

zıp

1H18

**RESULTS
PRESENTATION**



“

Simplifying how you pay everywhere and save everyday, through easy-to-use, consumer-friendly and financially responsible products.

”

Zip Co Ltd (ASX: Z1P)

1H18 AGENDA

1. RESULTS HIGHLIGHTS

2. OPERATIONAL UPDATE

3. FINANCIAL REVIEW

4. OUTLOOK

HIGHLIGHTS



1MILLION

users across the Group

\$600M

in volume processed on the platform to date

BREAK-EVEN

on track for cashflow break-even on a monthly basis in FY18

1st

of its kind open-banking API integration with major bank

ICONIC

brands join the Zip network



Best&Less

kugan.com

>10K

locations to use your Zip wallet

\$40M

minority equity investment by Westpac

\$380M

debt facilities increased

COMPANY OVERVIEW



PRODUCTS DESIGNED AROUND MILLENNIALS THAT ARE ENGAGING AND SIMPLE TO USE, WITH A STRONG FOCUS ON FINANCIAL WELLBEING



Credit & Payments

- Interest-free digital wallet
- Line of credit, account
- zipPay (up to \$1K) for everyday purchases (fashion, accessories)
- zipMoney (up to \$30K) for larger purchases (electronics, travel)

zipPay **zipMoney**

www.zippay.com.au

www.zipmoney.com.au



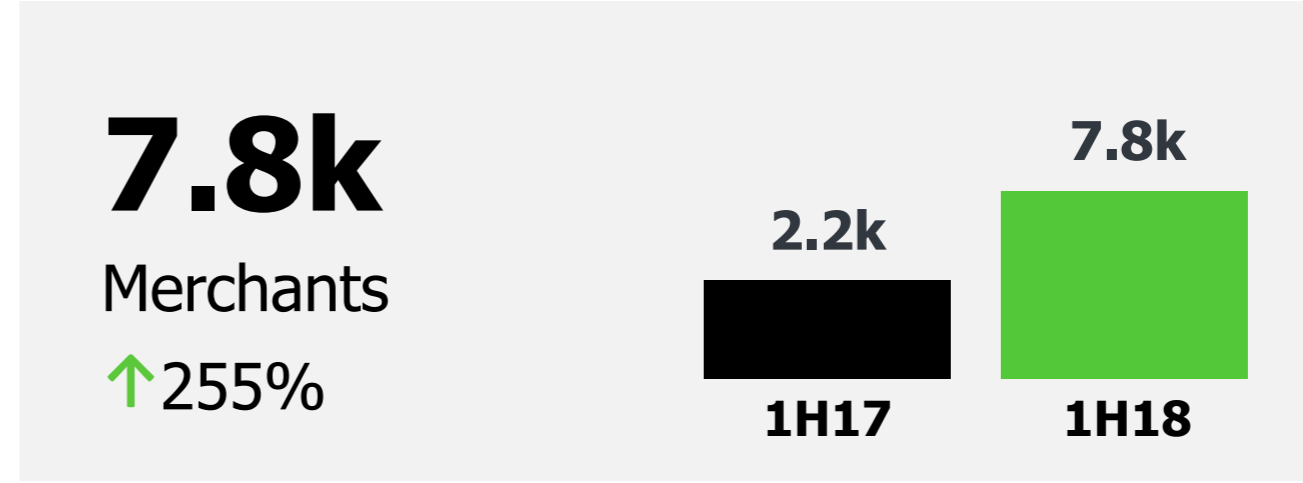
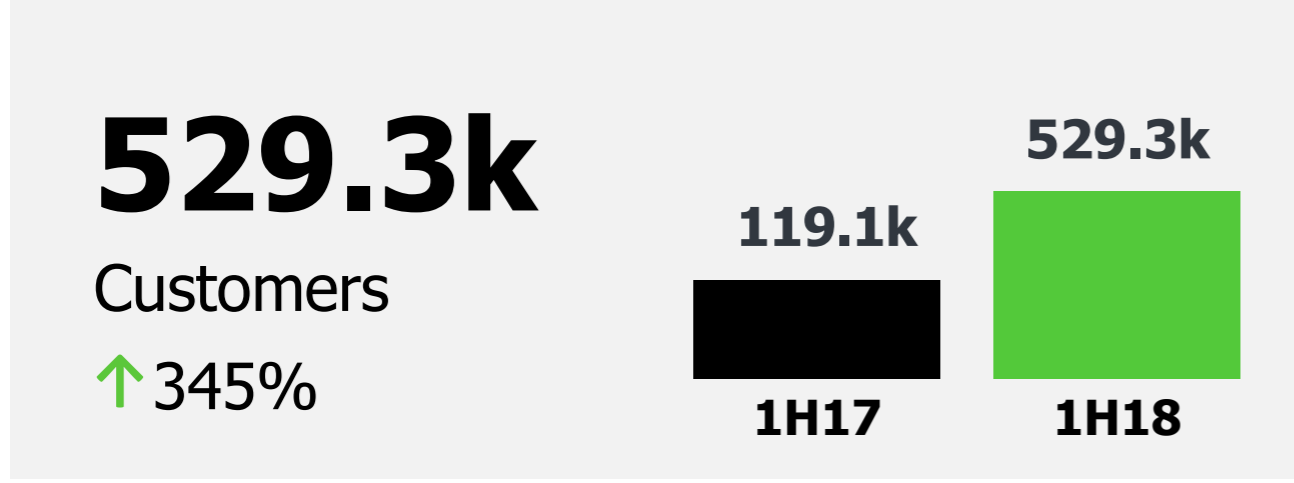
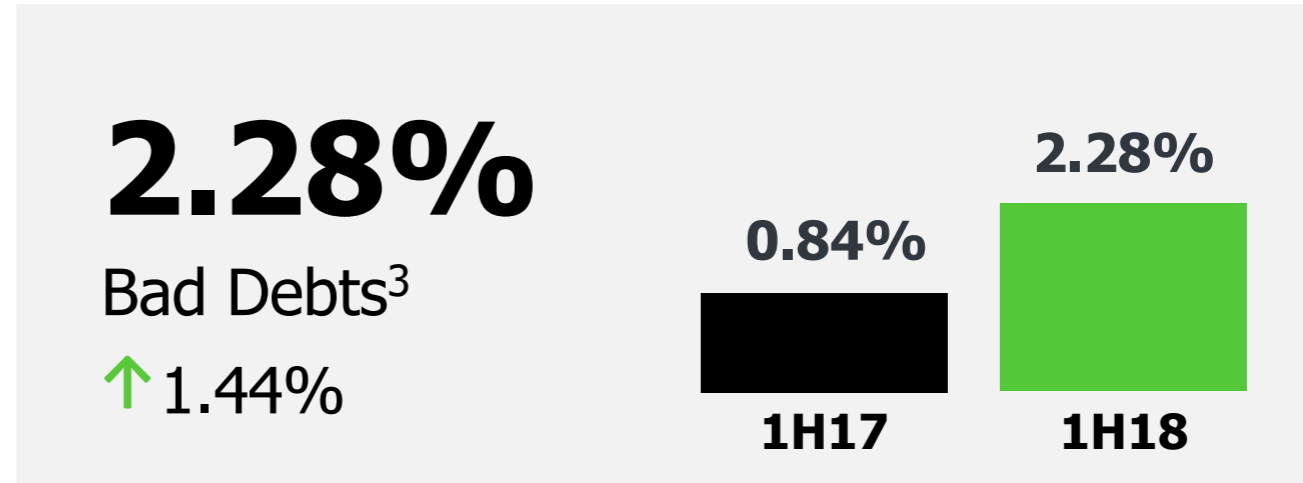
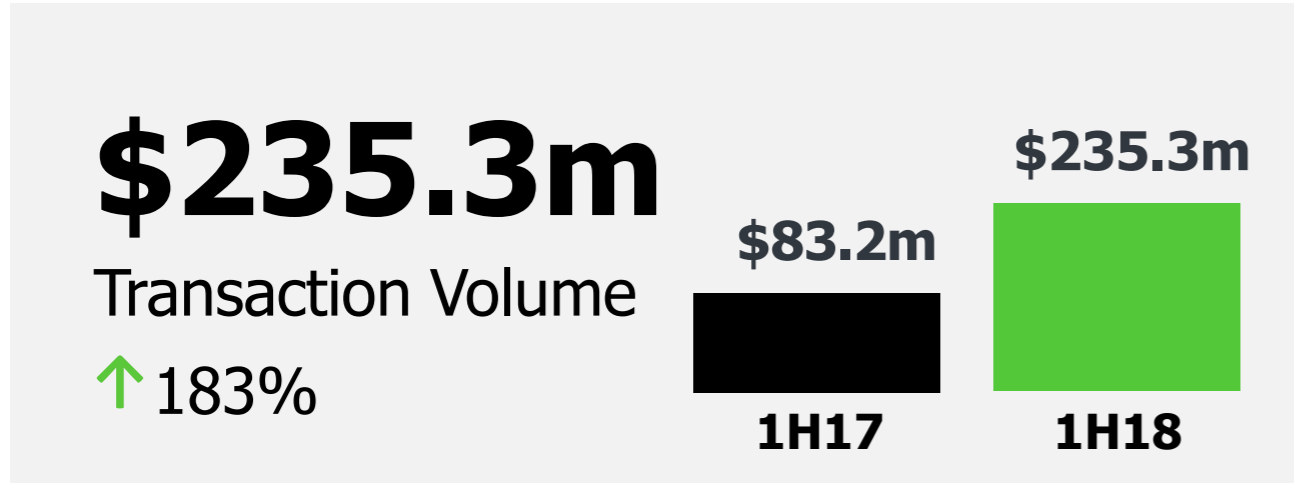
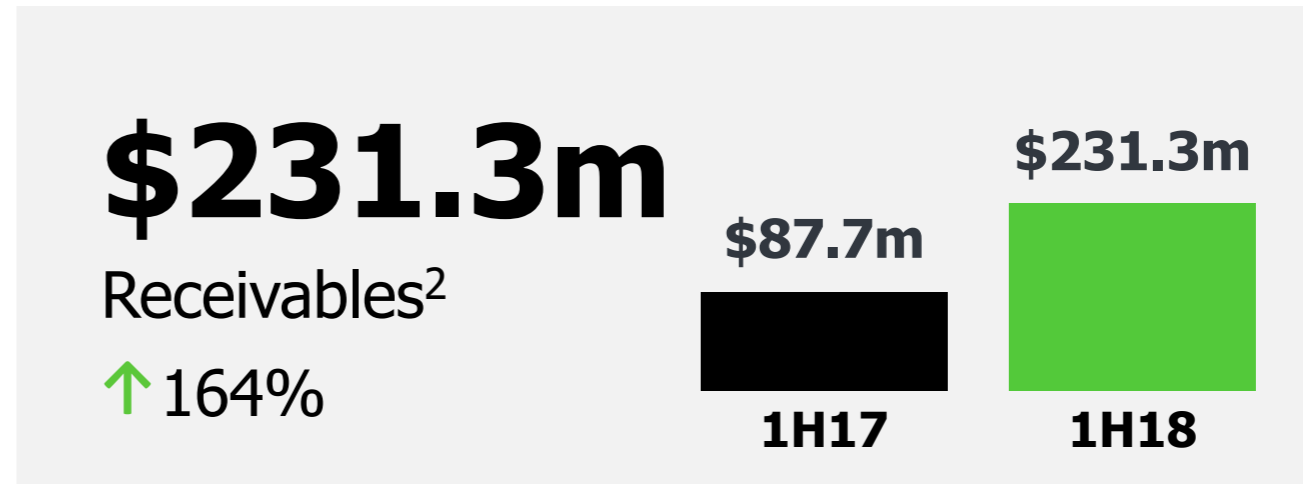
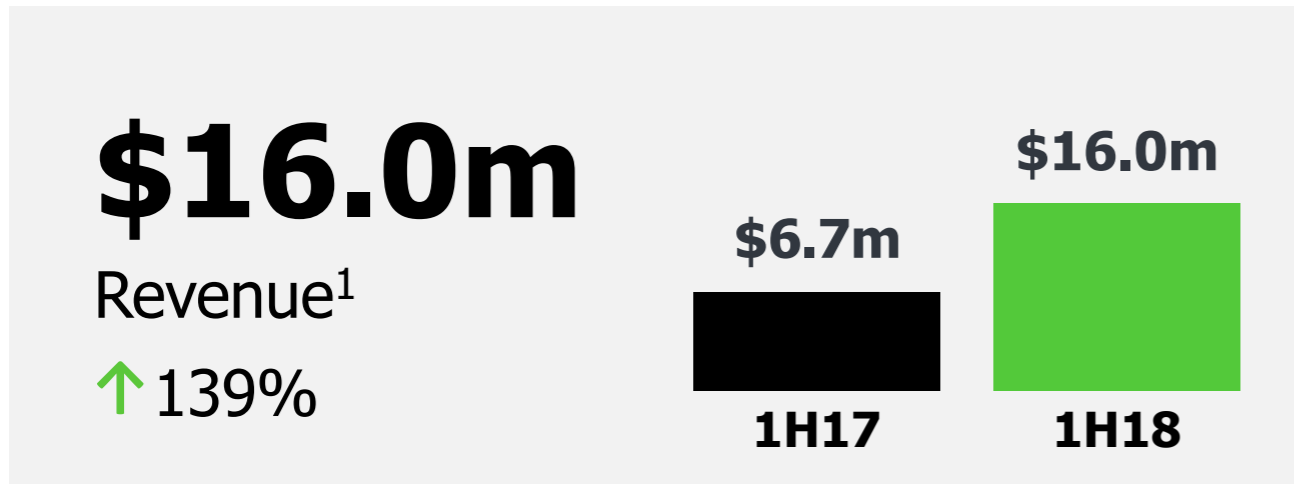
Budgeting & Saving

