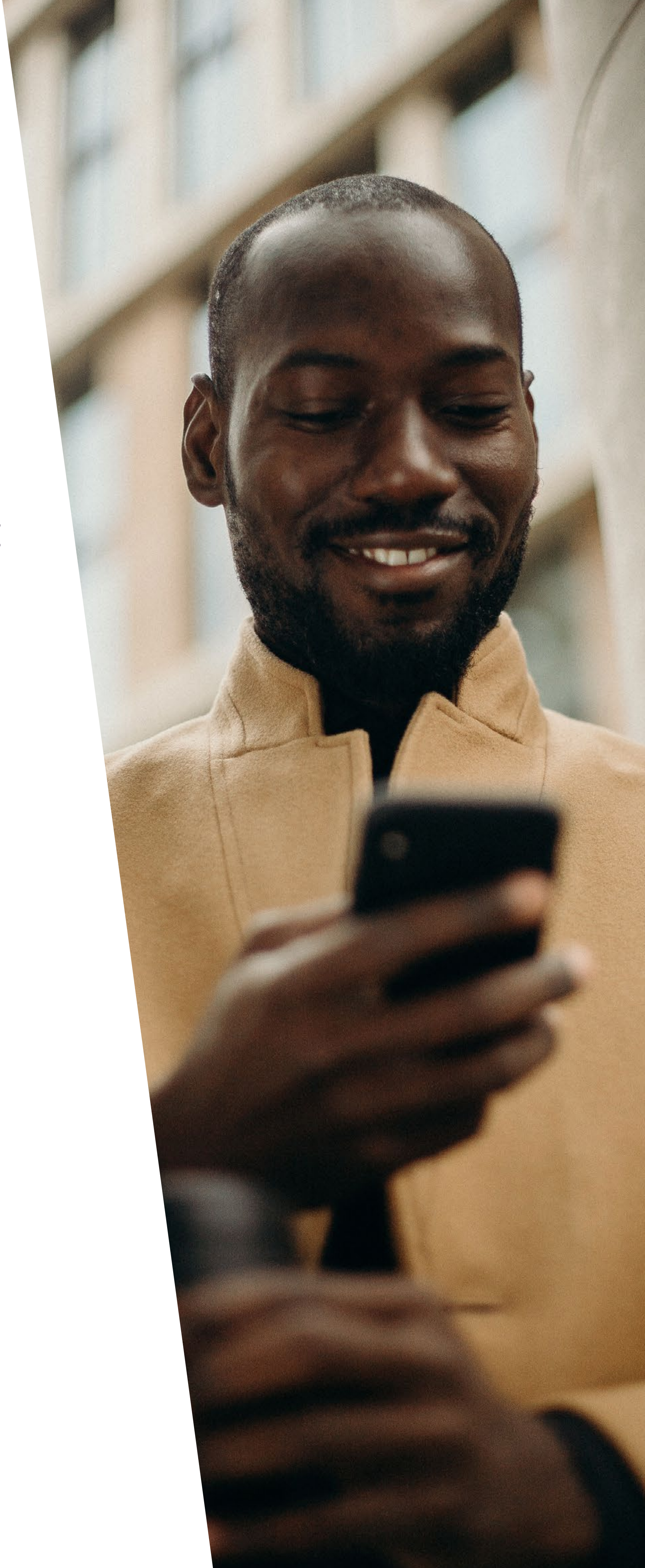
# Appendix 4E: Preliminary Final Report

## YEAR ENDED 30 JUNE 2021

CONTENTS





# Results for Announcement to the Market

| NAME OF ENTITY | ZIP CO LIMITED |
| --- | --- |
| ACN | 139 546 428 |
| Reporting period | Year ended 30 June 2021 |
| Previous corresponding period | Year ended 30 June 2020 |

## 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 2021 $'000 | 30 JUNE 2020 $'000 |
| --- | --- | --- | --- |
| Revenue from ordinary activities | Up 150% | 403,196 | 161,001 |
| Loss from ordinary activities after income tax attributable to members | Up 3,175% | (653,097) | (19,941) |
| Total comprehensive loss attributable to members | Up 3,159% | (652,501) | (20,020) |

| | | 30 JUNE 2021 | 30 JUNE 2020 |
| --- | --- | --- | --- |
| Net tangible asset backing per ordinary share[1] | Down 6% | 30.55 cents | 32.50 cents |

1. Net tangible assets include right-of-use assets which are recognised by the Group in accordance with AASB16.

### BRIEF EXPLANATION OF THE ABOVE FIGURES

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

### DETAILS OF ENTITIES WHICH CONTROL HAS BEEN GAINED OR LOST

On 31 August 2020, Zip increased its ownership interest in QuadPay Inc. (QuadPay), a leading high growth Buy Now Pay Later (BNPL) player in the United States to 100%, acquiring the 85.91% of QuadPay that it did not already own.

On 26 October 2020, Zip acquired a 100% interest in Sydney-based technology company, Urge Holdings Pty Ltd (Urge). Urge helps shoppers to find and buy the items they are looking for, driving increased sales, reach and exposure for its retail partners.

Detailed information in relation to these acquisitions and their contributions to the Group's financial performance since acquisitions are contained in the 30 June 2021 Preliminary Final Report.

### ASSOCIATES/JOINT VENTURE ENTITIES

In December 2020, Zip invested $3.1 million to acquire a 20% interest in Spotii – a leading tech enabled payments platform operating in the Middle East. Zip has accounted for the investment in Spotii as an associate.

In April 2021, Zip invested $3.2 million to acquire a 25% interest in Tendo – a start-up providing instalment payment options for e-commerce customers in the Philippines. Zip has accounted for the investment in Tendo as an associate.

In July 2020, Zip invested $0.14 million in its associate Payflex, increasing its interest from 25.2% to 26.2% and continues to account for the investment in Payflex as an associate.

Further information in relation to investments in associates is contained in Note 5 in the Preliminary Final 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 2021 or for the previous corresponding period.

# 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 operations in the United States, New Zealand, United Kingdom, Canada, and Mexico.

The Group provides services to both consumers and small and medium sized merchants.

### CONSUMERS

In Australia, Zip provides a BNPL service by way of a line of credit across two primary products: Zip Pay (with limits up to $1,500) and Zip Money (with limits between $1,000 and $50,000). Revenue is generated from merchants (merchant fees) consumers (predominantly monthly fees, establishment fees and interest) and by way of affiliate fees and interchange. The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

In the United States, United Kingdom, New Zealand, Mexico and Canada, Zip provides a BNPL service whereby consumers can split repayments into equal fortnightly instalments. Revenue is generated from merchant fees, affiliate fees, interchange, and service fees. In the event a consumer misses a payment, a late fee applies.

### SMALL AND MEDIUM SIZED MERCHANTS (SMEs)

Zip has a number of credit and payment services to support its SME base across Australia and New Zealand both online and in-store:

- Merchants can offer Zip, an interest free payment method at checkout, to increase basket sizes, conversion rates, drive repeat purchases and affiliate referrals.
- Zip offers SMEs the ability to sign up for Zip Business Trade or Trade Plus accounts, that provide an interest free digital wallet up to $150,000, allowing businesses to pay for everyday purchases in instalments, selecting a repayment schedule that suits their business.
- Zip also provides unsecured loans of up to $500,000 under the Zip Business offering (formerly Spotcap).

## REVIEW OF PERFORMANCE

### OPERATIONAL PERFORMANCE

#### CONSUMERS

| KEY METRIC | 2021 | 2020 | MOVEMENT |
|---|---|---|---|
| Transaction Volumes | $5,716.4M | $2,052.2M | 178.5% |
| Consumers | 7.3M | 2.1M | 247.6% |
| Merchants | 51.3K | 24.5K | 109.4% |

Zip's performance is driven by a number of key operating metrics including Transaction Volumes, the number of Consumer accounts and integrated Merchants. Zip has seen significant growth year on year in all key operating metrics.

*Transaction Volumes*

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Australia | 3,048.3 | 1,979.4 | 54.0% |
| **Global:** | | | |
| USA | 2,449.9 | – | N/A |
| New Zealand | 193.0 | 72.8 | 165.1% |
| United Kingdom | 25.2 | – | N/A |
| | **5,716.4** | **2,052.2** | **178.5%** |

# Review of Operations

Continued

Transaction volumes generated by consumers have grown to $5.7 billion for the financial year, an increase of 178.5%, including transaction volumes generated by QuadPay in the US from the date of acquisition, 31 August 2020. Zip is annualising at transaction volumes of $7.2 billion having reported record quarterly transaction volumes of $1.8 billion in the quarter to 30 June 2021.

*Consumers*

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Australia | 2.5 | 1.9 | 31.6% |
| **Global:** | | | |
| USA | 4.4 | – | N/A |
| New Zealand | 0.3 | 0.2 | 50.0% |
| United Kingdom | 0.1 | – | N/A |
| | **7.3** | **2.1** | **247.6%** |

The number of consumer accounts has increased to 7.3 million globally at 30 June 2021 an increase of 5.2 million compared to 30 June 2020. Zip continues to develop additional functionality in its digital wallet to deliver on its mission to be a customer first payment choice everywhere and every day. The introduction of "Tap and Zip" and Virtual Card Number (VCN) functionality in Australia and the Chrome extension in the US has enabled Zip's consumers to shop anywhere instore or online where Visa is accepted.

*Merchants*

| MERCHANTS | 2021 K | 2020 K | MOVEMENT |
|---|---|---|---|
| Australia | 33.7 | 23.1 | 45.9% |
| **Global:** | | | |
| USA | 15.6 | – | N/A |
| New Zealand | 1.8 | 1.4 | 28.6% |
| United Kingdom | 0.2 | – | N/A |
| | **51.3** | **24.5** | **109.4%** |

Merchant numbers increased by 26,800 over the prior financial year, including 4,200 added on the acquisition of QuadPay in the US. Enterprise Merchants and SMEs continue to join Zip's platform as they recognise that providing their consumers with Zip's alternative payment method at point of sale and at checkout increases sales volumes and order values, and drives repeat purchases.

SMEs

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Originations | 81.6 | 46.7 | 74.7% |

Zip announced the official launch of Zip Business in August, partnering with eBay Australia to offer its 40,000 Australian small and medium sized businesses the opportunity to access working capital through the eBay marketplace. Zip is also partnering with Facebook, enabling small and medium sized businesses in Australia to use Zip Business to pay for advertising on the global social platform.

## FINANCIAL PERFORMANCE

### GROUP RESULT

Operating income grew by 151.5% to $402.7 million in the financial year to 30 June 2021 when compared to the prior financial year, driven by a growth in transaction volumes and originations of 176.2% generated by Zip's Consumer and SME operations to $5,798.0 million (underlying volumes), and including the results of QuadPay from the date of acquisition 31 August 2020. Gross Profit has increased by 173.9% in line with underlying volumes demonstrating the continued strength in Zips unit economics as the business grows. Reported Gross Profit as a percentage of underlying volumes remains strong at 2.5%.

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Operating income | 402.7 | 160.1 | 151.5% |
| Cost of sales[1] | (259.2) | (107.7) | 140.7% |
| Gross profit | 143.5 | 52.4 | 173.9% |
| Expenditure | (862.4) | (73.9) | 1,067.0% |
| Loss before income tax | (718.3) | (20.6) | 3,386.9% |

1. Cost of sales includes interest expense, amortisation of funding costs, bad debts and expected credit losses, and bank fees and data costs.

### ADJUSTED GROUP RESULT

The Group's result for the year to 30 June 2021 includes a number of non-recurring items and items that have had a significant impact on the result. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

| | | |
|---|---|---|
| Reported loss before tax | $718.3 million | |
| Add back: | | |
| Acquisition of business costs | $9.9 million | On acquisitions made or announced in the period |
| Write-off of acquired intangible | $42.6 million | QuadPay brand, written off on re-branding to Zip |
| Net adjustment relating to the acquisition of QuadPay | $306.2 million | Revaluation and Day 1 adjustment as detailed in this report |
| Adjusted loss before income tax | $359.6 million | |

### OPERATING INCOME

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Operating income | 402.7 | 160.1 | 151.5% |
| % of underlying volumes | 7.0% | 7.6% | (0.6%) |

Operating income has more than doubled over the financial year to $402.7 million in line with the increase in underlying volumes. Reported operating income as a percentage of underlying volumes was 7.0% compared to 7.6% in the prior financial year.

