

24 October 2023

1Q FY24 Results Update

Zip achieves positive Group cash EBTDA

Zip Co Limited (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announced its first quarter results for the three-month period ending 30 September 2023 (“**1Q24**”).

Zip continued its strong momentum and achieved positive cash EBTDA as a Group for 1Q24.

While the Company notes the current challenging external environment in its core markets, Zip now expects to achieve a positive Group cash EBTDA result for FY24. The improvement in guidance reflects the strength of the ANZ business, continued strong momentum in US total transaction volumes (“**TTV**”), ongoing margin expansion and continued cost discipline.

KEY HIGHLIGHTS

- Transaction volume for the quarter of \$2.3b (up 11.0% YoY)
- Strong group quarterly revenue of \$204.4m (up 31.9% YoY)
- Revenue margin improved to 8.9% (vs 7.5% in 1Q23)
- Transaction numbers for the quarter of 18.0m (up 6.1% YoY)
- Cash transaction margin improved to 3.5% for the quarter (up from 2.4% in 1Q23), another particularly strong result in a rising interest rate environment
- Active customer numbers at the quarter end of 6.1m
- US bad debts continued to perform well with monthly cohort loss rates approximately 1.3% of TTV, below the target range of 1.5% - 2.0%
- Key enterprise merchants signed or launched during the period included Amaysim, HBF Dental, R.M. Williams, Sheike & Co, Munro Footwear Group and Halloween.com
- Further deleveraging of Zip’s balance sheet with Zip’s Senior Convertible Notes outstanding face value reduced to \$110.1m at 30 September 2023
- Zip remains well funded with sufficient available cash and liquidity to support the Company as it achieves positive Group cash EBTDA for FY24

CEO UPDATE

Zip Group CEO and Managing Director, Cynthia Scott said:

“Zip delivered a positive cash EBTDA result as a Group for 1Q24, a significant milestone, reflecting the strength of the ANZ business, further strong momentum in US TTV, ongoing margin expansion and continued cost discipline. Zip continues to expect to achieve a positive Group cash EBTDA result for 2H24 and following a particularly strong start to the year, Zip now expects to achieve a positive Group cash EBTDA result for FY24.

Today’s result builds on our strong FY23 result and continued execution of our strategic objectives. Group revenue grew by 31.9% and revenue margins were 8.9%, up 140bps versus 1Q23. Cash transaction margin improved 110bps YoY to 3.5%, demonstrating the resilience of the business model in a challenging external environment. We also saw a further deleveraging of the balance sheet with the outstanding face value of the Senior Convertible Notes reducing to \$110.1m.

The result was driven by a strong performance in both core markets, with TTV growth in the US accelerating to 29.4% YoY, while maintaining solid credit performance at 1.3% of cohort TTV. The ANZ business expanded revenue margins again to 11.6% for the period. During the quarter, we launched new merchant relationships with Amaysim, HBF Dental, R.M. Williams, Sheike & Co, Munro Footwear Group and Halloween.com.

Looking ahead, Zip will continue to innovate and provide customers with better ways to pay and budget responsibly. We remain focused on driving sustainable growth and product innovation in our two core markets as we deliver on our mission to be the first payment choice, everywhere and every day.”

BUSINESS PERFORMANCE

Zip continues to deliver solid top-line numbers in its core markets of the Americas (US and Canada) and ANZ (Australia and New Zealand).

Reported figures are based on Zip's unaudited financials as of 30 September 2023. The growth rates presented in the table below include changes in the average exchange rate used this period versus the prior corresponding periods.

