

FY18 Results

Investor Presentation

Zip Co Ltd (ASX: Z1P)



August 2018

Problem

The credit card model is broken.

**High
acquisition
costs**

**Not 'on
your side'**

**The 'fine
print'**

**Unable to
attract
millennials**

**Hard
sign ups**

**A focus on
interest
revenue**

Confusing

**Loyalty
programs
eroding value**

**Poor product
structure**

**Banks put
you on the
minimum**



Our Purpose

Reimagining payments.
Improving every day.



Our Mission

We create simple, fair and transparent, credit and payment solutions that improve lives every day.





Highlights

Year in Review

Key Metrics

Financial Dashboard

Strategic Focus

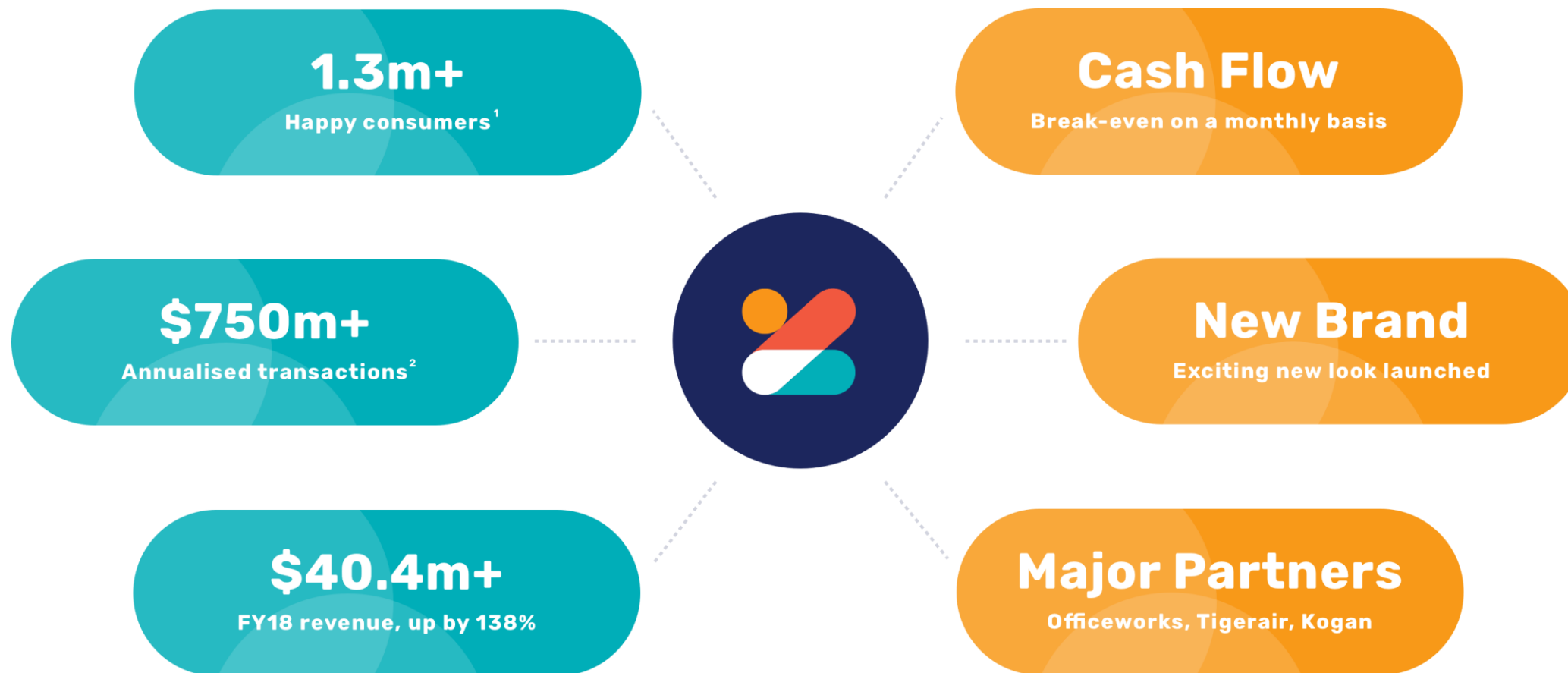
Company

Operations

Financials

Outlook

Key Highlights FY18



1. Circa 1.3 million consumers across Zip and Pocketbook.
2. Run-rate annualised transaction volume as at 30 June 2018.

Year in Review



We achieved the goals we set for FY18.



