



27 April 2018

Q3 FY18 QUARTERLY UPDATE
ZIP DELIVERS RECORD REVENUE AND CASHFLOW

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly performance for the period ending 31 March 2018 (**Q3 FY18**).

HIGHLIGHTS

- **Record quarterly revenue of \$11.2 million, up 23% on Q2.**
- **Receivables book increased to \$265.5m, up 15% on Q2.**
- **Transaction volume of \$136.1 million, down 3.0% on the seasonally strongest Q2.**
- **Transaction volume for March of \$50m, close to December '17 peak levels.**
- **Positive operating margin (cash from operating activities in Appendix 4C) of \$1.1m, a \$1.2m improvement on Q2.**
- **Customer numbers up 19% on Q2 and are now over 627,000. Customer engagement is increasing and now sits at an 80% repeat rate.**
- **Revenue yield of 18% continues to trend towards our long-term target of 20%.**
- **Operating leverage accelerating with cost base reducing as a percentage of average receivables.**
- **Tiger Airways, part of the Virgin Group, joins the platform.**
- **The Company confirms its guidance for cashflow break-even on a monthly basis in FY18 (including the impact of bad debt write-offs)**

Managing Director and CEO Larry Diamond said:

"Zip delivered another great set of operating results, with revenue up a significant 23% in what is a seasonally much weaker quarter in terms of retail sales volumes. This demonstrates the benefits of Zip's balanced revenue model and the recurring nature of portfolio income from our rapidly growing receivables portfolio. Pleasingly, we saw the business exit the quarter at close to the monthly peak observed in December of \$50 million. As the operating leverage continues to expand, Zip is on its way to cashflow-break-even. The pipeline is the strongest it has ever been, and the addition of well-known airline, Tigerair, to the Zip platform continues the Company's push into the sizeable travel and leisure sector."

"Zip is disrupting the world of high interest, inflexible credit cards with a digital, interest-free alternative offering genuinely better terms. Our business model was built on the tenets of transparency, responsibility and flexibility – with all credit applicants subject to identity and credit checks. We are uniquely placed in market and have the ability to originate credit at point-of-sale whether large or small value."

KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q3 FY18 Results (unaudited)	% increase on Q2 FY18 (unaudited)	% increase on Q3 FY17 (unaudited)
Revenue	\$11.2m	23% ↑	138% ↑
Merchants ¹	8,991	16% ↑	181% ↑
Customers ²	627,843	19% ↑	217% ↑
Receivables ³	\$265.5	15% ↑	132% ↑
Transaction volume	\$136.1m	3% ↓	123% ↑
Transactions	472,062	3% ↓	198% ↑

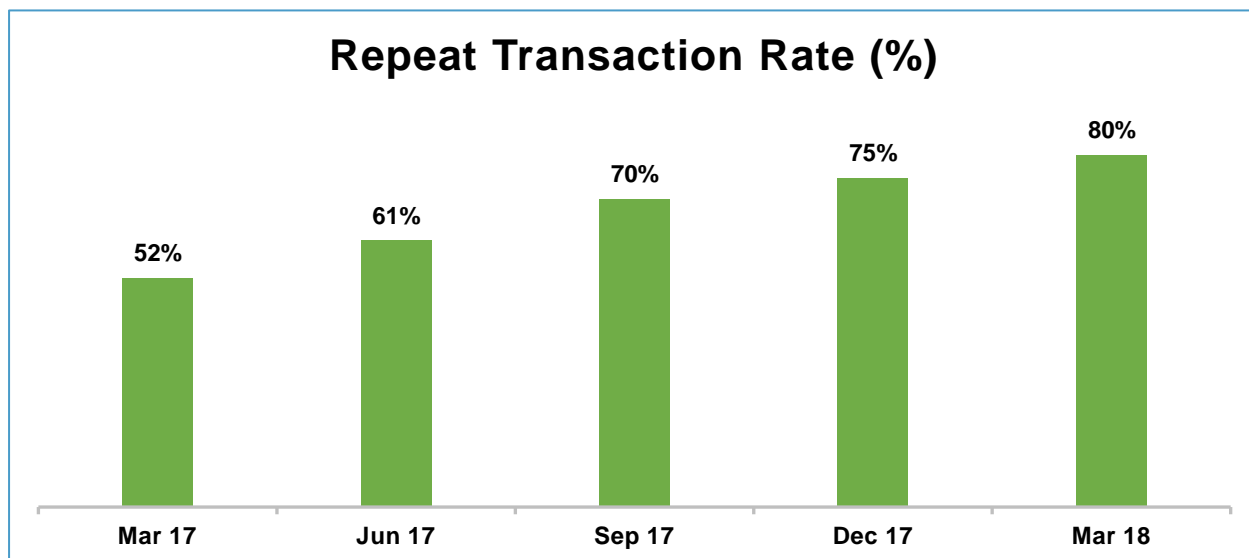
1. Number of accredited merchants
2. Number of active customer accounts (not including Pocketbook users)
3. Amounts due from Customers

