

20th October 2017

Q1 FY18 QUARTERLY UPDATE

STRONG GROWTH IN ALL KEY METRICS CONTINUES

zipMoney Limited (ASX: ZML) (zipMoney, Zip or the Company) is pleased to announce its quarterly performance for the period ending 30 September 2017, otherwise referred to as Q1 FY18.

FIRST QUARTER HIGHLIGHTS

- Record quarterly revenue of \$6.9 million, up 22% on Q4 FY17.
- Transactions on the platform increased by 23% on Q4 FY17, reflecting a 34% increase in merchants and a 34% increase in customer numbers.
- Receivables increased to \$176.4 million, up 16% on Q4 FY17; Bad debts were 1.98%.
- Transaction volume reached \$95.1 million, up 10% over the quarter, noting Q1 follows a seasonally strong Q4. Strong start to Q2 FY18, with volume processed October-to-date indicating a quarterly run-rate of \$115 million.
- Westpac invests \$40 million at \$0.81 per share for a minority equity interest of 17% in Zip.
- Importantly, Zip's operating cost base has reached a level of stabilisation, which together with lower funding costs from the NAB facility and continued revenue growth is poised to deliver a significant improvement in cash operating margin. **The Company confirms its guidance for cashflow break-even on a monthly basis in FY18.**
- Iconic brands continue to join the Zip platform, including, Best & Less, Mitre10, Bras N Things, Beacon Lighting, Puma and Contiki. Growth in the merchant pipeline continues to accelerate with significant numbers of SMEs and large enterprise retailers at contract stage.
- Pocketbook reached record users of 385,000 and remains one of Australia's leading personal financial management apps.

Managing Director and CEO Larry Diamond said:

"This was a significant quarter for Zip, welcoming Westpac onto our register. This relationship validates the investments we have made over the years into our decision and payments technologies, as well as our strong focus on responsible finance services. The \$40 million investment also significantly strengthens Zip's financial position and ability to pursue growth and value accretive investments as they may arise.

We reported a record quarter for revenue and expect our significant new merchant pipeline to continue to feed our growth over the coming year. When combined with a halving of our funding costs and a stabilisation in the operating cost base, Zip is well placed to turn break-even in FY18."

KEY OPERATIONAL METRICS

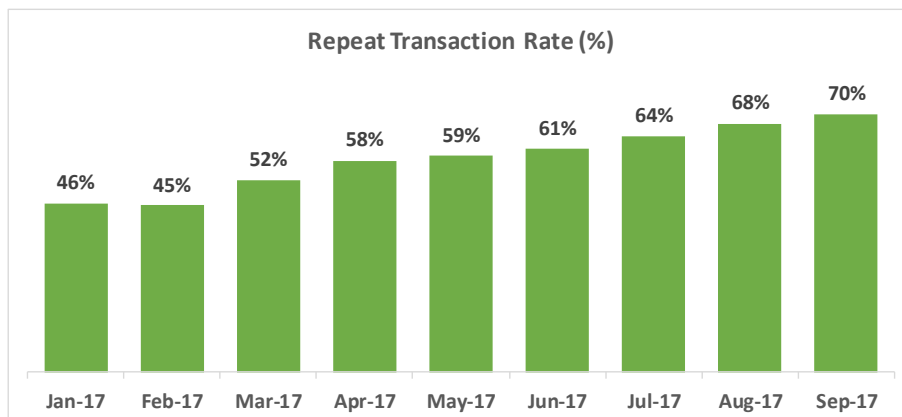
The Company has continued to deliver rapid growth in its underlying operations, as outlined below.

Financial and Operational Performance	Q1 FY18 Results (unaudited)	% increase on Q4 FY17 (unaudited)	% increase on Q1 FY17 (unaudited)
Merchants ¹	5,927	34% ↑	338% ↑
Customers ²	403,964	34% ↑	538% ↑
Receivables ³	\$176.4m	16% ↑	196% ↑
Transaction volume	\$95.1m	10% ↑	188% ↑
Transactions	310,936	23% ↑	673% ↑
Revenue ⁴	\$6.9m	22% ↑	148% ↑

1. Number of accredited merchants
2. Number of active customer accounts (not including Pocketbook users)
3. Amounts due from Customers (Receivables)
4. Portfolio income

Pleasingly, customer engagement metrics continue to improve as the Zip merchant base increases in scale and the product's utility resonates with customers:

- As illustrated below, the repeat transaction rate grew from 46% at the beginning of the year to 70% by Sep '17.
- The average Zip customer has also transacted more than 3x on the platform.