- Free mobile money app
- Helps users get smart with their money and savings
- Automatically categorises spending to help users achieve their financial goals



www.getpocketbook.com

1H18 KEY METRICS

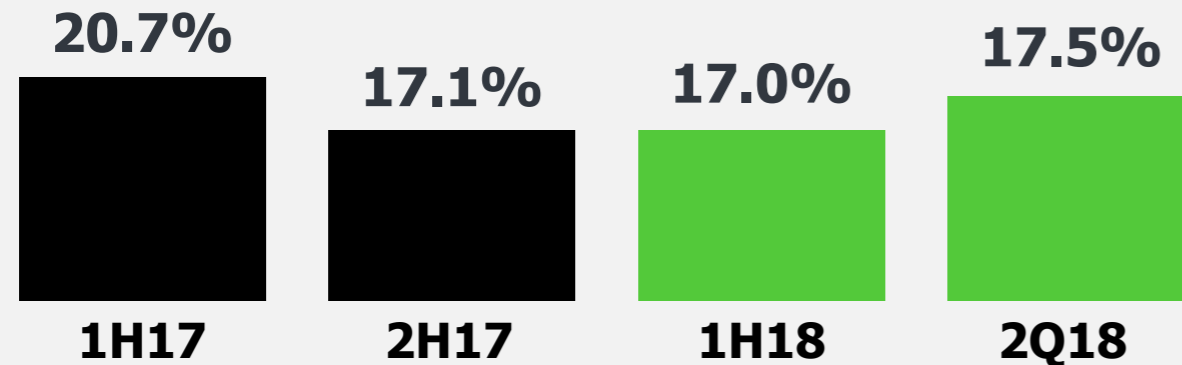


Notes: 1. Revenue includes Portfolio income and other income; 2. Gross receivable value; 3. Bad debts are written off in line with policy after 180 days past due, and calculated on the gross receivable amount.

