Appendix 4E: Preliminary Final Report

YEAR ENDED 30 JUNE 2020

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Results for Announcement to the Market

NAME OF ENTITY	ZIP CO LIMITED
ACN	139 546 428
Reporting period	Year ended 30 June 2020
Previous corresponding period	Year ended 30 June 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Zip Co Limited and its controlled entities (also referred to as the Group or Zip) results for announcement to the market are detailed below:

		30 JUNE 2020 $'000	30 JUNE 2019 $'000
Revenue from ordinary activities	Up 91%	161,001	84,231
Loss from ordinary activities after income tax attributable to members	Up 79%	(19,941)	(11,133)
Total comprehensive loss attributable to members	Up 80%	(20,020)	(11,133)

	30 JUNE 2020	30 JUNE 2019
Net tangible asset backing per ordinary share[1]	32.50 cents	18.73 cents

BRIEF EXPLANATION OF THE ABOVE FIGURES

Please refer to the Review of Operations for an explanation of the results.

DETAILS OF CONTROLLED ENTITIES

In the financial year ended 30 June 2020, Zip acquired 100% of the Australian and New Zealand businesses of Spotcap Global and New Zealand based PartPay Limited. Further information in relation to these acquisitions is contained in Note 14 in this report.

ASSOCIATES/JOINT VENTURE ENTITIES

In the financial year ended 30 June 2020, Zip acquired a 25.2% interest in South African based Payflex (PTY) Ltd. Zip has accounted for this investment as an investment in an associated entity. Further information in relation to this investment is contained in Note 5 in this report.

AUDIT STATUS

This report is based on accounts which are in the process of being audited.

DIVIDENDS

No dividends have been declared for the year ended 30 June 2020 or for the previous corresponding period.

1 Net tangible assets include right-of-use assets which are recognised by the Group in accordance with AASB 16.

Review of Operations

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with offices in Melbourne, Brisbane, Perth, Auckland and London.

The Group's principal activity is offering point-of-sale credit and payments to customers and providing integrated retail finance solutions to merchants in the retail, education, health and travel industries, both online and in-store. The Group also operates Pocketbook, one of Australia's leading personal financial management Apps with a user base of over 790,000 at 30 June 2020.

CONSUMERS

Across Australia, Zip provides lines of credit through the Zip digital wallet. It has two products: Zip Pay (with limits up to $1,500) and Zip Money (with limits up to $50,000). Revenue is generated from merchants (merchant service fees) and consumers (predominantly monthly fees, establishment fees and interest). The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

Following the acquisition of PartPay, Zip now also offers a BNPL service globally whereby consumers can split repayments into equal fortnightly instalments. Merchants pay a merchant services fee (MSF), and the product is free to consumers unless they miss a payment, then a late fee applies.

SMALL AND MEDIUM SIZED MERCHANTS (SMEs)

With over 24,500 SMEs on the platform in Australia and New Zealand, Zip has a number of credit and payment services to support its SME base online and in-store:

- Merchants can accept Zip Pay and Zip Money an interest-free payment method at checkout to increase basket sizes, conversion rates, drive repeat purchases;
- Zip offers SMEs the ability to sign up for Zip Biz, an interest-free digital wallet, allowing payment for everyday purchases in instalments up to $25,000 (Beta from Jan 2020); and
- Following the Spotcap acquisition in September 2019, Zip now provides unsecured loans between $20,000 and $500,000 to its merchant base supporting their growth.

REVIEW OF PERFORMANCE

OPERATIONAL PERFORMANCE

Zip's customer focused business model has proved resilient during COVID-19 with growth achieved across all key metrics. Over the financial year:

- Consumer numbers increased by 63% to over 2.1 million;
- Merchant numbers increased by 51% to over 24,500;
- Transaction volumes generated increased by 91% to $2.1 billion;
- Transactions processed increased by 120% to 10.5 million; and
- App downloads increased by 110%.

Zip's online presence and merchant diversity meant it was well placed for the impact of COVID-19. COVID-19 saw consumers move purchasing online with the Group seeing strong demand for everyday categories, bills, home improvements and office supplies, electronics, gaming, whitegoods, and furnishings.

Significant retailers were added to the Australian platform during the year, including: Amazon, Big W, Cotton On, Just Group, Kmart Australia, Petbarn and Tupperware. The Cotton On agreement was the Group's first global deal and covers Australia, New Zealand, UK, South Africa and the US. New Zealand onboarded Sony, Bunnings, Nutrimetics and Trade Depot onto the platform, joining the Warehouse Group.

Review of Operations

Continued

To promote simple, seamless experiences for both its consumer and merchant based, Zip introduced a number of new product initiatives during the year. These initiatives included:

- Investment in the technology platform to deliver step changes in speed and stability, accelerating checkout experiences and reducing time from software development to production;
- The new Shop Everywhere feature allows consumers to shop at any merchant online using a one-time-use virtual card;
- Face ID Verification was introduced to make identity and fraud checks quick and frictionless;
- Hey You went live with the new mobile SDK that provided a seamless mobile app integration for partners; and
- The new Single Merchant Interface delivered a single point of integration for all Zip's global partners.

The UK business continues to build, and while COVID-19 delayed the launch planned for earlier this calendar year, the launch is now expected in the first half of the 2020-21 financial year.

Zip piloted a new BNPL product for SMEs, Zip Biz, during the financial year. Following a period of extensive product and market testing, Zip will launch with eBay in the first half of the new financial year.

Spotcap saw drawdowns drop off in the final quarter of the year as the impact of COVID-19 hit SMEs across Australia and New Zealand. Volumes started to increase towards the end of June across a number of resilient industries and the business is well placed offering both standard and SME Guarantee Scheme backed loans to eligible SMEs.

FINANCIAL PERFORMANCE

Revenue generated in the financial year increased by 91% to $161.0 million compared with the previous financial year. Excluding the impact of revenue reported by entities acquired during the financial year of $10.0 million revenue grew by 79%.

Transaction volumes generated by consumers increased from $1.1 billion reported in the year to 30 June 2019 to $2.1 billion in the year to 30 June 2020, an increase of 91%. Excluding the impact of acquisitions, transaction volumes increased 82% to $2.0 billion.

Cost of Sales increased to $107.7 million from $52.1 million for the year to 30 June 2019 reflecting the growth in transaction volume and receivables. Reported gross profit was 32% of portfolio income, compared with 37% in the prior year. Excluding the impact of the movement in the provision for expected credit losses of $25.8 million (FY19: $11.1 million), gross profit was 49% of portfolio income, compared with 51% in the year to 30 June 2019.

Interest costs increased by $16.0 million due to the growth in borrowings to support the growth in receivables. The average interest rate paid decreased from 5.2% in the year to 30 June 2019 to 4.7% in the year to 30 June 2020.

Bad and doubtful debts increased to $53.7 million, reflecting a $17.0 million increase in bad debts written off (net of recoveries) and an $14.7 million increase in the provision for expected credit losses compared to the prior year. The reported provision for expected credit losses is 4.40% compared with the net bad debt rate of 2.36%. As detailed later in this report the credit performance of Zip's consumer receivables book has been extremely strong in a COVID-19 environment.

Bank fees and data costs increased to $10.8 million from $5.5 million in the prior year. Amortisation of funding costs increased by $0.8 million to $1.9 million as a result in the expansion of the Groups funding programs. Third-party revenue splits, comprising commissions payable to Spotcap's distributor network based on loan originations, and amounts paid to ecommerce partners based on transactions processed on their respective platforms, have increased to $2.4 million from $0.7 million in the prior year following the inclusion of Spotcap in the Group's results.

Zip's stated strategy at the beginning of the financial year was to invest in growth. Following the emergence of COVID-19 in March 2020, while trading volumes had not deteriorated significantly, Zip positioned the business for a protracted downturn. Consequently, Zip reduced its headcount by approximately 20%, delayed its UK business launch, reduced capital spending and the board, executive team and senior leaders took a voluntary 20% salary cut. As the impact of COVID-19 became more clear during the financial year's final quarter, Zip re-instated a number of capital spending projects and repositioned itself for growth in the financial year to 30 June 2021.

