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

ZEBIT FY21 FULL YEAR FINANCIAL RESULTS

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 fiscal year results ended 31 December 2021 (**FY21**). FY21 results presented below are audited and expressed in US dollars under US GAAP unless otherwise noted.

HIGHLIGHTS

- Acquired over 400K new registrants;
- Average cost per registrant of US$24.25;
- Revenue of US$116.6M[1];
- Average Order Value of US$305[2];
- Gross Margin of 25.8%[3];
- Provision for Bad Debts of 17.7%[4];
- Contribution Margin of 8.1%[5];
- EBITDA loss (excluding stock compensation expense) of US$18.1M; and
- Net Loss After Tax of US$21.0M.

YEAR-END SUMMARY

Background

The macroeconomic environment in the US was highly unstable throughout 2020-2021. During this time, the US government distributed multiple untargeted cash subsidies to consumers to combat the impact of COVID-19 on the economy. These subsidies, by and large, increased household disposable income as compared to pre-COVID-19 levels. Many consumers used the subsidies to pay down debt and buy new products and services. From a creditor's perspective, consumer credit quality was somewhat masked due to forbearances on mortgages, rent, and student loans coupled with deferments on car payments, credit card bills, and other expenses. In addition, credit bureaus stopped updating credit scores related to forbearances and deferments to avoid penalizing consumers for the aftermath of COVID-19[6]. These factors made predicting a consumer's true ability to pay and the likelihood of repayment difficult in 2021 until there was clarity that various forms of financial assistance were being gradually phased out.

[1] Revenue is the gross merchandise value (GMV) plus shipping revenue plus net margin on warranties sold less any post month adjustments for customer rebates. Revenue is recognized at the point the product is delivered to the end buyer.

[2] Average Order Value (AOV) is defined as revenue divided by the number of orders delivered to the end customer base.

[3] 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.

[4] 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 for each monthly revenue cohort by applying historical loss data against a segmented view of the monthly revenue cohort that considers prior repayment history, customer tenure and repayment methods. The initial provision is net of any expectation of 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 as collection experience matures, and offsets related to recoveries of written off debt and other factors.

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

[6] https://www.fico.com/en/covid-19-credit-reporting-impact-US.

COVID-19 also impacted the US labour market, resulting in business closures, lockdowns, and almost 11M jobs left unfilled by the end of 2021[7]. This was further exacerbated by the divergent efforts of the US federal and state governments in managing the spread of COVID-19 and the Delta and Omicron variants. In the end, supply chain shortages and strong inflation continue to persist in the US into 2022, impacting prices of necessary items such as diapers, food staples, and gasoline. Increased prices placed more pressure on US households; especially those struggling to make ends meet after cash subsidies ceased.

Company

In late October 2020, during the pandemic, Zebit completed its initial public offering (**IPO**) and entered 2021 delivering strong results against its twelve-month Prospectus forecast for the period 1 July 2020 to 30 June 2021. The Company subsequently outlined revenue guidance of US$140M-$US150M for FY21, representing hyper-growth of 60%-71% on FY20 in its May 2021 Annual General Meeting. Zebit was on track to deliver against this guidance throughout the first three quarters of last year. However, in its 3Q21 earnings release, the Company, lowered its revenue guidance for FY21 to US$118M-US$123M, representing 35%-40% growth on FY20, with the intent to manage 4Q21 more conservatively by aligning the Company's growth path and core operating metrics with other eCommerce companies traded on the ASX. While the Company could have continued to pursue its original hyper-growth objectives, after observing the downward trend in the Company's stock price, receiving investor feedback, and taking into account the low valuation attributed to the business after posting positive results, the Board of Directors and Management concluded that it would benefit the Company to pursue a more conservative growth path that included a clear line of sight to profitability, stronger operating metrics, and a lower overall cash burn rate.[8]

The revised approach, implemented in November of 4Q21, is expected to generate increased Contribution Margin by leveraging the strong recurring annual revenue from tenured customers that have historically generated lower Bad Debts and a higher average Contribution Margin per order, while acquiring a smaller set of higher quality new registrants at a lower cost and with more stringent underwriting.[9]

Zebit ended 2021 with US$7.7M of unrestricted cash and US$15.4M drawn in debt from its facility ("Facility") with Bastion Consumer Funding II ("Bastion"). In February 2022, the Company's Facility with Bastion was amended to (i) reduce the borrowing base limitation to 80% of the cost of goods sold on eligible receivables, with respect to any eligible receivables originated on or after January 1, 2022, (ii) reduce the principal borrowing amount from US$35.0 million to US$23.0 million, and (iii) amend the financial covenant for the minimum unrestricted cash balance from US$5.0 million to US$2.0 million.