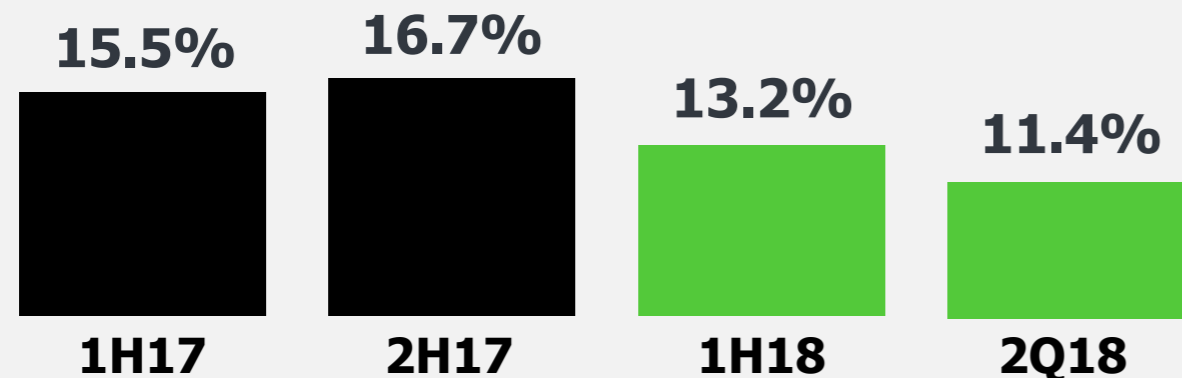
FINANCIAL DASHBOARD



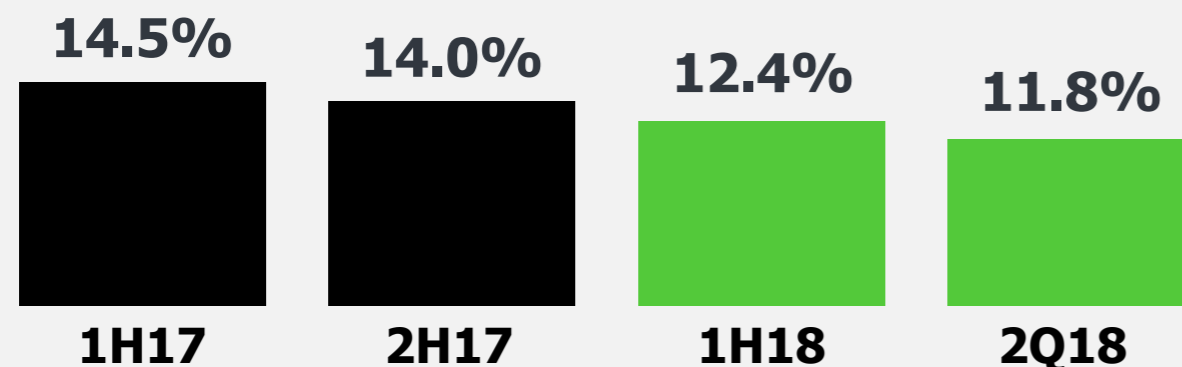
REVENUE YIELD¹



CASH COST OF SALES^{1,2}



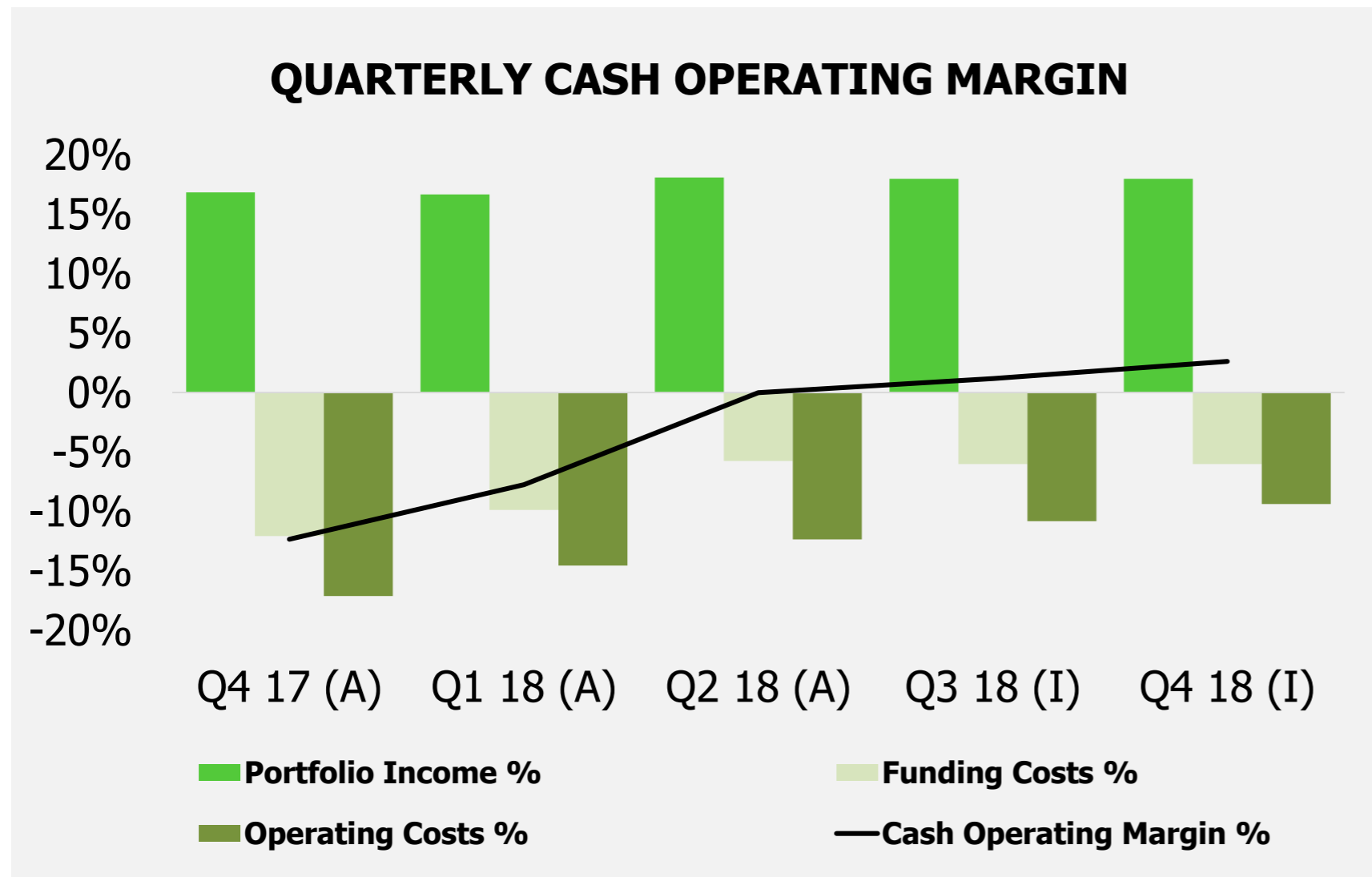
CASH OPERATING COSTS^{1,3}



- Record revenue growth in 1H18
- Yield trending upwards in 2Q18, towards the target of 20%
- Cash cost of sales % continuing to trend down
 - Exited expensive legacy funding in half
 - Negotiated more competitive data and bank pricing
- Cash operating costs % continue to reduce
 - Stabilising cost base following significant headcount increase in FY17
- Platform well positioned to benefit from increased operating leverage as volume continues to expand

Notes: 1. All figures expressed as a percentage of quarterly average receivables. All figures are on an annualised basis; 2. Cash cost of sales includes interest, bank fees, data costs, and bad debts written off; and 3. Cash operating costs exclude funding program establishment costs, share based payments, depreciation and amortisation.

PATHWAY TO CASHFLOW BREAKEVEN



- On track to achieve cashflow breakeven on a monthly basis in FY18, including bad debt write-offs, driven by:
 - Volume continues to grow
 - Portfolio income expected to trend upwards
 - Funding costs continue to reduce, now c.6%
 - Operating costs have stabilised

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 from bad debts)
2. Assumptions adopted for future periods include: (i) Portfolio Income % kept constant at current levels, (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)

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UNIQUELY POSITIONED



CREDIT CARDS



RETAIL FINANCE



BUY NOW PAY LATER

MODEL

- Hard applications, low acceptance
- Low monthly payments, high revolving balances and high, compounding interest
- Use credit and ID sources
- No brand loyalty or affiliation

- Poor customer experience, sold by physical retail staff
- Higher dollar purchases
- High consumer fees with interest rates higher than traditional cards
- Uses credit and ID sources
- No brand loyalty or affiliation

- Easy sign-up, reverse layby, instalments split on card
- Lower dollar purchases
- Largely merchant funded, reliance on customer late fees for some models

TREND

- Credit card receivables flat and declining, volume beginning to stagnate
- Lots of plastic in market with low digital wallet adoption

- Being disrupted by digital players with downward trending volumes and aging customer base

- Growing quickly, particular as millennials seek payment choice
- Becoming crowded with similar offerings in market

Zip plays in all segments and is strongly differentiated (see next slide)

THE ZIP DIFFERENCE



Digital, mobile-first



Strong focus on responsible financial services



Brand strength and captive network



Flexibility, simplicity, and friendly terms



Proprietary big data platform



- Built in the cloud from day 1
- Mobile-first design and product strategy
- Great user experience
- Encourage interest free behaviour through promotional periods with high monthly payments
- Credit and ID checks for all customers
- Direct relationships with loyal customers and retailers through 'closed loop' network
- Compelling USP delivers new customers to our merchant base
- Able to originate credit for small and large purchases, with payback flexibility to suit
- Transparent, simple fee structure funded by both merchants and customers
- 100% owned proprietary decision technology supports high levels of automation
- Conventional and non-conventional credit data

LARGE TARGET MARKET



There is over \$480B spent in Zip's target markets, with Zip well placed to continue to penetrate and capitalise on this large opportunity. Awareness of alternative payments is at an all-time high, driving engagement.



