

25th February 2020



H1 FY21 HALF YEAR RESULTS

TRANSFORMATIONAL HALF, RECORD RESULTS

Zip Co Limited (ASX: Z1P) ("**Zip**", or the "**Company**") is pleased to announce today its half-year results for the period ending 31 December 2020.

KEY HIGHLIGHTS (H1 FY21)

- Completed the acquisition of Buy Now Pay Later (BNPL) player Quadpay in August 2020 to accelerate growth in the US. The business has grown TTV >130% in the 4 months since completion and has strong momentum in the largest global market opportunity.
- Record transaction volume (TTV) of \$2,320.6m, up 141% YoY (annualising at \$7.5b+ as at Dec-2020).
- Record revenue of \$160.0m, up 130% YoY (annualising at \$480m+ as at Dec-20).
- The group delivered positive Cash EBTDA in H1 with cash GP margins improving to 54% - demonstrating market leading unit economics whilst investing for global growth.
- Loan book (receivables) recorded \$1.7b, up 42% YoY.
- The addition of Quadpay delivered a step change in unit economics, revenue yield and capital efficiency for the Company - revenue as % of TTV of 6.89%, gross margin as % of TTV of 3.71%, revenue yield of 25% and the blended book is now recycling every 3 months on average.
- There are now more than 5.7m active customers, up 217% YoY.
- Continue to be regarded as a market leading App - #1 downloaded BNPL App in Australia in Dec/Jan and #2 Alt-Credit App in USA during the holiday season¹.
- More than 38.5k merchants across the US, Australia, New Zealand and the UK.
- Secured key partnerships with Gamestop, Fanatics, Newegg, Sunglass Hut in the US and Harvey Norman, Domayne and Adore Beauty in Australia.
- Launched in the UK in December 2020 with a number of marquee brands including Boohoo, JD Sports, Fanatics, Cotton-On with a strong global pipeline building.
- Credit performance continues to deliver market leading results with net bad debts of 1.93% in Australia - demonstrating the strength of Zip's proprietary real-time credit decision technology.
- Launched Tap & Zip in Australia reimagining BNPL in-store and became a Visa principal issuer. Enabled a Chrome extension in the US enabling users to pay later on any website.
- Zip has appointed Diane Smith-Gander as Chair (AGL, ex. WES, BRS) and Pippa Downes as Chair Audit and Risk (ALE, Infotrack, Ingenia Communities, Australian Super IC).

¹ App Annie, 2021.

- Raised \$176.7m via an oversubscribed placement and share purchase plan (SPP) to retail and institutional investors to fuel global growth with outstanding support from our loyal retail base, accepting all SPP oversubscriptions.
- Established the New Markets team to explore strategic and opportunistic geographic expansion. During the half, a number of investments were made in BNPL across Europe and the Middle East. Canada is currently in pilot and scheduled for a soft launch in H2 FY21 to support the US merchant base.
- Zip Business formally launched post its beta period, with a refreshed brand, signing iconic names including eBay and Facebook as partners, allowing small businesses to buy now and pay later for advertising and working capital.
- Pocketbook, one of Australia's leading personal financial management apps, hit more than 812k users in the half with a strong focus on financial wellbeing.

CEO UPDATE

Zip Managing Director and CEO Larry Diamond said:

"Highlighted by the acquisition of US-based Quadpay, the December half was transformational and saw the Company position itself as a truly global BNPL leader with its footprint across 9 markets. As always, a massive shout out and thank you to the extremely hard-working Zip team (Zipsters), and our extensive customer, retailer and shareholder communities.

We saw record results across all key drivers with most metrics up 100% YoY and the Company now annualising over \$7.5b in transaction volume at December. The business has strong momentum entering H2 as it expands its business in the US and launches the UK.

We genuinely believe the opportunity for Zip significantly grows each and every day as we continue to execute, build momentum, and accelerate the global shift away from the broken and unfriendly credit card, towards a better, fairer digital alternative.

Even though we are 7 years in, global BNPL adoption remains in its infancy - there is approximately \$22t in total addressable market (TAM) volume with BNPL penetration of global ecommerce spend only 1.6%. We are well on our way to becoming the first payment choice, everywhere and every day."

