# APPENDIX 4E PRELIMINARY FINAL REPORT

## YEAR ENDED 30 JUNE 2018

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# RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | |
|---|---|
| Name of entity | ZIP CO LIMITED |
| ABN | 50 139 546 428 |
| Reporting period | Year ended 30 June 2018 |
| Previous corresponding period | Year ended 30 June 2017 |

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

Zip Co Limited and its controlled entities (also referred to as the Group or Zip) results for announcement to the market are detailed below:

| | | | 30 June 2018<br>$ | 30 June 2017<br>$ |
|---|---|---|---|---|
| Revenue from ordinary activities | Up | 138% | 40,406,686 | 17,002,131 |
| (Loss) from ordinary activities after income tax attributable to members | Up | 12% | (22,549,726) | (20,190,588) |
| Total comprehensive loss attributable to members | Up | 12% | (22,549,726) | (20,190,588) |

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| Net tangible asset backing per ordinary share | 7.80 cents | 0.43 cents |

### Brief Explanation of the Above Figures

Please refer to the Review of Operations for an explanation of the results.

### Details of Controlled Entities

There has been no gain or loss of control over entities during the financial period.

### Associates / Joint Venture Entities

Zip Co Limited has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures in the year ended 30 June 2018.

### Audit Status

This report is based on accounts which are in the process of being audited.

### Dividends

No dividends have been declared for the year ended 30 June 2018 or for the previous corresponding period.

# REVIEW OF OPERATIONS

Zip is a leading player in the digital retail finance and payments industry. The Group provides point-of-sale credit and digital payment services across the retail, travel and health sectors, as well as Pocketbook, a leading Personal Financial Management App. Pocketbook helps users track their budget and save by automatically categorising spending (e.g. clothes, groceries, childcare) and providing smart alerts.

Zip offers consumers an interest-free digital wallet and credit through its Zip Pay (up to $1,000) and Zip Money (up to $30,000) products. Zip generates revenue from both merchants (through a Merchant Services Fee) and customers (predominantly Monthly Fees, Establishment Fees and Interest).

Zip is now accessible by more than 730,000 customers across more than 10,500 merchants. Customers simply sign-in to their Zip digital wallet, online or in-store, and authenticate the transaction to confirm the purchase - all without the exchange of cash or credit card information.

In June 2018 the Group rebranded and now has a single destination for Zip Pay and Zip Money customers (www.zip.co) and a single-site store directory (www.zip.co/stores) to support the merchant community. The impact of the rebranding exercise has yet to be seen in the results of the Group, but it, together with the launch of the Zip Native App in August 2018, are expected to contribute significantly to the further expansion of the Group's activities.

Pocketbook saw its user base increase to over 530,000 in the financial year, during which it successfully upgraded both the Android and iOS versions of the native App which saw an increase in sign-up rates to the App. Pocketbook also announced the first of its kind direct API integration with Macquarie Bank in early 2018.

During the financial year the Group saw significant growth in all operating metrics, compared to the previous financial year:

- Customer numbers increased by 145% to over 738,000
- Merchant numbers increased by 139% to over 10,500
- Transaction volumes increased by 136% to $542.9 million
- Number of transactions processed increased by 243% to 1.9 million

Revenue reported for the financial year grew from $17.0 million to $40.4 million, an increase of 138%, reflecting this growth across all key operating metrics.

Cost of sales rose from $18.0 million to $30.2 million, an increase of 68%. The Group reported a gross profit of $10.2 million compared to a loss in the prior financial year. The Group has now exited its expensive legacy funding program and as a result has materially reduced interest expense, leading to an improvement in gross profit.

Operating costs grew from to $19.8 million to $32.8 million, an increase of 66%. The growth in the cost base of the Group has largely stabilised with $16.1 million in costs incurred in the first half, $16.7 million in the second.