CONSUMER

Financial Performance ¹ (AUD)	1Q24	QoQ	YoY
Revenue	\$201.9m	10.2% ↑	34.5% ↑
Americas	\$97.8m	18.1% ↑	45.7% ↑
ANZ	\$104.1m	3.7% ↑	25.4% ↑
Transaction Volume	\$2,292.5m	4.7% ↑	13.0% ↑
Americas	\$1,392.9m	13.2% ↑	34.6% ↑
ANZ	\$899.6m	6.1% ↓	9.6% ↓
Transactions	18.0m	0.4% ↓	6.1% ↑
Americas	7.3m	11.0% ↑	24.9% ↑
ANZ	10.7m	6.9% ↓	3.8% ↓

Operational Performance	As at 30 Sep 23	QoQ	YoY
Active customers²	6.1m	0.9% ↓	1.8% ↓
Americas	3.8m	1.1% ↓	3.2% ↓
ANZ	2.3m	0.5% ↓	0.6% ↑
Merchants³	74.9k	3.6% ↑	10.5% ↑
Americas	24.0k	0.1% ↑	3.6% ↑
ANZ	50.9k	5.4% ↑	14.2% ↑

Net bad debts (% of TTV)	1Q24	4Q23	1Q23
Group	1.99%	1.84%	2.34%

¹ Unaudited management accounts. All financial figures are translated into AUD using the average quarterly foreign exchange rates for the respective quarter.

² Active customers defined as customer accounts that have had transaction activity in the 12 months to 30 September 2023.

³ Number of accredited merchants.

Capital Management

As at 30 September 2023, Zip had \$53.2m in available cash and liquidity, from \$57.3m reported on 30 June 2023. The balance at the end of the quarter included \$9.1m of non-operating cash net outflows, including the following movements:

- \$10.8m of net outflows paid to CVI in relation to the retirement of another \$10.0m of the CVI Convertible Notes held by CVI and accrued interest (reducing the CVI Convertible Notes to an outstanding face value of \$40.0m at 30 September 2023)
- \$3.2m of inflows from the wind-down of the Zip Business receivables portfolio
- \$2.0m of outflows in holdback consideration paid in relation to the acquisition of Payflex

In the quarter, the movement to the available cash balance related to cash EBTDA, capex and receivables funding was a net inflow of approximately \$4.9m (which compares to a net outflow of approximately \$11.8m in the prior quarter).

The quarter saw a further deleveraging of Zip's balance sheet with \$27.7m of Zip's Senior Convertible Notes converting, reducing the outstanding face value of the notes to \$110.1m. This follows the exercise to amend the terms and conditions of Zip's Senior Convertible Notes that was completed on 31 July 2023.

Total cash on the Balance Sheet at 30 September 2023 was \$260.7m.

REGIONAL UPDATES

Zip Americas

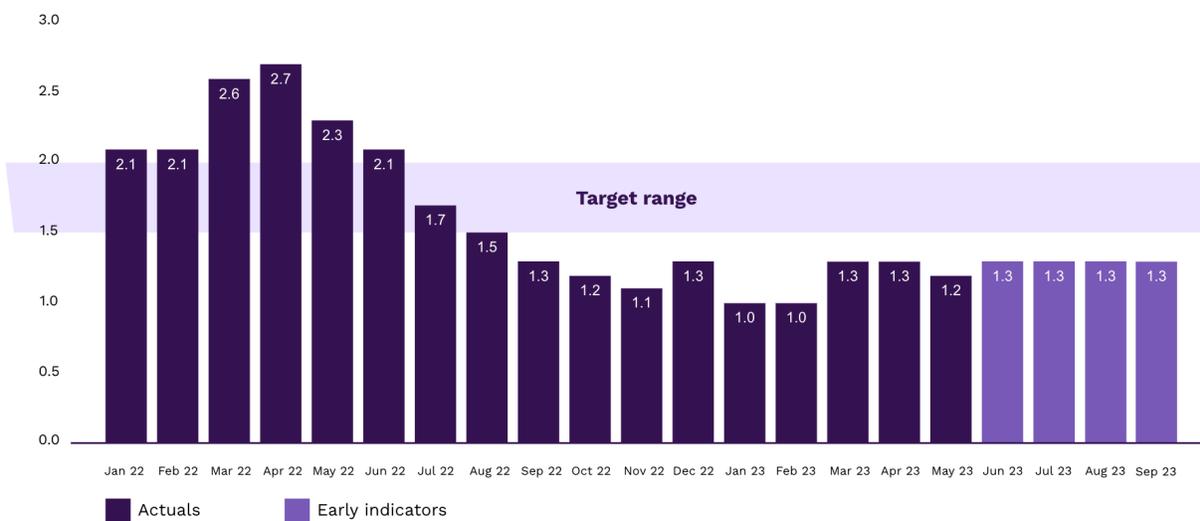
All key operating metrics include Zip's consumer operations in the US and Canada based on Zip's unaudited financials as of 30 September 2023.

