28 January 2022

Zebit, Inc.
https://zebit.com/

ZEBIT QUARTERLY ACTIVITIES REPORT
4Q ENDING 31 DECEMBER 2021

San Diego-based Zebit, Inc. (ASX: **ZBT**) (**Zebit** or the **Company**), an ESG-focused eCommerce company committed to changing the lives of US credit-challenged consumers, releases its Appendix 4C Quarterly Cash Flow Report for the quarter ended 31 December 2021 (**4Q21**). The Appendix 4C and information below are unaudited and expressed in US dollars under US GAAP unless otherwise noted.

UPDATE ON 3Q21 REVISED GUIDANCE

The Company provided revised guidance in 3Q21 related to its growth for the remainder of FY21 and focus on producing stronger operating metrics. The Company noted that starting in November of 4Q21, it would target achieving a Contribution Margin of 12.0%-14.0%[1], Bad Debts of 12.0%-13.5%[2] (excluding any prior period accounting adjustments for Bad Debts from older revenue months), and a GPAPA%[3] of 7.0%-8.5% for all new order months. The Company began executing this revised approach in the beginning of November with an emphasis on generating a significant percentage of its monthly revenue from tenured customers who have historically generated lower Bad Debts and higher Contribution Margin per order.

Starting in November of 4Q21, the Company:

- Targeted marketing expenditures to acquire higher quality registrants at a lower cost per registrant, averaging US$10.9 for November and December combined vs US$19.1 for October;
- Lowered the initial spending limit for new registrants from an average of US$1,325 to US$1,100 and raised their initial down payment at checkout from 20%-35% to 30%-35% to drive higher cash collections up front and lower expected Bad Debts on new orders;
- Raised the down payment at checkout for tenured customers from 14.5%-20% to 20%-25% to offset incremental Bad Debts;
- Increased Gross Margin[4] across the platform by selling a wider product assortment throughout the holiday period;
- Implemented new technology enhancements at registration to mitigate third-party fraud actors from applying for Zebit with stolen identities;
- Deployed multifactor authentication for risky login attempts to stop fraudulent parties from trying to use compromised usernames and passwords believed to be obtained on the dark web[5] to attempt credential stuffing attacks[6];

---

[1] Contribution Margin is Gross Margin less the provision for Bad Debts.

[2] The provision for Bad Debts is the estimate of Bad Debts that Zebit expects to book for historical revenue vintages with a positive underlying Accounts Receivable balance. The initial provision is estimated utilising forecasts provided by Zebit's data science team at the end of each month and is adjusted for actual Bad Debts and any recoveries related to payments received after the receivable has been written off. The provision for Bad Debts is not a static number at any point in time, as it is influenced by new revenue months, potential adjustments from prior periods, and offsets related to recoveries of written off debt and other factors.

[3] GPAPA% is defined as Gross Profit After Paid Acquisition and is calculated as Contribution Margin less direct marketing acquisition costs as a percent of revenue.

[4] Gross Margin is defined as the Product Margin less shipping profit or loss, logistics costs, and refunds. Product Margin is defined as the sales price for a product less its cost of goods sold.

[5] https://www.idx.us/knowledge-center/how-thieves-convert-your-identity-into-cash-on-the-dark-web.

[6] Credential stuffing is a type of cyberattack in which stolen account credentials, typically consisting of lists of usernames and/or email addresses and the corresponding passwords (often from a data breach), are used to gain unauthorized access to user accounts through large-scale automated login requests directed against a web application. https://en.wikipedia.org/wiki/Credential_stuffing.

- Contracted with a leading technology company to provide supplemental identity authentication for prospective applicants and existing customers to reduce fraud; and
- Renegotiated major data provider contracts to lower Zebit's cost structure going into FY22.

4Q21 HIGHLIGHTS[7]

- Spent US$756K in total marketing, with approximately US$565K in October, US$143K in November, and US$49K in December to acquire approximately 47K new registrants;
- Total marketing cost per registrant averaged US$16.1 during the quarter, with November at US$15.2, and December at US$6.0;
- Revenue of US$31.4M;
- Revenue mix included 30% from customers who had not yet paid off an order and 70% from tenured customers who had paid off at least one order over six months;
- Average Order Value of US$306;
- Gross Margin of 26.7%;
- Initial provision for Bad Debts (excluding prior period adjustments) of 14.0%;
- Contribution Margin of 12.7%; and
- GPAPA of 10.3%.

BUSINESS UPDATE

The Company made prior period adjustments to Bad Debts in 2021. In prior earnings releases, the Company believed that elevated Bad Debts originated from increased credit risk associated with volatility in customer repayments coming out of a period of prevalent US government cash subsidies for consumers. While the Company tightened credit underwriting in mid-May to address the emerging pattern, elevated Bad Debts continued to be higher than forecasted on older vintages into 3Q21.

In late 3Q21, Zebit implemented a proprietary fraud-detection model built from internal fraud data extrapolated from prior orders. The model revealed that sophisticated fraud rings established new accounts during 2021 using stolen identities with high credit quality. In mid-October, Zebit purged the platform of suspected fraudulent accounts and implemented new fraud prevention measures. Since that time, the Company has not detected the type and scope of fraud activity that was evidenced earlier in the year.

Prior to ramping up marketing acquisition in FY22, Zebit intends to install additional technology to provide multifactor identity authentication of both new applicants and existing customers to further minimize the risk of fraud-related losses. Lastly, Zebit's Chief Credit Officer transitioned out of the business in mid-November, with the Data Science and Fraud Operations teams operating under new leadership and reporting directly to the President and CEO.