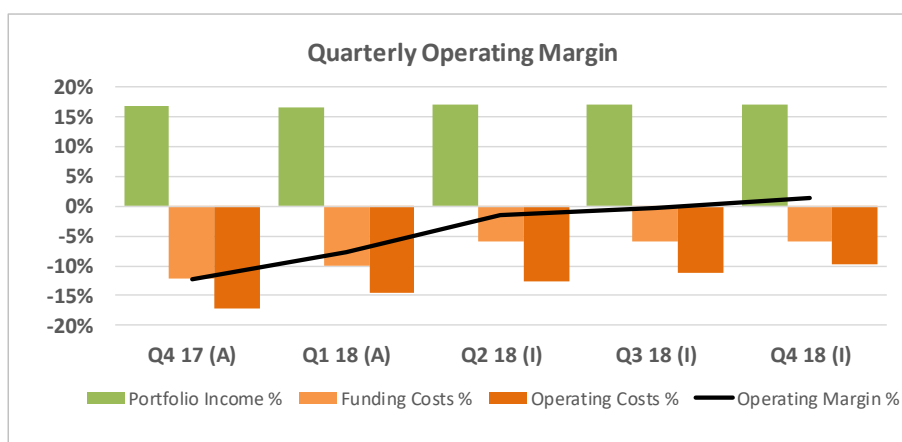
Notes: Repeat Transaction Rate defined as % of monthly transactions made by existing customers.

PATHWAY TO CASHFLOW BREAKEVEN

Zip made substantial progress this quarter towards achieving its guidance of cashflow break-even on a monthly basis in FY18, most notably:

- **Ongoing reduction in Funding Costs** – Q1 FY18 was the first full quarter in which the NAB facility was operational. However, it is important to note that a substantial part of the receivables remain in expensive legacy funding facilities, with full transition to occur in November 2017. This will see funding costs continue to decline significantly from 9.6% p.a. in Q1 FY18 to approximately 6% going forward.
- **Stabilisation of Operating Costs** – Zip’s operations have scaled substantially in the last 12 months to support the strong growth experienced in the business and position the Company to capitalise on the large market opportunity ahead. Importantly, the operating cost base has now stabilised and is forecast to remain broadly flat in Q2 FY18 with only modest growth expected for the remainder of FY18.

As illustrated in the chart below, the continuing impact of reducing funding costs and a stabilisation of the operating cost base is expected to see Zip’s cash operating margin turn positive in the coming quarters.



Notes:

1. Portfolio Income, Funding Costs, Operating Costs and Cash Operating Margin all expressed with reference to Average Receivables Balance in the quarter, on an annualised basis (i.e. % p.a). Cash Operating Margin = Portfolio Income - Funding Costs - Operating Costs (not including losses).
2. Assumptions adopted for future periods include: (i) Portfolio Income % kept constant at Q1 FY18 level, (ii) Funding costs to reduce from 10% to 6%, (iii) Operating costs assume 5% increase per quarter and 20% quarterly growth in average receivables.
3. Figure above does not represent a forecast and is illustrative only. Future periods are identified with an (I).

FUNDING AND CASHFLOW

In the quarter, Westpac invested \$40m in Zip at \$0.81 per share. Some of these funds have been applied to repay costly mezzanine capital in Zip’s funding structures, increase the equity held by Zip in its receivables portfolio and accelerate the path to break-even. Zip retains the ability to access mezzanine capital in the future, enabling the release of equity in the receivables portfolio to fund growth initiatives and capital expenditure as required.

Westpac's investment, in addition to opening up strategic partnership opportunities, has substantially strengthened Zip's financial position and capacity to exploit the significant market opportunity before it.

Cash outflows from operations were \$2.7m in Q1 FY18 compared to \$3.9m in Q4 FY17, an improvement of \$1.2m, including the R&D incentive of \$0.6m received during the quarter.

Operating Expenses (staff, administration and corporate costs) were \$6.0 million (up from \$5.6m in the prior quarter). The higher costs in the quarter were largely attributable to an increase in average permanent headcount from 103 to 116. Estimated Operating Expenses for Q2 FY18 will be broadly stable at \$6.1m.