Operating costs increased to $121.4 million in the year to 30 June 2020 from $43.2 million in the year to 30 June 2019. The Group incurred a number of one-off costs during the period, excluding one-off costs totalling $23.2 million (as detailed later in this report), operating costs were $98.2 million for the year to 30 June 2020.

Administration costs increased by $5.2 million, including a $3.4 million increase in the cost of professional services and recruitment costs.

The Group spent an extra $6.7 million in information technology during the year, a 140% increase compared with the prior year. Zip invested in expanding its infrastructure to support volumes, enhancing monitoring and other software tools to position the platforms for growth and scalability globally.

Marketing costs increased by $6.1 million compared with the year to June 2020, including a brand campaign, the re-brand of PartPay to Zip, and increased spending on direct marketing, promotions and partner integrations.

The amortisation of intangibles increased by $5.5 million to $9.1 million. Amortising acquired intangibles resulting from the PartPay and Spotcap acquisitions increased the charge for the year by $3.2 million, including $1.9 million to write off the PartPay brand. The remaining increase reflected an increase in the amortisation of software development during the year.

The impact of the introduction of AASB 16 *Leases* (refer Note 11) on Zip's result has been to increase depreciation charged for the financial year by $2.5 million. The interest on lease liability was $0.2 million and principal repayment was $2.2 million, reducing occupancy costs by $2.4 million. Excluding the impact of AASB 16, Zip's occupancy costs increased by $2.5 million as prior COVID-19 Zip had increased the amount of floorspace leased to accommodate increased headcount.

At 30 June 2020, the Group had a total headcount of 371, including 63 employees across the operations of Spotcap and PartPay, a 57% increase when compared with 30 June 2019. Salaries and employee benefits increased 117% to $44.3 million including a $20.2 million increase in wages and salaries and contractor costs. The largest increases by function were in Product and Technology, Data and Risk, and Marketing. Operational headcount grew in line with increased volumes. In addition, Zip has extended the Executive Team to grow and develop Zip's operations globally.

Share-based payments increased by $12.2 million primarily due to the expense related to the issue of warrants to Amazon Australia, amounting to $7.2 million. The remaining increase reflects an increase in short-term and long-term employee incentives, including sign-on and project specific incentives.

Acquisition costs of $10.3 million comprise the costs of professional advisors supporting Zip in the acquisition of PartPay and Spotcap and costs incurred to 30 June 2020 in relation to the proposed acquisition of QuadPay Inc.

The Group reported a fair value gain for an amount of $47.5 million relating to the revaluation at 30 June 2020 of the Group's investment in QuadPay Inc. The fair value adjustment was based on the value attributable to Zip's shareholding in QuadPay Inc. on the basis of the merger ratio agreed for the proposed acquisition, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and discount for control.

Zip's New Zealand and United Kingdom operations reported revenue of $2.5 million in the eight months since acquisition on transaction volumes of $78.8 million. The net loss for the eight months since acquisition totalled $5.3 million excluding the impact of the amortisation of acquired intangibles of PartPay of $2.4 million.

Spotcap, Zip's SME lending business, generated revenue of $7.4 million in the nine months since acquisition and reported a loss of $3.9 million excluding the impact of the amortisation of acquired intangibles of Spotcap of $0.8 million.

The net loss before tax for the year to 30 June 2020 attributable to members of Zip Co Limited was $20.6 million ($44.9 million after one off adjustments as set out in the following table) compared with $11.1 million for the year to 30 June 2019.

Review of Operations

Continued

ADJUSTED NET LOSS

The Group's result for year to 30 June 2020 includes a number of non-recurring items and items that have had a significant impact on the result but have a reduced impact going forward. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

Reported loss before tax	$20.6 million	
Add back:		
Acquisition costs	$10.3 million	On acquisitions made or announced in the period
Write-off of acquired intangible	$1.9 million	PartPay brand, written off on re-branding to Zip
Share-based payments	$11.0 million	• $6.0 million: Warrants vesting to Amazon on signing the Amazon agreement The remaining warrants to vest over the 7 years from award date, based on the achievement of performance hurdles • $5.0 million: One off cost for the provision of marketing and promotional services
Fair value gain on investment	($47.5) million	Arising on the revaluation of the investment in QuadPay Inc at 30 June 2020
Adjusted loss before tax	$44.9 million	

RECEIVABLES

The Group's gross receivables portfolio increased to $1,182.0 million at 30 June 2020, up from $682.6 million at 30 June 2019, an increase of 73%. Net of unearned future income and the provision for expected credit losses the Group reported receivables of $1,116.6 million compared to $647.5 million in the prior year.

The Group wrote off $27.8 million in bad debts (net of bad debt recoveries) during the financial year, as compared with $10.8 million in the prior financial year. The Group reported a provision for expected credit losses of 4.40% of the gross receivables portfolio at 30 June 2020, compared with 3.75% at 30 June 2019, as a result of an increase in the economic overlay in Zip's provisioning model (actual net bad debts currently running at 2.36%).

Zip's Australian-based consumer business reported gross receivables of $1,143.0 million up 67% over the prior year. The monthly repayment profile remains strong averaging at 13.9% (of the opening receivables balance repaid each month) during the year and closing at 14.8% for the month of June 2020 which, equates to the book recycling approximately every 6-7 months. The reported arrears rate (accounts over 60 days past due) was 1.33% of the gross receivables balance at the end of June 2020, an excellent result in the COVID-19 environment, compared with 1.89% at 30 June 2019. Bad debt write-offs (net of recoveries) were 2.24% (net amount written off as a percentage of closing receivables) at 30 June 2020, compared with 1.63% at 30 June 2019, and remain well below management's expectations of 3%, and market comparisons. Excluding the impact of recoveries, bad debt write-offs increased from 1.82% at 30 June 2019 to 2.52% at 30 June 2020, in line with management's stated objective prior to COVID-19.

Zip's provision for expected credit losses is calculated in accordance with AASB 9 as set out in Note 10. The average roll rates between receivables ageing buckets in Zip's Australian-based consumer receivables portfolio have improved at 30 June 2020 compared with 30 June 2019. However, due to the economic uncertainty from COVID-19 Zip has increased the economic overlay in its provisioning model. As a result, the provision for expected credit losses for Australian consumer receivables, calculated on an expected-loss basis in accordance with AASB 9, has increased to 4.18% of closing gross consumer receivables compared with 3.75% at 1 July 2019. Actual bad debt write-offs for the Australian consumer receivables book were 2.24% at 30 June 2020. Balances subject to hardship claims peaked at the end of March following the identification of COVID-19, and at the end of June 2020 comprised less than 0.08% of the receivables portfolio.

The Zip Global segment reported gross receivables of $1.9 million, up from $1.1 million at the time of acquisition. Zip bears the credit risk for receivables totalling $5.0 million attributable to the segment that are not consolidated into the Group balance sheet. Zip has recorded a provision for expected credit losses equating to 5.5% of the closing receivables balance of $6.9 million, which includes the receivables balances that are not consolidated.

Spotcap recorded gross receivables of $37.1 million at the end of June up from $31.4million at the time of acquisition. The reported arrears rate (payments overdue by greater than 60 days) at 30 June was 3.13%. Write offs in the period since acquisition totalled $0.8 million, and gross bad debts written off were 2.15% for the 12 months to 30 June 2020.

During the second half, the SME market was adversely impacted by COVID-19 and a number of government initiatives put in place across both Australia and New Zealand to provide support to SME's. Of Spotcap's receivables portfolio at 30 June 2020, 34.3% were considered to be in hardship with interest being capitalised, this compares to a peak of 37.8% since March 2020.