Salaries and employee benefits represented 48% of the operating costs for the Group in the financial year, compared to 38% in the prior financial year. The Group's permanent headcount has increased from 108 at the start of the financial year to 138 at the end. In addition, the Group engaged casual staff to support its operations team of approximately 38, compared to 25 at the end of the June 2017.

The Group reported a loss before income tax of $22.5 million compared to $20.7 million in the prior financial year. Of this, $14.6 million was recorded in the first half of the financial year and $7.9 million in the second half of the financial year.

## Receivables

The Group's receivables portfolio increased to $316.7 million at 30 June 2018, up from $152.0 million at 30 June 2017, an increase of 108%. Monthly repayments continue to run at approximately 14% of the prior months closing balance, i.e. on average customers are repaying their entire balance in just over seven months.

The seasoning of the receivables saw net bad debt write-offs rise from 1.28% at 30 June 2017, to 2.61% at 30 June 2018. This is in line with management expectations that net bad debt write-offs will trend towards 3%. The Group wrote off $8.2 million in bad debts during the financial year, as compared to $1.9 million in the prior financial year. Bad debts, excluding the impact of recoveries, rose from 1.28% at 30 June 2017 to 2.70% at 30 June 2018.

The reported arrears rate (accounts over 60 days past due) reduced from 2.94% at the end of June 2017 to 1.87% at the end of June 2018, reflecting enhancements made to the Group's collection processes in the latter half of the 2017 financial year and during this financial year.

## Capital Management

In August 2017 Westpac invested $40.0 million in equity in the Group at 81 cents per share. These funds were used to repay expensive mezzanine capital within the Group's funding structures, increase the equity held by the Group in its receivables portfolio and to fund growth and capital expenditure. As at 30 June 2018, the Group had $16.4 million in equity in its funding structures and retains the ability to access mezzanine capital in the future to enable the release of equity to further fund growth and capital expenditure as required.

In November 2017, the Group completed the transfer of all outstanding receivables from the Victory Park Capital ("VPC") backed ZipMoney 2015-1 Trust to the NAB backed ZipMoney 2017-1 Trust. This brought the Group's financing arrangements with VPC to a conclusion.

In January 2018, the Group agreed an increase of $120.0 million in the facilities available within the ZipMoney 2017-1 Trust, bringing the total facility available within the Trust to $360.0 million.

The Group now funds over 96% of its receivables portfolio in the low cost ZipMoney 2017-1 Trust funding structure, with the balance funded by the higher cost ZipMoney 2017-2 Trust, and the Group's Balance Sheet.

At 30 June 2018 the Group had drawn $290.0 million from its total facilities available of $380.0 million.

The Group is about to commence documenting a further increase of $100.0 million in the facilities available within the zipMoney 2017-1 Trust and has completed the documentation of an additional $20.0 million in the facilities available within the zipMoney 2017-2 Trust. Once both are completed, total facilities available to the Group will be $500.0 million.

## Cashflows

The Group generated an operating cash inflow of $1.4 million during the financial year compared to an outflow of $7.6 million in the previous financial year. This excludes the impact of bad debts written-off in the financial year of $8.5 million (2017: $1.9 million) shown in the movement in receivables. Cash inflows from operations in the second half of the financial year were $4.2 million compared to an outflow of $2.8 million in the first half of the financial year.

Receipts from customers totalled $39.6 million for the financial year, a 136% increase from $16.8 million in the prior financial year, in line with the increase in revenue. The Group received an R&D tax incentive for the 2016 and 2017 tax years in the financial year. Going forward any such incentives will be received by way of reduction in future tax payments. Payments to suppliers and employees totalled $26.4 million up from $15.0 million in the prior financial year.

Cashflow used in investing activities increased from $117.6 million in the prior financial year to $176.9 million in the financial year to 30 June 2018. The Group moved offices during the financial year and the cost of fitting out the new premises, together with the Group's spend on information technology equipment is included in payments for plant and equipment. The Group spent $2.5 million in the financial year on product development, in line with that spent in the prior financial year. The increase in customer loans, net of repayments and bad debts written-off totalled $170.9 million, compared to $112.5 million in the prior financial year.