BUSINESS PERFORMANCE

Based on figures reported in Zip's Half Year Report to 31 December 2020.

Zip delivered strong H1 results across its BNPL operations in Australia, New Zealand, the UK and the United States (Quadpay)²:

Financial Performance (AUD)	H1 FY21	YoY
Revenue	\$155.5m	131% ↑
USA	\$58.2m	n/a
ANZ	\$97.3m	45% ↑
Transaction Volume	\$2,320.6m	141% ↑
USA	\$790.7m	n/a
ANZ	\$1,529.9m	59% ↑
Transactions	14.6m	211% ↑
USA	4.9m	n/a
ANZ	9.7m	106% ↑

Operational Performance	H1 FY21	YoY
Customers³	5.7m	217% ↑
USA	3.2m	n/a
ANZ	2.5m	39% ↑
Merchants⁴	38.5k	82% ↑
USA	8.4k	n/a
ANZ	30.1k	43% ↑

² Business performance reporting metrics include Quadpay figures from the deal completion date.

³ Number of active customer accounts.

⁴ Number of accredited merchants.

REGIONAL UPDATES

Zip US (Quadpay)

Pro-forma figures based on Zip unaudited financials as of 31 December 2020.

Financial Performance	H1 FY21 (USD)	H1 FY21 (AUD)	YoY
Revenue	\$53.4m	\$69.3m	252% ↑
Transaction volume	\$749.2m	\$972.7m	256% ↑
Transactions	6.1m	6.1m	239% ↑

Operational Performance	H1 FY21	YoY
Customers ³	3.2m	191% ↑
Merchants ⁴	8.4k	664% ↑

Key highlights from the US:

- The ~\$5t⁵ US retail market in an early stage of BNPL presents a significant opportunity for Zip to capture market share.
- Delivered >200% YoY growth in key metrics - contributing \$58m in revenue since acquisition in September.
- Continued strong momentum since joining the Zip group with record Transaction Volume and Revenue. TTV up 256% YoY to \$972.7m and Revenue up 252% YoY to \$69.3m.
- Customer numbers increased to 3.2m, a 191% increase YoY, with total app downloads as of 31 December of 4.1m, a 310% increase YoY.
- The App continued its strong performance reaching the #2 alt-credit app and reached #15 in the shopping category in the US App store during the holiday season⁶.
- Highly efficient business model with market leading unit economics (2%+ Net Transaction Margin).
- Integrated merchants continued to be a key driver for customer acquisition and engagement. The merchant base grew 7x in the year with Fanatics, GameStop, Newegg and Sunglass Hut all joining the platform with a strong and developing pipeline.
- Key strategic partnerships secured with Fiserv and Mastercard/Vyze to accelerate acquisition, Stripe to drive efficiencies and continued payments innovation, and funding of US\$150m+ through Goldman Sachs and Oaktree Capital to support US growth.

⁵ US Census 2019.

⁶ Pymnts.com, 2020.

Zip ANZ

All key operating metrics include Zip's operations in Australia and New Zealand.

Financial Performance (AUD)	H1 FY21	YoY
Revenue	\$97.3m	40% ↑
Transaction volume	\$1,529.9m	56% ↑
Transactions	9.7m	102% ↑

Operational Performance	As at 31 Dec 2020	YoY
Customers ³	2.5m	39% ↑
Merchants ⁴	30.1k	43% ↑
Receivables ⁷	\$1.5b	46% ↑

Financial Performance	As at 31 Dec 2020	As at 30 Jun 2020	As at 31 Dec 2019
Arrears ⁸	0.95%	1.33%	1.58%
Net Bad Debts ⁹	1.93%	2.24%	1.68%

Key highlights from ANZ:

- Zip continues to maintain strong growth across all key business drivers.
- Transaction volume was up 56% YoY to \$1,529.9m, with revenue up 40% YoY to \$97.3m.
- More customers joined the platform in H1 FY21 than any previous half, with customers increasing 39% YoY to 2.5m.
- Engagement hit record highs with Zip customers transacting more frequently than ever before, completing 2.5m transactions in December, up 142% YoY, whilst Zip app downloads increased 85% YoY to 2.4m downloads.
- 10k new merchants added to the ANZ network in the year to December 2020, including Harvey Norman, Domayne, Steve Madden, Adore Beauty and Breitling.
- Zip continued to launch new products and innovations including Tap & Zip (becoming a Visa principal issuer), and a trial cashback rewards program - with customer engagement continuing to accelerate, driving increased revenue per customer cohort.