In determining Spotcap's expected credit losses in accordance with AASB 9 the Group considered performing loans and loans in hardship in separate pools and applied different levels of economic overlay to each pool. The expected credit loss reported for the combined pool equates to 10.4% of the receivables balance at 30 June 2020, compared to 1.8% at the time of acquisition.

Across its receivables portfolio, overall Zip has increased the economic overlay included in the reported provision for expected credit losses by $11.9 million as a consequence of COVID-19.

CORPORATE ACTIVITY

Zip acquired the Australian and New Zealand businesses of global SME lending provider Spotcap in the year. This provided Zip with an SME lending business and a proven SME credit-decisioning platform to support the "go to market" strategy for its Zip Biz BNPL product in Australia and New Zealand. Shares to the value of $8.9 million were issued for the acquisition of Spotcap, and cash of $0.4 million paid.

Following the provisional valuation of intangible assets acquired as a result of the Spotcap acquisition at 31 December 2019, Zip engaged an external valuer to perform an independent valuation of the intangible (differences in acquired asset values between the provisional and independent valuation are set out in Note 14). The independent valuation resulted in acquired intangibles totalling $4.9 million being recognised, resulting in an amortisation charge of $0.8 million being recognised in the financial year. Spotcap's net assets at the time of acquisition totalled $2.2 million, consequently, the Company has recorded Goodwill of $2.1 million on the acquisition of Spotcap.

During the year Zip acquired global BNPL technology platform PartPay Limited providing Zip with exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa. At the time of acquisition PartPay was a significant player in New Zealand, had an early stage business in the UK, owned 8.9% of Quadpay Inc. a New York-based BNPL provider and 24.7% of Payflex (PTY) Limited, a BNPL provider in South Africa. Zip subsequently increased its ownership in Payflex to 25.2%.

Concurrently with the acquisition of PartPay, the Group invested $16.6 million (US$11.4 million) in QuadPay, which took Zip's interest in QuadPay to 15% and increased the Group's exposure to the large US market. The investment was settled in cash.

Zip issued shares to the value of $59.9 million to acquire PartPay and will issue additional shares to the value of approximately $14.0 million (NZ15.0 million) based on the achievement of certain performance-based milestones. Zip has recorded a cost of acquisition of $73.9 million on the basis the performance-based milestones are achieved. The first performance-based milestone has been achieved and accordingly shares to the value of approximately $7.0 million (NZ$7.5 million) will be issued following the release of Zip's Annual Report for the year ended 30 June 2020.

Following the provisional valuation of intangible assets acquired as a result of the PartPay acquisition at 31 December 2019, Zip engaged an external valuer to perform an independent valuation of the intangibles (differences in acquired asset values between the provisional and independent valuation are set out in Note 14). The independent valuation resulted in acquired intangibles totalling $6.4 million being recognised, resulting in an amortisation charge of $2.4 million in the year to 30 June 2020, including a charge of $1.9 million to write off the PartPay brand as a result of the business re-branding to Zip during the period. PartPay's net assets at the time of acquisition totalled $20.8 million, consequently, the Group has recorded goodwill of $46.8 million on the acquisition of PartPay.

Review of Operations

Continued

CAPITAL MANAGEMENT

The Group has a number of funding programs supporting the growth of its consumer and SME receivables book, both in Australia and overseas.

During the year Zip launched the Zip Master Trust to fund consumer receivables in Australia. The Master Trust's structure allows a single pool of receivables to be funded by any number of note series. In August Zip closed the issuance of the Trust's first rated note series, raising $475.0 million, the largest fintech issuance of its nature in Australia. The facility was fully drawn from inception and to provide a variable funding source within the Master Trust Zip subsequently issued an unrated Variable Funding Note with a facility limit of $139.5 million within the Trust. The Variable Funding Note facility was increased to $209.3 million subsequent to the year end. The Master Trust is available to fund originations in existing and new accounts, and with the forecast growth in receivables Zip will add additional note series, both rated and unrated into the Master Trust structure. At 30 June 2020, facilities in the Master Trust totalled $614.5 million (increased to $684.3 million post year end) of which $544.5 million had been drawn.

Zip also has the zipMoney Trust 2017-1 (total facility available $460.0 million, drawn $440.0 million at 30 June 2020) to fund consumer receivables in Australia, and the zipMoney Trust 2017-2 (total facility available $70.0 million, drawn $65.5 million at the end of June 2020). The zipMoney Trust 2017-2 is available to fund receivables, fund junior notes and to Zip for general corporate purposes (up to an amount of $32.0 million).

The facilities, available to fund receivables in Zip's Australian consumer business, have not benefited from any of the Government initiatives to support debt capital markets in Australia to date. A summary of Zip's consumer receivable funding facility is as below:

FACILITY TYPE	FACILITY LIMIT	DRAWN AT 30 JUNE 2020 $'M	UNDRAWN AT 30 JUNE 2020 $'M
Zip Master Trust			
– Rated Note Series	475.0	475.0	-
– Variable Funding Note	139.5	69.5	70.0
2017-1 Trust	460.0	440.0	20.0
2017-2 Trust	70.0	65.5	4.5
Total	**1,144.5**	**1,050**	**94.5**

Undrawn consumer facilities increase to $164.3 million subsequent to the end of the financial year.

The Group has funding facilities totalling $46.2 million available to fund loans originated to SME customers across Australia and New Zealand, drawn $32.1 million. at 30 June 2020. Zip worked closely with its funding partner to navigate the impact of COVID-19 on its SME lending business. In response to Government-led initiatives to facilitate payment holidays and interest capitalisation for SMEs in hardship, Zip agreed an equivalent position with its funding partner which impacted cashflow's and income, albeit the impact was immaterial to the Group. Zip has been approved under the Australian Government Coronavirus SME Guarantee Scheme which provides a government guarantee for 50% of eligible new loans granted under the program. The number and amount of new loans granted under this program to 30 June 2020 was immaterial.

In December 2019, the Group raised a total of $61.9 million ($59.8 million net of costs) in equity, from new and existing retail, institutional, sophisticated and professional investors. Funds were raised to support Zip's expansion overseas, expand Zip's product range, increase investment in product and technology and strengthen the Group's balance sheet. As a result of COVID-19, Zip deferred its overseas expansion, paired back expected investment in product and technology, and used funds to strengthen Zip's balance sheet predominantly through funding receivables.

CASHFLOWS

The Group generated an operating cash inflow of $14.6 million during the financial year compared with $22.6 million in the previous financial year. This excludes bad debts written-off in the financial year of $27.8 million (2019: $10.8 million) shown in the net movement in receivables.

Receipts from customers totalled $160.5 million for the financial year, a 92% increase from $83.7 million in the prior financial year, in line with the increase in revenue. Payments to suppliers and employees totalled $99.2 million up from $39.0 million in the prior financial year. Interest payments on borrowings to fund the Group's receivables increased 72% from $22.3 million to $38.4 million.

Payments relating to the acquisition of PartPay and Spotcap together with costs paid in relation to the proposed acquisition of QuadPay totalled $8.3 million for the financial year. Further costs for completing the QuadPay acquisition will be paid in the year to 30 June 2021.

Cashflow used in investing activities increased from $374.1 million in the prior financial year to $522.3 million in the financial year to 30 June 2020. Payments for plant and equipment has increased from $0.3 million, to $2.4 million as the Group has fitted out its leased office space during the financial year. The Group spent $17.1 million in the financial year on product development, including $4.1 million to acquire a software license to support product initiatives to be launched in the new financial year, a $13.5 million increase on the prior financial year. The acquisition of PartPay and Spotcap resulted in a net cash inflow of $2.7 million. At the time of announcement, the acquisition of PartPay, Zip invested $16.6 million to increase its stake in QuadPay. In addition, Zip increased its investment in Payflex by $0.07 million during the year. The net movement in receivables totalled $488.8 million, compared with $370.2 million in the prior financial year.