### COST OF SALES

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Cost of sales | 259.2 | 107.7 | 140.7% |
| % of underlying volumes | 4.5% | 5.1% | (0.6%) |

# Review of Operations

Continued

Cost of sales increased by 140.7% over the financial year due to the increase in underlying volumes. Cost of sales as a percentage of underlying volumes fell by 0.6%, due to a fall in interest costs as a percentage of underlying volumes, the Group is now turning over capital in approximately 3 months compared to 6 to 7 months in the prior financial year, and lower bad and doubtful debts expenses as a percentage of underlying volumes, offset by higher processing costs. Processing costs incurred by QuadPay in the US, acquired during the financial year are higher than in Australia and New Zealand due to the cost of processing in the US. Zip is exploring opportunities to lower its cost of processing through leveraging its global processing requirements.

Reported bad and doubtful debts as a percentage of underlying volumes fell from 2.6% to 2.1%. Excluding the impact of the movement in the provision for doubtful debts, net bad debt write-offs remained consistent at 1.3% of underlying volumes. Zip continues to refine its underwriting criteria to maximise the operating income opportunity whilst managing bad debt performance.

### EXPENDITURE

The Group incurs expenses that have a direct cash impact when incurred and also reports a number of expense items that either have no cash impact, a minor cash impact, or are the result of cash outflows in previous reporting periods.

*Direct cash expenses*

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Salaries and employee benefits expense | 97.7 | 44.3 | 120.5% |
| % of underlying volumes | 1.7% | 2.1% | (0.4%) |
| Marketing expenses | 71.2 | 9.5 | 649.5% |
| % of underlying volumes | 1.2% | 0.5% | 0.7% |
| Information technology expenses | 24.0 | 11.5 | 108.7% |
| % of underlying volumes | 0.4% | 0.5% | (0.1%) |
| Administration and occupancy expenses | 29.5 | 11.6 | 154.3% |
| % of underlying volumes | 0.5% | 0.6% | (0.1%) |

Zip has invested and will continue to invest in hiring and developing its employees (Zipsters) to drive growth in existing and future geographic markets. Salary and employee benefits expenses have increased 120.5% to $97.7 million, headcount has increased from 371 at 30 June 2020 to 1,049 at 30 June 2021. As a percentage of underlying volumes salary and employee benefits have fallen by 0.4%.

Marketing costs have increased to $71.2 million and represent 1.2% of underlying volumes. Marketing costs comprise customer marketing initiatives, including rewards programs, rebates, co-marketing projects with enterprise merchants, and direct integration costs. The Group will continue to invest in marketing to launch in new geographies, increase volumes with new and existing merchants, and position Zip as a global brand across all geographies in which it operates.

*Other expenses*

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT $'M |
|---|---|---|---|
| Amortisation of intangibles | 86.0 | 9.0 | 77.0 |
| Corporate financing costs | 10.8 | 0.5 | 10.3 |
| Share-based payments | 142.8 | 20.4 | 122.4 |
| Fair value loss (gain) on financial instruments | 77.6 | (47.5) | 125.1 |
| Net adjustment relating to the acquisition of QuadPay | 306.2 | – | 306.2 |

As a result of the decision to rebrand globally under the Zip brand, the Group wrote off the QuadPay brand during the financial year adding $42.6 million to the amortisation of intangibles expense. The remaining increase in amortisation costs arose from the amortisation of other intangibles acquired on the acquisition of QuadPay.

The issuance of the convertible notes during the financial year resulted in an increase of $10.2 million in corporate financing costs due to the effective interest charged on the notes.

To attract, retain and reward Zipsters, Zip offers a combination of short and long term incentives that are delivered through equity. The increase in share-based payments includes a $102.7 million expense relating to the provision of retention and performance incentives, arising on the acquisition of QuadPay, approved by shareholders at the Extraordinary General Meeting (EGM) in August 2020. The remaining increase reflects the accrual for both short-term and long-term employee incentives resulting from the increased headcount, net of the once off issue of warrants to Amazon Australia, amounting to $6.0 million, in the prior financial year.

Zip incurred a net fair value loss of $77.6 million, recording an $82.0 million loss in relation to the embedded derivative in the convertible notes, and warrants issued to CVI Investments, Inc., and a $4.4 million gain on its investment in Twisto. The fair value loss on the embedded derivative and warrants equated to the difference in fair value between the date of issue and 30 June 2021.

Zip recorded a revaluation and day 1 adjustment amounting to $306.2 million on the acquisition of QuadPay as detailed later in this report. In the previous financial year, Zip reported a revaluation gain on the revaluation of its minority shareholding in QuadPay at 30 June 2020.

## RECEIVABLES

| FOR THE YEAR ENDED 30 JUNE | 2021 $'M | 2020 $'M | MOVEMENT |
|---|---|---|---|
| Gross customer receivables | 2,111.6 | 1,182.0 | 78.6% |
| Unearned future income | (17.2) | (13.4) | 28.4% |
| Provision for expected credit losses | (106.4) | (52.0) | 104.6% |
| | **1,988.0** | **1,116.6** | **78.0%** |

The Group's receivables portfolio increased 78.0% to $1,988.0 million at 30 June 2021, up from $1,116.6 million at 30 June 2020 due to the strong growth in underlying volumes during the financial year.

The Group reported a provision for expected credit losses of 5.0% of the gross receivables portfolio at 30 June 2021, compared with 4.4% at 30 June 2020. The increase in provision includes higher provisioning on the Group's BNPL products when compared to its line of credit products. Actual net bad debts for the Group are 3.53% of closing receivables at the end of financial year 2021 compared to 2.35% at the end of the previous financial year.

The Group wrote off $74.5 million in bad debts (net of bad debt recoveries) during the financial year, up from $27.8 million in the prior financial year.

Receivables generated by Zip's Australian-based consumer business increased 57.3% over the financial year, following year-on-year growth in transaction volumes, and comprise 85.0% of the receivables balance compared to 96.7% in the prior financial year.

The monthly repayment profile for the Australian book remains strong averaging at 15% (of the opening receivables balance repaid each month) during the financial year, which, equates to the book recycling approximately every 6-7 months.
The reported arrears rate (accounts over 60 days past due) was 1.78% of the gross receivables balance at the end of June 2021, compared with 1.33% at 30 June 2020 and bad debt write-offs (net of recoveries) were 1.82% (net amount written off as a percentage of closing receivables) at 30 June 2021, compared with 2.24% at 30 June 2020, and remain well below management's expectations of 2.5%, and market comparisons.

### *Guaranteed Receivables*

During the financial year, in response to Government-led initiatives to facilitate payment holidays and interest capitalisation for SMEs in hardship, Zip worked closely with its funding partner to agree an equivalent position which impacted cashflow's and income. The impact was immaterial to the Group.

# Review of Operations

Continued

Whilst in place, Zip was approved under the Australian Government Coronavirus SME Guarantee Scheme which provided a government guarantee for 50% of eligible new loans granted under the program, and the New Zealand Business Finance Guarantee program which provided a government guarantee for 80% of eligible new loans granted under the program. The number and amount of new loans granted under both programs to 30 June 2021 was $26 million.

## CORPORATE ACTIVITY

Zip made a number of acquisitions and investments during the financial year as it delivers on its global expansion strategy.

### QuadPay

Following shareholder approval in August 2020, Zip completed the acquisition of US BNPL payment provider QuadPay Inc, acquiring the shares that it did not already own. On completion, Zip issued 118,776,189 new Zip Co Limited shares, and 10,480,369 options to acquire shares in Zip Co Limited to QuadPay Option holders. In accordance with the terms of the acquisition of QuadPay approved by Zip's shareholders, the number of shares issued to shareholders of QuadPay was equivalent to 23.3% of the issued share capital of Zip at completion on a non-diluted basis.

In accordance with the requirements of AASB 3 *Business Combinations* and AASB 13 *Fair Value Measurement*, the acquisition price was calculated based on Zip's share price on the date it obtained control of QuadPay Inc, being 31 August 2020. As the closing share price on 31 August 2020 was $9.16, the acquisition price of the shares in QuadPay Inc that Zip did not already own was calculated as $1,174.4 million comprising $1.088.0 million in relation to the new shares issued, cash of $1.1 million, $63.9 million in relation to the 7,105,752 options issued to recipients that were not employees of QuadPay, and $21.4 million relating to the value of replacement options provided to employees included as part of consideration.

Replacement options issued to employees were valued at $30.2 million, and of the balance of $8.8 million not included in consideration, $4.0 million was expensed in the period since acquisition, and the balance of $4.8 million will be expensed over the remaining vesting period. Zip will also record the estimated expense of the Tenure Consideration Shares and Performance Consideration Shares (as set out in Note 18 in this preliminary final report) over the periods in which the recipients are forecast to achieve the agreed tenure and performance hurdles. An expense of $102.7 million has been recorded in the financial year to 30 June 2021 in relation to these tenure and performance shares.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay Inc, as measured per AASB 13 *Fair Value Measurement*, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, Zip has determined that a Day 1 adjustment of $415.9 million should be made to the carrying value of goodwill. The Day 1 adjustment was calculated using a share price of $6.50 (compared to $9.16 at acquisition date) following an assessment of the fair market value of Zip's shares based on a review of Zip's VWAP (volume-weighted average price) over various periods up to and including 31 August 2020.

As required by accounting standards, Zip revalued its pre-existing shareholding in QuadPay to reflect the acquisition price at 31 August 2020 of $9.16, resulting in a revaluation gain of $109.7 million.

The once off net adjustment relating to QuadPay Inc of $306.2 million was included in the reported operating loss.

The Group has valued acquired intangibles arising from the acquisition of QuadPay in conjunction with independent valuers, and goodwill has been determined. The valuation resulted in acquired intangibles totalling $253.7 million ($187.7 million net of taxation) being recognised at the acquisition date. The Group has recorded goodwill of $734.8 million in relation to the acquisition of QuadPay.

Following Zip's decision to rebrand globally, the Group has written off the value attributed to the QuadPay brand resulting in a write-off of $42.6 million being reported in financial year 2021.

### Urge

Zip acquired Sydney based technology company Urge Holdings Pty Limited in October 2020 issuing 432,516 ordinary shares in Zip Co Limited. Urge helps shoppers find what they're looking for, driving increased sales, reach and exposure for its retail partners. The acquisition price was $2.8 million, acquired intangibles have been valued at $2.7 million, and goodwill of $0.7 million has been recorded.

### Spotii

Zip acquired a 20% interest in Spotii, a leading tech enabled payments platform operating in the Middle East for $3.1 million in December 2020. In May 2021, Zip announced its intention to acquire the remaining shares in Spotii that it did not already own for US$16 million (circa $21 million) subject to certain completion adjustments. The acquisition will be settled in new fully paid shares, cash, or a combination of both, at Zip's discretion, and is expected to complete in the first quarter of the financial year 2022.

### Twisto

In December 2020, Zip invested $3.2 million to acquire a minority interest in Twisto Payments, the owner of Twisto, a cashflow management and payments app, with core markets of Poland and the Czech Republic. In the second half of the financial year 2021, Zip invested a further $11.3 million in Twisto Payments, increasing its equity take to 12.4%, and subsequently announced its intention to acquire the remaining shares in Twisto that it did not already own for approximately €89 million (circa $140 million) subject to certain completion adjustments. The acquisition will be settled in new fully paid shares, cash, or a combination of both, at Zip's discretion, and is expected to complete in the second quarter of the financial year 2022.

### TendoPay

Zip acquired a 25% interest in TendoPay during the financial year, a leading BNPL player in the Philippines, investing $3.2 million.

### Payflex

Zip invested a further $0.14 million in Payflex Pty Limited, Zip's associate in South Africa during in the financial year, taking Zip's equity interest to 26.25%.

## CAPITAL MANAGEMENT

### Receivables Funding Facilities

| AUSTRALIAN FACILITIES | FACILITY LIMIT $'M | DRAWN AT 30 JUNE 2021 $'M |
|---|---|---|
| Zip Master Trust | | |
| – Rated Note Series | 1,235.0 | 1,235.0 |
| – Variable Funding Note | 513.7 | 145.4 |
| 2017-1 Trust | 312.7 | 48.0 |
| 2017-2 Trust | 70.0 | 47.0 |
| **Total** | **2,131.4** | **1,475.4** |

The Group had total facilities available of $2,131.4 million available to fund its Australian consumer receivables at 30 June 2021, of which $1,475.4 million was drawn ($656.0 million undrawn and available). The facilities have not benefited from any of the Government initiatives to support debt capital markets in Australia.