Financial Performance ¹	1Q24 (USD)	QoQ (USD)	YoY (USD)
Revenue	\$64.0m	15.6% ↑	40.1% ↑
Transaction volume	\$911.8m	10.9% ↑	28.9% ↑
Transactions	7.3m	11.0% ↑	24.9% ↑

Operational Performance	As at 30 Sep 23	QoQ	YoY
Active customers ²	3.8m	1.1% ↓	3.2% ↓
Merchants ³	24.0k	0.1% ↑	3.6% ↑

Credit Performance

US monthly cohorts, 120 day loss performance as a % of cohort TTV



Key highlights in the Americas included:

- Zip Americas continued its momentum and delivered strong TTV and revenue growth of 28.9% and 40.1% respectively, driven by profitable growth from existing customers in higher-margin channels such as the app and physical card
- Revenue margins increased by 50bps YoY to 7.0%
- While customer growth rates were tempered by prior adjustments to Zip’s credit risk settings, customer engagement from existing customers continues to grow, with transactions per active customer up 29.0% YoY and healthy momentum in MTU (monthly transacting users) growth
- Zip’s physical card continues to deliver strong customer engagement. TTV from the Zip card delivered a record TTV month in September and contributed approximately 31% of all in-store volumes
- The commercial team is focused on embedding new business development and partnership resources under the leadership of Andy Stearns, and continuing to build the merchant acquisition pipeline
- Zip US continued to scale Zip’s innovative gamified repayment experience and variable first instalment features driving customer engagement, increased repayment rates, and improvements in portfolio loss rates
- Monthly cohort loss rates in 1Q24 are expected to deliver losses of approximately 1.3% of TTV, below the target range of 1.5%-2.0%. Zip’s proven ability to test and learn and scale successful outcomes is managing accelerated growth (+29% YoY TTV) while maintaining

stable, low loss rates. Risk settings continue to be adjusted to optimise margins, growth and the external environment, and losses are expected to trend in a controlled way towards target rates of 1.5%-2.0% of TTV, providing a solid platform for accelerated and profitable growth in FY24

Zip ANZ

All key operating metrics include Zip's consumer operations in ANZ based on Zip's unaudited financials as of 30 September 2023.

Financial Performance ¹	1Q24	QoQ	YoY
Revenue	\$104.1m	3.7% ↑	25.4% ↑
Transaction volume	\$899.6m	6.1% ↓	9.6% ↓
Transactions	10.7m	6.9% ↓	3.8% ↓

Operational Performance	As at 30 Sep 23	QoQ	YoY
Active customers ²	2.3m	0.5% ↓	0.6% ↑
Merchants ³	50.9k	5.4% ↑	14.2% ↑

Credit Performance ^{1,4} (AU)	As at 30 Sep 23	As at 30 Jun 23
Arrears ⁵	3.12%	3.53%
Net bad debts ⁶	4.18%	4.00%
Receivables	\$2,291.2m	\$2,401.3m