Cash from financing activities totalled $168.9 million. Proceeds from the issue of shares to Westpac and from the conversion of options, predominantly by VPC, in the financial year totalled $41.0 million. The Group borrowed an additional $203.6 million to fund receivables in the financial year and repaid $75.4 million to VPC and mezzanine financiers.

# PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 30 June 2018<br>$ | 30 June 2017<br>$ |
|---|---|---|---|
| **REVENUE** | | | |
| Portfolio income | 3 | 39,274,390 | 16,432,325 |
| Other income | 4 | 1,132,296 | 569,806 |
| Total revenue | | **40,406,686** | **17,002,131** |
| **COST OF SALES** | | | |
| Interest expense | | (13,024,665) | (10,280,907) |
| Doubtful debts | | (13,190,378) | (5,288,880) |
| Bank fees and data costs | | (3,941,762) | (2,426,294) |
| Total cost of sales | | (30,156,805) | (17,996,081) |
| **GROSS PROFIT** | | **10,249,881** | **(993,950)** |
| **EXPENDITURE** | | | |
| Administration expenses | | (6,144,562) | (3,348,839) |
| Consulting fees | | (279,705) | (1,012,459) |
| Depreciation expense | | (763,350) | (193,236) |
| Amortisation of intangibles | | (2,809,729) | (1,699,491) |
| Finance costs | | (1,575,617) | (1,272,436) |
| Occupancy expenses | | (1,569,675) | (816,133) |
| Recruitment costs | | (495,599) | (584,555) |
| Salaries and employee benefits expenses | | (15,586,151) | (7,593,310) |
| Share-based payments | | (3,575,219) | (3,233,125) |
| **LOSS BEFORE INCOME TAX** | | **(22,549,726)** | **(20,747,534)** |
| Income tax benefit | 6 | – | 556,946 |
| **LOSS AFTER INCOME TAX** | | **(22,549,726)** | **(20,190,588)** |
| Other comprehensive income for the year, net of tax | | – | – |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF ZIP CO LIMITED** | | **(22,549,726)** | **(20,190,588)** |
| Basic loss per share | 13 | (7.84) | (8.58) |
| Diluted loss per share | 13 | (7.84) | (8.58) |

The above Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

| | Note | 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 12,658,134 | 19,214,261 |
| Other receivables | | 6,225,891 | 395,140 |
| Customer receivables | 8 | 300,602,824 | 143,831,709 |
| Property, plant and equipment | | 3,240,753 | 502,024 |
| Goodwill | 9 | 4,548,276 | 4,548,276 |
| Other intangible assets | 10 | 5,792,007 | 6,059,942 |
| **TOTAL ASSETS** | | **333,067,885** | **174,551,352** |
| | | | |
| **LIABILITIES** | | | |
| Trade and other payables | | 8,027,403 | 1,665,458 |
| Employee provisions | | 841,239 | 567,065 |
| Deferred R&D tax incentives | | 757,966 | 98,880 |
| Deferred contingent consideration | | 337,200 | 337,200 |
| Borrowings | 11 | 289,723,751 | 160,257,432 |
| **TOTAL LIABILITIES** | | **299,687,559** | **162,926,035** |
| **NET ASSETS** | | **33,380,326** | **11,625,317** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 12 | 81,328,159 | 37,066,688 |
| Share-based payment reserves | | 4,379,167 | 4,335,903 |
| Accumulated losses | | (52,327,000) | (29,777,274) |
| **TOTAL EQUITY** | | **33,380,326** | **11,625,317** |