Customer engagement metrics continued to improve over the quarter, with the repeat transaction rate growing to 80% (refer following diagram). This was driven by:

- More places and ways to use Zip.
- Personalised marketing campaigns.
- The successful unification of the Zip network in December, allowing any Zip customer (with their wallet funded by either zipMoney or zipPay) to transact at any accredited Zip merchant.

The Company has a number of initiatives underway that will further drive engagement in the coming periods:

- Investment in the Zip brand and architecture.
- The Zip native App.
- Improvements to the stores directory, which will drive a better browsing and discovery experience.



Note: Repeat Transaction Rate defined as % of quarterly transactions made by existing customers.

OPERATING ENVIRONMENT

There has been increased publicity surrounding the sector in recent months.

Zip would like to reiterate that the Company:

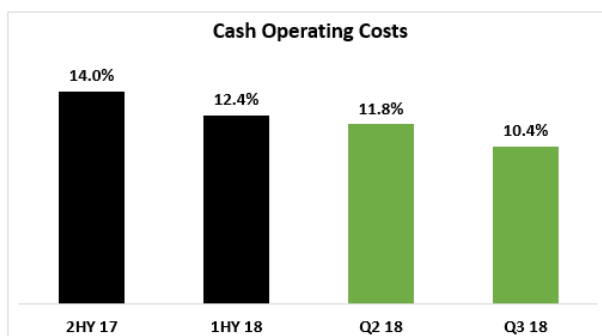
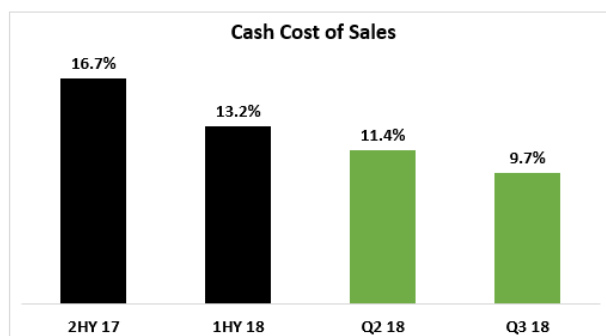
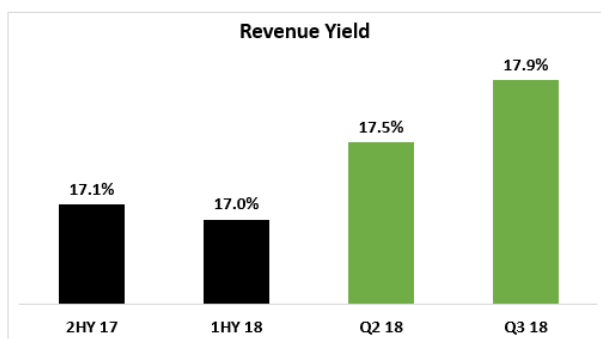
- Provides a fairer and better alternative to credit cards;
- Conducts external ID checks on every applicant;
- Performs credit analysis, including credit checks, on every applicant;
- Undertakes fraud checks on every applicant;
- Focuses on interest-free payment behaviour;
- Provides products with flexible and affordable repayments; and
- Does not rely on customers falling into arrears to support the revenue model.