\$310B
RETAIL



\$120B
TRAVEL



\$50B
HEALTH

A 'WIN-WIN' MODEL

20%

Increase in conversion

30%

Increase in order value

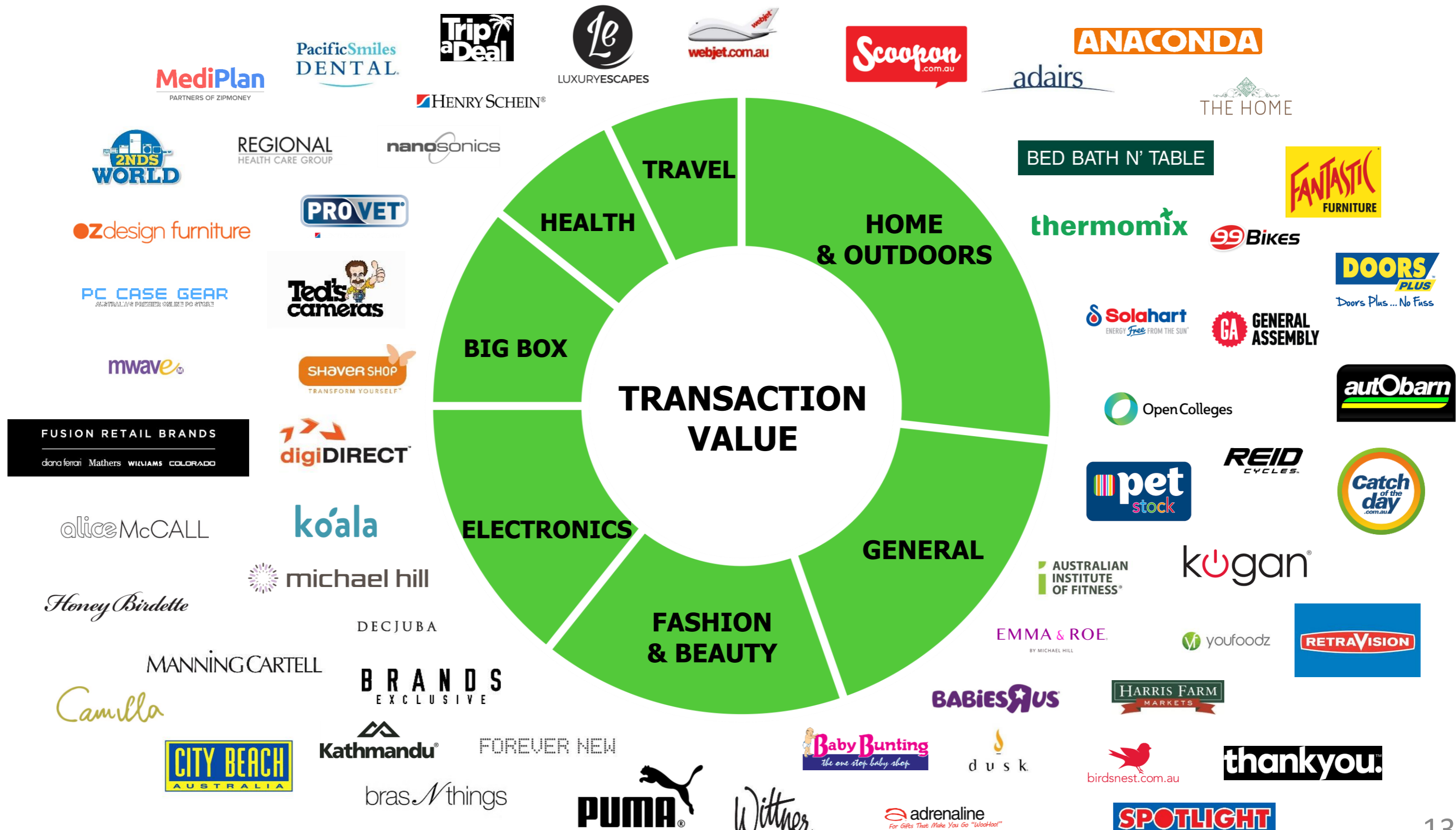
3x

Repurchase rate

EXPANDING MERCHANT BASE

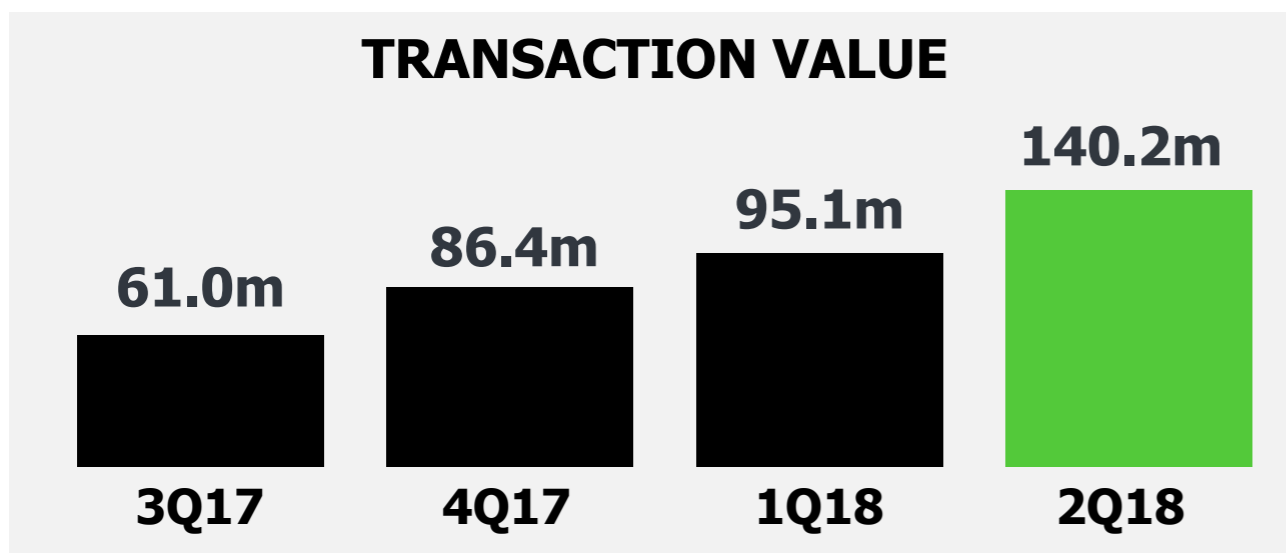
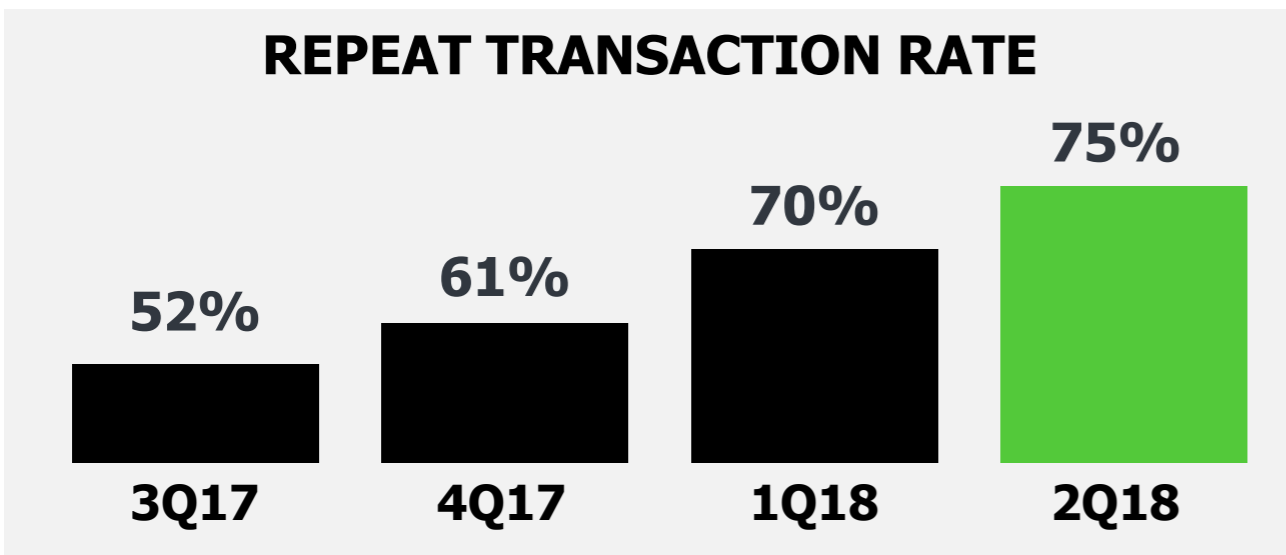
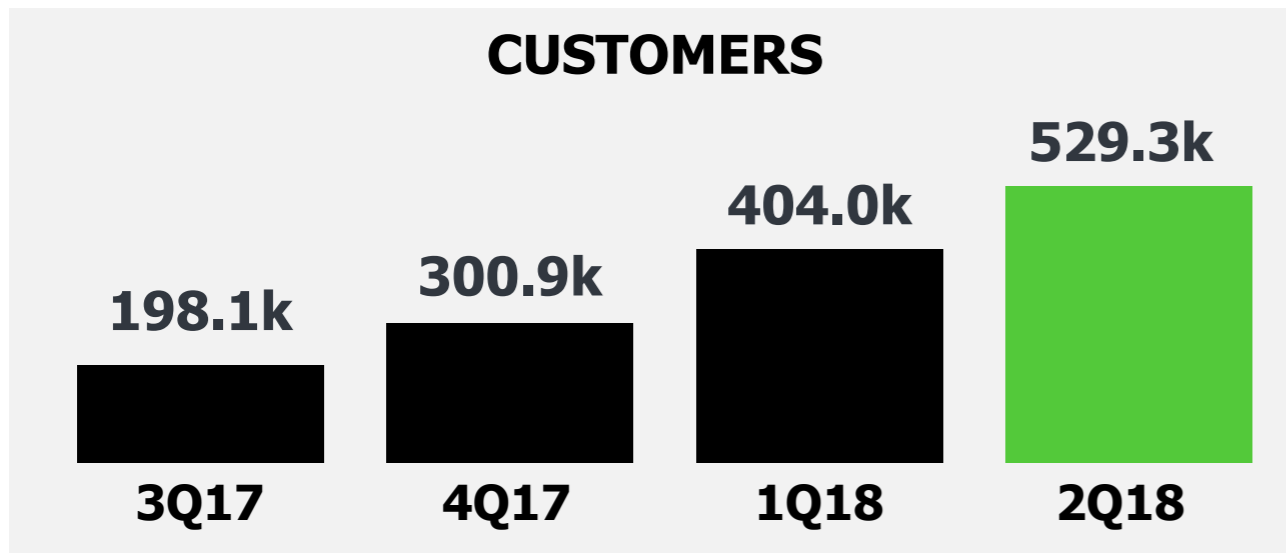