The above Preliminary Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

| | Issued Capital<br>$ | Reserves<br>$ | Accumulated Losses<br>$ | Total<br>$ |
|---|---|---|---|---|
| **BALANCE AT 1 JULY 2016** | **19,409,691** | **1,712,500** | **(9,586,686)** | **11,535,505** |
| Loss for the period | – | – | (20,190,588) | (20,190,588) |
| **TOTAL COMPREHENSIVE LOSS** | **–** | **–** | **(20,190,588)** | **(20,190,588)** |
| Shares issued during the period | 11,184,792 | – | – | 11,184,792 |
| Recognition of share-based payments | – | 2,623,403 | – | 2,623,403 |
| Issue of ordinary shares under share-based payments plans | 1,845,662 | – | – | 1,845,662 |
| Shares issued as consideration for the acquisition of Pocketbook | 5,300,317 | – | – | 5,300,317 |
| Costs of Issue | (673,774) | – | – | (673,774) |
| **BALANCE AT 1 JULY 2017** | **37,066,688** | **4,335,903** | **(29,777,274)** | **11,625,317** |
| Loss for the period | – | – | (22,549,726) | (22,549,726) |
| **TOTAL COMPREHENSIVE LOSS** | **–** | **–** | **(22,549,726)** | **(22,549,726)** |
| Shares issued during the period | 40,000,000 | – | – | 40,000,000 |
| Recognition of share-based payments | – | 3,536,889 | – | 3,536,889 |
| Exercise of share-based payments | – | (3,493,625) | – | (3,493,625) |
| Issue of ordinary shares under share-based payments plans | 1,819,455 | – | – | 1,819,455 |
| Exercise of options | 2,743,500 | – | – | 2,743,500 |
| Costs of issue | (301,484) | – | – | (301,484) |
| **BALANCE AT 30 JUNE 2018** | **81,328,159** | **4,379,167** | **(52,327,000)** | **33,380,326** |

The above Preliminary Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

| | Note | 30 June 2018<br>$ | 30 June 2017<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 39,606,139 | 16,803,240 |
| Payments to suppliers and employees | | (26,429,754) | (14,966,115) |
| R&D tax incentives | | 1,204,234 | – |
| Interest received | | 255,400 | 147,446 |
| Interest paid | | (13,210,462) | (9,563,276) |
| **NET CASH FLOW FROM/TO OPERATING ACTIVITIES** | | **1,425,557** | **(7,578,705)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for plant and equipment | | (3,502,080) | (622,495) |
| Payments for software development | | (2,541,794) | (2,657,619) |
| Payment for business, net of cash acquired | | – | (1,870,130) |
| Net movement in receivables | | (170,856,326) | (112,458,248) |
| **NET CASH FLOW TO INVESTING ACTIVITIES** | | **(176,900,200)** | **(117,608,492)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from the issue of shares | 12 | 41,031,000 | 10,874,231 |
| Costs of share issues | 12 | (301,484) | (673,774) |
| Net proceeds from borrowings | | 128,189,000 | 127,111,523 |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **168,918,516** | **137,311,980** |
| | | | |
| Net (decrease)/increase in cash and cash equivalents | | (6,556,127) | 12,124,783 |
| Cash and cash equivalents at the beginning of the year | | 19,214,261 | 7,089,478 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **7** | **12,658,134** | **19,214,261** |

The above Preliminary Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE PRELIMINARY FINAL REPORT

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE PRELIMINARY FINAL REPORT

### a. Basis of preparation

The Preliminary Final Report (the Report) has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The report is to be read in conjunction with any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Australian Securities Exchange Listing Rules.

The Report, comprising the financial statements and notes of the consolidated entity, complies with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. The Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

### b. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year.

### c. Going concern

The Directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018 reflects a consolidated entity's loss after tax of $22.5 million. The preliminary consolidated statement of cash flows for the year ended 30 June 2018 reflects net cash flows from operations of $1.4 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2019. The cash flow forecast indicates that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

### d. Critical accounting estimates and judgements

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are the same as those applied in the Zip Co Limited Annual Report for the year ended 30 June 2017.