# Review of Operations

Continued

During the financial year the Group completed two new rated note series (raising $760.0 million) and the continued strong performance of the receivables portfolio led to a two notch ratings upgrade resulting in the weighted average margin for the second new series falling to 1.73%, compared to 2.80% in the first. Subject to market conditions, this reduction in weighted average margin will flow into future rated note series for both new series and replacements.

| US FACILITY | FACILITY LIMIT $'M (USD) | DRAWN AT 30 JUNE 2021 $'M (USD) |
|---|---|---|
| AR2LLC | 300.0 | 111.9 |

Zip has a facility totalling US$300.0 million to fund its US consumer receivables drawn to US$111.9 million at 30 June 2021. During the financial year the facility increased by US$150.0 million and the weighted average margin on drawn facilities will reduce from August 2021.

| SME FACILITIES | FACILITY LIMIT $'M | DRAWN AT 30 JUNE 2021 $'M |
|---|---|---|
| Zip Business | | |
| – Capital | 46.2 | 33.5 |
| – Trade/Trade + | 100.0 | 5.5 |
| **Total** | **146.2** | **39.0** |

The Group has funding facilities totalling $46.2 million, with $33.5 million drawn at 30 June 2021, to fund its Zip Business Capital product, and facilities totalling $100.0 million, $5.5 million drawn, to fund its new Zip Business Trade and Trade + products.

### Convertible Notes and Warrants

Following shareholder approval at the EGM in August 2020, Zip raised $100.0 million ($96.8 million net of transaction costs) through the issue of convertible notes, and issued 19,365,208 warrants (equating to $100.0 million in cash on exercise) in connection with the issue of the convertible notes, to CVI Investments, Inc.

The convertible notes have a 5 year maturity, and a fixed coupon of $0.75 million payable each 6 months. Under the terms of the notes, every 6 months, 10% of the initial principal amount (i.e. $10.0 million) and accrued interest amounts (i.e. aggregate of $10.75 million) can, at the election of the Noteholder be converted into Shares in Zip at a price equal to 93% of the then current market price subject to the ceiling price of $5.5328 and a floor price of $1.8443, or deferred until the next instalment date.

The Noteholder also holds the option to convert the convertible notes into shares in Zip after the occurrence of certain conversion events at the then prevailing conversion price, with an initial conversion price of $5.5328, a 50% premium to the 1-day VWAP of Zip's shares on 29 May 2020. The semi-annual fixed coupon of $0.75 million on the convertible notes can be paid in shares in Zip issued at the then current market price (provided certain conditions are met) or be settled in cash. The conversion price (other than for the semi-annual instalments) adjusts for certain prescribed terms and dilutive events and resets semi-annually to a price equal to 93% of the prevailing current market price subject to a maximum ceiling price of $5.5328 and a minimum floor price of $1.8443, a 50% discount to the VWAP of Zip's Shares on 29 May 2020.

The warrants were issued for nil consideration, with a 3 year exercise period, and an exercise price being the lower of $5.1639 and the price of any equity securities issued (excluding issues for prescribed business as usual and agreed strategic transactions) in the exercise period. The exercise price represented a 40% premium to the 1-day volume weighted average price of Zip's shares on 29 May 2020.

In conjunction with independent valuers Zip fair valued the derivative embedded in the convertible note agreement, and the warrants, with the residual value being the underlying debt component of the convertible note, at the time the respective agreements were struck in May 2020. The embedded derivative and the warrants have also been revalued at 30 June 2021 in accordance with AASB 9 *Financial Instruments*.

Following the revaluation at 30 June 2021, Zip has reported a financial liability in relation to the underlying debt component of the convertible note of $65.3 million, and the embedded derivative and warrants issued have been valued at fair values of $60.6 million and $60.3 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing share price at 30 June 2021 of $7.57, volatility of 45%, and a risk free rate of 0.7% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflecting the different expiry dates of the instruments.

As a result, Zip has reported a fair value loss of $82.0 million, being the difference in fair value of the embedded derivative and the warrants between the date of issue and 30 June 2021, in accordance with the requirements of AASB 9 based on the details outlined above.

In April 2021, Zip issued $400.0 million zero coupon senior unsecured convertible notes (Senior Convertible Notes). The Senior Convertible Notes are listed on the Singapore Securities Trading Exchange (SGX-ST), have a 7 year maturity with an option for investors to put the notes back to Zip after 4 years at 109.36% of the principal amount. At maturity, note holders have the option of converting the notes into Zip's ordinary shares at a share price of $12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount.

The Senior Convertible Notes contains two components, a debt contract and a conversion feature. The debt contract is classified as a financial liability measured at amortised cost and the conversion feature is classified as equity in accordance with AASB 132. On initial recognition, the fair value of the debt component was recorded at $283.8 million ($279.7 million net of transaction costs), being the contractual cash flows discounted at an interest rate of 7.4% (7.6% net of transaction costs) that would apply to a note without a conversion feature. The equity component of the conversion feature was recorded at $116.2 million ($114.5 million net of transaction costs), being the fair value of the convertible notes as a whole (net of transaction costs) less the fair value of the debt component.

Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $283.7 million at 30 June 2021, comprising the value of debt component of $279.7 million at initial recognition and accrued effective interest of $4.0 million. The equity component is reported at $114.5 million at 30 June 2021, in accordance with AASB 9 under which Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

### Equity Capital

During the financial year, the Group raised a total of $176.7 million ($173.8 million net of costs) in equity, from new and existing retail, institutional, sophisticated and professional investors. Funds were raised to support Zip's growth in the US, expansion in the UK, entry into new markets, and to invest in Zip's product range in Australia, including the further development of Zip's offering to small businesses.

## POST BALANCE DATE EVENTS

To the date of the release of this report, there have been no material items, transactions or events subsequent to 30 June 2021 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 2021

| | NOTE | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
|---|---|---|---|
| **Operating Income** | 3 | **402,745** | **160,070** |
| **Cost of Sales** | | | |
| Interest expense | | (58,651) | (38,944) |
| Amortisation of funding costs | | (5,129) | (1,877) |
| Bad debts and expected credit losses | | (123,881) | (53,669) |
| Bank fees and data costs | | (71,511) | (13,223) |
| **Total Cost of Sales** | | **(259,172)** | **(107,713)** |
| **Gross Profit** | | **143,573** | **52,357** |
| Other income | 3 | 451 | 931 |
| **Expenditure** | | | |
| Administration expenses | 4 | (27,047) | (9,932) |
| Depreciation expense | 4 | (5,772) | (3,993) |
| Amortisation of intangibles | 4 | (85,996) | (9,045) |
| Information technology expenses | | (24,027) | (11,496) |
| Marketing expenses | | (71,230) | (9,515) |
| Corporate financing costs | 4 | (10,796) | (517) |
| Occupancy expenses | | (2,419) | (1,716) |
| Salaries and employee benefits expenses | | (97,692) | (44,315) |
| Share-based payments | 4 | (142,843) | (20,393) |
| Acquisition of business costs | | (9,938) | (10,273) |
| Share of loss of associates | 5 | (753) | (187) |
| Fair value (loss) gain on financial instruments | 4,6,12 | (77,613) | 47,505 |
| Net adjustment relating to the acquisition of QuadPay | 7 | (306,235) | – |
| **Loss Before Income Tax** | | **(718,337)** | **(20,589)** |
| Income tax benefit | 8 | 65,240 | 648 |
| **Loss After Income Tax Attributable to Members of Zip Co Limited** | | **(653,097)** | **(19,941)** |
| Other Comprehensive Income for the year | | | |
| Foreign exchange differences on translation | | 596 | (79) |
| Total Other Comprehensive Income for the year, Net of Tax | | 596 | (79) |
| **Total Comprehensive Loss for the year Attributable to Members of Zip Co Limited** | | **(652,501)** | **(20,020)** |

| | | CENTS | CENTS |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic loss per share | 9 | (127.05) | (5.31) |
| Diluted loss per share | 9 | (127.05) | (5.31) |

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

for the Year Ended 30 June 2021

| | NOTES | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 10 | 330,201 | 32,712 |
| Other receivables | | 32,719 | 6,875 |
| Term deposit | | 1,507 | 1,507 |
| Customer receivables | 11 | 1,988,036 | 1,116,618 |
| Investments at FVTPL | 12 | 19,034 | 82,931 |
| Investments in associates | 5 | 7,006 | 1,184 |
| Property, plant and equipment | | 3,294 | 3,512 |
| Right-of-use assets | 13 | 5,849 | 8,160 |
| Intangible assets | 14 | 207,733 | 25,093 |
| Goodwill | 15 | 788,934 | 53,441 |
| Deferred tax assets | | 10,312 | – |
| **Total Assets** | | **3,394,625** | **1,332,033** |
| **Liabilities** | | | |
| Trade and other payables | | 67,419 | 19,533 |
| Employee provisions | | 6,034 | 2,753 |
| Deferred contingent consideration | 16 | 6,990 | 13,979 |
| Leasing liabilities | 13 | 6,296 | 8,414 |
| Borrowings | 17 | 1,659,233 | 1,081,954 |
| Financial liabilities – convertible notes and warrants | 6 | 469,965 | – |
| Deferred tax liabilities | | 10,312 | – |
| **Total Liabilities** | | **2,226,249** | **1,126,633** |
| **Net assets** | | **1,168,376** | **205,400** |
| **Equity** | | | |
| Issued capital | 18 | 1,688,785 | 274,151 |
| Reserves | | 106,594 | 19,621 |
| Convertible notes – equity | 6 | 114,466 | – |
| Accumulated losses | | (741,469) | (88,372) |
| **Total Equity** | | **1,168,376** | **205,400** |

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 2021

| | ISSUED CAPITAL $'000 | TREASURY SHARES $'000 | SHARE-BASED PAYMENTS RESERVE $'000 | FOREIGN CURRENCY TRANSLATION RESERVE $'000 | CONVERTIBLE NOTES $'000 | ACCUMULATED LOSSES $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|
| **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** | **–** | **–** | **0** | **(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** |
| **Balance at 1 July 2020** | **274,151** | **–** | **19,700** | **(79)** | **–** | **(88,372)** | **205,400** |
| Loss for the period | – | – | – | – | – | (653,097) | (653,097) |
| Other comprehensive income | – | – | – | 596 | – | – | 596 |
| **Total Comprehensive Loss** | **–** | **–** | **–** | **596** | **–** | **(653,097)** | **(652,501)** |
| Recognition of share-based payments | – | – | 142,843 | – | – | – | 142,843 |
| Exercise of share-based payments | – | – | (123,267) | – | – | – | (123,267) |
| Issue of shares to Zip Employee Share Trust | 18,491 | (18,491) | – | – | – | – | – |
| Issue of treasury shares from Zip Employee Trust | – | 8,053 | (8,053) | – | – | – | – |
| Recognition of replacement options issued for QuadPay acquisition | – | – | 85,292 | – | – | – | 85,292 |
| Issue of ordinary shares under share-based payment plans | 123,267 | – | – | – | – | – | 123,267 |
| Exercise of options | 1,342 | – | – | – | – | – | 1,342 |
| Issue of shares – acquisitions | 1,090,741 | – | – | – | – | – | 1,090,741 |
| Issue of shares – capital raising | 176,710 | – | – | – | – | – | 176,710 |
| Issue of shares – PartPay contingent consideration (refer to Note 16) | 6,989 | – | – | – | – | – | 6,989 |
| Issue of convertible notes | – | – | – | – | 114,466 | – | 114,466 |
| Cost of issuing of shares | (2,906) | – | – | – | – | – | (2,906) |
| **Balance at 30 June 2021** | **1,688,785** | **(10,438)** | **116,515** | **517** | **114,466** | **(741,469)** | **1,168,376** |