Cash from financing activities totalled $527.8 million compared with $351.4 million in the prior year. Proceeds from the issue of shares in the capital raising and the conversion of options totalled $62.1 million, $60.0 million net of transaction costs. The Group incurred costs of $2.9 million to establish the Master Trust, issue note series within it, and increase funding available in Zip's SME funding program. Zip borrowed an additional $473.6 million to fund receivables in the financial year compared with $297.5 million in the prior financial year. The Group made principal lease payments of $2.2 million during the year reported as a Cashflow to Financing Activities as required under AASB 16.

POST BALANCE DATE EVENTS

In addition to the increase in the Variable Note Facility noted in this report, subsequent to the year end the Group invested a further $0.1 million in Payflex, the Group's associated company in South Africa. This takes Zip's interest to 26.2%.

Zip has accounted for its investment in QuadPay Inc. in the balance sheet at 30 June 2020 as an investment, as it holds a 14.09% interest in QuadPay (refer Note 6). On 2 June 2020 Zip announced its intention to acquire the 85.91% of QuadPay it does not already own, raise $100.0 million through the issue of convertible notes to an affiliate of the US-based Susquehanna International Group, and to issue warrants with an exercise value of $100.0 million to Susquehanna International Group. The QuadPay acquisition is to be settled through the issue of shares in Zip Co Limited and is subject to shareholder approval at Zip's EGM on Monday 31 August 2020. The issuance of the convertible notes and warrants is also subject to EGM approval. As a result, there is no Post Balance Date Event to report at the date of this report, but a Post Balance Date event will be included in Zip's Annual Report to be issued in September 2020 in the event shareholders approve the QuadPay acquisition and the issuance of the convertible notes and warrants.

There have been no other material items, transactions or events subsequent to 30 June 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2020

	NOTE	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Portfolio Income	3	**159,372**	**82,877**
Cost of Sales			
Interest expense		(38,944)	(22,940)
Bad and doubtful debts expense		(53,669)	(21,947)
Bank fees and data costs		(10,844)	(5,461)
Amortisation of funding costs		(1,877)	(1,090)
Third party revenue splits		(2,379)	(696)
Total Cost of Sales		**(107,713)**	**(52,134)**
Gross Profit		**51,659**	**30,743**
Other income	3	1,629	1,354
Administration expenses	4	(9,932)	(4,704)
Depreciation expense	4	(3,993)	(968)
Amortisation of intangibles	4	(9,045)	(3,587)
Information technology expenses		(11,496)	(4,787)
Marketing expenses		(9,515)	(3,446)
Occupancy expenses		(2,233)	(2,124)
Salaries and employee benefits expenses		(44,315)	(20,399)
Share-based payments	4	(20,393)	(3,215)
Acquisition costs		(10,273)	–
Share of loss of associate	5	(187)	–
Fair value gain on investment	6	47,505	–
Loss Before Income Tax		(20,589)	(11,133)
Income tax benefit	7	648	–
Loss After Income Tax			
Attributable to Members of Zip Co Limited		(19,941)	(11,133)
Other Comprehensive Income for the year			
Foreign exchange differences on translation		(79)	–
Total Other Comprehensive Income for the year, Net of Tax		(79)	-
Total Comprehensive Loss for the year Attributable to Members of Zip Co Limited		(20,020)	(11,133)
Earnings per share			
Basic loss per share	8	(5.31)	(3.52)
Diluted loss per share	8	(5.31)	(3.52)

The above Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Financial Position

as at 30 June 2020

	NOTE	30 JUNE 2020 $000	30 JUNE 2019 $000
Assets			
Cash and cash equivalents	9	32,712	12,611
Other receivables		6,876	10,920
Term deposit		1,507	1,179
Customer receivables	10	1,116,618	647,544
Investment	6	82,930	–
Investment in associate	5	1,184	–
Property, plant and equipment		3,512	2,547
Right-of-use assets	11	8,160	–
Intangible assets	12	25,093	5,813
Goodwill	13	53,441	4,548
Total Assets		**1,332,033**	**685,162**
Liabilities			
Trade and other payables		19,533	19,657
Employee provisions		2,753	1,368
Deferred R&D tax incentives		–	392
Deferred contingent consideration	14	13,979	–
Lease liability	11	8,414	–
Borrowings	15	1,081,954	587,445
Total Liabilities		**1,126,633**	**608,862**
Net Assets		**205,400**	**76,300**
Equity			
Issued capital	16	274,151	141,211
Reserves		19,621	3,520
Accumulated losses		(88,372)	(68,431)
Total Equity		**205,400**	**76,300**

The above Preliminary Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2020

	ISSUED CAPITAL $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	TOTAL $'000
Balance at 1 July 2018	81,328	4,380	–	(57,298)	28,410
Loss for the period	–	–	–	(11,133)	(11,133)
Total Comprehensive Loss	–	–	–	(11,133)	(11,133)
Recognition of share-based payments	–	3,215	–	–	3,215
Exercise of share-based payments	–	(4,075)	–	–	(4,075)
Issue of ordinary shares under share-based payments plans	2,343	–	–	–	2,343
Issue of ordinary shares upon achievement of performance milestones relating to the acquisition of Pocketbook	1,500	–	–	–	1,500
Exercise of options	1,606	–	–	–	1,606
Issue of shares – capital raising	56,765				56,765
Costs of issuing shares	(2,331)	–	–	–	(2,331)
Balance at 30 June 2019	141,211	3,520	–	(68,431)	76,300
Balance at 1 July 2019	**141,211**	**3,520**	**–**	**(68,431)**	**76,300**
Loss for the period	–	–	–	(19,941)	(19,941)
Other comprehensive income	–	–	(79)	–	(79)
Total Comprehensive Loss	**–**	**–**	**(79)**	**(19,941)**	**(20,020)**
Recognition of share-based payments	–	20,393	–	–	20,393
Exercise of share-based payments	–	(4,213)	–	–	(4,213)
Issue of ordinary shares under share-based payments plans	4,213	–	–	–	4,213
Exercise of options	180	–	–	–	180
Issue of shares – acquisitions	68,805	–	–	–	68,805
Issue of shares – capital raising	61,871	–	–	–	61,871
Costs of issuing shares	(2,129)	–	–	–	(2,129)
Balance at 30 June 2020	**274,151**	**19,700**	**(79)**	**(88,372)**	**205,400**

The above Preliminary Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Cash Flows

for the Year Ended 30 June 2020

	NOTE	30 JUNE 2020 $'000	30 JUNE 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Portfolio income from customers		160,501	83,668
Payments to suppliers and employees		(99,217)	(39,016)
Interest received from financial institutions		107	197
Interest paid		(38,431)	(22,257)
Acquisition costs		(8,332)	–
Net Cash Flow from Operating Activities		**14,628**	**22,592**
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(2,436)	(275)
Payments for software development		(17,041)	(3,608)
Payments for acquisitions, net of cash acquired	14	2,667	–
Net increase in receivables		(488,811)	(370,177)
Payment for investments		(16,676)	–
Net Cash Flow to Investing Activities		**(522,297)**	**(374,060)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		62,051	57,802
Costs of share issues		(2,129)	(2,331)
Proceeds from borrowings		473,605	297,500
Repayment of borrowings		(551)	–
Borrowing transaction costs		(2,932)	(1,550)
Repayment of lease liabilities		(2,195)	–
Net Cash Flow from Financing Activities		**527,849**	**351,421**
Net increase/(decrease) in cash and cash equivalents		20,180	(47)
Cash and Cash Equivalents at the Beginning of the Year		12,611	12,658
Foreign exchange effect		(79)	–
Cash and Cash Equivalents at the End of the Year	9	**32,712**	**12,611**

The above Preliminary Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE PRELIMINARY FINAL REPORT

A. BASIS OF PREPARATION

The Preliminary Final Report (the Report) has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The report is to be read in conjunction with any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Australian Securities Exchange Listing Rules.