## NOTE 2: SEGMENT INFORMATION

Management has determined that the consolidated entity has one reporting segment being the provision of financial products and payment solutions to consumers, and providing a variety of integrated solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. The internal reporting framework is based on the principal activity as discussed above and is the most relevant to assist the Board with making decisions regarding the consolidated entity and its ongoing growth.

The assets as presented relate to the reporting segment, as identified above.

The consolidated entity operates in Australia and New Zealand. At this stage the consolidated entity's operations in New Zealand are immaterial in the context of the consolidated entity's overall revenue and assets.

## NOTE 3: PORTFOLIO INCOME

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Portfolio income | 39,274,390 | 16,432,325 |

## NOTE 4: OTHER INCOME

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Interest income from financial institutions | 255,400 | 147,446 |
| R&D tax incentives | 545,148 | 295,659 |
| Other | 331,748 | 126,701 |
| | 1,132,296 | 569,806 |

## NOTE 5: EXPENSES

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Loss before income tax includes the following specific expenses: | | |
| **Amortisation of Intangibles:** | | |
| Amortisation of acquired intangibles | 700,404 | 525,300 |
| Amortisation of internally generated intangibles | 2,109,325 | 1,174,191 |
| **Superannuation expense:** | | |
| Defined contribution superannuation expense | 1,343,232 | 569,077 |
| **Share-based payments expense:** | | |
| Share-based payments expense | 3,575,219 | 3,233,125 |
| **Finance costs:** | | |
| Amortisation of funding costs | 1,463,117 | 1,264,103 |
| Other funding costs | 112,500 | 8,333 |

## NOTE 6: INCOME TAX BENEFIT

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Numerical reconciliation of income tax benefit and tax at the statutory rate | | |
| Loss before income tax benefit | (22,549,726) | (20,747,534) |
| Tax at the statutory tax rate of 30% | (6,764,918) | (6,224,260) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Share-based payments | 1,179,597 | 1,226,813 |
| Non-deductible expenses | 676,364 | 362,677 |
| R&D tax incentives | (163,544) | (89,459) |
| | (5,072,501) | (4,724,229) |
| Current year tax losses not recognised | 3,369,782 | 3,699,952 |
| Current year temporary differences not recognised | 1,702,719 | 467,331 |
| | **-** | **(556,946)** |

## NOTE 7: CASH AND CASH EQUIVALENTS

At 30 June 2018, the consolidated entity had cash at bank of $12,658,134 of which $8,658,406 is in restricted cash (30 June 2017: cash at bank of $19,214,261 of which $12,589,341 is in restricted cash). Restricted cash is held by the zipMoney 2017-1 Trust and 2017-2 Trust and is not available to pay creditors of the consolidated entity.

## NOTE 8: CUSTOMER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Gross customer receivables | 316,741,362 | 152,038,565 |
| Unearned future income | (6,636,297) | (3,645,356) |
| Allowance for bad debts | (9,502,241) | (4,561,500) |
| | **300,602,824** | **143,831,709** |

### Movement in the provision for impairment of receivables are as follows:

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Opening balance | 4,561,500 | 1,221,365 |
| Provisions recognised during the financial year to profit or loss | 13,190,378 | 5,288,880 |
| Receivables written-off during the financial year as bad debts | (8,249,637) | (1,948,745) |
| **Closing balance** | **9,502,241** | **4,561,500** |

## NOTE 9: GOODWILL

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Cost | 4,548,276 | 4,584,276 |
| Less : Accumulated impairment losses | – | – |
| | **4,548,276** | **4,584,276** |