Zip provides fair and transparent products, offering them in a responsible way to all customers who are approved to use the service.

FINANCIAL DASHBOARD

The Company is on track to achieve cashflow breakeven on a monthly basis by the end of the financial year, having experienced positive trends across all measures on its financial dashboard:

- **Increasing Revenue Yield**– Revenue yield increased from 17.5% in Q2 to 17.9% in Q3. Revenue comprises portfolio income.
- **Cash Cost of Sales** – Cash Cost of Sales as a percentage of quarterly average receivables reduced from 11.4% in Q2 to 9.7% in Q3. Cash Cost of Sales comprise interest, bank fees, data costs and bad debts written off.
- **Cash Operating Costs** – Cash Operating Costs as a percentage of quarterly average receivables reduced from 11.8% in Q2 to 10.4% in Q3. Cash Operating Costs comprise all other costs other than funding program establishment costs, share based payments, depreciation and amortisation.



Notes:

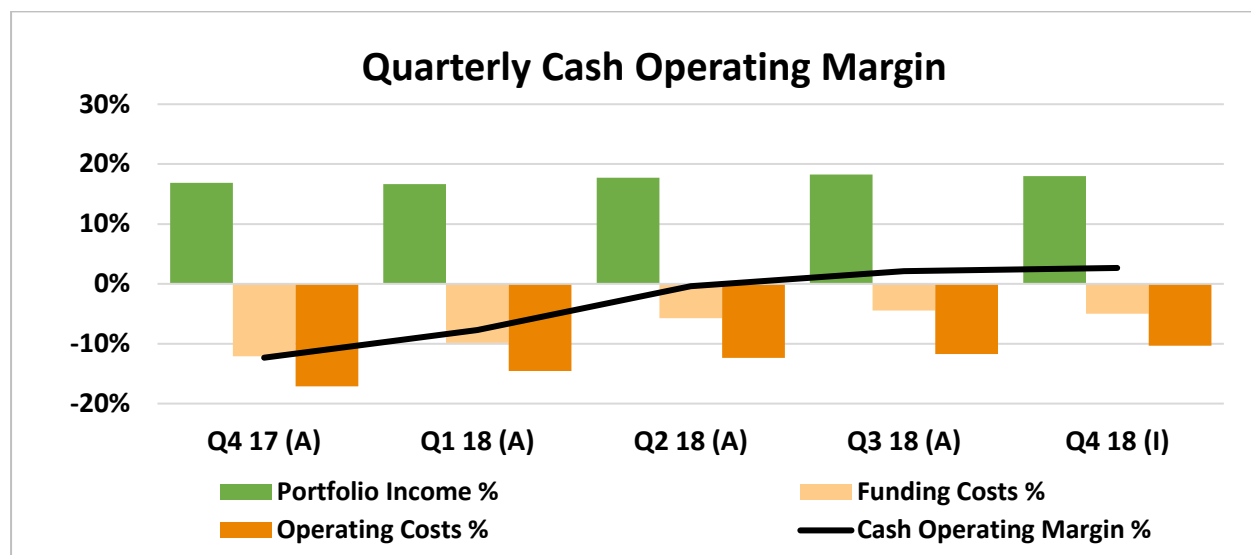
1. All figures expressed as a percentage of quarterly average receivables. All figures are on an annualised basis;
2. Cash cost of sales includes interest, bank fees, data costs, and bad debts written off;
3. Cash operating costs exclude funding program establishment costs, share based payments, depreciation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

QUARTERLY CASHFLOW

In Q3 FY18, the Company reported a positive operating margin (cash from operating activities) in its Appendix 4C of \$1.1m, a \$1.2m improvement on Q2. As illustrated in the chart below, this positive operating margin is expected to increase in Q4 as the Company continues to demonstrate operating leverage.