Cash Flow Breakeven

Achieved cash flow breakeven in Q4 FY18



Grow Retail Partners

Added 6,000 new retailers including big names, Officeworks, Tigerair & Kogan



Grow Market Share

Added 440,000 new customers (an average of 35,000/mth)



Secure Funding

Facilities increased to \$380m, senior and mezzanine finance

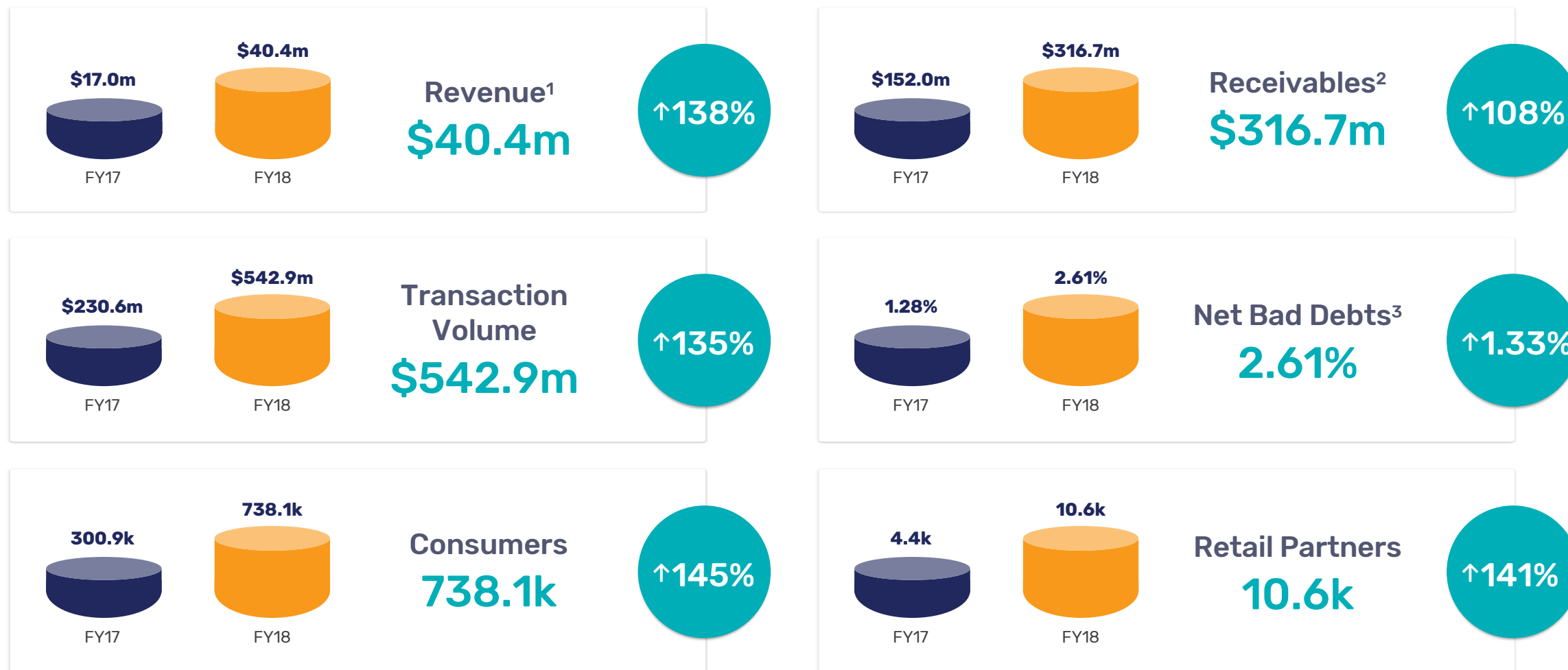


Leverage Operational Efficiencies

Operating costs¹ fell from 14.0% to 9.6% as transaction volume increased

1. Operating Costs per definition on Financial Dashboard slide.

FY18 Key Metrics



1. Revenue includes Portfolio income and other income.

2. Gross receivable value at 30 June.

3. Bad debts are written off in line with policy after 180 days past due. Percentage calculated on the gross receivable amount. Net bad debts includes the impact of bad debts recovered.

