

19 July 2018

04 FY18 OUARTERLY UPDATE

ZIP ACHIEVES CASHFLOW BREAKEVEN AND DELIVERS RECORD QUARTER

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly performance for the period ending 30 June 2018 (**Q4 FY18**).

HIGHLIGHTS

- Record quarterly revenue of \$13.2 million, up 18% on Q3.
- Receivables book increased to \$316.7m, up 19% on Q3.
- Record transaction volume of \$171.5m, up 26% on Q3.
- The Company achieved its guidance of cashflow break-even on a monthly basis in FY18 (including the impact of bad debt write-offs). Positive underlying cash from operating activities (after bad debt write-offs) for the quarter was \$0.7m.
- Positive operating margin (shown as cash from operating activities in the Appendix 4C) of \$3.2m, up 191% from \$1.1m in Q3.
- Customer numbers increased by over 110,000 in the quarter, and now stand at over 738,000, up 19% on Q3. Customer engagement continues to increase and now sits at an 83% repeat rate.
- Tiger Airways, part of the Virgin Group, went live in June.
- Super Retail Group (SRG) and Officeworks joined the Zip platform and will go live in Q1 FY19.

Managing Director and CEO Larry Diamond said:

"We are extremely excited to announce another record quarterly result, as all parts of the Zip business came together to deliver. We now have over 1.2 million consumers and have processed more than \$850 million in transactions on the Zip payments platform. Through Zip and Pocketbook, the Company has created financial products that are resonating with Australian consumers.

It is also pleasing to report that the Company achieved its goal of cashflow breakeven on a monthly basis during the quarter – a huge milestone for management and investors.

The quarter also brought the signing of the Company's largest partners to date, Super Retail Group (ASX: SRG) and Wesfarmers' Officeworks (ASX: WES), both rolling-out Zip's omnichannel capability. The pipeline continues to grow with many large enterprise opportunities in negotiation.

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 applicants subject to identity and credit checks."

KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q4 FY18 Results (unaudited)	% increase on Q3 FY18 (unaudited)	% increase on Q4 FY17 (unaudited)
Revenue	\$13.2m	18% ↑	136% ↑
Merchants ¹	10,585	18% ↑	139% ↑
Customers ²	738,129	18% ↑	125% ↑
Receivables ³	\$316.7m	19% ↑	217% ↑
Transaction volume	\$171.5m	26% ↑	99% ↑
Transactions	604,954	28% ↑	140% ↑

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

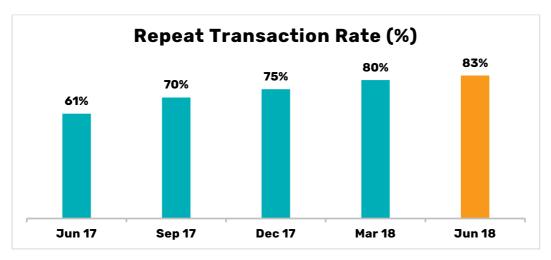
REBRANDING AND MOBILE APP LAUNCH

During the quarter, the Company undertook a rebranding which was rolled out to all customers and partners in late June. The rebrand also included a single destination, www.zip.co, for customers of both Zip Pay and Zip Money and a single-site store directory, www.zip.co/stores, to drive purchasing behaviour and support our partners.

The new brand platform lays the foundation for the release of the Zip Native App which is expected to launch in August. The app will be available for both Apple iOS and Google Android customers and has been developed in-house by the team responsible for the award-winning Pocketbook app.

CUSTOMER ENGAGEMENT

Customer engagement metrics continued to improve over the quarter, with the repeat transaction rate growing to 83% as shown below.

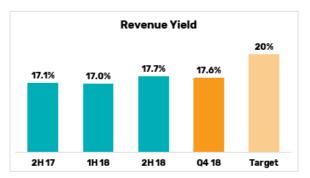


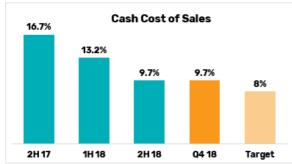
Note: Repeat Transaction Rate defined as percentage of quarterly transactions made by existing customers.