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 2021

| | NOTES | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating income from customers | | 403,009 | 160,501 |
| Payments to suppliers and employees | | (292,594) | (99,217) |
| Interest received from financial institutions | | 187 | 107 |
| Interest paid | | (57,677) | (38,431) |
| Acquisition of business costs | | (8,702) | (8,332) |
| **Net Cash Flow from Operating Activities** | | **44,223** | **14,628** |
| CASH FLOWS TO INVESTING ACTIVITIES | | | |
| Payments for plant and equipment | | (1,383) | (2,436) |
| Payments for software development | | (12,009) | (17,041) |
| Net increase in receivables | | (930,054) | (488,811) |
| Payments for acquisitions, net of cash acquired | 7 | 26,209 | 2,667 |
| Payments for investments in associates | 5 | (6,575) | (70) |
| Payments for investments | 12 | (14,488) | (16,606) |
| **Net Cash Flow to Investing Activities** | | **(938,300)** | **(522,297)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Borrowing transaction costs | | (2,084) | (2,932) |
| Proceeds from borrowings | | 1,051,866 | 473,605 |
| Repayment of borrowings | | (521,199) | (551) |
| Proceeds from issue of convertible notes | | 490,978 | – |
| Repayment of principal of lease liabilities | | (3,737) | (2,195) |
| Proceeds from issue of shares | | 178,052 | 62,051 |
| Costs of share issues | | (2,906) | (2,129) |
| **Net Cash Flow from Financing Activities** | | **1,190,970** | **527,849** |
| Net increase in cash and cash equivalents | | 296,893 | 20,180 |
| Cash and cash equivalents at the beginning of the year | | 32,712 | 12,611 |
| Foreign exchange effect | | 596 | (79) |
| **Cash and Cash Equivalents at the End of the Year** | **10** | **330,201** | **32,712** |

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 and all values are rounded to the nearest thousand ($'000), 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 consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2021 reflects a consolidated entity's total comprehensive loss after tax of $652.5 million. The consolidated statement of cash flows for the year ended 30 June 2021 reflects net cash flows from operations of $44.2 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2022. The cash flow forecasts indicate 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 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 have a significant impact on the consolidated entity's preliminary financial statements. There were no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that have impacted the consolidated entity's preliminary financial statements for the full year ended 30 June 2021.

### 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

*Portfolio interest income*

The consolidated entity recognises portfolio interest income 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 type of its products.

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

The Directors consider that revenue from Merchant fees, Establishment fees, Monthly fees and Interest are akin to financial or portfolio interest income which should be accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The difference between Fees and Interest booked to customers' accounts and portfolio interest income is reported as unearned future income in the financial statements. Refer to Note 11 for details.

*Transactional income*

Transactional income includes transaction processing fees, affiliate fees and interchange which are recognised as earned and not considered portfolio interest income.

## Provision for Expected Credit Loss

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. The carrying amounts of certain assets are often determined based on estimates and assumptions of future events.

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the terms of the consolidated entity's products and all the cash flows that the consolidated entity expects to receive from its customers. The expected credit losses are calculated based on either 12 months or the lifetime of the customer receivables.

When measuring expected credit losses the consolidated entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Judgement has been applied in the assessment of the macroeconomic overlay in the current financial year taking into account the COVID-19 pandemic. Refer to Note 11 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, any purchase of materials and equipment, and the costs of employees, who are directly involved in the software 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.

# Notes to the Preliminary Final Report

Continued

*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.

Acquired intangibles are independently valued by an external valuer and their fair values are recorded at initial recognition. Refer to Note 7 for the valuation of intangibles acquired during the financial year.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The useful life of the intangible assets is assessed on either the duration for which the assets contribute to the consolidated entity's value or the timing of the projected cashflow of the relationships.

### Impairment of non-financial assets

Non-financial assets other than goodwill and other indefinite life intangible assets are reviewed for indicators of impairment. Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there are indications that goodwill and indefinite life intangible assets might be impaired. If an intangible asset was recognised during the current annual period, that intangible asset is tested for impairment before the end of the current annual period.

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 pre-tax future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit (CGU) to which the asset belongs.

CGUs are defined as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is allocated to CGUs and the impairment of goodwill is tested at CGU level. Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and will therefore be tested at a CGU level. Please refer to Note 15 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

Assessments of impairment for investments in associates and impairment for right-of-use assets are detailed in Note 5 and Note 13, respectively.

### Fair value measurements and valuation processes

The consolidated entity measures certain assets and liabilities at fair value for financial reporting purposes. In estimating the fair value of these assets and liabilities, the consolidated entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the consolidated entity engages qualified third party valuers to assist with the valuation and work closely with management to establish the appropriate valuation techniques and inputs to the valuation model. Key inputs to the model include Zip's share price, volatility and the risk free rate. Refer to Note 6 for details.

### Acquisition accounting

Acquisitions of businesses are accounted for using the acquisition method. The consolidated entity identifies the acquisition date, which is the date on which it obtains control of the acquiree. Judgement is required when determining the date on which the consolidated entity obtains control of the acquiree, considering the events and conditions precedent to completing the acquisition, which may include but is not limited to, the signing of the sale and purchase agreement between the consolidated entity and the acquiree, obtaining Board, shareholder and regulatory approvals and the issuing and legal transfer of consideration, including in the form of shares in the consolidated entity.

The consolidated entity sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. AASB 3 *Business Combinations* refers to such a transaction as a business combination achieved in stages. Judgement is required in remeasuring the consolidated entity's previously held equity interest in the acquiree from its previous classification and measurement under AASB 9 *Financial Instruments* or AASB 128 *Investments in Associates* to its acquisition-date fair value.

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. Potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement requires judgement in assessing the nature of the arrangement and whether the contingent payment forms part of the consideration transferred in a business combination or a separate transaction. Indicators include, but are not limited to, payments that are contingent on continued employment by the selling shareholders who become key employees in the consolidated entity, the duration of their continued employment coincides with or is longer than the contingent payment period and the level of their employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the consolidated entity.

### 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 2021 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 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 the entities that are controlled by the consolidated entity 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.

# Notes to the Preliminary Final Report

Continued

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.

### 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 CGUs (or groups of CGUs) 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 CGU 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 CGU 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 CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### I. FINANCIAL INSTRUMENTS

#### Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

*Financial assets*

Financial assets are subsequently measured at amortised cost include cash and cash equivalents, term deposits, other receivables (excluding prepayments) and customer receivables. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as investments at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 30 June 2021 and 30 June 2020.

Financial assets at FVTPL are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss is recognised in profit or loss. There is no requirement to recognise an impairment loss.

*Financial liabilities*

Financial liabilities including trade and other payables, deferred contingent considerations and the debt component of convertible notes are measured subsequently at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities at FVTPL, including those warrants issued which meet the definitions of a financial liability in accordance with the substance of the contractual arrangements, are initially measured at fair value and subsequently measured at fair value at each reporting date. Any gains or losses arise on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

Convertible loan notes issued by the consolidated entity are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash for a variable number of the Company's own equity instruments is considered a financial liability. The conversion features that fail the equity classification are accounted for as derivative financial liabilities, and are accounted for separately from their host debt component. Derivatives financial liabilities are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

A conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is considered an equity component. The conversion feature classified as equity is not required to be revalued at each reporting date.

The option derivatives embedded in the convertible notes are assessed to determine whether it is to be separated from its debt host contract on the basis of the stated terms of the option feature. The debt component of convertible notes is subsequently measured at amortised cost as described above. The effective interest charged on the debt host contract is reported in corporate finance costs.

### Transaction costs

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components (if any) in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

### Derecognition of financial assets and liabilities

The consolidated entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the consolidated entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Preliminary Final Report

Continued

### Customer receivables and other receivables

Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Refer to Note 11 for further details of customer receivables and impairment of such financial assets.

The consolidated entity applies a simplified approach in calculating the ECLs for other receivables based on lifetime expected credit losses. Other receivables that are at risk of non-recovery are written off. The provision for expected credit losses related to other receivables was nil (2020: nil).

## J. 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 and may be subsequently reclassified to profit and loss in future reporting period.

## 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.

The consolidated entity had three operation segments being Zip AU, Zip Global and Zip Business (formerly Spotcap) in the financial year ended 30 June 2020 and 30 June 2021. The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. The consolidated entity has the following operating segments and the results of each segment are reported in the table that follows:

| | |
|---|---|
| ZIP AU: | Offers BNPL line of credits products to consumers in Australia through its Zip digital wallets and includes the consolidated entity's Pocketbook operations. |
| Zip Global: | Offers BNPL instalment products to consumers outside of Australia. |
| Zip Business | Provides unsecured loans and lines of credit to small and medium-sized businesses. |

| YEAR ENDED 30 JUNE 2020 | ZIP AU $'000 | ZIP GLOBAL $'000 | ZIP BUSINESS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| Operating income | 150,152 | 2,549 | 7,369 | 160,070 |
| Cost of sales | (99,128) | (1,859) | (6,726) | (107,713) |
| **Gross profit** | **51,024** | **690** | **643** | **52,357** |
| Other income | 871 | 2 | 58 | 931 |
| Operating expenses | (66,918) | (6,022) | (4,551) | (77,491) |
| **Segment EBTDA (excluding corporate items)** | **(15,023)** | **(5,330)** | **(3,850)** | **(24,203)** |
| 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) |
| **Segment loss before income tax** | **(24,809)** | **(7,802)** | **(4,630)** | **(37,241)** |
| Reconciling items from operating to statutory loss: | | | | |
| Employee remuneration related share-based payments | | | | (8,191) |
| Other share-based payments | | | | (12,202) |
| Acquisition of business costs | | | | (10,273) |
| Share of loss of associate | | | | (187) |
| Fair value gain on financial instruments | | | | 47,505 |
| **Loss before income tax** | | | | **(20,589)** |

# Notes to the Preliminary Final Report

Continued

| YEAR ENDED 30 JUNE 2021 | ZIP AU $'000 | ZIP GLOBAL $'000 | ZIP BUSINESS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| Operating income | 207,233 | 184,608 | 10,904 | 402,745 |
| Cost of sales | (131,510) | (121,350) | (6,312) | (259,172) |
| **Gross profit** | **75,723** | **63,258** | **4,592** | **143,573** |
| Other income | 322 | 125 | 4 | 451 |
| Operating expenses | (105,297) | (108,861) | (8,885) | (223,043) |
| **Segment EBTDA (excluding corporate items)** | **(29,252)** | **(45,478)** | **(4,289)** | **(79,019)** |
| Depreciation of right-of-use assets | (2,918) | (1,012) | – | (3,930) |
| Depreciation of PP&E | (1,737) | (96) | (9) | (1,842) |
| Amortisation of intangibles | (11,229) | (74,759) | (8) | (85,996) |
| **Segment loss before income tax** | **(45,136)** | **(121,345)** | **(4,306)** | **(170,787)** |
| Reconciling items from operating to statutory loss: | | | | |
| Employee remuneration related share-based payments | | | | (141,085) |
| Other share-based payments | | | | (1,758) |
| Acquisition of business costs | | | | (9,938) |
| Share of loss of associates | | | | (753) |
| Fair Value loss on financial instruments | | | | (77,613) |
| Effective interest charged on convertible notes | | | | (10,168) |
| Net adjustment relating to acquisition of QuadPay | | | | (306,235) |
| **Loss before income tax** | | | | **(718,337)** |

## NOTE 3: REVENUE

| | CONSOLIDATED | |
|---|---|---|
| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
| **Operating income** | | |
| Portfolio income | 353,071 | 159,373 |
| Transactional income | 49,674 | 697 |
| **Total operating income** | **402,745** | **160,070** |
| **Other income** | | |
| Finance income | 187 | 107 |
| R&D tax incentives | – | 392 |
| Other | 264 | 432 |
| **Total other income** | **451** | **931** |
| **Total revenue** | **403,196** | **161,001** |

## NOTE 4: EXPENDITURE

| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
|---|---|---|
| **Loss before income tax includes the following specific expenses:** | | |
| **Administration expenses:** | | |
| Professional services | 14,885 | 4,071 |
| Other administration expense | 12,162 | 5,861 |
| **Total administration expenses** | **27,047** | **9,932** |
| **Depreciation expense:** | | |
| Depreciation of property, plant and equipment | 1,842 | 1,516 |
| Depreciation of right-of-use assets | 3,930 | 2,477 |
| **Total depreciation expense** | **5,772** | **3,993** |
| **Amortisation of intangibles:** | | |
| Amortisation of acquired intangibles | 34,238 | 2,007 |
| Write-off of acquired intangibles[1] | 42,570 | 1,900 |
| Amortisation of internally generated IT development and software | 9,188 | 5,138 |
| **Total amortisation of intangibles** | **85,996** | **9,045** |
| **Corporate financing costs:** | | |
| Effective interest charged on convertible notes | 10,168 | – |
| Interest on leasing liabilities | 244 | 253 |
| Other finance costs | 384 | 264 |
| **Total corporate financing costs** | **10,796** | **517** |
| **Share-based payments:** | | |
| Employee remuneration related share-based payments[2] | 141,085 | 8,191 |
| Recognition of Amazon warrants (refer to Note 18) | 1,758 | 7,202 |
| Provision of marketing and promotional services | – | 5,000 |
| **Total share-based payments** | **142,843** | **20,393** |
| **Fair value loss (gain) on financial instruments:** | | |
| Fair value loss on convertible notes | 82,049 | – |
| Fair value gain on investment at FVTPL | (4,436) | (47,505) |
| **Fair value loss (gain) on financial instruments** | **77,613** | **(47,505)** |

1. The acquired QuadPay brand of $42.6 million was written off as a result of the business re-branding to Zip during financial year ended 30 June 2021. The acquired PartPay brand of $1.9 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2020.