The reduction in advance rate and other amendments to the Facility were reported in the Company's 4Q21 earnings release. The advance rate is the proportion of the cost of goods sold that is funded by the Facility. The Company reduced the size of the credit line from US$35M to US$23M to align with its more measured growth and to avoid paying additional expenses on unused funds.

Management Team

The management team evolved in 2021, bringing new skills and capabilities to move the business toward its objective of being profitable in FY23. In FY21, Zebit hired its first Chief Revenue Officer, Joseph Liu, to manage marketing, product, site optimization, merchandising, and customer care. Zebit's Chief Credit Officer, transitioned out of the Company in mid-November of 2021, with the credit and data science teams now being led by Jacob Humber and reporting to the CEO. The newly hired CFO decided to voluntarily transition out of the Company, given the Company's pursuit of the delisting. The Company is actively engaged in an executive search

[7] https://www.cnbc.com/2021/12/08/october-jolts-report-shows-11-million-openings-as-quits-remain-high.html.
[8] Earnings release entitled: *Zebit Quarterly Activities Report and Growth Strategy Update, 3Q Ending 31 September 2021*, dated 28 October 2021.
[9] Earnings release entitled: *Zebit Quarterly Activities Report, 4Q Ending 31 December 2021*, dated 28 January 2022 noted that tighter underwriting for new registrants included lowering the initial spending limit for new registrants from an average of US$1,325 to US$1,100 and raising their initial down payment at checkout from 20%-35% to 30%-35% in order to drive higher cash collections up front and lower expected Bad Debts on new orders.

to replace the skill set. Lastly, Kerissa Hollis was promoted to General Counsel and Chief Compliance Officer at the end of the year, managing legal, regulatory, and the compliance functions.

Regulatory Environment

It is important to note that Zebit is not a buy now, pay later (**BNPL**) credit program. The Company is an eCommerce business that operates under retail installment sales laws in all 50 states and offers in-house financing for products it sells to underwitten consumers. Zebit's business model is very different from a BNPL player in terms of how it makes money. Zebit makes money from the products that it sells, and the Company only finances what it sells. This is a very different business model than that of BNPL programs that contract with retailers and earn a percentage of the purchase price to finance a consumer's transaction with the retailer.

In recent months, the Consumer Financial Protection Bureau (**CFPB**), a US consumer finance regulator, began investigating the BNPL sector.[10] The CFPB ordered five companies - Affirm, Afterpay, Klarna, PayPal, and Zip - to provide information regarding their BNPL credit programs and has also invited public comment on this segment of the consumer financial market. The CFPB expects to publish findings on the risks of these programs concerning (i) accumulation of debt, (ii) regulatory arbitrage, and (iii) data harvesting. The CFPB noted that lenders have said BNPL is a safer alternative to credit card debt, and serves consumers with subprime credit histories. The CFBP highlighted some concerns, however, including that the ease of getting these loans will lead to consumers losing track of their purchases and spending more than anticipated, causing them to accumulate significant debt. In addition, the CFPB expressed concern that BNPL companies are not adequately applying relevant consumer protection laws to their products, such as requirements to provide disclosures or dispute resolution protections. Lastly, the CFPB raised concerns associated with BNPL lenders having access to consumers' payment histories and using that data to engage in behavioral targeting and data monetization.

The CFPB stated it will coordinate with the Federal Reserve System and state partners, and work with international partners in Australia, Sweden, Germany, and the UK, specifically, the Financial Conduct Authority.

KEY METRICS

The table below includes key metrics from FY19-FY21. It is important to note when comparing across years that FY20 results were heavily impacted by the Company's constrained growth from March to September 2020 to preserve capital until the Company's IPO in late October 2020. This resulted in a greater mix of orders from tenured customers on the platform which increased the overall Contribution Margin of booked revenue due to lower Bad Debts from these segments. In addition, the Company believes US government cash subsidies greatly improved cash collections for both new and existing customers in 3Q20-4Q20, lowering the Company's Bad Debts to historic levels. These factors were not present in 2021.

All numbers below are shown in US$ and are audited according to US GAAP.