OVER 10,000 PLACES TO SHOP WITH ZIP AND GROWING



Note: Chart illustrative of Zip's key segments based on transaction volume

GROWING ENGAGEMENT



- Customer numbers and engagement metrics continue to grow
- Repeat transaction rate now 75% driven by:
 - More places to use the Zip wallet with a record 3,315 new retailers joining in the half
 - More targeted and personalised retailer co-marketing campaigns
 - Unification of Zip network, enabling a Zip wallet (zipPay or zipMoney) to transact at any Zip accepted merchant
- Zip App to launch in mid-2018

MARKETING

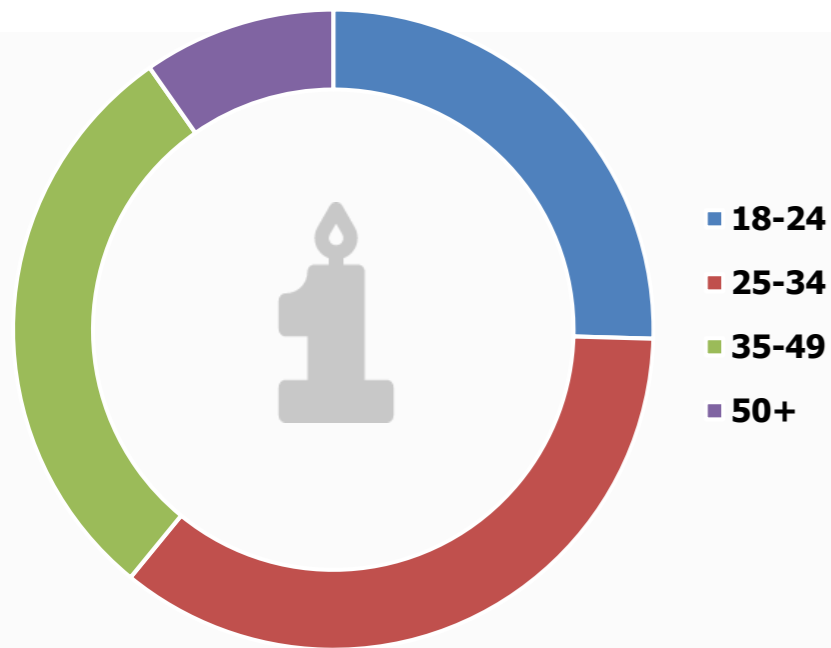


CAMPAIGNS, CO-MARKETING PROGRAMS DRIVE TRANSACTIONS

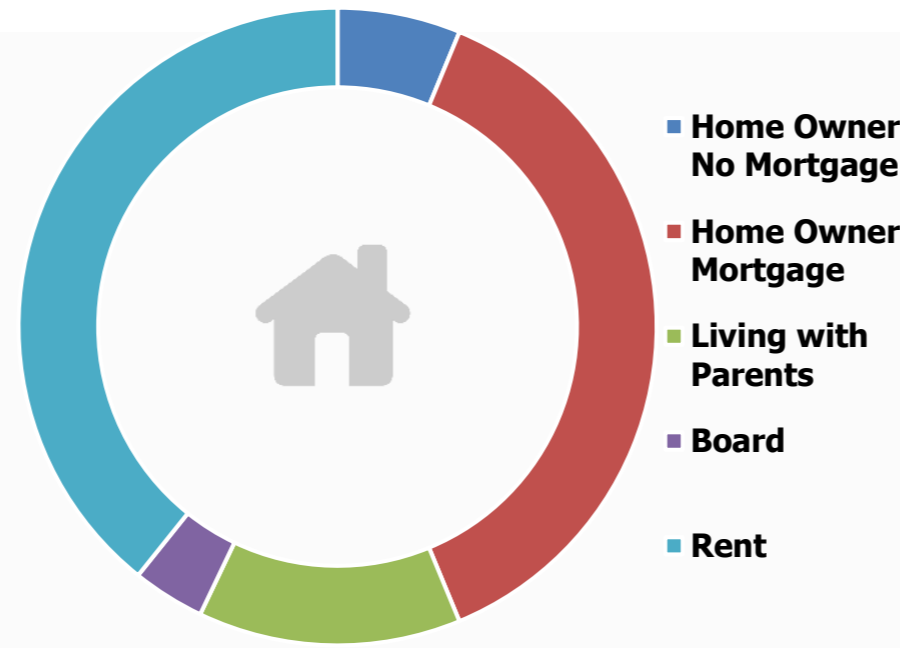


DIVERSE BASE, WEIGHTED TOWARDS MILLENNIALS

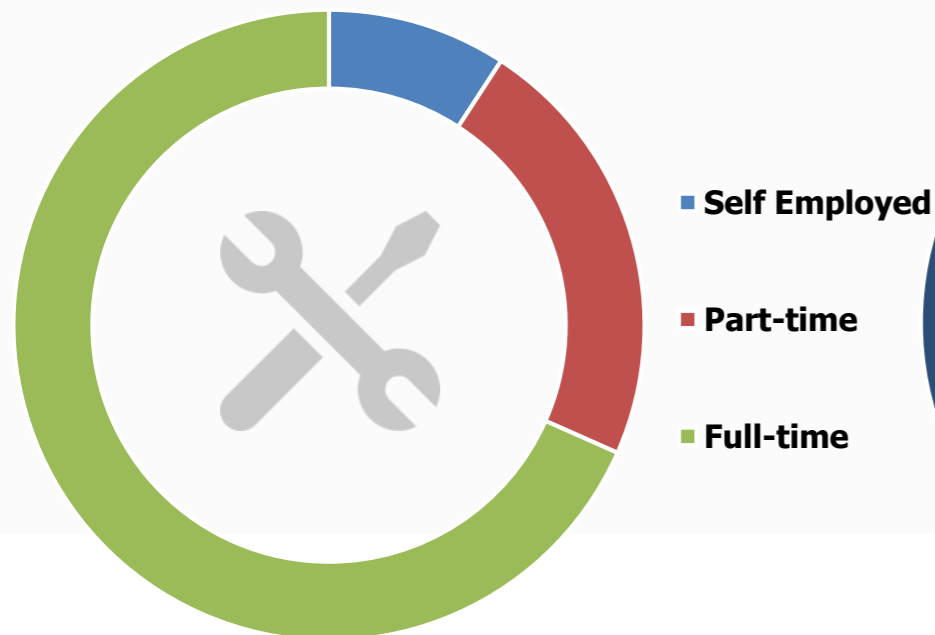
Age



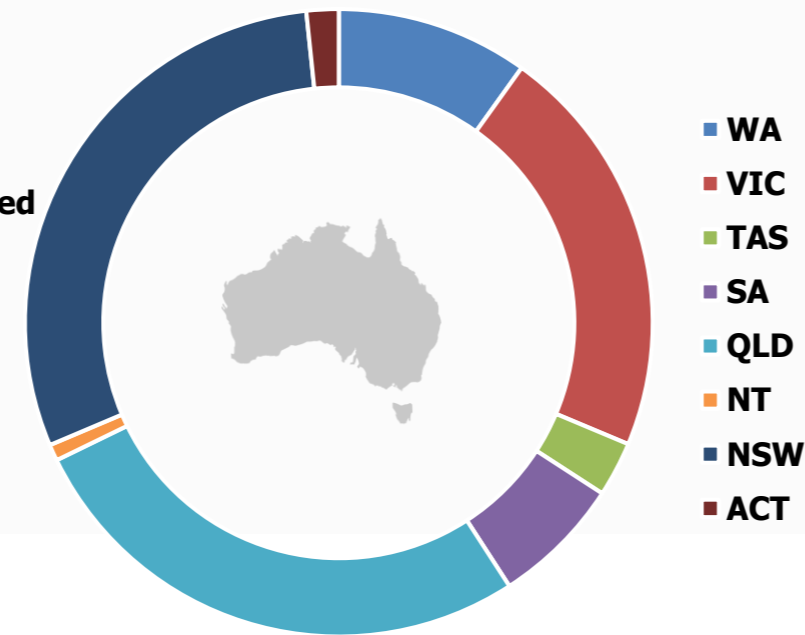
Residential status¹



Employment status¹

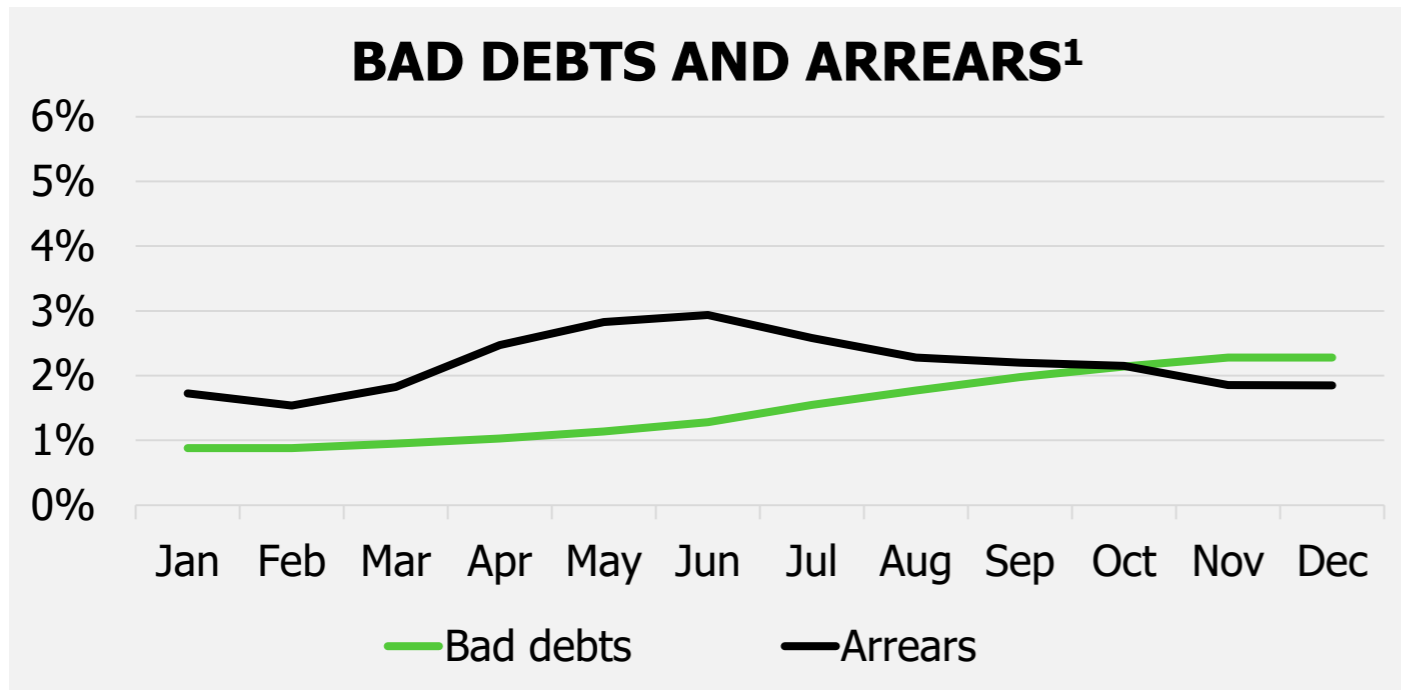


Locale



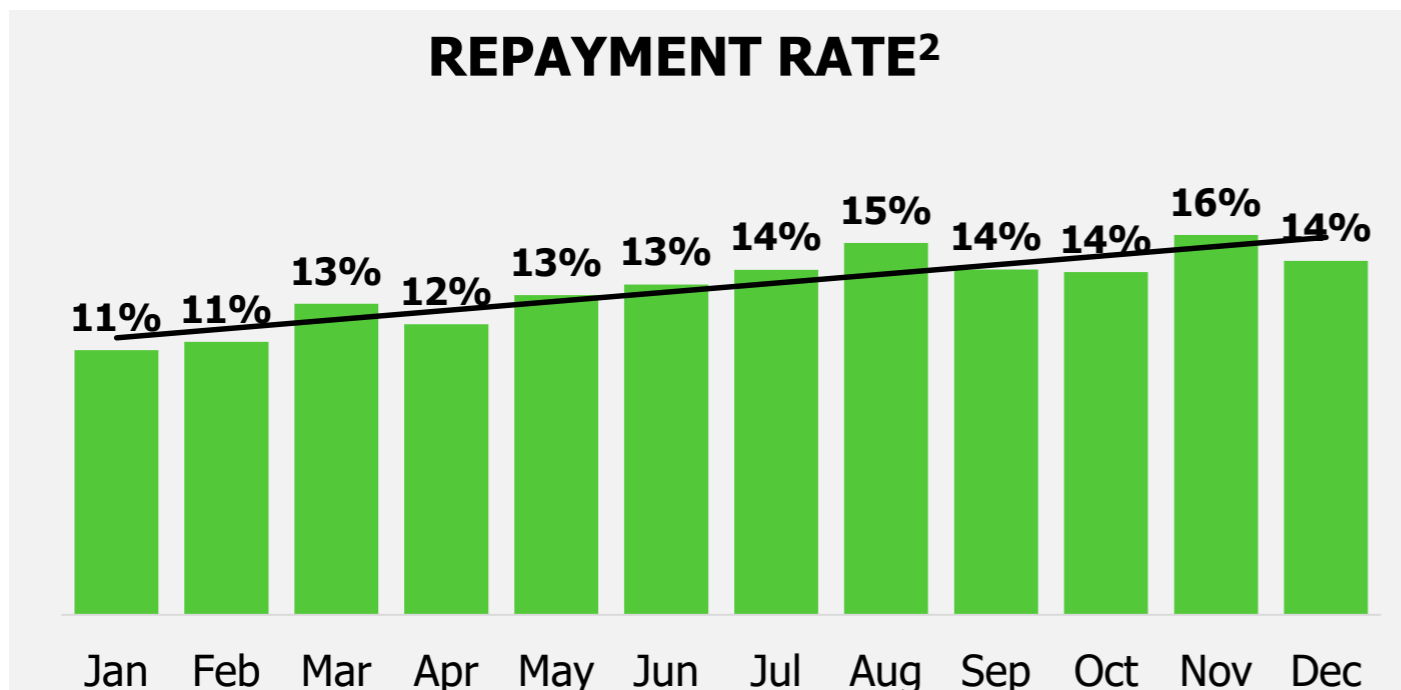
Note: 1. Residential and employment data is based on the zipMoney customer receivables as at 31 Dec 2017

STRONG CREDIT PERFORMANCE



- Arrears and bad debts of 1.85% and 2.28%, respectively, remain below industry benchmarks
- As the book seasons, bad debts are expected to trend towards 3%