It should be noted that both the Appendix 4C definition of cash used in operating activities and the cash operating margin in the following graph are aligned and show a positive cash operating margin.

The Company's guidance of cashflow breakeven also includes the impact of bad debt write-offs, which form part of the net movement in receivables in the Appendix 4C.



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 bad debt losses).
2. Assumptions adopted for future periods include: (i) Portfolio Income % kept constant at current levels, (ii) Funding costs maintained at c.6%, (iii) Operating costs at expected levels 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).

Net cash from operating activities in the quarter includes:

- Receipts from customers of \$10.9m, up 18% from \$9.2m in the previous quarter.
- Cash payments for Operating Costs (staff, administration and corporate costs) of \$7.2m. This was marginally higher than forecast Operating Costs of \$6.8m for the quarter due to the following:
 - Recruitment costs of \$150k to expedite the hiring process for key staff members.
 - Professional services costs of \$100k.
 - Additional data sources to support the credit decisioning process and bringing forward expenses on an automated communications platform \$60k.
- Interest and other finance costs reduced from \$3m in Q2 to \$2.7m in Q3 despite an increase in the drawn debt balance, reflecting the full quarterly benefit of Zip's lower cost funding program.

During the previous quarter the Company moved offices, relocating to Level 14, 10 Spring Street, Sydney. The balance of the costs for fitting out and establishing the office are included in payments to acquire property, plant and equipment in cash flows used in investing activities in the Appendix 4C.

Estimated cash outflows for Q4 comprise Operating Costs of \$7.5m, an increase of \$0.3m over Q3 and predominantly reflect an increase in headcount.

In addition, the Company is planning to spend an estimated \$600k on a one-off rebranding initiative to better align and position the Zip brand. These one-off costs relate to external agency costs, video and photography production and a refresh of all marketing and point-of-sale collateral.

FUNDING UPDATE

In the quarter, the Company increased the available 2017-1 facility commitments with financiers NAB and FIIG by \$120m. This brings the total available commitments within the Trust to \$360m, of which \$236.5m was drawn as at 31 March 2018.

In total, the Company had funding headroom of \$133.5m at the end of the quarter and continues to explore additional options to further increase and diversify the facilities available to fund its growth.

Zip currently holds equity of \$17m in the various funding programs having applied a proportion of the Westpac investment proceeds to repay costly mezzanine capital. 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.

MERCHANT UPDATE

In Q3, merchants on the platform grew by 16% with over 1,200 new merchants offering Zip, including many well-known consumer brands. Merchants either live on the platform or in integration include:

Tigerair	Laser Clinics Australia	Noni B	MyDeal	Oxford
Sparesbox	Totally Smiles	Crazysales	Auto One	RSEA
Shiels	Taxibox	Spendless Shoes	OMF	Bluesfest

Tigerair represents Zip's first major foray into the flights category and one of its largest merchants to date. Go live is projected in quarter 4.

Quest Payment Systems, one of Australia's leading integrated point of sale solution providers, was integrated in the quarter and currently under pilot. This will allow merchants using Quest terminals to accept Zip payments by way of a remote software update.

We are in the process of integrating with Live Group's wireless handheld EFTPOS terminals. Live Group is one of Australia's leading payment service providers. This integration is estimated to be live in the next few months and will automatically make Zip available to over 10,000 Live taxi and EFTPOS terminals throughout Australia.

The Zip Health Team increased the number of unique healthcare businesses on the platform to over 1,500 in the quarter, including 1,300 Smiles and Totally Smiles locations.

RECEIVABLES AND CREDIT UPDATE

As at 31 March 2018, receivables were \$265.5 million, up 15% over the previous quarter. The customer repayment profile remains at a healthy 14% of the opening receivables balance repaid each month.

The reported arrears rate and bad debts were 1.56% and 2.62% respectively, both well below industry standards. As previously advised, as the book continues to season bad debts are expected to trend towards 3%, which remains the basis for Zip's bad debt provisioning on its balance sheet and is reflected in Zip's Income Statement.