FINANCIAL DASHBOARD

The Company successfully achieved its goal of cashflow breakeven on a monthly basis during the final quarter of FY18.

- **Revenue Yield** The yield on the receivables portfolio was 17.6% in Q4 and 17.7% over 2H FY18, an increase over 1H FY18 of 17.0%. Revenue Yield incorporates portfolio income and excludes other income. Management has a medium-term target of 20%.
- Cash Cost of Sales Cash Cost of Sales as a percentage of quarterly average receivables was 9.7% in Q4 compared to Management's medium-term target of 8%. Cash Cost of Sales comprise interest, bank fees, data costs and bad debts written-off.
- Cash Operating Costs Cash Operating Costs ratio continued to reduce, driven by platform scale efficiencies. Specifically, Cash Operating Costs as a percentage of quarterly average receivables reduced from 10.4% in Q3 to 8.9% in Q4. Cash Operating Costs comprise all other costs other than non-cash costs (funding program establishment costs, share based payments, depreciation and amortisation). Management has a medium-term target of 5%.







Notes:

- 1. All figures expressed as a percentage of quarterly average receivables. All figures are on an annualised basis;
- 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.

OUARTERLY CASHFLOW

The Company reported a positive operating margin (net cash from operating activities in the Appendix 4C) of \$3.2m, up 191% from \$1.1m reported in Q3.

Net cash from operating activities in the quarter comprised:

- Receipts from customers of \$12.9m, up 18% from \$10.9m in the previous quarter.
- The receipt of the research and development tax incentive of \$0.6m.
- Cash payments for Operating Costs (staff, administration and corporate costs) of \$6.5m, which compared favourably to forecast Operating Costs for the guarter.

- One-off rebranding costs of \$0.4m within guidance, with balance to be incurred in Q1 FY19.
- Interest and other finance costs increased from \$2.7m in Q3 to \$3.4m in Q4 in line with expectations and aligned to the growth in debt funding.

During the quarter the Company achieved its goal of cashflow breakeven on a monthly basis, including the impact of bad debt write-offs. As detailed below, the company delivered positive underlying cash from operating activities of \$0.68m for the quarter, after the impact of net bad debts written-off in Q4 of \$2.3m.

Cashflow break-even reconciliation	Q4 FY18 (\$000)
Net cash from operating activities ¹	\$3,174
(-) Government grants and tax incentives ²	(\$590)
(+) Re-branding costs (one-off) ³	\$395
Net cash from operating activities - underlying	\$2,980
(-) Net bad debts written-off during the quarter ^{4,5}	(\$2,300)
Underlying cash from operating activities – after bad debt write-offs	\$680

- 1. Item 1.9 as per the Appendix 4C
- 2. Item 1.7 as per the Appendix 4C
- 3. Item 1.8 as per the Appendix 4C
- Net bad debts is defined as bad debts written-off less bad debt recoveries
- 5. Forms part of the net movement in receivables (item 2.5 as per the Appendix 4C)

FUNDING UPDATE

The Company continues to maintain two funding programs including the \$360m 2017-1 Trust facility financed by NAB and FIIG and the \$20m 2017-2 Trust facility. At quarter end, there was approximately \$90m in funding headroom. The Company is well advanced in negotiations with financiers to further increase the facilities available to fund its continued growth.

Zip holds just over \$16m in equity subordination across its various funding programs and retains the ability to access mezzanine capital in the future, enabling the release of equity to fund growth initiatives and capital expenditure as required.

MERCHANT UPDATE

During the quarter, a number of major enterprise retailers joined the Zip platform with the pipeline continuing to grow. Tigerair has now been joined by well-known retail partners, Super Retail Group and Officeworks signed in Q4. Tigerair went live in the quarter with Super Retail Group (Rebel, Supercheap Auto, Rays, BCF) and Officeworks expected to rollout in Q1 FY19. CSR Bradford, part of CSR Limited (ASX: CSR), has also joined the platform and will be offering interest free payment solutions.