- Zip's consumer profile remains well balanced
- Management continue to balance the appetite for risk with growth in revenue
- Repayment profile remains healthy at 14%, demonstrating strong capital recycling

Note: 1. Arrears defined as those accounts greater than 60 days delinquent. Bad debts defined as those accounts greater than 180 days delinquent. All figures are on an annualised basis.



Note: 2. Repayment expressed as a percentage of receivables at the beginning of the month.

FUNDING POSITION



ALL FIGURES IN \$M (Unless otherwise stated)	CURRENT	DEC 17	JUN 17
Facility Size (Class A and B)			
2017-1 Trust	360.0	240.0	240.0
2017-2 Trust	20.0	20.0	33.4
2015-1 Trust	-	-	139.5
Total Available	380.0	260.0	412.9
Facilities Utilised			
Securitisation Warehouses	226.5	211.5	155.4
Working Capital	-	-	6.0
Total Utilised	226.5	211.5	161.4
Cost of Funds	< 6%	7.1%	9.6%

- Additional \$120m in available facilities agreed in January 2018
- All receivables refinanced out of expensive legacy funding program during half
- Zip maintains an equity position of \$16m in the various trusts
- Existing trust structure provides flexibility at reduced cost
- In advanced negotiations with senior and mezzanine financiers for further funding facilities
- Ongoing funding cost expected to be below 6%