Interest and other finance costs are expected to decline significantly from \$4.1m to \$2.8m in Q2 FY18, as a result of the continued transition of receivables to the highly efficient NAB facility and repayment of mezzanine capital as outlined above.

It is worthwhile noting that a meaningful share of the current operating cost base is directed at growth initiatives, including development of new products and services, as well as the commercialisation of Pocketbook.

MERCHANT UPDATE

Zip was delighted to welcome a range of well-known brands in the quarter that either went live on the platform or are currently in integration:

Best and Less	Bras N Things	Beacon Lighting	Mitre 10	Retravisio
City Beach	Betts Group	Puma	Paddy Pallin	Wittner
Autobarn	Contiki	JETGO	Sydney Tools	Total Tools
National Tiles	Camera House	Office Max	Kidstuff	GHD

The addition of these substantial new merchants will further enhance the Zip payments ecosystem and in aggregate are expected to deliver substantial transaction volumes once fully operational.

Overall, Zip increased its merchant numbers to 5,900 across Australia with over 10,000 locations, online or in-store, now accepting Zip. Merchant numbers grew by 34% over the quarter, with continued growth in the mid-market and SMB segments, a direct result of continued investment in our channel and platform partnerships strategy. Pleasingly, with minimal marketing spend, Zip now receives around 50 inbound merchant enquiries per day, highlighting improving awareness of the Zip brand in the market.

HEALTH SERVICES

Whilst in its early stages, Zip's penetration of the health services industry continues to accelerate, with strong results across all key metrics:

- Achieved first \$1 million dollar month of transaction volumes.
- 138% growth in transactions, quarter on quarter.

- 66% growth in the number of registered clinics.
- More than 700 clinics have now signed up to Zip.

The Zip brand continues to gain strength in this sizeable market segment and, with more than \$29 billion spent annually, we remain very excited by the opportunity this vertical presents.

RECEIVABLES AND CREDIT UPDATE

As at 30 September 2017, receivables were \$176.4 million, up 16% over the previous quarter. The customer repayment profile continues to increase, with 14% (of opening receivables balance) repaid each month, demonstrating healthy repayment behaviour by Zip's customer base.

The reported arrears rate and bad debts were 2.24% and 1.98%, respectively, both well below industry standards. The strong credit performance continues to validate Zip's investment in its 100% owned proprietary credit and fraud decision technology.

Given the increasing maturity of the loan book, the Company has aligned its calculation and reporting of bad debts with industry standards. This is calculated as the aggregate of bad debt write-offs for the preceding 12 months measured against the outstanding receivables to provide an annualised bad debt percentage. As the book continues to season we expect this number to trend towards 3%, which remains the basis for Zip's bad debt provisioning on its balance sheet and reflected in Zip's Income Statement. Vintage and cohort analysis performed on matured loans continues to support this number.

Investment in the Data and Risk team continued with the addition of new Data Scientists, Data Engineers and Fraud Analysts. The team remains focused on enhancing Zip's risk management capabilities through machine learning and improved business processes over the quarter.

It should be noted that Zip performs identification and credit checks on all applicants, consistent with its focus on providing responsible financial services.


Executive Director & COO Peter Gray said:

"The loan book performance remains strong as the receivables continue to season and mature. We are continually iterating and enhancing our proprietary credit and fraud decision technology and platform, particularly with regards to the zipPay product, based on performance and the inclusion of additional data sources and analytic techniques. Balancing strong risk management and revenue maximisation are integral to the Zip business and remain a core focus of the credit and data teams.

Our product range and credit decision technology continues to deliver responsible credit and differentiation in market, providing a very healthy repayment profile and a truly better way to pay for our customers."

POCKETBOOK

The Pocketbook business now reaches over 385,000 users, building on its strong organic growth in the previous quarter.



The quarter was focused on further enhancements to its proprietary categorisation engine, which drives much of the higher-level features and insights. The categorisation engine was trained across Pocketbook's 650 million transaction set, and through the application of machine learning techniques, the team was able to achieve an uplift of more than 20%.

The launch of these features in Q4 will extend Pocketbook's position as one of the leading financial management tools in Australia as well as enhancing Zip's credit decision engine through world-leading categorisation technology.