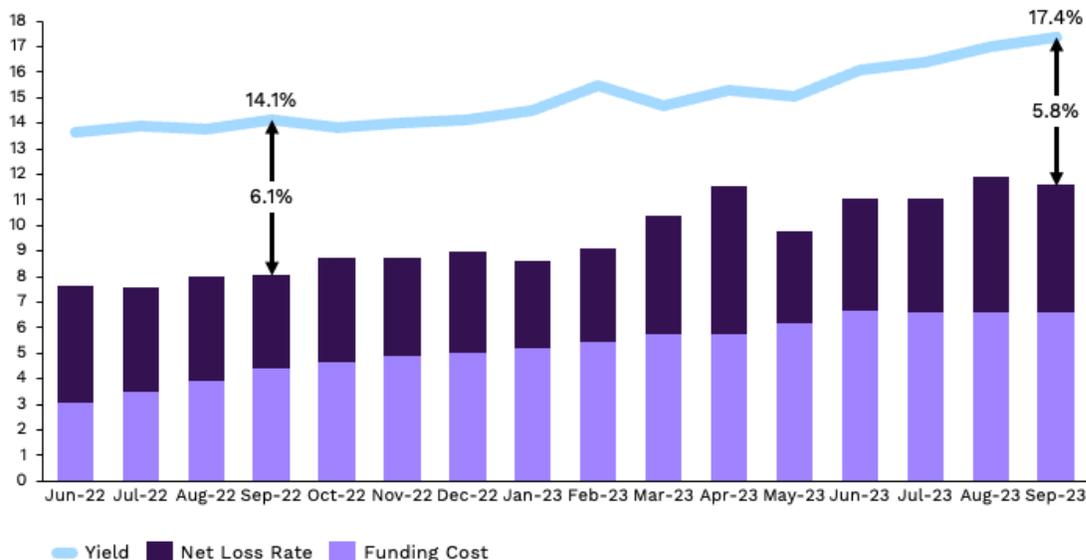
⁴ Calculated on receivables related to Zip AU's Master Trust facilities and funding vehicle 2017-1 Trust.

⁵ Greater than 60 days past due.

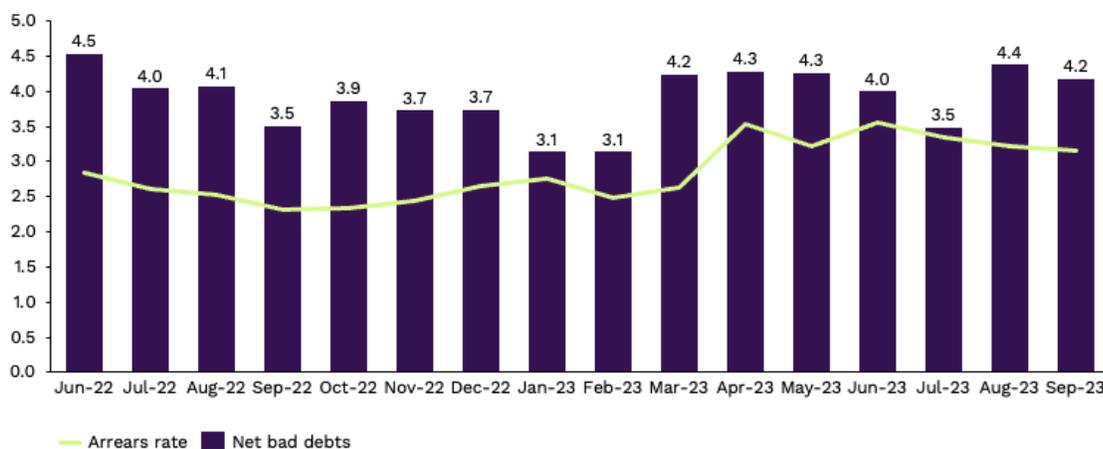
⁶ Net bad debts is calculated as annualised net write offs in the months of September and June over opening receivables for the month.