⁷ Amounts due from customers.

⁸ Australian figures only. Arrears defined as those accounts greater than 60 days delinquent.

⁹ Bad debts defined as those accounts greater than 180 days delinquent. All figures are on an annualised basis.

- Public launch of Zip Trade (up to \$5k) in December 2020 with strong initial uptake providing momentum into H2. Partnership with Facebook unlocks 1000s of SMBs who can choose to advertise now and pay later.
- Launch of Zip Trade+ planned for H2 providing SMBs solutions up to \$150k.
- Credit performance continues to deliver market leading results with AU net bad debts of 1.93% in Australia - demonstrating the strength of Zip's proprietary real-time credit decision technology.

NEW MARKETS

We have a dedicated New Markets team, which evaluates opportunistic and strategic BNPL expansion options across the globe:

- 30+ headcount focused on regulatory, product, tech, risk and market launching.
- Pro-actively exploring the best entry path in targeted jurisdictions.
- Focused on lifting, shifting and scaling Zip's offering globally.
- Responsible for global merchant integrations with a number of recent successes (Boohoo, Cotton-On, Adyen, JD Sports).

Recent activity resulted in a number of BNPL investments in Europe and the Middle East as well as preparations for a soft launch in Canada:

- Minority investment in a leading BNPL player in the United Arab Emirates, focused on the Gulf Cooperation Council. Strong team on the ground led by experienced co-founders.
- Minority investment in a leading BNPL player in Eastern Europe (Czechia and Poland) operating since 2014, with ability to passport licensing across the EU.

REGULATORY ENVIRONMENT - BNPL CODE OF PRACTICE

Zip welcomes the introduction of Australia's BNPL industry Code of Practice, which is effective from next week.

Peter Gray, Zip's Co-Founder and Chief Operating Officer, said:

"The BNPL Code of Practice will establish a set of minimum standards to make sure our industry acts in the best interests of Australians.

"Zip has been a key contributor to the code, and we believe it is a strong first step to lifting standards across the industry. Zip will, however, continue to implement our own higher standards, particularly around customer suitability, which we believe deliver superior outcomes for our customers."

"Zip has done ID and credit checks on every customer since inception. As a result, we see 1 in 100 customers late in any month, compared with up to 1 in 6 for credit card users that are paying interest and behind with their debt."

The voluntary code has been developed by the Australian Finance Industry Association (AFIA) in consultation with consumer groups, government, regulators, and other BNPL providers.

OUTLOOK

H1 has provided strong momentum for us to build upon in H2 FY21:

- **Remain focused on key priorities:** We continue to focus on our 4 strategic priorities set at the beginning of FY21 focused on growth and product expansion: (i) Payment acceptance, (ii) App engagement, (iii) Global expansion, and (iv) Zip Business.
- **We have global momentum:** The US-based, Quadpay acquisition has been transformational for Zip as it entered the US market and launched in the UK. We have now set the foundations to accelerate growth across the globe in FY21. We continue to look for new opportunities and strategic partnerships to expand our footprint.
- **Our pipeline is strong:** We have a strong pipeline of global retail partnerships as iconic merchants seek to take advantage of our increasing global presence.
- **Relentless focus on unit economics:** Our growth ambitions will be delivered with a continued focus on healthy and sustainable unit economics.

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

- ENDS -

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About Zip

ASX-listed Zip Co Limited (ASX: Z1P) 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, South Africa, the United Kingdom and the USA. Zip also owns Pocketbook, a leading personal financial management tool. 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 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