2. Includes $102.7 million in the current period in relation to Performance Consideration Shares issued to the QuadPay Founders (refer to Note 18), and short and long term incentives provided to employees.

# Notes to the Preliminary Final Report

Continued

## NOTE 5: INVESTMENTS IN ASSOCIATES

| | CONSOLIDATED $'000 |
|---|---|
| Balance at 30 June 2020 | 1,184 |
| Additional investments | 6,575 |
| Share of loss of associates | (753) |
| **Balance at 30 June 2021** | **7,006** |

The associates of the consolidated entity as at 30 June 2021 are detailed in the following table. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the consolidated entity's controlled subsidiaries. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

| | % OF OWNERSHIP INTEREST | | | | CARRYING AMOUNT | |
|---|---|---|---|---|---|---|
| ENTITY | 2021 % | 2020 % | NATURE OF RELATIONSHIP | MEASUREMENT METHOD | 2021 $'000 | 2020 $'000 |
| Payflex | 26.25% | 25.25% | Associate | Equity Method | 981 | 1,184 |
| Spotii | 20.00% | – | Associate | Equity Method | 2,810 | – |
| Tendo | 25.00% | – | Associate | Equity Method | 3,215 | – |
| **Total investments in associates** | | | | | **7,006** | **1,184** |

### PAYFLEX

At 30 June 2021, the consolidated entity held a 26.25% interest in Payflex, being the 25.25% interest held at 30 June 2020 and a further 1.0% interest acquired in July 2020 for an investment of $0.14 million. At 30 June 2021, the consolidated entity continued to account for the investment in Payflex as an associate due to the consolidated entity's ability to exercise significant influence.

For the year ended 30 June 2021, the consolidated entity recognised its share of loss of Payflex amounting to $0.39 million. The carrying amount of the consolidated entity's investment in Payflex at 30 June 2021 was reported at $0.98 million, being the cost of the investment less its share of loss during the current financial year and an unrealised foreign exchange gain on the investment of $0.05 million.

### SPOTII

On 24 December 2020, the consolidated entity invested $3.13 million to acquire a 20% interest in Spotii – a leading tech enabled payments platform operating in the Middle East. The consolidated entity has accounted for the investment as an associate due to the consolidated entity's ability to exercise significant influence.

The consolidated entity initially measured the investment at cost, being the fair value upon acquisition of $3.13 million.

For the year ended 30 June 2021, the share of loss in Spotii was $0.25 million. An unrealised foreign exchange loss of $0.07 million on the investment resulted in the carrying amount of consolidated entity's investment in Spotii being recorded at $2.81 million.

On 24 May 2021, Zip announced its intention to acquire the remaining equity stake in Spotii that Zip does not own for an amount of US $16.0 million, implying an enterprise value of $US20.0 million. The completion date is subject to the condition precedents to the acquisition, including the issuance of Zip's shares to satisfy the purchase consideration, which is expected to occur in the quarter ending 30 September 2021.

### TENDO

On 20 April 2021, the consolidated entity invested $3.22 million to acquire a 25.00% interest in Tendo – a start-up providing instalment payment options for e-commerce customers in the Philippines. The consolidated entity has accounted for the investment as an associate due to the consolidated entity's significant influence and initially measured the investment at cost, being the fair value upon acquisition of $3.22 million.

For the year ended 30 June 2021, the share of loss of Tendo was $0.11 million. An unrealised foreign exchange gain of $0.11m on the investment resulted in the carrying amount of the consolidated entity's investment in Tendo being recorded at $3.22 million at 30 June 2021.

## NOTE 6: FINANCIAL LIABILITIES - CONVERTIBLE NOTES AND WARRANTS

### ISSUANCE OF CONVERTIBLE NOTES AND WARRANTS ON 1 SEPTEMBER 2020:

| | ISSUE DATE | EXPIRY DATE | CONVERSION PRICE | NUMBER ISSUED |
|---|---|---|---|---|
| Convertible Notes | 1 September 2020 | 1 September 2025 | see in this note | 1,000 |
| Warrants | 1 September 2020 | 1 September 2023 | see in this note | 19,365,208 |

On 1 September 2020, Zip issued 1,000 convertible notes and 19,365,208 warrants to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group. The convertible notes issued to CVI (referred to Susquehanna Convertible Notes) have a face value of $100,000 each. The convertible notes bear interest payable semi-annually at a fixed amount of $0.75 million.

The conversion price of the convertible notes varies based on movements in Zip's share price subject to a floor and a ceiling price.

The initial conversion price was $5.5328, representing a 50% premium to the 1-day volume weighted average price (VWAP) of Zip's shares on the Australian Stock Exchange (ASX) on 29 May 2020 (the last trading day prior to the announcement of the Convertible Note Raising). The conversion price resets semi-annually to a price equal to 93% of the then prevailing current market price of Zip's shares on the ASX, subject to a minimum price of $1.8443 ("Floor Price") and a maximum price equal to the initial conversion price of $5.5328 ("Ceiling Price").

At each Instalment date (commencing on the date falling 6 months after 1 September 2020 and every 6 months thereafter up to and including the maturity date on 1 September 2025), the Noteholder has the option to elect, in respect of $10.0 million of the convertible notes, together with any previously deferred amounts and any accrued and unpaid interest, to either:

- defer the conversion of the instalment amount to a later Instalment date (up until the maturity date); or
- subject to certain conditions being met, to convert the instalment amount into Zip's shares.

The convertible notes may be converted into a maximum of 58,302,282 fully paid ordinary shares, based on a conversion price of 1.8443 per share, being the floor price under the terms of the Susquehanna Convertible Notes (unless the floor price is adjusted in accordance with the terms of the agreement).

The convertible notes may be settled by the exchange of a fixed amount of cash for a variable number of Zip's own equity instruments and therefore it is classified as a financial liability. The convertible notes includes a debt component which is reported as a financial liability measured at amortised cost and a conversion option which is considered an embedded derivative measured at FVTPL.

The warrants issued to CVI were issued for nil consideration and with an exercise price being the lower of $5.1639 and the price of any equity securities (excluding issues for prescribed business as usual and agreed strategic transactions) in the period to September 2023. The warrants issued to CVI are classified as financial liabilities measured at FVTPL.

# Notes to the Preliminary Final Report

Continued

In conjunction with independent valuers, Zip has fair valued the derivative embedded in the convertible notes agreement, and the warrants, with the residual value being the fair value of the underlying debt component of the convertible notes at the date of inception (1 September 2020). The fair values were assessed based on Zip's share price at the time the respective agreements were struck, which is considered a fair and true reflection of the fair values at the time of the transaction. The fair value of the embedded derivative included in the convertible notes recorded on issuance was $21.7 million and the fair value of the warrants was $17.2 million. The debt component was recorded at $61.1 million ($59.2 million net of transaction costs). During the financial year ended 30 June 2021, no convertible notes have been converted.

The embedded derivative and the warrants have also been revalued at 30 June 2021 in accordance with Accounting Standard AASB 9 *Financial Instruments*. Following the revaluation at 30 June 2021, Zip has reported a financial liability in relation to the underlying debt component of the convertible notes of $65.3 million, and the embedded derivative and warrants issued have been valued at fair values of $60.6 million and $60.3 million respectively using the Black Scholes option valuation model. The fair values have been based on a closing Zip's share price at 30 June 2021 of $7.57, volatility of 45%, and a risk free rate of 0.7% for the embedded derivative, and 0.1% for the warrants. The different risk free rates reflect the different expiry dates of the instruments.

A fair value loss of $82.0 million has been recorded, being the movement in the fair values of the embedded derivative and warrants between 1 September 2020 and 30 June 2021. If Zip's share price was 10% above or below the $7.57 share price at 30 June 2021, the fair value of the embedded derivative and warrants would increase or decrease by approximately $23 million and result in a fair value adjustment equivalent to the change being recognised as a loss or gain in the financial statements.

Transaction costs have been apportioned to the debt host component, the embedded derivative, and the warrants. The portion attributed to the embedded derivative and warrants is immediately expensed. For the portion of transaction costs that are attributed to the debt host component, these are included in the consideration of the carrying amount of the financial liability and are amortised as part of effective interest.

The interest expense for the year on the convertible notes is calculated using the effective interest method so that on maturity, the carrying amount is equal to the principal repayment that could be required to be made. On this basis, an effective interest rate of 12.7% has been applied to the debt host liability component for the ten month period since the convertible notes were issued. The debt host liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported at 30 June 2021 represents the effective interest rate less interest paid between those dates.

*NET PROCEEDS FROM ISSUE OF SUSQUEHANNA CONVERTIBLE NOTES AND WARRANTS:*

| **1 SEPTEMBER 2020** | **$'000** |
|---|---|
| Proceeds of the issue of convertible notes and warrants | 100,000 |
| Transaction costs – recognised as expenses | (1,236) |
| Transaction costs – attributed to debt component | (1,940) |
| **Net proceeds from issue of Susquehanna Convertible Notes and Warrants** | **96,824** |

*FAIR VALUES OF FINANCIAL INSTRUMENTS AT INITIAL RECOGNITION:*

| **1 SEPTEMBER 2020** | **$'000** |
|---|---|
| Convertible notes – debt component (net of transaction costs) | 59,152 |
| Convertible notes – embedded derivative | 21,698 |
| Financial liability – warrants | 17,210 |

## ISSUANCE OF CONVERTIBLE NOTES ON 23 APRIL 2021:

| ISSUE DATE | EXPIRY DATE | CONVERSION PRICE | NUMBER ISSUED |
|---|---|---|---|
| 23 April 2021 | 23 April 2028 | see below | 2,000 |
| **Total** | | | **2,000** |

Zip issued a $400.0 million zero coupon senior convertible note (Referred to Senior Convertible Notes) on 23 April 2021. The convertible notes are listed on the Singapore Securities Trading Exchange (SGX-ST), have a 7 year maturity with an option for investors to put the notes back to Zip after 4 years at 109.36% of the principal amount. The Yield is 2.25% per annum calculated on a semi-annual basis. At maturity, note holders have the option of converting the notes into Zip's ordinary shares at a share price of $12.39 (adjusted in accordance with standard anti-dilutive provisions) or redeeming the notes at 116.96% of the principal amount. If all the Senior Convertible Notes are converted into Zip's ordinary shares, a maximum of 32,284,901 ordinary shares will be issued, subject to adjustment in accordance with the terms and conditions of the Senior Convertible Notes. No Senior Convertible Notes had been converted as at 30 June 2021.

The Senior Convertible Notes contains two components, being a debt contract and a separate conversion feature. The debt contract is classified as a financial liability measured at amortised cost and the conversion feature is classified as equity in accordance with AASB 132. The investor put option is not separated and is accounted as part of the debt host contract at amortised cost.

On initial recognition, the fair value of the debt component was recorded at $283.8 million ($279.7 million net of transaction costs), being the contractual cash flows discounted at an interest rate of 7.4% (7.6% net of transaction costs) that would apply to a note without a conversion feature. The equity component of the conversion feature was recorded at $116.2 million ($114.5 million net of transaction costs), being the fair value of the convertible notes as a whole (net of transaction costs) less the fair value of the debt component.