Executive Director & COO Peter Gray said:

"Our proprietary credit and fraud decisioning technology, including the use of traditional credit data such as ID and credit checks, along with the use of significant amounts of non-traditional credit data- including banking transactional information - continues to deliver industry leading arrears and bad debt numbers. The results also demonstrate the transparent and flexible nature of our product offering, with approx. 14% of the receivables being repaid each month."

POCKETBOOK

The Pocketbook business now has over 490,000 users, having added over 50,000 users in the last quarter. January is a seasonally strong month for downloads in the Personal Financial Management (PFM) category, largely driven by New Year's resolutions and planning behaviour for the year ahead.

The Android version of the product was successfully relaunched in the quarter (following the iPhone refresh last calendar year) and was featured in the 'Google Playstore'. The UI and UX upgrades to both iOS and Android has seen a significant lift in monthly active users.

CONCLUSION

In summary, the momentum built in the previous quarter has continued into Q3, and the business remains on track to turn cashflow breakeven on a monthly basis by the end of FY18. This is supported by:

- Continued strong growth across all key operating metrics.
- Steadily increasing gross revenue yield.
- Cost base as a percentage of average receivables trending down significantly due to operating leverage.
- Continued introduction of merchants, large and small, who are benefiting from the Zip platform.
- Rapidly increasing customer numbers and engagement metrics.

– ENDS –

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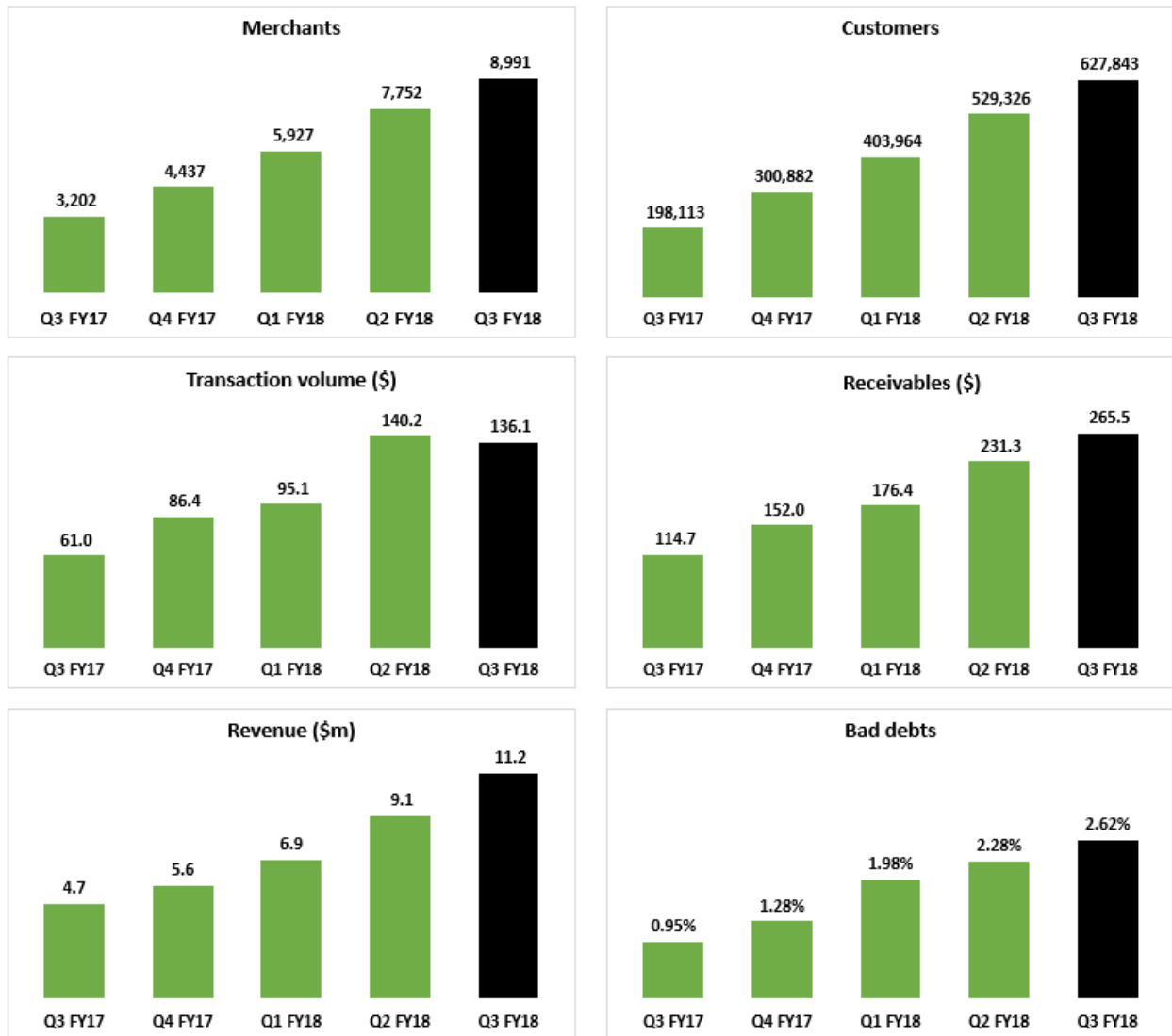
For general investor enquiries, email investors@zipmoney.com.au