Financial Dashboard



Cash Earnings Before Tax, Depreciation and Amortisation (Cash EBTDA) as a yield of average receivables.

	1H17	2H17	1H18	2H18	Medium Term Target
Revenue Yield ¹	20.7%	17.1%	17.0%	17.7%	20%
Cash Cost of Sales ^{1,2}	(15.5)%	(16.7)%	(13.2)%	(9.7)%	(8)%
Cash Operating Costs ^{1,3}	(16.8)%	(14.0)%	(12.4)%	(9.6)%	(5)%
Cash EBTDA ^{1,3}	(11.6)%	(13.6)%	(8.6)%	(1.6)%	7%

1. All figures expressed as a percentage of half year average receivables. All figures are on an annualised basis.

2. Cash Cost of Sales includes interest, bank fees, data costs, and bad debt write-offs.

3. Cash Operating Costs exclude funding program establishment costs, share based payments, depreciation and amortization.

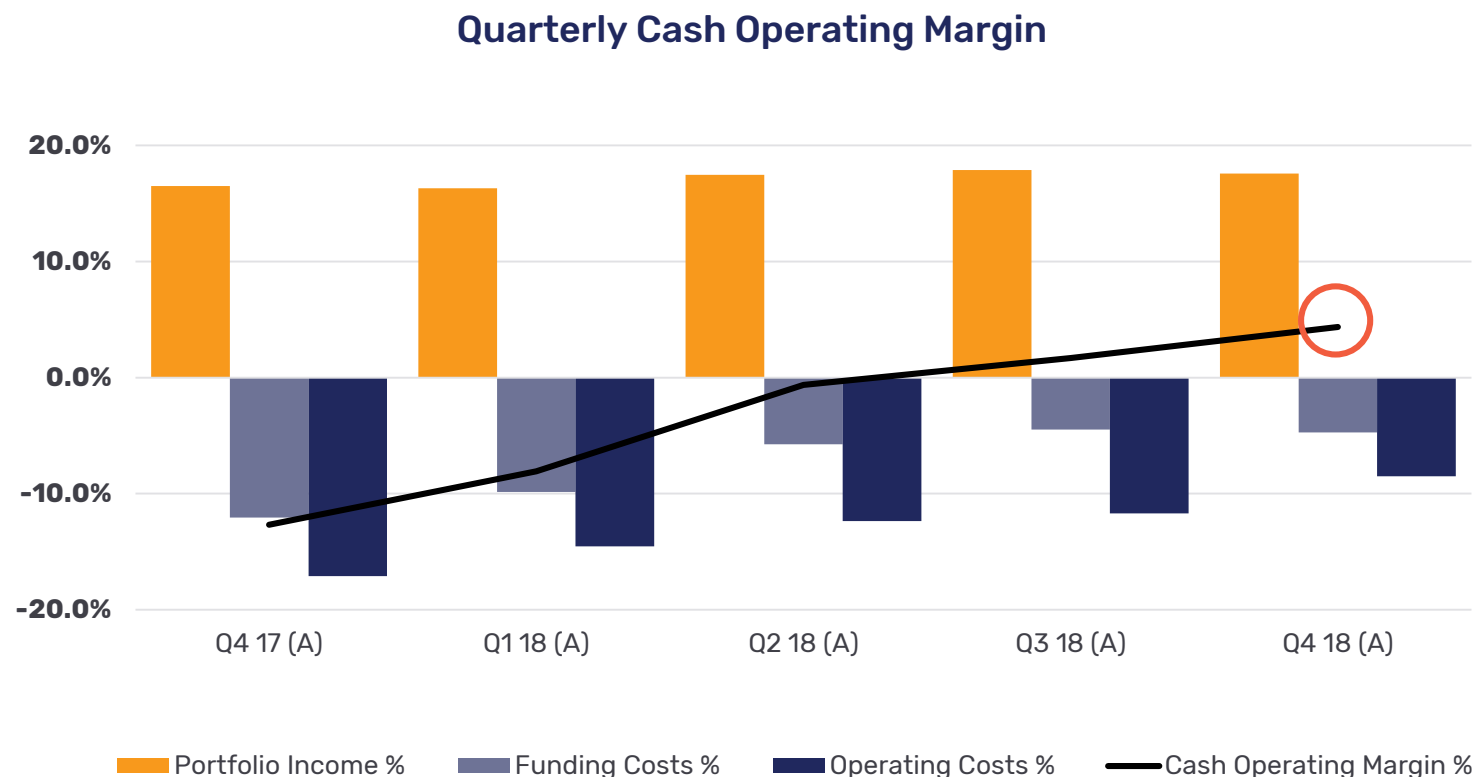
Cash Flow Breakeven Milestone



Zip achieved cash flow breakeven on a monthly basis in Q4 2018, including bad debt write-offs.

Reported Cash Flow from Operations of \$1.4m in FY18, jumping to \$3.2m in Q4 2018.

Clear demonstration of operating leverage as volume scales.



Note: 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). Figures are as reported in quarterly 4C's.