Zip AU's yield performance remains strong

Zip AU book performance (excess spread)
(% of AU consumer receivables)



Zip AU arrears rates have trended down during the quarter⁵



Key highlights in ANZ included:

- ANZ delivered very strong revenue growth of 25.4% YoY, with revenue margins increasing by 330bps YoY to 11.6%
- The yield on the Zip AU receivables increased to 17.4%, demonstrating the resilience of the business model in a challenging external environment, in part offsetting the impact of the rising interest rate environment

- Zip signed or went live with a number of large merchants including Amaysim, HBF Dental, R.M. Williams, Sheike & Co and Munro Footwear Group. The merchant pipeline remains very healthy, across a range of industries and verticals
- Zip AU continues to monitor its risk settings with an eye on the external environment. These settings have tempered both volume and customer numbers. Management actions taken during 2H23 are delivering the targeted outcomes, with early stage arrears (1-30 days past due) continuing to trend down, (now at their lowest levels since 2021) with net bad debts expected to follow this trend during 2H24 and beyond
- Zip welcomes the NZ Government's recent announcement on regulation for the NZ BNPL industry. Zip already conducts credit checks on all customers to assess customer suitability. Given current business practices and capabilities, the business expects to be fully compliant well before the regulations come into force on 2 September 2024
- The wind-down of Zip Business Capital ANZ that commenced in 4Q23 remains on track and continues to deliver net cash inflows as capital from debt funding facilities for Zip Business loans is released back to Zip. Zip Business contributed revenue of \$2.5m in the quarter

FUNDING FACILITIES

	Facility vehicle	Facility limit	Drawn at Sep-23	Maturity
AU	Zip Master Trust			
	- Rated Note Series			
	*2021-1	\$475.0m	\$475.0m	Apr-24
	*2021-2	\$617.5m	\$617.5m	Sep-24
	*2022-1	\$285.0m	\$285.0m	Nov-23
	*2023-1	\$190.0m	\$190.0m	May-26
	- Variable Funding Note	\$535.4m	\$370.4m	Mar-24
- Variable Funding Note 2	\$136.2m	\$118.5m	Jan-24	
	2017-1 Trust	\$126.5m	\$79.8m	Jul-24
	Total	\$2,365.6m	\$2,136.2m	
US	AR2LLC	US\$225.0m	US\$140.0m	May-24
NZ	Zip NZ Trust 2021-1	NZ\$20.0m	NZ\$11.0m	Jul-24
SME	Zip Business			
	- Capital Australia	\$25.0m	\$24.6m	Mar-24
	- Capital New Zealand	NZ\$20.6m	NZ\$20.6m	Nov-23
	Total	\$44.2m	\$43.8m	
Corporate	2017-2 Trust	\$90.0m	\$90.0m	Dec-23 ⁷

Key highlights included:

- As at 30 September, Zip AU had \$229.4m undrawn and available to fund receivables
- On October 19, Zip mandated NAB and RBC for a new Master Trust 2023-2 series issuance for \$300.0m (with ability to upsize to \$400.0m). The proceeds will be used to repay the 2022-1 series maturing in Nov-23
- Zip continues to progress upcoming refinances and new transactions as part of the ordinary course of business. Zip continues to assess all funding facilities and plans to refinance all facilities as and when they fall due
- As at 30 September, Zip US had US\$85.0m undrawn and available to fund receivables
- In 1Q24, Zip extended the maturity of Zip NZ Trust 2021-1 to July 2024 under the existing terms

⁷ Zip holds an option to extend for three months to March 2024.

- As Zip Business winds down in both Australia and New Zealand it will progressively repay drawn facilities in accordance with the terms of the respective funding arrangements. Zip has agreed a reduction in facility limits in both Australia and New Zealand to align with the progressive repayments
- Zip has no funding covenants linked to its market capitalisation and is above all funding covenant thresholds relating to the performance of its receivables within its funding facilities

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

- ENDS -

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About Zip

ASX-listed Zip Co Limited (ASX: ZIP) is a leading global financial services company, offering innovative, people-centred products that bring customers and merchants together. On a mission to be the first payment choice everywhere and every day, Zip offers point-of-sale credit and digital payment services around the world, including through strategic investments, connecting millions of customers with its global network of tens of thousands of merchants.

Zip provides fair, flexible and transparent payment options to individual consumers, helping them to take control of their financial future and helping merchants to grow their businesses. Zip is committed to responsible lending and is managed by a team with over 100 years' experience in retail finance and payments. Zip is also a licensed and regulated credit provider and was founded in Australia in 2013.

For more information, visit: www.zip.co

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