Transaction costs have been apportioned to the debt and the equity components. The transaction costs that are attributed to the debt component, these are included in the consideration of the carrying amount of the financial liability and are amortised as part of effective interest. Transaction costs of an equity transaction are accounted for as a deduction from equity component.

Zip has reported a financial liability in relation to the underlying debt component of the Senior Convertible Notes of $283.7 million at 30 June 2021, comprising the value of debt component of $279.7 million at initial recognition and accrued effective interest of $4.0 million. The equity component is reported at $114.5 million at 30 June 2021, which is in accordance with AASB 9 that Zip is not required to revalue the conversion feature recorded as equity at each reporting date.

*NET PROCEEDS FROM ISSUE OF SENIOR CONVERTIBLE NOTES:*

| 23 APRIL 2021 | $'000 |
|---|---|
| Proceeds of the issue of convertible notes | 400,000 |
| Transaction costs – attributed to debt component | (4,148) |
| Transaction costs – attributed to equity component | (1,698) |
| **Net proceeds from issue of Senior Convertible Notes** | **394,154** |

*FAIR VALUE OF FINANCIAL LIABILITY AND EQUITY AT INITIAL RECOGNITION:*

| 23 APRIL 2021 | $'000 |
|---|---|
| Convertible notes – debt component (net of transaction costs) | 279,688 |
| Convertible notes – equity component (net of transaction costs) | 114,466 |

# Notes to the Preliminary Final Report

Continued

### RECONCILIATION OF FINANCIAL IMPACT OF ISSUE OF THE CONVERTIBLE NOTES AND WARRANTS

| | FINANCIAL LIABILITY – EMBEDDED DERIVATIVE $'000 | FINANCIAL LIABILITY – WARRANTS $'000 | FINANCIAL LIABILITY – NET DEBT HOST $'000 | TOTAL FINANCIAL LIABILITIES – CONVERTIBLE NOTES AND WARRANTS $'000 | CONVERTIBLE NOTES – EQUITY $'000 |
|---|---|---|---|---|---|
| **30 June 2020** | – | – | – | – | – |
| Issued during the period | 21,698 | 17,210 | 338,840 | 377,748 | 114,466 |
| Effective interest on convertible notes | – | – | 10,168 | – | – |
| Fair value loss recognised | 38,945 | 43,104 | – | 82,049 | – |
| **30 June 2021** | **60,643** | **60,314** | **349,008** | **469,965** | **114,466** |

## NOTE 7: ACQUISITIONS

### A. SUMMARY OF ACQUISITION

#### QuadPay

On 31 August 2020, the consolidated entity increased its ownership interest in QuadPay, Inc.(QuadPay), a leading high growth BNPL player in the United States to 100%, acquiring the 85.91% of QuadPay that it did not already own. Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- QuadPay, Inc;
- QuadPay Pty Ltd;
- QuadPay AR1 LLC;
- AR2 Holdco LLC;
- AR2 LLC;
- QuadPay Canada Holdings, Inc.; and
- QuadPay ULC.

Total consideration for the acquisition of QuadPay comprised:

- Cash consideration of $1.1 million;
- 118,776,189 new Zip Co Limited shares issued, valued at $1,088 million, based on an issue price of $9.16, the closing price on the day shareholders approved the acquisition;
- Replacement options issued to employees and non-employees valued at $85.3 million.

The replacement options issued to employees were valued at $30.2 million, with $21.4 million included in consideration above, and the balance of $8.8 million will be expensed over the remaining vesting period.

The fair value of the tangible assets and liabilities of QuadPay 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.

### Urge

On 26 October 2020, the consolidated entity acquired a 100% interest in Sydney-based technology company, Urge Holdings Pty Ltd (Urge). Urge helps shoppers to find and buy the items they are looking for, driving increased sales, reach and exposure for its retail partners. Upon the acquisition of Urge, the consolidated entity acquired a 100% interest in the following entities:

- Urge Holdings Pty Ltd;
- Urge Technologies Pty Ltd; and
- Schnap Pty Ltd.

Total consideration for the acquisition of Urge comprised:

- 432,516 new Zip Co Limited shares valued at $2.8 million issued at an issue price of $6.36.

The fair value of the tangible assets and liabilities of Urge 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.

The initial accounting for the acquisitions of both QuadPay and Urge has been provisionally determined at the end of the half year ended 31 December 2020 as detailed in the consolidated entity's half year report to 31 December 2020. Final accounting has been finalised at 30 June 2021 which is within the required measurement period outlined in AASB 3 *Business Combinations*. No adjustments have been made to the initial accounting.

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

The amounts of revenue and profit or loss of QuadPay and Urge since the acquisition dates are included in the preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income for the reporting period.

Goodwill recognised on the acquisition of QuadPay and Urge 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 $4.4 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 2021.

# Notes to the Preliminary Final Report

Continued

Details of the acquisitions are as below:

| DETAILS OF THE ACQUISITIONS ARE AS FOLLOWS: | QUADPAY 2020 $'000 | URGE 2020 $'000 | TOTAL 2020 $'000 |
|---|---|---|---|
| Cash and cash equivalents | 27,290 | 3 | 27,293 |
| Customer receivables | 60,409 | – | 60,409 |
| Other receivables | 4,562 | 2 | 4,564 |
| Trade and other payables | (13,367) | (652) | (14,019) |
| Borrowings | (50,384) | – | (50,384) |
| Deferred tax liabilities | (65,959) | – | (65,959) |
| Acquired brand name | 42,570 | – | 42,570 |
| Acquired IT development and software | 126,460 | 2,731 | 129,191 |
| Acquired transacting partner database | 84,655 | – | 84,655 |
| Goodwill[1] | 1,150,736 | 667 | 1,151,403 |
| **Acquisition date value of the total consideration transferred** | **1,366,972** | **2,751** | **1,369,723** |
| **Representing:** | | | |
| Zip Co Limited pre-existing investment | 192,606 | – | 192,606 |
| Zip Co Limited shares issued to vendor | 1,087,990 | 2,751 | 1,090,741 |
| Zip Co Limited options issued allocated to consideration | 85,292 | – | 85,292 |
| Cash paid to vendor | 1,084 | – | 1,084 |
| **Total** | **1,366,972** | **2,751** | **1,369,723** |
| **Cash used to acquire business, net of cash acquired:** | | | |
| Acquisition date value of the total consideration transferred | 1,366,972 | 2,751 | 1,369,723 |
| Less: cash and cash equivalent acquired | (27,290) | (3) | (27,293) |
| Less: Zip Co Limited shares issued to vendor | (1,087,990) | (2,751) | (1,090,741) |
| Less: Zip Co Limited options issued allocated to consideration | (85,292) | – | (85,292) |
| Less: Zip Co Limited pre-existing investment | (192,606) | – | (192,606) |
| **Payments for acquisitions, net of cash acquired** | **(26,206)** | **(3)** | **(26,209)** |

1. None of the goodwill is expected to be deductible for tax purpose.

## B. QUADPAY ACQUISITION FAIR VALUE ADJUSTMENTS

In accordance with the requirements of AASB 3 *Business Combinations* and AASB 13 *Fair Value Measurement*, the acquisition price for QuadPay must be based on Zip's share price of $9.16 on the date it obtained control of QuadPay, being 31 August 2020. Accordingly, Zip revalued its pre-existing shareholding in QuadPay, and valued the equity and replacement options issued to acquire the remaining shareholding based on a share price of $9.16.

The directors do not consider that the fair value at the acquisition date of the equity instruments granted for the purchase of QuadPay, as measured per AASB 13, is reflected in the subsequent equity value of the instruments granted or the underlying assets acquired, and accordingly in conjunction with independent valuers, the directors determined that a Day 1 adjustment should be made to the carrying value of goodwill.

The Day 1 adjustment was calculated based on an independent valuation and equated to a share price of $6.50 (compared to $9.16 at acquisition date), which aligned to Zip's VWAP (volume-weighted average price) over a period up to and including the 31 August 2020.

The adjustment is reflective of management's view during a period of volatility in Zip's share price, that the share price on a particular day may not be representative of its fair value, and therefore in this instance a Day 1 fair value adjustment was reflected in goodwill of $415.9 million.

On the acquisition of QuadPay, Zip derecognised its investment in QuadPay (as set out in Note 12) and in accordance with AASB 3 revalued its investment to its fair value as determined by AASB 13 *Fair Value Measurement*. This revaluation, based on a share price of $9.16, increased the valuation of Zip's existing investment pre-acquisition to $192.6 million. This resulted in a fair value gain of $109.7 million for Zip's existing investment in QuadPay on acquisition.

The goodwill adjustment of $415.9 million was offset by the fair value gain on the pre-existing interest in QuadPay of $109.7 million. As a result, Zip reported a one off net adjustment relating to the acquisition of QuadPay of $306.2 million.

The fair market value of Zip's investment in QuadPay following the net adjustment relating to the acquisition of QuadPay is $951.0 million, including both Zip's existing investment prior to acquisition, and the acquisition of the shares it did not already own. The consolidated entity has recorded goodwill of $734.8 million in relation to the acquisition of QuadPay at 31 August 2020 on this basis (Refer to Note 15 ).

The once off adjustment relating to the acquisition of QuadPay are summarised in the following tables:

| | 31 AUGUST 2020 $'000 |
|---|---|
| Goodwill recorded at Zip's acquisition date share price | 1,150,736 |
| Share value not reflected in goodwill | (415,910) |
| **Goodwill recorded at fair value of consideration transferred** | **734,826** |

| | 31 AUGUST 2020 $'000 |
|---|---|
| Fair value of pre-existing investment on acquisition | 192,606 |
| Less: carrying value of investment pre-acquisition | (82,931) |
| **Fair value gain on investment on acquisition** | **109,675** |

Net adjustment relating to the acquisition of QuadPay:

| | 31 AUGUST 2020 $'000 |
|---|---|
| Share value not reflected in goodwill | (415,910) |
| Fair value gain on investment on acquisition | 109,675 |
| **Net adjustment relating to the acquisition of QuadPay** | **(306,235)** |

# Notes to the Preliminary Final Report

Continued

## NOTE 8: INCOME TAX

| | CONSOLIDATED | |
|---|---|---|
| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
| Numerical reconciliation of income tax benefit and tax at the statutory rate | | |
| Loss before income tax benefit | (718,337) | (20,589) |
| Tax at the statutory tax rate of 30% | (215,501) | (6,177) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share-based payments | 5,663 | 6,118 |
| Non-deductible expenses | 3,673 | 1,536 |
| Non-assessable fair value gain | (9,130) | – |
| R&D tax incentives | – | (118) |
| Net adjustment relating to the acquisition of QuadPay | 124,773 | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 9,138 | 116 |
| | **(81,384)** | **1,475** |
| Current year tax losses not recognised | 57,004 | 4,136 |
| Movement in temporary differences recognised | (40,860) | (6,259) |
| | **(65,240)** | **(648)** |

## NOTE 9: LOSS PER SHARE

### A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
|---|---|---|
| Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share | (653,097) | (19,941) |

### B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

| | 30 JUNE 2021 '000 | 30 JUNE 2020 '000 |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 514,034 | 375,617 |

### C. BASIC AND DILUTED LOSS PER SHARE

| | 30 JUNE 2021 CENTS | 30 JUNE 2020 CENTS |
|---|---|---|
| Basic loss per share | (127.05) | (5.31) |
| Diluted loss per share[1] | (127.05) | (5.31) |

1. As the consolidated entity reported losses for the financial year ended 30 June 2021 and 30 June 2020, no dilutive shares have been included in the EPS calculation.

## NOTE 10: CASH AND CASH EQUIVALENTS

At 30 June 2021, the consolidated entity had cash of $330.2 million of which $41.0 million was restricted cash (30 June 2020: cash of $32.7 million of which $8.4 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 (30 June 2021: $22.9 million; 30 June 2020: $15.1 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

## NOTE 11: CUSTOMER RECEIVABLES

### AASB 9 *FINANCIAL INSTRUMENTS*

Under AASB 9, customer receivables are initially recognised at fair value. 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.

#### Expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted based on forward-looking information as described below. The exposure at default is estimated on gross customer receivables at the reporting date, adjusted for expected repayments and future drawdowns up to the point the exposure is expected to be in default.

#### Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due or customer receivables in hardship cases (customer receivables are past due under normal repayment terms and the repayment terms have been renegotiated) as criteria to identify significant increases in credit risk.

# Notes to the Preliminary Final Report

Continued

### 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/or when the consolidated entity is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

### Write-off policy

The consolidated entity's policy is to write-off balances that are outstanding for over 180 days for its line of credit products and 84 days for its instalment products, in accordance with historical experience and industry practice. The consolidated entity's instalment product has a short term duration for customer repayments, being up to 42 days.

### 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 and also aggregated by segment in this note.
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 month period, to the credit limits of those customers that are considered current and to the respective receivable balances for those customers accounts over 30 days past due.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected lifetime 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.

In the assessment of the provision for expected credit losses at 30 June 2021, management took into consideration 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.

### Provision overlay

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

In the assessment of expected credit losses at 30 June 2021, management considered base, good and bad scenarios applying a weighted probability when determining the reported expected credit losses. The base scenario was assessed by applying the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk.

These variables include the probability of default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in these variables was supported by modelling macroeconomic scenarios based on forward looking information.

Forward-looking information considered in assessing macroeconomic scenarios included economic reports published by financial analysts, governmental bodies, and other similar organisations, including assessments of the outlook for the Australian and global economies that the consolidated entity operates in.

### COVID-19 consideration

As at 30 June 2021, the impact of COVID-19 still existed and its impact was considered in the assessment of the economic overlay.

## Provision overview

From 30 June 2020 to 30 June 2021, the provision for expected credit losses increased by $54.4 million (including $5.0 million taken on the acquisition of QuadPay), which was primarily driven by the $929.6 million increase in the value of receivables across the consolidated entity's operating segments.

The provision for expected credit losses as a percentage of receivables increased from 4.4% at 30 June 2020 to 5.0% at 30 June 2021, mainly due to a greater portion of receivables being generated by the instalment based product compared to the prior financial year.

The consolidated entity believes that the provision for expected credit losses, in accordance with AASB 9, is sufficient to address any potential write-offs arising from the current economic environment and will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices. In the COVID-19 environment to date, Zip, through its strong credit risk management, has not experienced a material increase in actual bad debts write-offs as a percentage of consumer receivables.

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

| | ZIP AU $'000 | ZIP GLOBAL $'000 | ZIP BUSINESS $'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** |

| | ZIP AU $'000 | ZIP GLOBAL $'000 | ZIP BUSINESS $'000 | CONSOLIDATED $'000 |
|---|---|---|---|---|
| Gross customer receivables | 1,795,781 | 246,116 | 69,683 | 2,111,580 |
| Unearned future income | (12,835) | (4,337) | – | (17,172) |
| Provision for expected credit losses | (81,349) | (22,016) | (3,007) | (106,372) |
| **Balance at 30 June 2021** | **1,701,597** | **219,763** | **66,676** | **1,988,036** |

The following table summarises reconciliations of provision for expected credit losses in the reporting periods:

| | ZIP AU $'000 | ZIP GLOBAL $'000 | ZIP BUSINESS $'000 | CONSOLIDATED $'000 |
|---|---|---|---|---|
| **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** |
| Taken on acquisition | – | 5,002 | – | 5,002 |
| Provided for the year | 67,469 | 55,603 | 809 | 123,881 |
| Receivables written-off during the year | (37,978) | (40,627) | (1,700) | (80,305) |
| Recoveries during the year | 4,079 | 1,657 | 39 | 5,775 |
| **Balance at 30 June 2021** | **81,349** | **22,016** | **3,007** | **106,372** |

# Notes to the Preliminary Final Report

Continued

## NOTE 12: INVESTMENTS AT FVTPL

| | CONSOLIDATED $'000 |
|---|---|
| **Balance at 30 June 2020** | **82,931** |
| Derecognition on acquisition of QuadPay | (82,931) |
| Additional investments | 14,488 |
| Fair value gain on revaluation | 4,436 |
| Unrealised foreign exchange gain | 110 |
| **Balance at 30 June 2021** | **19,034** |

At 30 June 2020, the investment in QuadPay was recorded at $82.9 million as an investment measured at FVTPL, which represented the fair value of Zip's 14.09% interest in QuadPay. At the time of Zip's acquisition of the remaining 85.91% interest in QuadPay, Zip's existing investment was derecognised as Zip obtained control over QuadPay at the acquisition date of 31 August 2020. QuadPay became a fully owned subsidiary of the consolidated entity from this date, with its financial position and profit and loss consolidated into the consolidated entity for reporting.

Zip invested $3.2 million in Twisto – a Czech Republic based payments and wallet platform company in December 2020. Zip invested an additional $11.3 million in Twisto in the second half year taking Zip's ownership interest to 12.37%.

The investment is reported as an investment measured at FVTPL as the Directors of the consolidated entity did not consider that the consolidated entity was able to exercise control or significant influence over Twisto at 30 June 2021.

For the financial year ended 30 June 2021, the consolidated entity reported a $4.5 million gain on the revaluation of Zip's ownership interest in Twisto. The fair value gain on revaluation includes a gain on fair value measurement of $4.4 million on valuing Zip's shareholding based on the last capital injection on 1 June 2021 and an unrealised foreign exchange gain of $0.1 million in translating the investment from EUR to AUD.

On 24 May 2021, Zip announced its intention to acquire the remaining 87.63% equity stake in exercising its call option at an enterprise value of approximate €89 million subject to certain completion adjustments. The completion of the condition precedents to the call option including the issuance of Zip shares to satisfy the purchase is expected to occur in the quarter ending December 2021. With the call option exercised and the conditions precedent to the acquisition completed, which may include the issuance of Zip's shares, the consolidated entity will have control in Twisto and, as at the acquisition date, be required to consolidate the fair value of Twisto's identifiable assets and liabilities with any residual amount allocated to goodwill or a gain from a bargain purchase in accordance with the principles of AASB 3.

## NOTE 13: LEASES

The consolidated entity has recognised right-of-use assets and lease liabilities 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 consolidated entity has not received any rent concessions for its property leases during the year ended 30 June 2021. As the COVID-19 pandemic still exists, management consider the shift to working from home and the resulting impact on office space requirements 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 2021. The consolidated entity does not intend to break or early terminate any of its property leases. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

### A. RIGHT-OF-USE ASSETS

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

| CONSOLIDATED | $'000 |
|---|---|
| **Carrying Amount** | |
| Balance at 30 June 2020 | 8,160 |
| **Balance at 30 June 2021** | **5,849** |

| CONSOLIDATED | $'000 |
|---|---|
| **Cost** | – |
| Balance at 30 June 2020 | 10,637 |
| Addition on the acquisition of QuadPay | 1,619 |
| **Balance at 30 June 2021** | **12,256** |

| CONSOLIDATED | $'000 |
|---|---|
| **Accumulated depreciation** | |
| Balance at 30 June 2020 | 2,477 |
| Depreciation | 3,930 |
| **Balance at 30 June 2021** | **6,407** |

### B. LEASE LIABILITIES

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

| CONSOLIDATED | $'000 |
|---|---|
| **Lease Liabilities** | |
| Balance at 30 June 2020 | 8,414 |
| Addition on the acquisition of QuadPay | 1,619 |
| Interest expense on lease liabilities | 244 |
| Repayment of lease liabilities | (3,981) |
| **Balance at 30 June 2021** | **6,296** |

Amounts recognised in profit and loss for the periods:

| | CONSOLIDATED | |
|---|---|---|
| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
| Depreciation expense on right-of-use assets | 3,930 | 2,477 |
| Interest expense on lease liabilities | 244 | 253 |
| Expense relating to short-term leases | 1,507 | 1,335 |

Expenses relating to short-term leases are reported in occupancy expenses in the preliminary Statement of Profit and Loss together with the cost of utilities and other office expenses, and are reported as a cash flow to operating activities in the preliminary Consolidated Statement of Cash Flows.

# Notes to the Preliminary Final Report

Continued

## NOTE 14: INTANGIBLE ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
| **Carrying amounts** | | |
| Brand names and trademarks | 80 | 128 |
| Customer database | 1,026 | 1,501 |
| Transacting partner database | 71,385 | 1,207 |
| IT development and software | 135,242 | 22,257 |
| | **207,733** | **25,093** |

| 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 2020 | 298 | 2,122 | 1,472 | 37,129 | 41,021 |
| Taken on acquisition | 42,570 | – | 84,655 | 129,191 | 256,416 |
| Additions | – | – | – | 12,220 | 12,220 |
| Written off[1] | (42,570) | – | – | - | (42,570) |
| **Balance at 30 June 2021** | **298** | **2,122** | **86,127** | **178,540** | **267,087** |

| 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 2020 | 170 | 621 | 265 | 14,872 | 15,928 |
| Additions | 48 | 475 | 14,477 | 28,426 | 43,426 |
| **Balance at 30 June 2021** | **218** | **1,096** | **14,742** | **43,298** | **59,354** |

1. The acquired QuadPay brand of $42.6 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2021.

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

The impairment assessment of intangible assets is detailed in Note 15.

## NOTE 15: GOODWILL

The consolidated entity has four cash-generating units (CGUs) at 30 June 2021 as set out in the following table. Goodwill has been allocated to these CGUs. Goodwill recognised in the financial year ended 30 June 2021 arises on the acquisitions of QuadPay and Urge and reflects potential synergies and the growth potential of the acquired entities.

| CONSOLIDATED | ZIP AU $'000 | ZIP NZ&UK[1] $'000 | ZIP US[2] $'000 | ZIP BUSINESS $'000 | CONSOLIDATED $'000 |
|---|---|---|---|---|---|
| Balance at 30 June 2020 | 4,548 | 46,781 | – | 2,112 | 53,441 |
| Add: amount recognised on acquisitions | – | – | 1,151,403 | – | 1,151,403 |
| Less: share value not reflected in goodwill | – | – | (415,910) | – | (415,910) |
| Balance at 30 June 2021 | 4,548 | 46,781 | 735,493 | 2,112 | 788,934 |

1. Zip NZ and UK were acquired as part of acquisition of PartPay and are considered as one CGU for impairment assessment purposes. Quad and Urge operations are considered as Zip US CGU for impairment assessment purposes. Zip US, NZ and UK are included in Zip Global in the consolidated entity's segment reporting and other reporting presentations in this preliminary final report.

2. The share value not reflected in goodwill of $415.9 million was recognised for the financial year ended 30 June 2021 for the Zip US CGU due to the net adjustment relating to the acquisition of QuadPay. Refer to Note 7 for details.

### IMPAIRMENT ASSESSMENT FOR GOODWILL, INCLUDING INTANGIBLE ASSETS:

For the purpose of impairment testing, goodwill, together with intangibles, is allocated to each of the consolidated entity's CGUs.

As at 30 June 2021, for each of the consolidated entity's CGUs, the recoverable amount has been calculated based on value-in-use using cash flow projections based on financial budgets and forecasts covering a five-year period and an estimated terminal value, using a pre-tax discount rate reflecting an estimate of the weighted average cost of capital (WACC). Cash flows beyond the five-year period were extrapolated using a steady long term annual growth rate which did not exceed the long term average for the sectors and economies in which the CGUs operate. The steady long term growth rate was estimated by the directors based on past performance of the cash-generating unit and the growth expectations for the markets in which they operate.

Key rates included in the impairment testing are set out in the following table:

| AT JUNE 2021 | ZIP AU % | ZIP NZ&UK % | ZIP US % | ZIP BUSINESS % |
|---|---|---|---|---|
| Pre-tax discount rate | 11.1% | 20.1% | 20.1% | 29.6% |
| Long term annual growth rate | 2.5% | 2.5% | 4.0% | 2.5% |

Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transactions volumes for the Zip AU, Zip NZ&UK and Zip US CGUs, and future originations for the Zip Business CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. The impact of COVID-19 on the markets in which the CGUs operate has been considered in determining the forecasts.

For each of the CGUs, the carrying amount does not exceed the recoverable amount therefore no impairment of goodwill and intangible assets at 30 June 2021 has been recorded (No impairment charge was reported in the financial year ended 30 June 2020).