## NOTE 10: OTHER INTANGIBLE ASSETS

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Carrying amounts of | | |
| Brand names and trademarks | 145,308 | 161,851 |
| Customer database | 298,996 | 391,000 |
| IT development and software | 5,347,703 | 5,507,091 |
| | **5,792,007** | **6,059,942** |

| | Brand Names and Trademarks | Customer Database | IT Development and Software | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost | | | | |
| Balance at 1 July 2017 | 188,401 | 460,000 | 7,797,141 | 8,445,542 |
| Additions | 18,857 | – | 2,522,937 | 2,541,794 |
| **Balance at 30 June 2018** | **207,258** | **460,000** | **10,320,078** | **10,987,336** |

| | Brand Names and Trademarks | Customer Database | IT Development and Software | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accumulated amortisation | | | | |
| Balance at 1 July 2017 | 26,550 | 69,000 | 2,290,050 | 2,385,600 |
| Additions | 35,400 | 92,004 | 2,682,325 | 2,809,729 |
| **Balance at 30 June 2018** | **61,950** | **161,004** | **4,972,375** | **5,195,329** |

## NOTE 11: BORROWINGS AND SECURITISATION WAREHOUSE

The consolidated entity sells customer receivables to special purpose vehicle securitisation warehouses (zipMoney Trust 2017-1 and zipMoney Trust 2017-2) through its asset-backed securitisation program. The special purpose vehicles are consolidated as the consolidated entity is exposed or has rights to variable equity returns and has the ability to affect its returns through its power over the securitisation vehicles. The consolidated entity may serve as a manager, servicer, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Class A Notes | 230,000,000 | 108,500,000 |
| Class B Notes | 60,000,000 | 52,860,000 |
| Add: Accrued interest | 749,029 | 934,826 |
| Less: Unamortised costs | (1,025,278) | (2,037,394) |
| | **289,723,751** | **160,257,432** |

At 30 June 2018 the undrawn facility amount to $90.0 million (30 June 2017: $251.5 million).

## Total secured liabilities

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 2017 |
| | $ | $ |
| Class A Notes | 230,000,000 | 108,500,000 |
| Class B Notes | 60,000,000 | 52,860,000 |
| | **290,000,000** | **161,360,000** |

## Assets pledged as security

The table below presents the assets and underlying borrowings as a result of the securitisation warehouse:

| | Consolidated | |
|---|---|---|
| | 30 June 2018 | 30 June 17 |
| | $ | $ |
| Customer receivables(1) | 295,794,526 | 143,831,709 |
| Cash held by securitisation warehouse | 8,658,406 | 12,589,341 |
| | **304,452,932** | **156,421,050** |
| Borrowings related to receivables(2) | 306,400,000 | 162,360,000 |

(1) The amount recognised above represents the carrying value of the customer receivables held by the zipMoney Trusts and is net of provisions for bad debts and unearned future income. This excludes customer receivables totaling $4.8 million held by zipMoney Payments Pty Ltd at 30 June 2018 and nil at 30 June 2017.

(2) Including $16.4 million Class C Notes held by zipMoney Payments Pty Ltd ($1.0 million at 30 June 2017).

## Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| | $ | $ |
| **Total facility size** | | |
| Total facility size – securitisation warehouse | 370,000,000 | 402,860,000 |
| Total facility size – working capital | 10,000,000 | 10,000,000 |
| **Used at the reporting date** | | |
| Used facility – securitisation warehouse | 290,000,000 | 155,360,000 |
| Used facility – working capital | – | 6,000,000 |
| **Unused at the reporting date** | | |
| Unused facility – securitisation warehouse | 80,000,000 | 247,500,000 |
| Unused facility – working capital | 10,000,000 | 4,000,000 |

### Terms of the facilities

The consolidated entity has two securitisation warehouses in place, having closed the zipMoney Trust 2015-1 facility during the period.

Under each warehouse program, loans are originated on the consolidated entities balance sheet and continuously sold into a program administered by Perpetual Trustee Limited.

As at 30 June 2018, the zipMoney Trust 2017-1 had $360.0 million in committed Class A and B wholesale debt financing with a term maturing on 10 May 2019. The facility is secured against the underlying pool of receivables with no credit recourse back to the consolidated entity. The consolidated entity is in the process of assessing alternatives for the re-financing, or extension, of the facility.