The Report, comprising the preliminary financial statements and notes of the consolidated entity, complies with the recognition and measurement requirements of Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Selective disclosure requirements of Australian Accounting Standards have been included. The Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in respect of the recognition and measurement requirements.

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

B. GOING CONCERN

The directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The preliminary consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2020 reflects a consolidated entity's loss after tax of $20.0 million. The preliminary consolidated statement of cash flows for the year ended 30 June 2020 reflects net cash flows from operations of $14.6 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2021. The cash flow forecast indicates that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the preliminary financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The preliminary financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

C. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that has a significant impact on the consolidated entity's preliminary financial statements:

New and amended Accounting Standards that are effective for the current financial year

AASB 16 Leases

AASB 16 eliminates the operating and finance lease classifications for lessees previously the model under AASB 117 *Leases*. It instead requires an entity to recognise most leases on its statement of financial position in a similar way to how finance leases were treated under AASB 117. An entity is required to recognise a lease liability and a right-of-use asset in its statement of financial position for most leases.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases.

The application date of this standard is for annual reporting periods beginning on or after 1 January 2019.

AASB 16 has been initially adopted by the consolidated entity for the financial year ended 30 June 2020.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of Assets*. This replaced the previous requirement to recognise a provision for onerous lease contracts.

The consolidated entity has chosen the modified retrospective application of AASB 16 in accordance with AASB 16 C5(b). Consequently, the consolidated entity has not restated the comparative information.

On initial application of AASB 16, for all leases (except as noted below), the consolidated entity has:

- Recognised right-of-use assets and lease liabilities in the preliminary consolidated statement of financial position, initially measured at the present value of the future lease payments that are not paid at the initial application date, discounted by using the incremental borrowing rate determined at the date of implementation; and
- Recognised depreciation of right-of-use assets and interest on lease liabilities in the preliminary consolidated statement of profit and loss.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- The amount expected to be payable by the lessee under residual value guarantees; and
- Lease payments applicable under extension options if reasonably certain to exercise.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

Right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the consolidated entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The consolidated entity applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the consolidated entity has recognised lease expenses on a straight-line basis as permitted by AASB 16. The consolidated entity chooses to use the practical expedient not to separate contracts into lease and non-lease components as at 1 July 2019.

D. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing this preliminary final report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results in the future.

Revenue recognition

The consolidated entity recognises revenue on customer receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of the estimated future cashflows and the expected life of the customer receivables balance, the directors have considered the historical repayment pattern of the customer receivables on a portfolio basis for each operating segment.

These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to recognition of revenue will be made.

Notes to the Preliminary Final Report

Continued

Provision for Expected Credit Loss

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. A key sources of estimation uncertainty relates to the provision for expected credit loss against customer receivables. The risk of impairment to customer receivables requires the consolidated entity to assess impairment regularly. The consolidated entity measures the provision for expected credit loss for customer receivables at an amount equal to the lifetime expected credit loss (ECL) which represents the expected credit losses that will result from all possible default events over the expected life the customer receivables. Refer to Note 10 for further details.

Intangible assets

Software development asset

Software development costs are capitalised only when:

- the technical feasibility and commercial viability or usefulness of the project is demonstrated;
- the consolidated entity has an intention, ability and financial resources to complete the project and use it or sell it; and
- the costs can be measured reliably.

Such costs include payments to external contractors to develop the software, any purchase of materials and equipment and personnel costs of employees directly involved in the project.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Acquired intangibles

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Intangibles acquired were provisionally determined based on management's best estimates of the likely fair value of the acquired intangibles as reported in the consolidated entity's Half Year Report ended 31 December 2019. Management applied a discounted cash flow methodology including assumptions relating to transaction volumes, royalty rates, processing rates, growth and discount rates. Acquired intangibles have been independently valued by an external valuer in the second half of the financial year and any adjustments required are recorded in this preliminary final report. Details refer to Note 14.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash inflows are grouped together to form a cash-generating unit.

E. PRINCIPLES OF CONSOLIDATION

The preliminary consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 30 June 2020 and the results of all subsidiaries for the twelve months then ended (for acquired subsidiaries since acquisition dates). Zip Co Limited and its subsidiaries together are referred to in these preliminary financial statements as the 'consolidated entity'.

Subsidiaries are all entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

F. SEGMENT REPORTING

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). CODM include the Non-Executive Directors, Chief Executive Officer, Chief Operations Officer and Chief Financial Officer. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

G. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Goodwill arises in a business combination when the consideration transferred to the acquiree is greater than the net of the acquisition-date fair value of identifiable assets and the liabilities assumed. Acquisition costs are recognised in profit or loss as incurred.

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. If there are changes in the fair value of the contingent consideration that qualify as measurement period adjustments, they are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Notes to the Preliminary Final Report

Continued

H. GOODWILL

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition of the business, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated is (a) representing the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

I. FOREIGN CURRENCIES

In preparing the preliminary consolidated financial statements of the consolidated entity, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of the consolidated entity and the presentation currency for the preliminary consolidated financial statements. Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions.

At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting preliminary consolidated financial statements, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve.

NOTE 2: SEGMENT INFORMATION

An operating segment is a component of an entity engaging in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed and used by the Chief Operating Decision Makers ("CODM") in assessing performance and in determining the allocation of resources. Intersegment loans are eliminated on consolidation and there is no aggregation of operating segments.

Following the acquisition of Spotcap and PartPay, the Group has increased the number of operating segments it has. The operating segments may change in the future as the Group continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. For the year ended 30 June 2020, the Group has identified the following operating segments:

ZIP AU: Operations in Australia offering consumers a line of credit wallet including the Consolidated entity's Pocketbook operations.

Zip Global: Formerly PartPay, offering BNPL instalment products to consumers outside of Australia.

Spotcap: Provides unsecured loans to small and medium sized businesses.

YEAR ENDED 30 JUNE 2020	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	TOTAL $'000
Portfolio income	149,454	2,549	7,369	159,372
Cost of sale	(99,128)	(1,859)	(6,726)	(107,713)
Gross profit	50,326	690	643	51,659
Other income	1,569	2	58	1,629
Operating expense	(66,918)	(6,022)	(4,551)	(77,491)
EBTDA (excluding Corporate items)	(15,023)	(5,330)	(3,850)	(24,203)
Employee remuneration related share-based payments	(8,192)	–	–	(8,192)
Other share-based payments	(12,201)	–	–	(12,201)
Acquisition costs	(10,273)	–	–	(10,273)
Share of loss of associate	(187)	–	–	(187)
Fair value gain on investment	47,505	–	–	47,505
EBTDA	1,629	(5,330)	(3,850)	(7,551)
Depreciation of right-of-use assets	(2,477)	–	–	(2,477)
Depreciation of PP&E	(1,470)	(33)	(13)	(1,516)
Amortisation of intangibles	(5,839)	(2,439)	(767)	(9,045)
Loss before income tax	(8,157)	(7,802)	(4,630)	(20,589)

NOTE 3: REVENUE

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Portfolio income	159,372	82,877
Other income		
Interest income from financial institutions	107	197
R&D tax incentives	392	366
Other	1,130	791
Total Other Income	**1,629**	**1,354**
Total Revenue	**161,001**	**84,231**

Notes to the Preliminary Final Report

Continued

NOTE 4: EXPENSES

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Loss before income tax includes the following specific expenses:		
Depreciation Expense:		
Depreciation of property, plant and equipment	1,516	968
Depreciation of right-of-use assets	2,477	–
Total Depreciation Expense	**3,993**	**968**
Amortisation of Intangibles:		
Amortisation of acquired intangibles	2,007	700
Write off of acquired intangible	1,900	–
Amortisation of internally generated intangibles	5,138	2,887
Total Amortisation of Intangibles	**9,045**	**3,587**
Administration Expenses:		
Professional services	4,071	1,578
Recruitment costs	1,524	614
Other administration expense	4,337	2,512
Total Administration Expenses	**9,932**	**4,704**
Share-Based Payments:		
Employee remuneration related share-based payments	8,192	3,215
Other share-based payments	12,201	–
Total Share-Based Payments	**20,393**	**3,215**

NOTE 5: INVESTMENT IN ASSOCIATE

	CONSOLIDATED $'000
Balance at 1 July 2019	–
Taken on acquisition	1,301
Additional investment	70
Share of loss of associate	(187)
Balance at 30 June 2020	**1,184**

As a result of the acquisition of PartPay, the consolidated entity had an initial 24.7% interest in Payflex (Pty) Ltd ("Payflex") a provider of BNPL services to consumers in South Africa. On acquisition, the consolidated entity accounted for the investment as an associate due to the consolidated entity's significant influence and initially measured the investment in associate at cost, being the fair value upon acquisition of PartPay. A cost of $1.30 million was recorded on this basis.