We're Just Getting Started

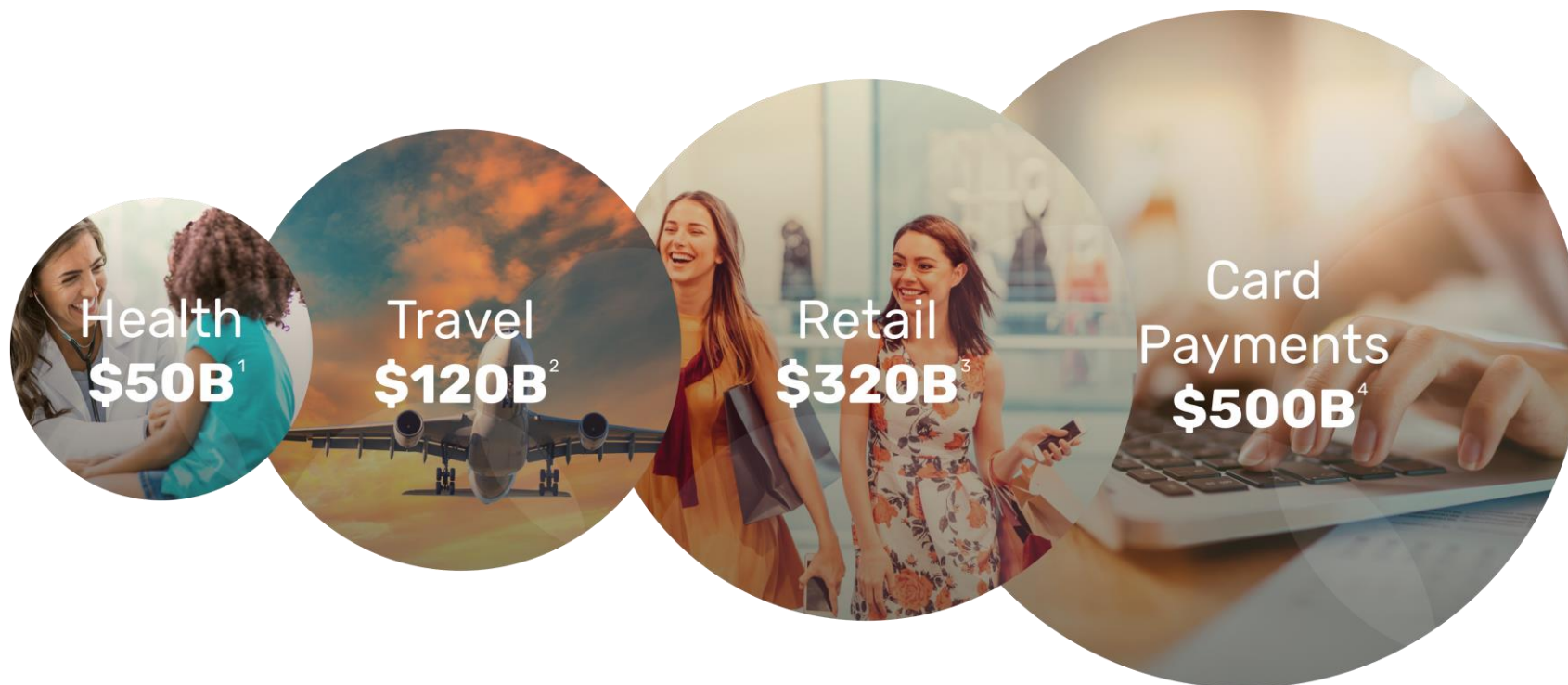


We are currently processing annualised transaction volume of \$750m+, less than 0.1% of the market.

There is an estimated \$1 trillion+ in annual payment volume in Australia.

Zip is uniquely placed to penetrate across all verticals given its diverse model.

Increasing adoption of alternate payment methods is driving industry acceptance right across the ecosystem.



1. The Australian Institute of Health and Welfare www.aihw.gov.au.

2. Tourism Research Australia www.tra.gov.au.

3. Australian Bureau of Statistics www.abs.gov.au/ausstats/abs@nsf/mf/85010.

4. Reserve Bank of Australia www.rba.gov.au/statistics/tables/xls/c01hist.xls?v=2018-08-02-18-22-22 / www.rba.gov.au/statistics/tables/?v=2018-08-02-18-22-10#money-credit.