As at 30 June 2018, the zipMoney Trust 2017-2 had $20.0 million in committed Class A wholesale debt financing with a term maturing on 17 November 2019. The facility is available to fund customer receivables junior notes and as a source of working capital funding to the consolidated entity. The facility is secured against the underlying pool of receivables and by way of corporate guarantee provided by the parent Zip Co Limited.

zipMoney Payments Pty Ltd is the trust manager and servicer to the securitisation program.

## NOTE 12: ISSUED CAPITAL

| | Consolidated | | | |
|---|---|---|---|---|
| | 30 June 2018 Shares | 30 June 2018 $ | 30 June 2017 Shares | 30 June 2017 $ |
| Ordinary shares – fully paid | 295,548,222 | 81,328,159 | 238,673,009 | 37,066,688 |
| Performance shares | 33,330,000 | – | 33,330,000 | – |
| | **328,878,222** | **81,328,159** | **272,003,009** | **37,066,688** |

### Movements in ordinary share capital

| Details | Date | Shares | $ |
|---|---|---|---|
| **Balance** | **1 July 2016** | **208,223,529** | **19,409,691** |
| Issue of shares – employee incentives | | 2,911,641 | 1,845,662 |
| Issue of shares – placement | | 19,670,057 | 10,818,531 |
| Issue of shares – exercise of options | | 557,000 | 366,261 |
| Issue of shares – acquisition of Pocketbook | | 7,310,782 | 5,300,317 |
| Costs of issue during the period | | – | (673,774) |
| **Balance** | **30 June 2017** | **238,673,009** | **37,066,688** |
| **Balance** | **1 July 2017** | **238,673,009** | **37,066,688** |
| Issue of shares – employee incentives | | 2,442,497 | 1,819,455 |
| Issue of shares – placement | | 49,382,716 | 40,000,000 |
| Issue of shares – exercise of options | | 5,050,000 | 2,743,500 |
| Costs of issue during the period | | – | (301,484) |
| **Balance** | **30 June 2018** | **295,548,222** | **81,328,159** |

### Movements in performance shares

| Details | Date | Share numbers |
|---|---|---|
| **Balance** | **30 June 2016** | **33,330,000** |
| **Balance** | **30 June 2017** | **33,330,000** |
| **Balance** | **30 June 2018** | **33,330,000** |

The consolidated entity issued 20 million performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility ("Warehouse Facility"). The provision of the "Warehouse Facility" was not completed and accordingly the milestones are unable to be met. The consolidated entity's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

The balance of 13,330,000 performance shares represent those shares that will be issued to the original vendors in the event pre-tax break-even is achieved in a consecutive three calendar month period prior to November 2018. As at 30 June 2018, the target has not been achieved.

### Movements in options

| Details | Date | Option numbers |
|---|---|---|
| **Balance** | **1 July 2016** | **6,725,000** |
| Options issued to directors | | 1,200,000 |
| 10c options exercised | | (557,000) |
| **Balance** | **30 June 2017** | **7,368,000** |
| Options issued to Westpac Banking Corporation | | 9,800,000 |
| Employee unlisted options issued | | 285,715 |
| Options exercised | | (5,050,000) |
| **Balance** | **30 June 2018** | **12,403,715** |

## NOTE 13: LOSS PER SHARE

### a. Reconciliation of earnings used in calculating loss per share

| All figures in $ | 30 June 2018 | 30 June 2017 |
|---|---|---|
| Loss attributable to the owners of the Consolidated Entity used in calculating basic and diluted loss per share | (22,549,726) | (20,190,588) |

### b. Weighted average number of shares used as the denominator

| Number of shares | 30 June 2018 | 30 June 2017 |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | 287,483,273 | 235,260,772 |

### c. Basic and diluted loss per share

| | 30 June 2018<br>Cents | 30 June 2017<br>Cents |
|---|---|---|
| Basic loss per share | (7.84) | (8.58) |
| Diluted loss per share | (7.84) | (8.58) |

## NOTE 14: SUBSEQUENT EVENTS

There have been no significant events occurring after the end of the reporting period.

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