About Zip

ASX-listed Zip Co Limited (Z1P: 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

KEY BUSINESS DRIVERS



Notes: (i) Based on unaudited financials; (ii) Receivables gross, before provisions; (iii) Revenue including Portfolio and Other Income; 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.

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

Zip Co Limited

ABN

50 139 546 428

Quarter ended ("current quarter")

31 March 2018

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	10,905	26,713
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(515)	(1,307)
(d) leased assets	-	-
(e) staff costs	(3,566)	(10,088)
(f) administration and corporate costs	(3,095)	(8,096)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	67	188
1.5 Interest and other costs of finance paid	(2,740)	(9,777)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	614
1.8 Other (provide details if material) - Funding Costs	-	-
1.9 Net cash from / (used in) operating activities	1,056	(1,753)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(351)	(3,295)
(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	(602)	(1,869)
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	(36,297)	(119,401)
- Term Deposits	275	(827)
2.6 Net cash from / (used in) investing activities	(36,975)	(125,392)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	531	41,031
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	(12)	(320)
3.5 Proceeds from borrowings	35,000	160,500
3.6 Repayment of borrowings	-	(75,360)
3.7 Transaction costs related to loans and borrowings	(451)	(451)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	35,068	125,400

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	18,320	19,214
4.2 Net cash from / (used in) operating activities (item 1.9 above)	1,056	(1,753)

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)	(36,975)	(125,392)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	35,068	125,400
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	17,469	17,469

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	3,131	7,027
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (restricted cash)	14,338	11,293
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	17,469	18,320

6. Payments to directors of the entity and their associates

- 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

Current quarter \$A'000

200

-

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

- 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

Current quarter \$A'000

-

-

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	380,000	246,500
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
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 increased the facilities available within the zipMoney 2017-1 Trust to \$360m, up from \$240m.

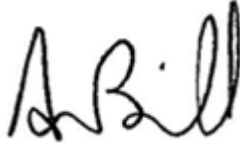
At 31 March 2018, the Group had two funding programs in place the zipMoney Trust 2017-1 (facility amount \$360m, drawn \$236.5m) and the zipMoney Trust 2017-2 (facility amount \$20m, drawn \$10m).

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	600
9.2 Product manufacturing and operating costs	
9.3 Advertising and marketing	520
9.4 Leased assets	
9.5 Staff costs	3,850
9.6 Administration and corporate costs	3,100
9.7 Other (provide details if material)	
- Interest and other costs of finance	3,250
- Re-Branding Costs	600
9.8 Total estimated cash outflows	11,920

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: 27 April 2018

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.