The Zip merchant base increased c.18% during the quarter, with over 10,500 businesses able to accept Zip transactions. New merchants that went live on the platform in the quarter or currently in integration include:

Tigerair	Officeworks	Rebel	Sony	BCF
Rays Outdoors	Масрас	ECCO	Early Settlers	Amber Tiles
Beaumont Tiles	Supercheap Auto	CSR Bradford	National Vet Care	United Vet Group

The integration with Live Group's wireless handheld EFTPOS terminals is now complete and a phased rollout is underway. Live Group is one of Australia's leading payment service providers with over 10,000 taxi and EFTPOS terminals throughout Australia.

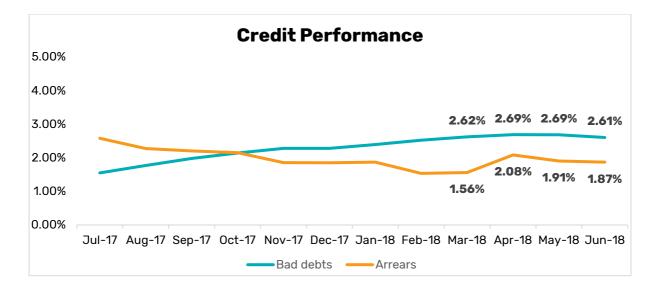
The Zip Health Team increased the number of unique healthcare businesses to over 2,000 in the quarter. Q4 saw further momentum in Veterinary Services, with the launch of the United Vet Group partnership with 370 independent practices and the rollout of Zip across the national network of National Vet Care Ltd (ASX: NVC).

RECEIVABLES AND CREDIT UPDATE

Receivables increased by 19% over the quarter to \$316.7m. The customer repayment profile remains at a healthy 14% of the opening receivables balance repaid each month.

The reported arrears rate and net bad debts were 1.87% and 2.61%, respectively, in line with Management expectations and well below industry standards.

Net bad debts is defined as bad debts written-off less bad debt recoveries.



Executive Director & COO Peter Gray said:

"It is pleasing to see our net bad debt write-offs stabilising at 2.61% in Jun-18 compared with 2.69% in May-18, while our arrears position continues to perform in line with expectations. The strength of Zip's proprietary credit and fraud decisioning technology continues to deliver industry leading arrears and bad debt results."

POCKETBOOK

The Pocketbook app now reaches over 530,000 users, having acquired over 40K users over the last quarter. This has been the strongest Q4 performance in the history of the business.

Pocketbook is one of Australia's leading personal financial management apps. It helps users track budget and save by automatically categorising spending (eg clothes, groceries, childcare) and providing smart alerts. It recently refreshed its website: www.getpocketbook.com

Head of Product and Co-Founder, Alvin Singh said:

"Pocketbook is a free mobile app that helps users get smart with their money. It presents an exciting opportunity for us to disrupt the traditional banking relationship in a way that is far more engaging and 'on your side'. We know that not all customers want credit, many have trouble saving and many are disillusioned with their current banking relationships."

Pocketbook continued its run of industry leading awards this quarter reinforcing its position as the 'best in-class' financial app. Pocketbook was recently awarded "Excellence in Wealth Management" at the 2018 Fintech Australia *Finnies awards*.

CONCLUSION

In summary, the Company has delivered on its commitment to achieve cashflow breakeven on a monthly basis in the financial year and is well positioned to continue its growth trajectory into FY19, as evidenced by:

- Continued strong growth across all key operating metrics.
- Strong pipeline growth supported by the rollout of significant enterprise retailers including Tigerair, Super Retail Group and Officeworks.
- Expected launch of the Zip native app in Q1 FY19.
- The completion of the brand launch with continued momentum building towards Christmas 2018.
- Stabilisation of the cost base, with operating leverage improving as the business continues to scale.

