailing current market price, subject to a minimum of the Floor Price and a maximum of the Ceiling Price<sup>23</sup>. To the extent the Noteholder chooses this

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<sup>19</sup> Refer to footnote 9 above.

<sup>20</sup> Refer to footnote 8 above.

<sup>21</sup> The Floor Price has been calculated as a 50% discount to Zip’s closing VWAP on 29 May 2020 of \$3.6885. The Floor Price is subject to adjustment for standard anti-dilution and other prescribed events.

<sup>22</sup> The Ceiling Price has been calculated as a 50% premium to Zip’s closing VWAP on 29 May 2020 of \$3.6885. The Ceiling Price is subject to adjustment for standard anti-dilution and other prescribed events.

<sup>23</sup> For the avoidance of doubt, the 7% discount does not apply and Zip Shares are issued at the then current market price.

option, the payment will be made with such accrued interest by issuing Shares in Zip at the same conversion price.

- B. If Zip's Shares are trading at a price at or in excess of the Ceiling Price, and other prescribed conditions are satisfied, the \$10m instalment will be redeemed as above for Shares in Zip except that the number of Shares in Zip to be issued will be calculated by dividing this amount together with the accrued interest by a conversion price equal to the Ceiling Price divided by 93%.
- C. If Zip's Shares are trading at a price at or below the Floor Price, then the redemption and interest payments will be made in cash by Zip (equalling a total of \$10.75m on each instalment date).

If the Noteholder does not elect to apply the 3 options above and instead defers each instalment payment until the maturity date, Zip will redeem each Convertible Note at their face value so that the aggregate cash payment received by the Noteholder is \$100 million plus all accrued interest.

### **Acceleration Conversion Rights of the Convertible Notes**

The initial conversion price on the issue date of the Convertible Notes is \$5.5328<sup>24</sup>. The conversion price is reset every 6 months at 93% of the current market price (subject to a maximum of the Ceiling Price and a minimum of the Floor Price).

There are a number of prescribed events that accelerate the conversion rights of the Convertible Notes and entitle the Noteholder to convert the Convertible Notes at its election, including:

- if the prevailing conversion price is equal to or above the Ceiling Price, in which case such conversion will be into as many Shares in Zip as possible issued at the Ceiling Price;
- at any time from 3 years after the issue of the Convertible Notes, in which case such conversion will be into as many Shares in Zip as possible issued at a 7% discount to the then prevailing Zip Share price;
- if Zip issues any Shares or equity-linked securities (other than certain permitted securities issues for certain business as usual and agreed strategic transactions) at an effective price which is below the Ceiling Price, in which case such conversion will be into as many Shares in Zip as possible issued at the effective price of such new equity securities (subject to the Floor Price); and
- if a change of control or certain prescribed events of default occur, in which case such conversion will be into as many Shares in Zip as possible issued at the then prevailing share price (noting the Convertible Notes also entitle the Noteholder to specific redemption payments in these change of control or event of default circumstances based on prescribed formulas at its election).

The above conversion rights are subject to the prevailing Floor Price and will be satisfied for as many Shares in Zip as possible given the ownership cap on the Noteholder described below, with the remainder paid in cash by Zip.

At any time during the period (i) from month 12 to 18 and (ii) from month 18 to 24 after the issue date of the Convertible Notes, the Noteholder also has the option to accelerate up to 2 instalment payments subject to those payments being convertible only into Shares in Zip at the then prevailing market price up to the Ceiling Price and above the Floor Price (i.e. Zip would issue \$30m of Shares with any accrued interest also payable in Shares in Zip at this price).

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<sup>24</sup> Calculated as a 50% premium to Zip's closing VWAP on 29 May 2020 of \$3.6885.

At all times, the Noteholder is subject to a maximum ownership cap in Zip of 19.99%, such that in the event the Convertible Notes are fully convertible, such conversion will be first into as many Shares in Zip as possible given this ownership cap and then the remainder is paid by Zip in cash.

### **Anti-Dilution and Other Protections**

The Convertible Notes includes standard anti-dilution protections, for adjustments such as stock splits, consolidations or capital distributions.

In addition, to the extent Zip issues any Shares or equity-linked securities below the Ceiling Price (other than for certain permitted securities issues for certain business as usual and agreed strategic transactions), the prevailing conversion price for that period will be set to the higher of the effective price of such issue and the Floor Price at the time, implying the maximum potential issuance of Shares as being 57,064,630 Shares in Zip over the term of the Convertible Notes<sup>25</sup>.

### **Warrants**

SIG will be issued 19,365,208 warrants with an initial exercise price of \$5.1639<sup>26</sup>. If fully exercised at the initial exercise price, the Warrants will raise an additional \$100m of capital invested in Zip.

The Warrants have a 3 year exercise period, and a variable exercise price 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).

The Warrants also have standard adjustment and anti-dilution provisions. In addition, the Warrants benefit from anti-dilution protections to the extent Zip pays a cash or non-cash dividend, with any value leakage compensated through either additional warrants being issued or cash being paid by Zip.

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<sup>25</sup> However this maximum number is subject to change if the Floor Price is adjusted.

<sup>26</sup> Calculated as a 40% premium to Zip's closing VWAP on 29 May 2020 of \$3.6885.