4Q21 KEY METRICS

Zebit booked a prior period accounting adjustment of US$2.3M to Bad Debts for 2Q21-3Q21 order months. As reflected in the table below, the adjustment was fully burdened to the Bad Debts in 4Q21, as required by US GAAP.

[7] The 4Q21 Highlights section excludes the prior period adjustment to Bad Debts documented in the 4Q21 Key Metric section.

All figures below are shown in US$

Key Metrics US$M (unaudited)	4Q21 Including Prior Period Adjustments[8]	4Q21 Underlying Performance[9]	Variance
Revenue	$31.4M	$31.4M	-
Gross Margin	26.7%	26.7%	-
Provision for Bad Debts	21.3%	14.0%	7.3 points
Contribution Margin	5.40%	12.7%	(7.3) points
GPAPA $[10]	$0.9M	$3.2M	($2.3M)
GPAPA %	3.0%	10.3%	(7.3) points
EBITDA	($4.0M)	($1.7M)	($2.3M)
Net Income	($4.9M)	($2.7M)	($2.3M)

OUTLOOK

The Company is heavily focused on improving its financial performance and lowering its overall cost structure. It intends to implement projects in FY22 to realize these objectives, including:

- Targeting spend in marketing channels to acquire higher credit quality customers at a lower cost per registrant;
- Leveraging the "subscription-like" revenue generated from its core tenured customers that has historically produced lower Bad Debts and higher Contribution Margin per order;
- Implementing a first payment default model at registration that replaces current underwriting decisions and establishes initial spending limits and down payment percentages at checkout;
- Investing in additional technology and human capital on the Data Science team to combat fraud; and
- Reducing costs across all areas of the business to maximize profitability.

APPENDIX 4C CASH FLOW PERFORMANCE

Zebit, Inc. ended 4Q21 with a cash balance of approximately US$7.9M[11].

A summary of the operating cash outflows can be found below:

- Cost of goods sold were US$21.6M, up US$0.7M from 3Q21;
- Administrative and corporate costs were US$1.9M, flat compared to 3Q21;
- Advertising and marketing expenses were US$1.0M, down US$2.8M from 3Q21; and
- Staff costs were US$2.5M, up US$255k from 3Q21 as temporary labour for FY21 was reclassed to staff costs in 4Q21.

[8] Results includes a prior period adjustment of US$2.3M to Bad Debts for 2Q21-3Q21 order months.

[9] 4Q21 underlying performance does not include the prior period adjustment to Bad Debts. Underlying performance is based on an initial Bad Debts Provision for the orders months within the quarter. It is important to note that the initial Bad Debts Provision for any order month is the estimate of Bad Debts that Zebit expects to take for historical revenue vintages with a positive underlying Accounts Receivable balance. The initial provision is estimated utilising forecasts provided by Zebit's data science team on a monthly basis and is adjusted for actual Bad Debts and any recoveries related to payments received after the receivable has been written off. Bad Debts Provision is not a static number at any point in time, as it is influenced by new revenue months, potential adjustments from prior periods, and offsets related to recoveries of written-off debt and other factors. In short, 4Q21 underlying performance is an estimate subtracting out the prior period adjustments allocated to the quarter from 2Q21-3Q21.

[10] GPAPA $ is defined as Gross Profit After Paid Acquisition and is calculated as Contribution Margin less direct marketing acquisition costs.

[11] The ending cash balance includes US$7.7M of unrestricted cash and US$150K of restricted cash.

As noted in the Appendix 4C, the Company made payments of US$103K for salaries and benefits to the CEO as a Director of the entity. No other payments were made to any related parties or their associates of the entity.

During the fourth quarter, the Company drew an additional US$858K from its debt funding facility (“Facility”) with Bastion Consumer Funding II (“Bastion”) to support the peak holiday accounts receivable growth. This brought the total funding on the Company’s revolving line of credit to approximately US$15.4M at the end of the December.

The advance rate (which is the proportion of the cost of goods sold that is funded by the line of credit) for the Company was decreased from 90% to 80% for new orders booked starting in January 2022. The advance rate will be reviewed by Bastion at the end of each month. Additionally, the Company has amended the Facility starting in February 2022 to reduce the line size from US$35M to US$23M to align with its growth and to avoid paying additional interest expense on unused funds. Concurrent with the reduction of the line amount, the covenant requiring Company to maintain US$5M unrestricted cash has been modified to US$2M unrestricted cash.

AUTHORIZATION

This announcement was approved by Zebit’s Board.

About Zebit, Inc.

ASX-listed Zebit, Inc. (ZBT: ASX) or (“Zebit”) is a California based, ESG eCommerce company that is dedicated to changing the lives of US credit-challenged consumers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit was founded in 2015 and operates in all 50 states across the US.

For more information, visit: https://zebit.com/

CONTACTS

For investor and PR enquiries, please email:

IR@zebit.com

Zebit’s CHESS Depositary Interests (CDIs) are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers of securities which are made outside of the US Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US As a result of relying on the Regulation S exception, the CDIs are ‘restricted securities’ under Rule 144 of the Securities Act. This means that you are unable to sell the CDIs into the US or to a US person who is not a QIB for the foreseeable future except in very limited circumstances after the end of the restricted period, unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. To enforce the above transfer restrictions, all CDIs issued bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to US persons excluding QIBs. However, you are still able to freely transfer your CDIs on ASX to any person other than a US person who is not a QIB. In addition, hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.