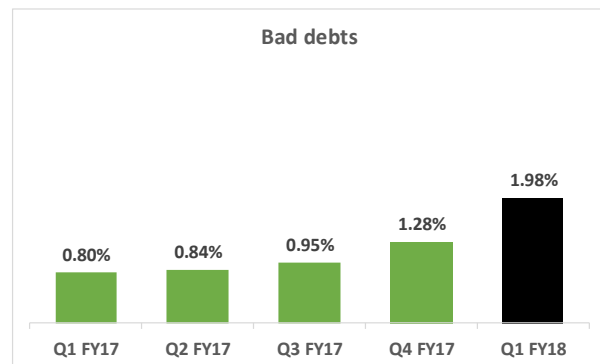
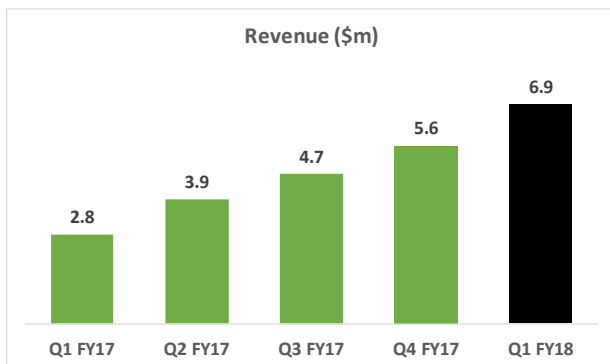
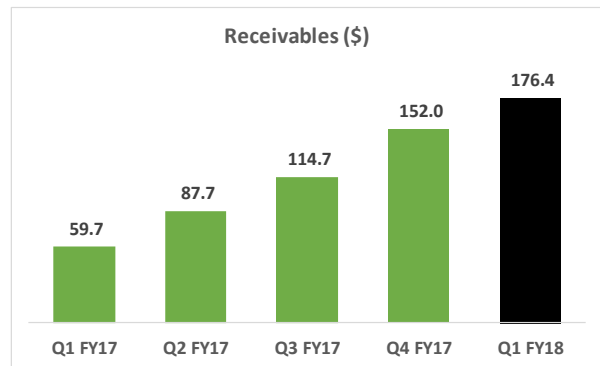
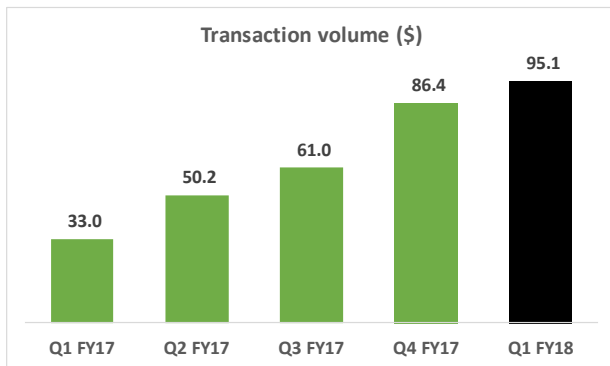
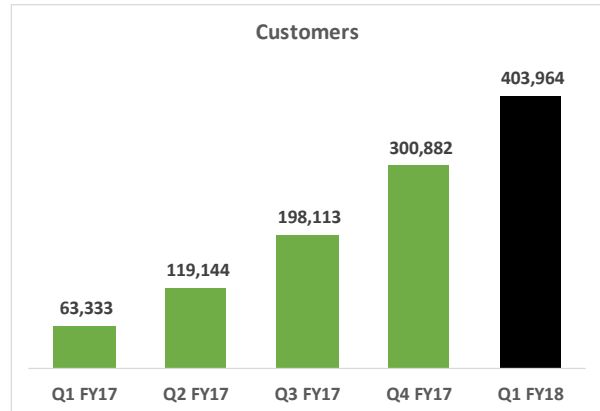
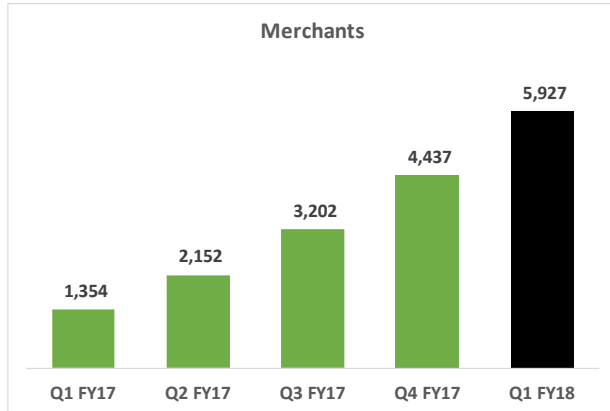
The rich insights that are being driven by Pocketbook's next generation categorisation engine are gaining interest. An example is one of our recent studies on credit card fees extensively covered by SMH and News.com.au, and is consistent with Zip's core value around ethical financial services. Other major pieces of consumer spending research are in the pipeline for next quarter as we continue to establish the Pocketbook brand as the definitive expert on contemporary Australian consumer spending trends.