At 30 June 2020, the consolidated entity had an 25.2% interest in Payflex, being the initial 24.7% interest plus a further 0.5% interest acquired in May 2020 for an investment of $0.07 million. At 30 June 2020, the consolidated entity accounted for the investment as an associate due to the consolidated entity's continuing significant influence.

For the financial year ended 30 June 2020, the consolidated entity recognised its share of the loss of Payflex amounting to $0.2 million. At 30 June 2020, the carrying amount of the consolidated entity's investment in associate was recorded at $1.2 million, being the cost of the investment less its share of loss since the acquisition date.

NOTE 6: INVESTMENT

	CONSOLIDATED $'000
Balance at 1 July 2019	–
Taken on acquisition	18,819
Additional investment	16,606
Fair value gain on revaluation	47,505
Balance at 30 June 2020	**82,930**

The consolidated entity held 15% of the preferred shares of QuadPay Inc ("QuadPay"), a company incorporated in the United States operating in the Buy Now Pay Later industry at 31 December 2019. As a result of options being converted and other dilutions the holding had reduced to 14.09% at 30 June 2020., On 2 June 2020 Zip announced its intention to acquire the remaining 85.91% of QuadPay and has recorded a fair value gain of $47.5 million. The fair value adjustment was based on the value attributable to Zip's shareholding in QuadPay Inc. on the basis of the merger ratio agreed for the proposed acquisition, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and discount for control.

The investment is reported as an investment measured at FVTPL as the directors of the consolidated entity do not consider that the Group is able to exercise significant influence over QuadPay at 30 June 2020. The QuadPay acquisition is to be settled through the issue of shares in Zip Co Limited and is subject to shareholder approval at Zip's EGM on Monday 31 August 2020.

Notes to the Preliminary Final Report

Continued

NOTE 7: INCOME TAX

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(20,589)	(11,133)
Tax at the statutory tax rate of 30%	(6,177)	(3,340)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	6,118	965
Non-deductible expenses	1,536	919
R&D tax incentives	(118)	(110)
Share of loss of associate	56	–
Fair value gain on investment	(14,252)	–
	(12,837)	(1,566)
Prior year tax losses brought to account	–	(2,066)
Current year tax losses not recognised	2,645	–
Current year temporary differences not recognised	9,428	3,632
Effect of different tax rates of subsidiaries operating in other jurisdictions	116	
	(648)	–

NOTE 8: LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(19,941)	(11,133)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

NUMBER OF SHARES	30 JUNE 2020 '000	30 JUNE 2019 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	375,617	316,161

C. BASIC AND DILUTED LOSS PER SHARE

	30 JUNE 2020 CENTS	30 JUNE 2019 CENTS
Basic loss per share	(5.31)	(3.52)
Diluted loss per share[1]	(5.31)	(3.52)

1. As the consolidated entity had losses for the financial year ended 30 June 2020 and 30 June 2019, no dilutive shares have been included in the EPS calculation.

NOTE 9: CASH AND CASH EQUIVALENTS

At 30 June 2020, the consolidated entity had cash of $32.7 million of which $8.4 million was restricted cash (30 June 2019: cash of $12.6 million of which $6.4 million was restricted cash). Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post year end. Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

NOTE 10: CUSTOMER RECEIVABLES

CLASSIFICATION AND MEASUREMENT

Under AASB 9, customer receivables are initially recognised at fair value upon recognition. Subsequently, they are classified and measured at amortised cost as:

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and when providing lines of credit permit customers to vary the dates and frequency of payments.

IMPAIRMENT

AASB 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost and loan commitments. The guidance requires assets to be classified into the following three stages:

Stage 1: instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and "effective interest" revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.

Stage 2: instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but "effective interest" revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and "effective interest" revenue is calculated on the net carrying amount.

Provisioning Model

In determining the appropriate level of provision for expected credit losses, the consolidated entity has considered receivables attributable to each of its product offerings separately. For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a 12 months period, to the credit limits of those customers that are considered current and to the respective overdue balances for those customers in arrears.

The consolidated entity's policy is to write off balances that are outstanding for over 180 days for its line of credit products and 60 days for its instalment products, in accordance with historical experience and industry practice.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected life time losses emerge within a 12-month period by applying historical roll rates to the credit facility limits. For customers overdue, historical roll rates are applied to the overdue balances over the expected life of the credit facility to determine an amount of expected credit losses.

Notes to the Preliminary Final Report

Continued

In the assessment of provision for expected credit losses for 30 June 2020, management took into consideration of all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

An allowance for debt recoveries is applied to the resulting estimated exposure at default and an economic overlay is added to take account of forward-looking macro-economic and regulatory factors (including GDP, unemployment rate, inflation rate, etc.) and modelling risks.

Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due as the absolute criteria to identify increases in credit risk.

Definition of default and credit-impaired assets

Where there has been objective evidence of impairment for a loan receivable, the allowance will be based on lifetime expected credit losses. A loan receivable will be considered in default at 90 days past due and when the Group is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

The following table summarises customer receivables as at the reporting date:

	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Gross customer receivables	682,556	–	–	682,556
Unearned future income	(9,421)	–	–	(9,421)
Provision for expected credit losses	(25,591)	–	–	(25,591)
Balance at 30 June 2019	647,544	–	–	647,544

	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Gross customer receivables	1,143,033	1,892	37,055	1,181,980
Unearned future income	(12,379)	(179)	(785)	(13,343)
Provision for expected credit losses	(47,779)	(381)	(3,859)	(52,019)
Balance at 30 June 2020	1,082,875	1,332	32,411	1,116,618

Provision for expected credit losses movement

From 30 June 2019 to 30 June 2020, the provision for expected credit losses have increased by $26.4 million, which was primarily driven by the $499.4 million increase in the value of receivables and the increased economic overlay which management assessed due to the impact of COVID-19. The provision for expected credit losses as a percentage of receivables was 3.75% at 30 June 2019 compared to 4.40% of the gross customer receivables balance at 30 June 2020.

PROVISION FOR EXPECTED CREDIT LOSSES	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Balance at 1 July 2018	14,473	–	–	14,473
Provided for the year	21,947	–	–	21,947
Receivables written-off during the year	(12,358)	–	–	(12,358)
Recoveries during the year	1,529	–	–	1,529
Balance at 30 June 2019	**25,591**	**–**	**–**	**25,591**
Taken on acquisition	–	46	551	597
Provided for the year	48,410	1,209	4,050	53,669
Receivables written-off during the year	(28,837)	(923)	(796)	(30,556)
Recoveries during the year	2,615	49	54	2,718
Balance at 30 June 2020	**47,779**	**381**	**3,859**	**52,019**

NOTE 11: LEASES

The consolidated entity has recognised right-of-use assets and a lease liability in relation to property leases that have over 12 months to expiry. The average lease term of these leases is 4 years from inception. Short term leases are not included in accordance with AASB 16 *Leases* exemptions.