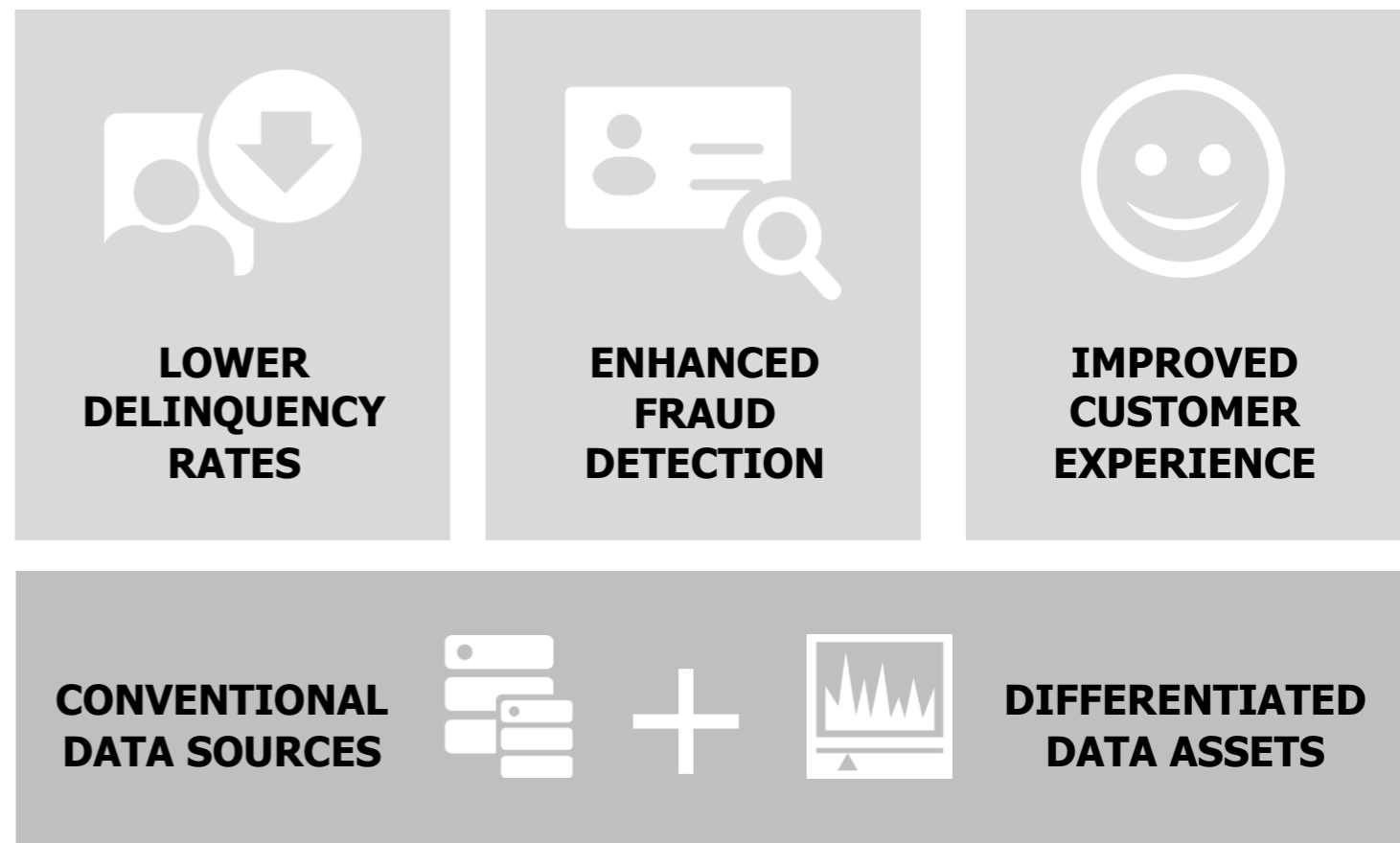
DATA DRIVEN



DATA SCIENCES, MACHINE LEARNING AND ARTIFICIAL INTELLIGENCE

- Significant investment made in data engineering and data science
- Millions of customer records and billions of transaction records analysed
- Delivering significant financial benefits by utilising proprietary decisioning technology to automate internal credit processes
- Rapidly developing and deploying machine-learning algorithms to accelerate performance
- Engineering Big Data sources to create unique data assets that underpin decision making

ZIP BIG DATA PLATFORM



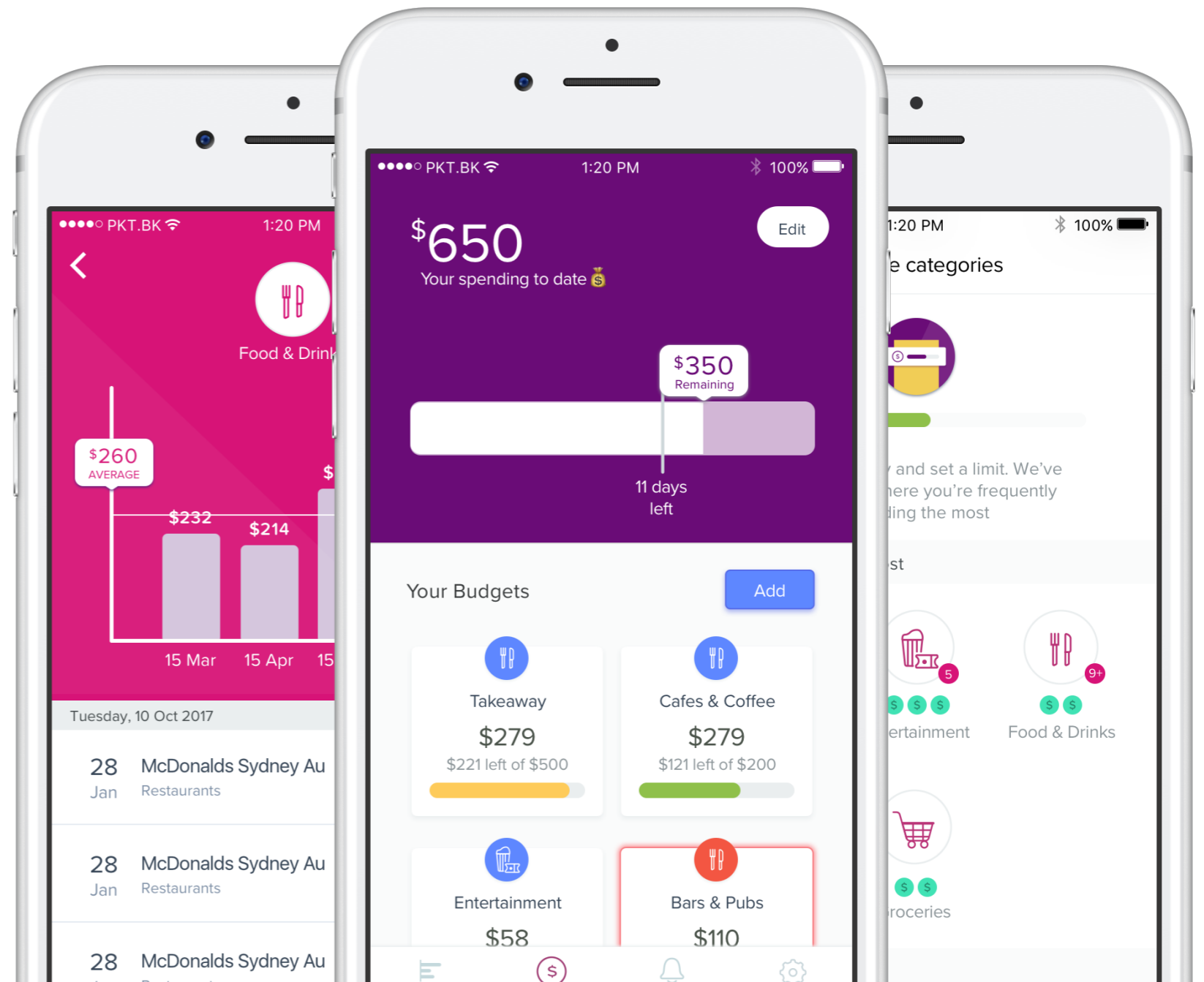
POCKETBOOK



CONTINUES TO DELIVER RECORD USER GROWTH AND SYNERGIES TO THE GROUP

Highlights for the half-year include:

- ✓ User numbers hit 435K in 1H18
- ✓ Launched new iOS version of the App lifting engagement by 20% - Android due March 2018
- ✓ Significant update to proprietary transaction categorisation engine, enhancing coverage and accuracy by 20% – extensively used in Zip underwriting models
- ✓ First of kind API integration with Macquarie Bank in January, leading the industry on the Government open-banking mandate



AWARDS AND RECOGNITION



Finance Business of the Year (Zip) Innovation of the Year (Pocketbook)

The Optus My Business Awards is the longest-standing business awards program in Australia, and identifies and acknowledges the achievements of Australia's best business operators (November, 2017).

#2 in the Deloitte Technology Fast 50 Australia

The Deloitte Fast 50 program ranks the 50 fastest growing public or private technology companies, based on percentage revenue growth over three years (November, 2017).