CONCLUSION

In summary, the Zip business is rapidly scaling towards breakeven, driven and supported by:

- Strong growth across all key operating metrics.
- Reducing funding costs and accelerating operating leverage.
- A strong pipeline with a number of large merchants at contract stage.
- Increasing rate of repeat customer behaviour demonstrating deeper product engagement.
- A robust financial position, recently bolstered by Westpac's \$40m equity investment.

KEY BUSINESS DRIVERS



Notes: (i) Based on unaudited financials; (ii) Receivables gross, before provisions; (iii) Revenue in line with Portfolio Income (per Half Year Report); and (iv) Bad debts defined as those accounts written off at greater than 180 days' delinquent. It is calculated as the aggregate prior 12 months as a percentage of gross receivables.



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About zipMoney

ASX-listed zipMoney (ZML: ASX) or (“Zip”) is a leading player in the digital retail finance and payments industry. The Company offers point-of-sale credit and digital payment services to the retail, education, health and travel industries. It operates under the zipPay, zipMoney and Pocketbook brands. The Company is focused on offering transparent, responsible and fairly priced consumer products. Zip’s platform is entirely digital and leverages big data in its proprietary fraud and credit decisioning technology to deliver real-time consumer responses. Zip is managed by a team with over 50 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information visit: www.zipmoneylimited.com.au

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

zipMoney Limited

ABN

50 139 546 428

Quarter ended ("current quarter")

30 September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,635	6,635
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs		
(c) advertising and marketing	(252)	(252)
(d) leased assets		
(e) staff costs	(3,131)	(3,131)
(f) administration and corporate costs	(2,584)	(2,584)
1.3 Dividends received (see note 3)		
1.4 Interest received	88	88
1.5 Interest and other costs of finance paid	(4,082)	(4,082)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	614	614
1.8 Other (provide details if material) - Funding Costs		
1.9 Net cash from / (used in) operating activities	(2,712)	(2,712)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(53)	(53)
(b) businesses (see item 10), net cash acquired		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
(d) intellectual property		
(e) other non-current assets	(663)	(663)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Others		
Net movement in		
- Receivable and customer loans	(27,753)	(27,753)
- Term Deposits	(1,102)	(1,102)
2.6 Net cash from / (used in) investing activities	(29,571)	(29,571)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	40,000	40,000
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options	(293)	(293)
3.5 Proceeds from borrowings	20,000	20,000
3.6 Repayment of borrowings	(29,860)	(29,860)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	29,847	29,847

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	19,214	19,214
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,712)	(2,712)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(29,571)	(29,571)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	29,847	29,847
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of quarter	16,778	16,778

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	13,072	13,072
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (restricted cash)	3,706	3,706
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	16,778	16,778

6. Payments to directors of the entity and their associates

Current quarter \$A'000
156
-

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7. Payments to related entities of the entity and their associates

Current quarter \$A'000
-
-

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	370,000	151,500
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	370,000	151,500
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

During the quarter the Group repaid amounts outstanding to both the Class A Financier and Class B Financiers in the zipMoney Trust 2017-2, and the Class B Financiers in the zipMoney Trust 2015-1.

The Group currently has two funding programs in place the zipMoney Trust 2017-1 (facility amount \$240m, drawn \$106m) and the zipMoney Trust 2015-1 (facility amount \$130m, drawn \$45.5m).

The zipMoney 2015-1 Trust has a term maturing on 17 November 2017 and outstanding receivables will be refinanced into the zipMoney 2017-1 Trust.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	609
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	590
9.4 Leased assets	
9.5 Staff costs	3,085
9.6 Administration and corporate costs	2,451
9.7 Other (provide details if material)	
- Interest and other costs of finance	2,821
9.8 Total estimated cash outflows	9,556

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


(/Company secretary)

Date: 20 October 2017

Print name: **Andrew Bursill**

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.