The operating lease commitment reported in the consolidated entity's Annual Report to 30 June 2019 was $10.1 million, of which $10.0 million related to property leases with over 12 months to expiry. The consolidated entity's preliminary assessment of the impact of AASB 16 indicated a lease liability of approximately $8.9 million in relation to these leases. Upon adoption of AASB 16, the consolidated entity applied a single incremental borrowing rate of 3.08% when discounting lease payments, as compared to differing rates used in the initial assessment. Applying this single rate and discounting the remaining lease payments to their present value resulted in the recognition of an initial lease liability of $6.6 million at 1 July 2019. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

The consolidated entity has not received any rent concessions for its property leases as at 30 June 2020. Management consider the shift to working from home and the resulting impact on office space requirements brought on by the COVID-19 pandemic is an impairment indicator for the right-of-use assets. With the consolidated entity's continuing growth and recruitment plans, the floor space is expected to be fully utilised in the future and consequently the right-of-use assets have not been impaired at 30 June 2020. The consolidated entity does not intend to break or early terminate any of its property leases.

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RIGHT-OF-USE ASSETS

The tables below show the right-of-use assets at the beginning and end of the current year:

CONSOLIDATED	PROPERTY $'000
Carrying amount	
Balance at 1 July 2019	6,623
Balance at 30 June 2020	8,160

CONSOLIDATED	PROPERTY $'000
Cost	
Balance at 1 July 2019	6,623
Additions	4,014
Balance at 30 June 2020	10,637

CONSOLIDATED	PROPERTY $'000
Accumulated depreciation	
Balance at 1 July 2019	–
Depreciation	2,477
Balance at 30 June 2020	2,477

LEASE LIABILITIES

The tables below show the lease liabilities at the beginning and end of the current year:

CONSOLIDATED	LEASE LIABILITIES $'000
Lease liabilities	
Balance at 1 July 2019	6,623
Additions	3,986
Interest	253
Repayment of lease liabilities	(2,448)
Balance at 30 June 2020	8,414

Amounts recognised in profit and loss for the financial year ended 30 June 2020

CONSOLIDATED	$'000
Depreciation expense on right-of-use assets	2,477
Interest expense on lease liabilities	253
Expense relating to short term leases	1,335

Expenses relating to short term leases are reported in occupancy expenses together with the cost of utilities and other office expenses, which are reported in operating activities in preliminary Consolidated Statement of Cash Flow.

NOTE 12: INTANGIBLE ASSETS

CONSOLIDATED	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Carrying amounts		
Brand names and trademarks	128	116
Customer database	1,501	207
Transacting partner database	1,207	–
IT development and software	22,257	5,490
	25,093	5,813

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost					
Balance at 30 June 2019	213	460	–	13,923	14,596
Additions through acquisitions	1,952	1,662	1,472	6,173	11,259
Additions	33	–	–	17,033	17,066
Write off	(1,900)	–	–	–	(1,900)
Balance at 30 June 2020	298	2,122	1,472	37,129	41,021

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation					
Balance at 30 June 2019	97	253	–	8,433	8,783
Additions	73	368	265	6,439	7,145
Balance at 30 June 2020	170	621	265	14,872	15,928

The following useful lives are used in the calculation of amortisation:

Internally generated intangibles:

- IT development and software 2.5 years

Acquired intangibles:

- Brand names and trademarks 1 to 5 years
- Customer database 4 to 5 years
- Transacting partner database 4 to 5 years
- IT development and software 5 to 6 years

Notes to the Preliminary Final Report

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NOTE 13: GOODWILL

CONSOLIDATED	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Balance at 30 June 2019	4,548	–	–	4,548
Add: Amount recognised on acquisition	–	46,781	2,112	48,893
Less: Accumulated impairment losses	–	–	–	–
Balance at 30 June 2020	4,548	46,781	2,112	53,441

NOTE 14: ACQUISITIONS

(A) SUMMARY OF ACQUISITIONS

Spotcap

On 18 September 2019, the consolidated entity acquired a 100% interest in the Australian and New Zealand businesses of global SME lending provider Spotcap ("Spotcap"), providing significant capability in lending to small and medium sized enterprises ("SME"). Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- Spotcap Australia Pty Ltd;
- Funding Box 3 (Australia) Pty Limited; and
- Spotcap New Zealand Ltd.

Total consideration for the acquisition of Spotcap comprised:

- Cash consideration of $0.4 million; and
- 2,576,643 new Zip Co Limited shares valued at $8.9 million were issued at an issue price of $3.44 were issued.

The fair value of the tangible assets and liabilities of Spotcap included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

PartPay

On 7 November 2019, the consolidated entity acquired a 100% interest in global instalment technology platform PartPay Limited ("PartPay"), providing exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa. Upon acquisition of PartPay, the consolidated entity acquired a 100% interest in the following entities:

- Zip Co Payments UK Limited (formerly PartPay Limited UK);
- Zip Co Finance UK Limited (formerly PartPay Finance Limited UK);
- Zip Co NZ Finance Limited (formerly PartPay Finance Limited NZ); and
- Zip Co NZ Limited (formerly PartPay Limited NZ).

Total consideration for the acquisition of PartPay comprised:

- 17,424,801 new Zip Co Limited shares valued at $59.9 million were issued at an issue price of $3.44; and
- Deferred contingent consideration of $13.979 million in Zip Co Limited shares to be issued within 24 months after 30 June 2019, subject to various transaction volume milestones being achieved and based on a 10-day volume weighted average price immediately preceding the deferred consideration payment dates.

The consolidated entity made two adjustments to the pre-acquisition book values of the assets of PartPay to reflect fair market value:

- The carrying value of the investment in Quadpay was revalued from $0.1 million to $18.8 million based on the fair value paid by Zip for its direct holding in Quadpay; and
- The carrying value of the investment in associate Payflex was revalued from $0.5 million to $1.3 million based on the fair value of Payflex as determined by the most recent equity issuance.

The fair value of all other tangible assets and liabilities of PartPay included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

Management determined the acquisition dates as the date on which the Company obtained control over the acquired entity.

The initial accounting for the acquisition of both Spotcap and PartPay was provisionally determined at the end of the half year as detailed in the consolidated entity's half year report to 31 December 2020. Final accounting has been completed at 30 June 2020 which is within the required measurement period outlined in AASB 3 *Business Combinations*.

During the financial year, independent market valuations of acquired intangibles have been completed, and goodwill has therefore finally been determined. Acquired intangibles have been formally valued in the period to 30 June 2020 and any adjustments required are reported in the table in (b) comparative information in this note.

Had the revenue and results of Spotcap and PartPay prior to the acquisition been included in the consolidated entity's results for the financial year ended 30 June 2020, the impact would not have been material.

Goodwill recognised on the acquisition of Spotcap and PartPay has been calculated as the consideration transferred less the fair value of net assets acquired, and reflects the growth potential of the acquired entities.

Acquisition-related costs totalling $2.3 million have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the financial year ended 30 June 2020.