Key Metrics US$M (audited)	FY19	FY20	FY21	FY21/20 Variance
Revenue	$85.5M	$87.7M	$116.6M	33%
Gross Margin	25.8%	26.3%	25.8%	(0.4) points
Provision for Bad Debts	17.4%	10.5%	17.7%	(7.2) points
Contribution Margin	8.4%	15.8%	8.1%	(7.7) points
EBITDA (w/stock comp)	($10.6M)	($3.7M)	($19.5M)	($15.8M)
EBITDA (excluding stock comp)	($10.3M)	($2.8M)	($18.1M)	($15.3M)
Net Loss After Tax	($12.4M)	($7.4M)	($21.0M)	($13.6M)

[10] https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-opens-inquiry-into-buy-now-pay-later-credit/

FY21 resulted in US$116.6M of revenue, a 33.0% YoY growth rate to FY20, but slightly less than the US$118M of revised market guidance published in the Company's 3Q21 earnings release. The Company spent approximately US$9.7M in direct marketing[11] (8.3% of revenue) to acquire over 400K new registrants in FY21, almost three times the total marketing expense in FY20 and the highest annual spend since the Company's inception. The high level of marketing expense to drive the acquisition of new registrants significantly reduced EBITDA and Net Income without the benefit of fully monetizing these registrants in 2021 to generate more top line growth.

Gross Margin as a percent of revenue in FY21 was slightly less than FY20, regardless of building a much wider assortment of goods, due to strong and consistent demand for e-certificates related to travel, entertainment, and home improvement in 2Q21-3Q21 which carried lower product margins.

Initial Bad Debts estimates for vintages prior to 4Q21 were impacted negatively due to decreased collection rates in late 2Q21 and into 3Q21 after the halo effect of US cash subsidies ended. The decline in collections, coupled with an increase of fraud activity from third parties using stolen identities on Zebit's platform, as noted in the Company's 4Q21 earnings release, increased terminal Bad Debts rates. Overall, Bad Debts performance did not meet the Company expectations in FY21; however, the Company believes it has resolved the fraud issue by implementing new technologies in mid-October while also significantly tightening its new customer underwriting. Zebit intends to install additional technology in 1Q22-2Q22 to provide multifactor identity authentication of both new applicants and existing customers to further minimise the risk of fraud-related losses.

Lastly, the Company noted in its 3Q21 earnings release that starting in November of 4Q21, it would target achieving a Contribution Margin of 12.0%-14.0%, Bad Debts of 12.0%-13.5% (excluding any prior period accounting adjustments for Bad Debts from older revenue months), and a GPAPA% of 7.0%-8.5% for all new order months.[12] While early, the initial underlying performance[13] of November to January revenue months appear aligned with these expectations. More data will be available regarding terminal performance as these revenue months continue to mature in FY22.

OUTLOOK

The Company continues to focus on improving its financial performance by lowering its overall cost structure and focusing on profitable growth through acquiring better quality new customers and continuing to drive high lifetime value with tenured customers that produce a material part of revenue at a higher Contribution margin per order. This strategy was implemented in November 2021 and remains the strategic approach being executed in FY22. The Company's overarching goal is to achieve EBITDA and Net Income profitability in FY23. Key projects related to customer engagement, credit and fraud risk, cost reduction, and automation have been prioritized and are being executed to support this goal.

The Company made a formal request for removal from the official list of ASX (the **Delisting**). The ASX has provided its consent to the Delisting on the conditions which are set out in the announcement titled *Zebit, Inc. Announces Voluntary Delisting* that was released on 11 February 2022. The Company plans to hold a special meeting of Shareholders (**Special Meeting**) for the purpose of approving the Company's delisting from the ASX on 16 March 2022 as indicated in the Notice of Meeting released to the market on 21 February 2022.

The Board of Directors and Management invite all shareholders to vote and attend the Special Meeting, and strongly encourage investors to vote yes on the resolution for the Company to Delist from the ASX. Upon a favourable vote to Delist, the Company would become a US private company and then embark on a capital raise from existing investors and new US investors interested in the business model. The reduced cost structure from

[11] Direct marketing expense excludes US$381K of employee expense related to marketing.
[12] 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.
[13] Underlying performance is based on an initial Bad Debts Provision for the orders months. In short, the underlying performance for order months for November 2021 – January 2022 is an estimate where no prior period adjustments for Bad Debts are added to the months.

being a private versus public entity, coupled with access to additional capital, will support the Company's goals of achieving profitability in FY23 and potentially open avenues to a new class of investors to further capitalise the business.

AUTHORISATION

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

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