- ENDS -

For more information, please contact:

Larry Diamond Chief Executive Officer larry.diamond@zip.co +61 2 8294 2345 Martin Brooke Chief Financial Officer martin.brooke@zip.co +61 2 8294 2345 Jonathan Englert

Media and Communications
jonathan.englert@zip.co
+61 412 150 040

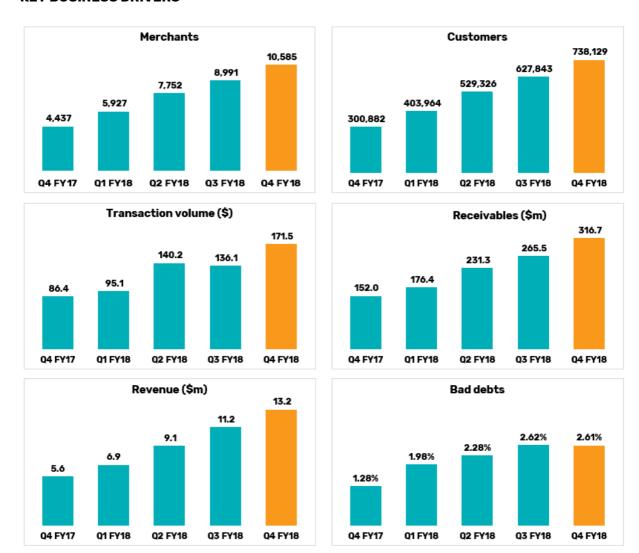
For general investor enquiries, email investors@zip.co

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 Zip Pay, Zip Money 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.zip.co

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.

+Rule 4.7B

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	Quarter ended ("current quarter")
50 139 546 428	30 June 2018

Con	solidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	12,893	39,606
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	-	-
	(c) advertising and marketing	(375)	(1,682)
	(d) leased assets	-	-
	(e) staff costs	(3,553)	(13,641)
	(f) administration and corporate costs	(2,620)	(10,716)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	67	255
1.5	Interest and other costs of finance paid	(3,433)	(13,210)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	590	1,204
1.8	Other (provide details if material)		
	- Re-branding Costs	(395)	(395)
1.9	Net cash from / (used in) operating activities	3,174	1,421

2.	Cas	sh flows from investing activities		
2.1	Pay	ments to acquire:		
	(a)	property, plant and equipment	(207)	(3,502)
	(b)	businesses (see item 10), net cash acquired	-	-
	(c)	investments	-	-

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Con	solidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	(673)	(2,542)
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 	(50,594)	(169,995)
	- Term Deposits	(30)	(857)
2.6	Net cash from / (used in) investing activities	(51,504)	(176,896)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	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	19	(301)
3.5	Proceeds from borrowings	43,500	204,000
3.6	Repayment of borrowings	-	(75,360)
3.7	Transaction costs related to loans and borrowings	-	(451)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	43,519	168,919

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	17,469	19,214
4.2	Net cash from / (used in) operating activities (item 1.9 above)	3,174	1,421

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Con	solidated 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)	(51,504)	(176,896)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	43,519	168,919
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	12,658	12,658

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	4,000	3,131
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (restricted cash)	8,658	14,338
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	12,658	17,469

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	200
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		ns included in

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	

+ See chapter 19 for defined terms 1 September 2016

8.	Financing facilities available Add notes as necessary for an understanding of the position	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	380,000	290,000
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.

At 30 June 2018, the Group had two funding programs in place the zipMoney Trust 2017-1 (facility amount \$360m, drawn \$273m) and the zipMoney Trust 2017-2 (facility amount \$20m, drawn \$17m).

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	450
9.4	Leased assets	
9.5	Staff costs	3,950
9.6	Administration and corporate costs	3,000
9.7	Other (provide details if material)	
	 Interest and other costs of finance 	3,800
	- Re-Branding Costs	200
9.8	Total estimated cash outflows	12,000

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	-	-

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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: Da	
(/Company secretary)	ate: 19 July 2018

Print name: Andrew Bursill

Notes

- 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.
- 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.

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⁺ See chapter 19 for defined terms