Details of the purchase consideration, and finalised fair values of the net assets acquired and goodwill at the date of acquisition are as follows:

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DETAILS OF THE ACQUISITIONS ARE AS FOLLOWS (FAIR VALUE):	SPOTCAP SEPTEMBER 2019 $'000	PARTPAY NOVEMBER 2019 $'000	TOTAL $'000
Cash and cash equivalents	2,008	1,064	3,072
Customer receivables	30,834	1,021	31,855
Other receivables	38	297	335
Plant and equipment	23	22	45
Investment	–	18,819	18,819
Investment in associate	–	1,301	1,301
Trade and other payables	(9,063)	(803)	(9,866)
Employee provisions	(157)	(77)	(234)
Borrowings	(21,109)	(533)	(21,642)
Deferred tax liability	(318)	(330)	(648)
Net assets acquired	2,256	20,781	23,037
Acquired brand names and trademarks	52	1,900	1,952
Acquired IT development and software	2,892	3,281	6,173
Acquired customer database	1,008	1,178	2,186
Acquired transacting partner database	948	–	948
Goodwill	2,112	46,781	48,893
Acquisition date fair value of the total consideration transferred	**9,268**	**73,921**	**83,189**
Representing:			
Cash paid to vendor	405	–	405
Zip Co Limited shares issued to vendor	8,863	59,942	68,805
Deferred contingent consideration	–	13,979	13,979
Total	**9,268**	**73,921**	**83,189**
Cash used to acquire business, net of cash acquired			
Acquisition date fair value of the total consideration transferred	9,268	73,921	83,189
Less: cash and cash equivalent acquired	(2,008)	(1,064)	(3,072)
Less: shares issued by Zip Co limited as part of consideration	(8,863)	(59,942)	(68,805)
Less: Deferred contingent consideration	–	(13,979)	(13,979)
Payments for acquisitions, net of cash acquired	**1,603**	**1,064**	**2,667**

(B) COMPARATIVE INFORMATION

In this preliminary final report, prior period comparative balances as at 31 December 2019 have been restated to reflect the finalisation of the accounting for the acquisition of Spotcap and PartPay. The following table illustrates the quantum of the final fair values recognised on acquisition during the year and their impact on impacted comparatives presented in the consolidated entity's half year report to 31 December 2019, where different to those reported in the consolidated entity's Half Year Report.

	TOTAL	TOTAL
	31 DECEMBER 2019 $'000	31 DECEMBER 2019 (RESTATED) $'000
Assets		
Intangible assets	20,165	18,886
Goodwill	51,514	53,441
Total Assets	1,150,577	1,151,225
Liabilities		
Deferred tax liabilities	–	648
Total Liabilities	965,433	966,081

NOTE 15: BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed securitisation program. The securitisation warehouses and special purpose vehicles are consolidated as the consolidated entity is exposed to or has rights to, variable equity returns and has the ability to affect its returns through its power over the securitisation vehicle. The consolidated entity may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Secured borrowings	1,082,087	587,500
Add: Accrued interest	2,370	1,431
Less: Unamortised costs	(2,503)	(1,486)
	1,081,954	587,445

At 30 June 2020 the undrawn facility amounted to $108.6 million (30 June 2019: $44.0 million).

ASSETS PLEDGED AS SECURITY

The table below presents the assets and underlying borrowings as a result of the securitisation warehouses and special purpose vehicles:

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	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Customer receivables[1]	1,111,711	644,277
Cash held by securitisation warehouse	8,393	6,436
	1,120,104	650,713
Borrowings related to receivables[2]	1,162,486	660,000

(1) The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of provision for expected losses and unearned future income. This excludes customer receivables totalling $4.9 million held by entities that are not securitisation vehicles at 30 June 2020 and $3.3 million at 30 June 2019.

(2) Including $80.4 million junior notes held by Zip's corporate entities ($72.5 million at 30 June 2019).

FINANCING ARRANGEMENTS

Unrestricted access was available at the reporting date to the following lines of credit:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Total facility size		
Total facility size – securitisation warehouse	1,158,712	621,500
Total facility size – working capital	32,000	10,000
Total facility size	**1,190,712**	**631,500**
Drawn at the reporting date		
Drawn facility – securitisation warehouse	1,072,587	587,500
Drawn facility – working capital	9,500	–
Total drawn at the reporting date	**1,082,087**	**587,000**
Undrawn at the reporting date		
Undrawn facility – securitisation warehouse	86,125	34,000
Undrawn facility – working capital	22,500	10,000
Total undrawn at the reporting date	**108,625**	**44,000**

NOTE 16: ISSUED CAPITAL

	CONSOLIDATED			
	30 JUNE 2020 SHARES '000	30 JUNE 2020 $'000	30 JUNE 2019 SHARES '000	30 JUNE 2019 $'000
Ordinary shares – fully paid	390,390	274,151	352,138	141,211
Performance shares	20,000	–	20,000	–
	410,390	274,151	372,138	141,211

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES '000	$'000
Balance	1 July 2018	295,548	81,328
Issue of shares – employee incentives		2,286	2,343
Issue of shares – Pocketbook achievement of performance milestones		1,888	1,500
Conversion from performance shares		13,330	–
Issue of shares – exercise of options		1,984	1,606
Issue of shares – capital raising		37,102	56,765
Costs of issuing shares		–	(2,331)
Balance	30 June 2019	352,138	141,211
Balance	1 July 2019	352,138	141,211
Issue of shares – employee incentives		1,229	4213
Issue of shares – exercise of options		300	180
Issue of shares – acquisitions		20,001	68,805
Issue of shares – capital raising		16,722	61,871
Costs of issuing shares		–	(2,129)
Balance	30 June 2020	390,390	274,151

MOVEMENTS IN PERFORMANCE SHARES

DETAILS	DATE	SHARES '000
Balance	30 June 2018	33,330
Conversion to ordinary shares		(13,330)
Balance	30 June 2019	20,000
Balance	30 June 2020	20,000

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The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility ("Warehouse Facility"). The provision of the "Warehouse Facility" was not completed and accordingly the performance milestones are unable to be met. The consolidated entity's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire in September 2020.

MOVEMENTS IN OPTIONS

DETAILS	DATE	OPTIONS '000
Balance	30 June 2018	12,404
Options exercised		(1,984)
Options expired not exercised		(320)
Balance	30 June 2019	10,100
Options exercised		(300)
Balance	30 June 2020	9,800

MOVEMENTS IN PERFORMANCE RIGHTS

DETAILS	DATE	RIGHTS '000
Balance	30 June 2018	–
Issue of performance rights		2,750
Balance	30 June 2019	2,750
Issue of performance rights		359
Balance	30 June 2020	3,109

MOVEMENTS IN WARRANTS

DETAILS	DATE	WARRANTS '000
Balance	30 June 2018	–
Balance	30 June 2019	–
Issue of warrants		14,615
Balance	30 June 2020	14,615

In November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited ("Amazon Australia") whereby Zip is offered as a payment choice on Amazon Australia. Zip issued Amazon Australia warrants to acquire 14,615,000 ordinary shares in Zip at an exercise price of $4.70.

Of the warrants issued, 3,653,750 warrants (25% of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants will vest based on performance milestones relating to transaction volumes being achieved over the 7 years from issue date. On vesting, the warrants may be exercised any time up to 7 years from the issue date.

An expense of $6.0 million was recognised in relation to the warrants that vested on entering the agreement. An additional share-based payment expense of $1.2 million has been recognised for the financial year ended 30 June 2020 based on management's assessment of the likelihood of the performance milestones being met over the 7 years from issue date. Further assessments will be made at each future reporting date and adjustments made to the amounts recognised based on this assessment.

NOTE 17: SUBSEQUENT EVENTS

Subsequent to the year end the limit available under the Variable Note Facility increased by $69.8 million and the Group invested a further $0.1 million in Payflex, the Group's associated company in South Africa. This increase takes Zip's interest in Payflex to 26.2%.

Zip has accounted for its investment in QuadPay Inc. in the balance sheet at 30 June 2020 as an investment, as it holds a 14.09% interest in QuadPay (refer Note 6). On 2 June 2020 Zip announced its intention to acquire the 85.91% of QuadPay it does not already own, raise $100.0 million through the issue of convertible notes to an affiliate of the US-based Susquehanna International Group, and to issue warrants with an exercise value of $100.0 million to Susquehanna International Group. The QuadPay acquisition is to be settled through the issue of shares in Zip Co Limited and is subject to shareholder approval at Zip's EGM on Monday 31 August 2020. The issuance of the convertible notes and warrants is also subject to EGM approval. As a result, there is no Post Balance Date Event to report at the date of this report, but a Post Balance Date event will be included in Zip's Annual Report to be issued in September 2020 in the event shareholders approve the QuadPay acquisition and the issuance of the convertible notes and warrants.

There have been no other material items, transactions or events subsequent to 30 June 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

INVESTOR ENQUIRIES

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