In addition to the detailed impairment testing performed, management compared Zip's market capitalisation to the consolidated entity's equity book value of $1,168.4 million at 30 June 2021. Zip's market capitalisation is significantly in excess of the consolidated entity's equity book value which supports the position that no impairment is required.

Management have conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. Forecast transaction volumes or originations are the key drivers in determining the cash flow projections for each CGU. In the event that transaction volumes or originations do not reach the levels forecast there is a risk that the forecast cash flows are not sufficient to support the carrying value of goodwill and an impairment charge may be reported in a future accounting period.

# Notes to the Preliminary Final Report

Continued

The percentage reduction in the forecast compound annual growth rate (CAGR) in transaction volumes or originations over the 5 year forecast period, and increase in pre-tax discount rate, that would reduce the excess of the recoverable amount over the carrying amount for each CGU to zero, but would not result in an impairment charge,
is summarised in the following table:

| AT JUNE 2021 | ZIP AU | ZIP NZ&UK | ZIP US | ZIP BUSINESS |
|---|---|---|---|---|
| Percentage reduction in the forecast CAGR of transaction volumes/originations | 68.5% | 43.7% | 25.8% | 2.1% |
| Increase in pre-tax discount rate | 54.5% | 46.4% | 14.8% | 3.1% |

Reducing the long term annual growth rate to zero, wound not result in an impairment charge for any of the CGU's.

## NOTE 16: DEFERRED CONSIDERATION

| DETAILS | DATE | $'000 |
|---|---|---|
| Balance | 30 June 2020 | 13,979 |
| Issue of shares | | (6,989) |
| **Balance** | **30 June 2021** | **6,990** |

Under the terms of the acquisition of PartPay Limited, Zip agreed to issue up to a maximum of NZ$15 million of deferred consideration in Zip shares or cash to the PartPay shareholders, subject to the achievement of minimum transaction volumes on the PartPay platform during the financial years 2020 and 2021.

The number of Zip's shares to be issued is calculated on the higher of $2.76 per Zip's share and a 5% discount to the volume weighted average price of Zip's shares on the ASX in the 10 trading days prior to the date of issue.

PartPay satisfied the performance milestones in the financial year 2020 and accordingly 1,091,742 shares were issued to the PartPay shareholders on 14 October 2020, valued at $7.0 million. Accordingly the balance of the contingent consideration has reduced to $7.0 million as at 30 June 2021.

PartPay satisfied the remaining performance milestones in the financial year 2021 and accordingly the contingent consideration equal to $7.0 million shares will be issued to PartPay shareholders. The number of Zip's shares to be issued will be calculated based on a 5% discount to the volume weighted average price of Zip's shares on the ASX in the 10 trading days prior to the date of issue. At the time of issuing this Preliminary Final Report, the shares remained unissued.

## NOTE 17: 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 warehouses and special purpose vehicles. 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 2021 $'000 | 30 JUNE 2020 $'000 |
| Secured loans | 1,663,137 | 1,082,087 |
| Add: accrued interest | 3,589 | 2,370 |
| Less: unamortised costs | (7,493) | (2,503) |
| | **1,659,233** | **1,081,954** |

## ASSETS PLEDGED AS SECURITY

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

| | CONSOLIDATED | |
|---|---|---|
| | 30 JUNE 2021 $'000 | 30 JUNE 2020 $'000 |
| Customer receivables[1] | 1,962,550 | 1,111,711 |
| Cash held by securitisation warehouse | 40,989 | 8,393 |
| | **2,003,539** | **1,120,104** |
| **Borrowings related to receivables[2]** | **2,007,889** | **1,162,486** |

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 credit losses and unearned future income. This excludes customer receivables totalling $25.5 million held by entities that are not securitisation vehicles at 30 June 2021 and $4.9 million at 30 June 2020.

2. Including $344.8 million junior and seller notes held by Zip's corporate entities ($80.4 million at 30 June 2020).

## TERM OF FACILITIES FINANCING ARRANGEMENTS

### Consumer Receivables

| | FACILITY LIMIT $'000 | DRAWN AT 30 JUNE 2021 $'000 | MATURITY |
|---|---|---|---|
| Zip Master Trust | | | |
| – Rated Note Series | | | |
| – 2019-1 | 475,000 | 475,000 | September 2021 |
| – 2020-1 | 285,000 | 285,000 | October 2022 |
| – 2021-1 | 475,000 | 475,000 | April 2024 |
| – Variable Funding Note | 513,700 | 145,350 | January 2022 |
| zipMoney 2017-1 Trust | 312,700 | 48,000 | May 2023 |
| zipMoney 2017-2 Trust | 70,000 | 47,000 | December 2022 |
| AR2LLC[1] | 399,042 | 148,803 | May 2024 |
| **Total** | **2,530,442** | **1,624,153** | |

### SME Receivables

| | FACILITY LIMIT $'000 | DRAWN AT 30 JUNE 2021 $'000 | MATURITY |
|---|---|---|---|
| Securitisation Warehouses | | | |
| Funding Box 3 Australia | 35,000 | 25,994 | January 2022 |
| Funding Box NZ[2] | 11,168 | 7,490 | February 2022 |
| Zip Biz 2020-1 Trust | 100,000 | 5,500 | November 2023 |
| **Total** | **146,168** | **38,984** | |

1. Facility limit USD $300.0 million translated to AUD at exchange rate of 0.7518.

2. Facility limit NZD $12.0 million translated to AUD at exchange rate of 1.0745.

Interest payable under all funding arrangements are based on an agreed margin plus BBSW/LIBOR with the exception of Funding Box 3 and Funding Box NZ which are subject to fixed rates.

# Notes to the Preliminary Final Report

Continued

## NOTE 18: ISSUED CAPITAL

### ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the consolidated entity in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the consolidated entity does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

| | 30 JUNE 2021 SHARES '000 | 30 JUNE 2021 $'000 | 30 JUNE 2020 SHARES '000 | 30 JUNE 2020 $'000 |
|---|---|---|---|---|
| Ordinary shares – fully paid | 562,136 | 1,688,785 | 390,390 | 274,151 |
| | **562,136** | **1,688,785** | **390,390** | **274,151** |

### MOVEMENTS IN ORDINARY SHARE CAPITAL

| DETAILS | DATE | SHARES '000 | $'000 |
|---|---|---|---|
| Balance | 30 June 2020 | 390,390 | 274,151 |
| Issue of shares – employee incentives | | 11,637 | 141,758 |
| Issue of shares – capital raising | | 33,191 | 176,710 |
| Issue of shares – exercise of options | | 6,618 | 1,342 |
| Issue of shares – acquisitions | | 119,208 | 1,090,741 |
| Issue of shares – PartPay contingent consideration | | 1,092 | 6,989 |
| Cost of issuing shares | | – | (2,906) |
| **Balance** | **30 June 2021** | **562,136** | **1,688,785** |

### MOVEMENTS IN OPTIONS

| DETAILS | DATE | OPTIONS '000 |
|---|---|---|
| Balance | 30 June 2020 | 9,800 |
| Issue of options on the acquisition of QuadPay | | 10,480 |
| Options exercised | | (6,618) |
| Options expired not exercised | | (3,920) |
| **Balance** | **30 June 2021** | **9,742** |

### MOVEMENTS IN PERFORMANCE RIGHTS

| DETAILS | DATE | RIGHTS '000 |
|---|---|---|
| Balance | 30 June 2020 | 3,109 |
| Issue of performance rights | | 4,092 |
| Lapsed performance rights | | (424) |
| **Balance** | **30 June 2021** | **6,777** |

### MOVEMENTS IN WARRANTS

| DETAILS | DATE | WARRANTS '000 |
|---|---|---|
| Balance | 30 June 2020 | 14,615 |
| Issue of warrants[1] | | 19,365 |
| **Balance** | **30 June 2021** | **33,980** |

1. Refer to Note 6 for details of the warrants issued to CVI.

On 7 November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited (Amazon Australia) whereby Zip was 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 exercisable based on achievement of certain performance hurdles (Amazon Warrants).

The Amazon Warrants were independently valued by an external valuer using a custom-built Monte Carlo model which simulates share price paths over the duration of the warrants' life. As a result, each Amazon Warrant has been valued at $1.65 which approximates the value of the service received. 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 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. Unvested Amazon Warrants are subject to early expiration in certain circumstances, including in the event that the applicable vesting milestones are not met by specified dates. An expense of $1.8 million has been recognised for the year ended 30 June 2021 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.

There were no Amazon Warrants exercised or expired during the year ended 30 June 2021, and no milestones were met in the period up to 30 June 2021.

### MOVEMENTS IN CONVERTIBLE NOTES

| DETAILS | DATE | CONVERTIBLE NOTES |
|---|---|---|
| Balance | 30 June 2020 | – |
| Issue of convertible notes on 1 September 2020 | | 1,000 |
| Issue of convertible notes on 23 April 2021[1] | | 2,000 |
| **Balance** | **30 June 2021** | **3,000** |

1. Refer to Note 6 for details of the convertible notes issued. The issuance of 2,000 convertible notes on 23 April is listed in Singapore Exchange (SGX).

### ADDITIONAL INFORMATION RELATING TO UNISSUED SECURITIES

#### PERFORMANCE SHARES THAT MAY BE ISSUED TO URGE VENDORS

Under the terms of the acquisition of Urge Holdings Pty Ltd, Zip agreed to issue up to a maximum of $5.5 million of shares to the vendors as the 'milestone consideration' based on the achievement of certain prescribed performance milestones. The measurement period for determining whether the milestones have been satisfied commenced in April 2021. The milestone consideration may also become payable early as a result of specific acceleration events.

The full terms of the milestone consideration, including the requirement for the vendors to remain employed, and details of the Urge acquisition were included in Zip's ASX announcement on 26 October 2020.

In summary, depending on the relevant milestone that is achieved, Zip's shares will be issued at either an issue price of $6.8439 per share, or an issue price equal to the higher of $6.00 per share, and Zip's volume weighted average price of its shares in the 30 trading days prior to their applicable issue date.

# Notes to the Preliminary Final Report

Continued

The maximum number of shares that may be issued on the achievement of the milestones is 916,660 (which was determined based on an agreed minimum price of $6.00 per share). If, when any shares are issued as the milestone consideration, Zip's share price is less than $6.00, Zip will be required to pay a 'true up' amount in cash to the vendors for the difference. The milestones must generally be satisfied by no later than 3.5 years after the acquisition date of 26 October 2020, as otherwise, the right to receive the milestone consideration will lapse. No milestones were satisfied during the reporting period, and no shares were issued as the milestone consideration during the reporting period.

### TENURE CONSIDERATION SHARES AND PERFORMANCE CONSIDERATION SHARES THAT MAY BE ISSUED TO QUADPAY FOUNDERS

Under the terms of the acquisition of QuadPay Inc., Zip agreed to issue the QuadPay Founders a maximum of 5,000,000 Shares (split equally) (Tenure Consideration Shares). The Tenure Consideration Shares will be issued in equal instalments in the two-year period after completion of the transaction, which occurred on 31 August 2020, subject to the QuadPay Founders continuing to remain employed with QuadPay. In addition, Zip agreed to issue up to a maximum amount of US$60 million at Zip's discretion either in cash or by the issue of up to a maximum of 24,570,024 shares (Performance Consideration Shares), split equally between each QuadPay Founder subject to the achievement of certain prescribed minimum Total Transaction Volume (TTV) performance targets on the QuadPay platform during the period from 1 January 2020 to 30 June 2022, and remaining employed during this period.

The first performance target was met by the QuadPay Founders, with the TTV on the QuadPay platform for the rolling three months to 31 December 2020 exceeding the TTV performance targets.

Accordingly, Zip issued 5,398,824 shares on 24 May 2021 to the QuadPay Founders as part of the Performance Consideration Shares. The number of Zip's shares issued was calculated based on the volume weighted average price of Zip's shares on the ASX in the 15 trading days prior to the date of issuance.

A share-based payment expense of $102.7 million has been recognised in the period in relation to the Performance Consideration Shares issued to QuadPay Founders (refer to Note 4).

## NOTE 19: SUBSEQUENT EVENTS

To the date of the release of this report, there have been no material items, transactions or events subsequent to 30 June 2021 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

This page has been left blank intentionally.

**INVESTOR ENQUIRIES**
Zip Co Limited
investors@zip.co
Level 14, 10 Spring Street
Sydney NSW 2000

ACN 139 546 428