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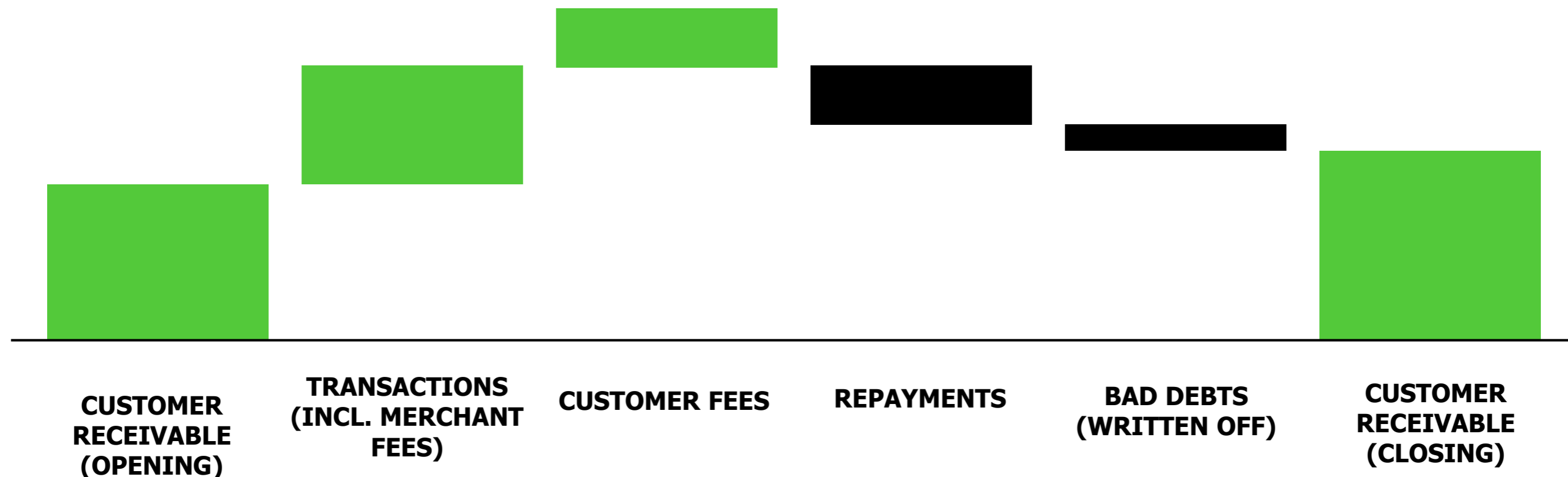
3. FINANCIAL REVIEW

4. OUTLOOK

RECEIVABLES & PORTFOLIO INCOME



- Zip offers a line of credit, where multiple purchases are added to an account with repayments made over time
- Revenue is generated from a mix of both merchant fees and customer fees
- Zip is building a receivables book, comprising the aggregation of customer accounts
- Portfolio income recognises fees charged on an accruals basis over the repayment period
- Zip targets an effective yield of 20% on the receivable book



FINANCIAL PERFORMANCE



ALL FIGURES IN \$M (Unless otherwise stated)	1H18	1H17	% CHANGE
Portfolio income	15.6	6.4	144%
Other income	0.4	0.3	33%
TOTAL INCOME	16.0	6.7	134%
Cash cost of sales	(12.1)	(4.8)	152%
CASH GROSS PROFIT	3.9	1.9	105%
Cash operating costs	(11.5)	(4.5)	153%
CASH EBTDA	(7.6)	(2.6)	192%
Movement in provision for doubtful debts	(2.4)	(1.4)	71%
Finance costs	(1.0)	(0.4)	150%
Shared based payments	(2.1)	(1.0)	110%
EBTDA	(13.1)	(5.4)	143%
Depreciation and amortisation	(1.5)	(0.5)	200%
EARNINGS BEFORE TAX	(14.6)	(5.9)	148%

Note: Cash cost of sales and cash operating costs comprise those expenses that have an operating cash outflow.

- Portfolio Income hits record levels. 144% increase on 1H17 and 56% increase on 2H17
- Rapidly improving unit economics. Cash cost of sales and cash operating costs reducing as a percentage of average customer receivables
- Significant investment in the operating platform during the half. Scaled for substantial growth
- Provision for bad debts maintained at 3% of the period end receivables balance. Vintage analysis supports this provisioning
- Bad debts provision increasing with receivables balance (non-cash item)
- Finance costs comprise the amortised cost of establishing the programs
- Share based payment increasing as staff levels increase, as all bonuses are awarded in shares
- Amortisation includes IT development & software costs written off over 2.5yrs

COST BASE



ALL FIGURES IN \$M (Unless otherwise stated)	1H18	1H17	% CHANGE
CASH COST OF SALES	12.1	4.8	152%
Interest costs	6.7	3.3	103%
% of Average receivables	6.9%	10.2%	
Bank fees and data costs	1.6	1.0	60%
% of Average receivables	1.7%	3.0%	
Bad debts written off	3.8	0.5	660%
CASH OPERATING COSTS	11.5	4.5	155%
% Average receivables	12.4%	14.5%	
Salaries and employment related costs	7.4	2.2	236%
Marketing costs	0.8	0.1	700%
Other operating costs	3.3	2.2	50%

- Bank fees increasing in line with customer repayments but decreasing as a percentage of receivables
- Data costs reflect the cost of obtaining credit and other 3rd party data. Expected to increase in line with the growth in customer base
- Bad debts written off at 2.28% of closing receivables balance and remains below industry benchmarks
- Headcount increased 66% on December 2016, including key management hires
- IT Hardware, Software, Consulting and Office costs included in 'other operating costs'

BALANCE SHEET



ALL FIGURES IN \$M (Unless otherwise stated)	DEC 17	JUN 17	% CHANGE
ASSETS			
Cash and cash equivalents	18.3	19.2	(5%)
Other receivables	6.0	0.4	1,400%
Customer receivables	219.1	143.8	53%
Property, plant and equipment	3.4	0.5	580%
Goodwill	4.5	4.5	-
Other intangible assets	6.0	6.1	(2%)
TOTAL ASSETS	257.3	174.5	47%
LIABILITIES			
Trade and other payables	5.4	1.6	238%
Deferred R&D tax incentives	0.5	0.1	400%
Deferred contingent consideration	0.3	0.3	-
Borrowings	211.0	160.3	32%
Employee provisions	0.8	0.6	33%
TOTAL LIABILITIES	218.0	162.9	34%
NET ASSETS	39.3	11.6	239%
EQUITY			
Issued capital	79.8	37.1	115%
Share – based payment reserves	3.9	4.3	(9%)
Accumulated losses	(44.4)	(29.8)	49%
TOTAL EQUITY	39.3	11.6	239%

- Restricted cash \$11.3m at 31 Dec 17 (\$12.6m at 30 Jun 16)
- Cash and available liquidity sufficient to reach breakeven
- Net Assets increased by \$28m (reflecting equity investment by Westpac)
- 31 Dec being a Sunday resulted in an increase in the level of receivables and payables at year end
 - Other receivables includes \$4.2m credited to customer accounts received post 31 Dec
 - Other payables includes \$3.0m payable to merchants at 31 Dec
- Growth in customer receivables supported by increase in borrowings
- PP&E increased due to the relocation and establishment of the new office
- Other intangible assets predominantly IT development and software costs and \$0.5m in acquired intangibles from the Pocketbook acquisition

CASH FLOWS



ALL FIGURES IN \$M (Unless otherwise stated)	1H18	1H17	% CHANGE
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	16.4	6.5	152%
Payments to suppliers and employees	(12.3)	(4.5)	173%
Interest received	0.1	0.1	-
Interest paid	(7.0)	(3.0)	133%
NET CASH FLOW TO OPERATING ACTIVITIES	(2.8)	(0.9)	211%
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment	(2.9)	(0.4)	625%
Payments for software development	(1.3)	(1.6)	(19%)
Payments to acquire businesses	-	(1.9)	N/M
Net movement in receivables	(84.2)	(48.4)	74%
NET CASH FLOW TO INVESTING ACTIVITIES	(88.4)	(52.3)	69%
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares	40.5	10.8	375%
Costs of share issues	(0.3)	(0.6)	(50%)
Proceeds from borrowings	50.1	48.1	4%
NET CASH FLOW FROM FINANCING ACTIVITIES	90.3	58.3	55.0%
NET INCREASE IN CASH AND CASH EQUIVALENTS	(0.9)	5.1	N/M

- Operating cashflow (0.1m) for 2Q18
- The establishment and relocation of the Group's new office included in payment for plant and equipment
- Proceeds from the issue of shares comprise Westpac's investment and VPC Option conversion

- 1. RESULTS HIGHLIGHTS**
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- 4. OUTLOOK**

FY18 OUTLOOK



POSITIVE OUTLOOK IN 2H18 DRIVEN BY UNDERLYING GROWTH IN REVENUE, GROSS PROFIT AND CUSTOMERS

Cashflow Positive



- Expect cashflow breakeven on a monthly basis in FY18
- Leverage operational efficiencies

Continue to grow merchant and customer base



- Continued growth of active customer base
- In advanced stages of negotiation with a number of iconic retail and travel brands

Product development, brand alignment



- Release first version of Zip native App
- Brand alignment under 'Zip'

Further diversifying funding



- Increase funding capacity and funding programs with both senior and mezzanine financiers

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