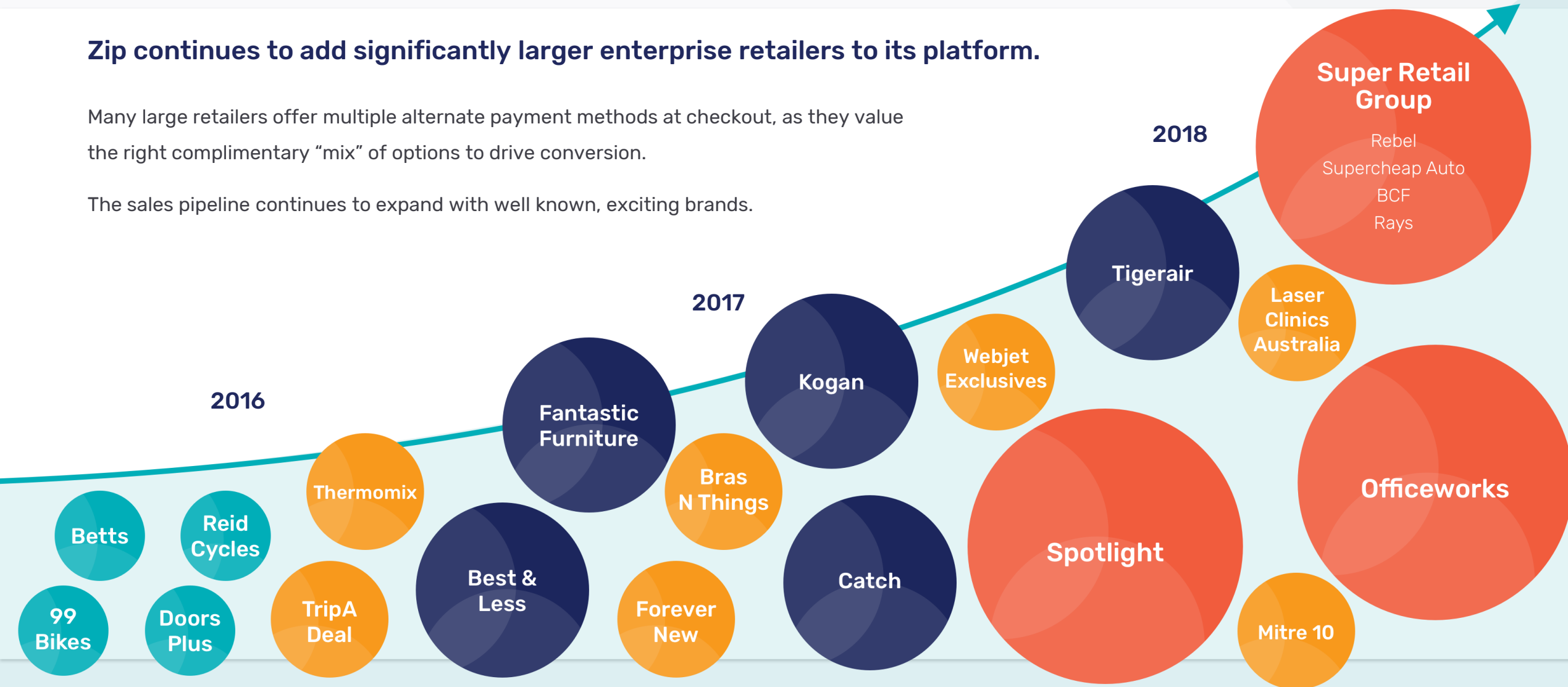
Winning Major Partners



Zip continues to add significantly larger enterprise retailers to its platform.

Many large retailers offer multiple alternate payment methods at checkout, as they value the right complimentary “mix” of options to drive conversion.

The sales pipeline continues to expand with well known, exciting brands.



Note: Size of bubbles indicate approximate size of business. Large red bubbles include +\$1bn billion in annual sales.

Key Opportunities FY19 and Beyond



Supercharge growth to deliver \$1.0 billion+ in annual transaction volume.

Consumers

Drive Engagement

Be the default choice in credit and payments

- Native app
- Store directory
- Personalisation
- Pay bills

Retail Partners

Continue to Sign Majors

Be everywhere our customers are

- Alternate payments are here to stay
- Grow core sectors
- Target 'everyday spend'

Zip's Rails

Expand Our 'Closed Loop' Network

Increase acceptance

- Partner across payments ecosystem
- Integrate: platforms, gateways, terminals

Brand

Leverage New Identity

Build awareness

- Platform for growth
- Increase market share and voice

Fintech

Capitalise on The Environment

Timing very favourable

- Open banking
- Comprehensive reporting
- Pocketbook a valuable asset



Highlights

Company

Our Products
Business Model
Zip Difference
Responsibility

Operations

Financials

Outlook

Our Great Products



Zip offers simple and convenient financial products, with a strong focus on financial wellbeing.

Credit and Payments

Zip



Interest Free Digital Wallet

Line of credit, reusable account
For everyday spending and life's bigger buys
Zip Pay for under \$1000, Zip Money for up to \$30,000

www.zip.co

Budgeting and Saving

Pocketbook



Budget Planner and Personal Finance App

Free mobile app
Automatically categorises spending
Helps users manage savings and achieve goals

www.getpocketbook.com

Differentiated Business Model



Zip issues credit (at the point-of-sale) and processes payments, instore and online, in a 'closed loop' network.
We build direct relationships with both consumers and retail partners.



Consumer enjoys:

- No upfront payments
- Interest free terms
- Flexible repayments

+



Retail Partner enjoys:

- Increased sales volumes
- Increased order values
- Increased re-purchase rates

=



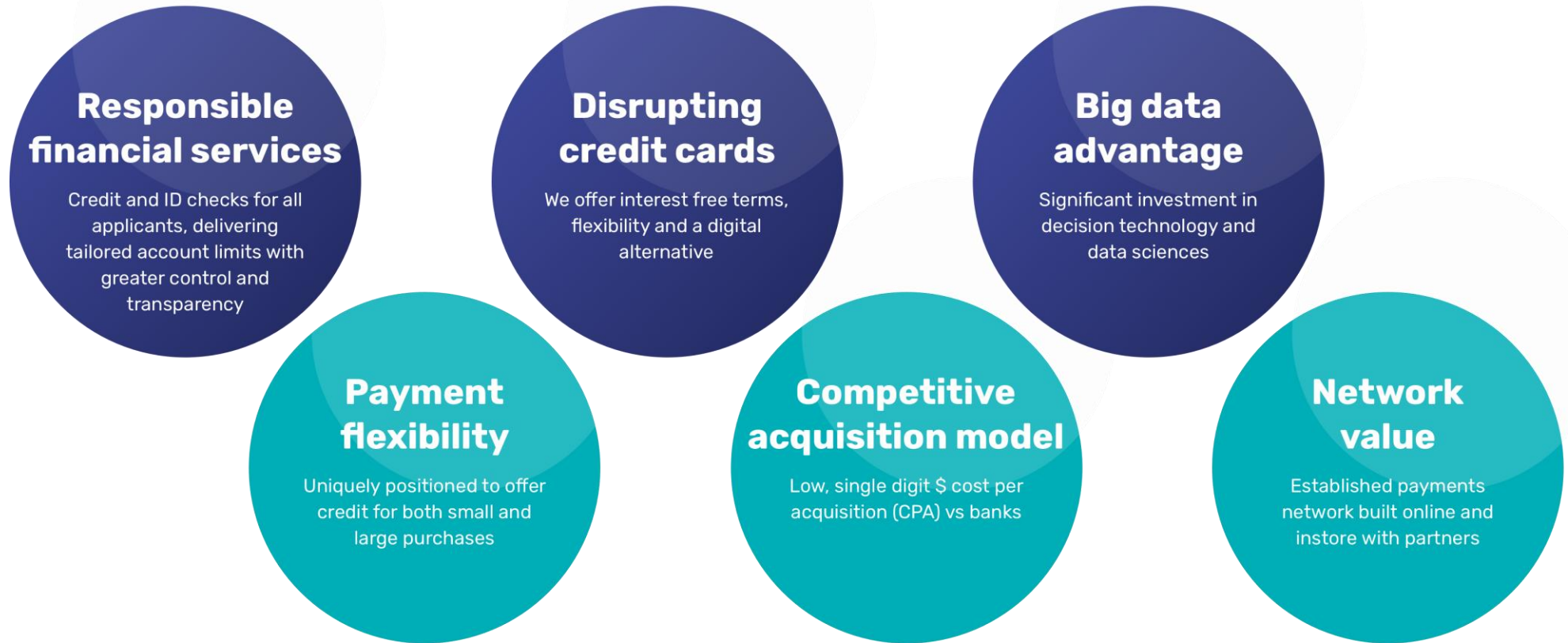
Zip Benefits

Virtuous circle – retailers bring consumers, consumers bring retailers
Generates revenue from both retailers and consumers

The Zip Difference



Zip's model is unique in market as it stands alongside credit cards and other Pay Later peers.



Responsibility and Transparency



Zip prides itself on providing fair and transparent financial products, aligned to our core values.

In recent months, there has been increased publicity surrounding credit cards and the Pay Later industry. Right from the outset, Zip built its product on a foundation of customer trust and longevity:



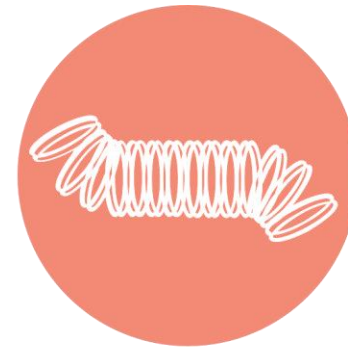
A better and fairer
alternative to
credit cards



External credit and ID
checks on all applicants
from inception



A focus on interest
free payments
behaviour



Flexible and affordable
repayments, simple and
transparent fees



A revenue model that
doesn't rely on consumers
falling into arrears



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Retail Partners

Consumers

Product Update

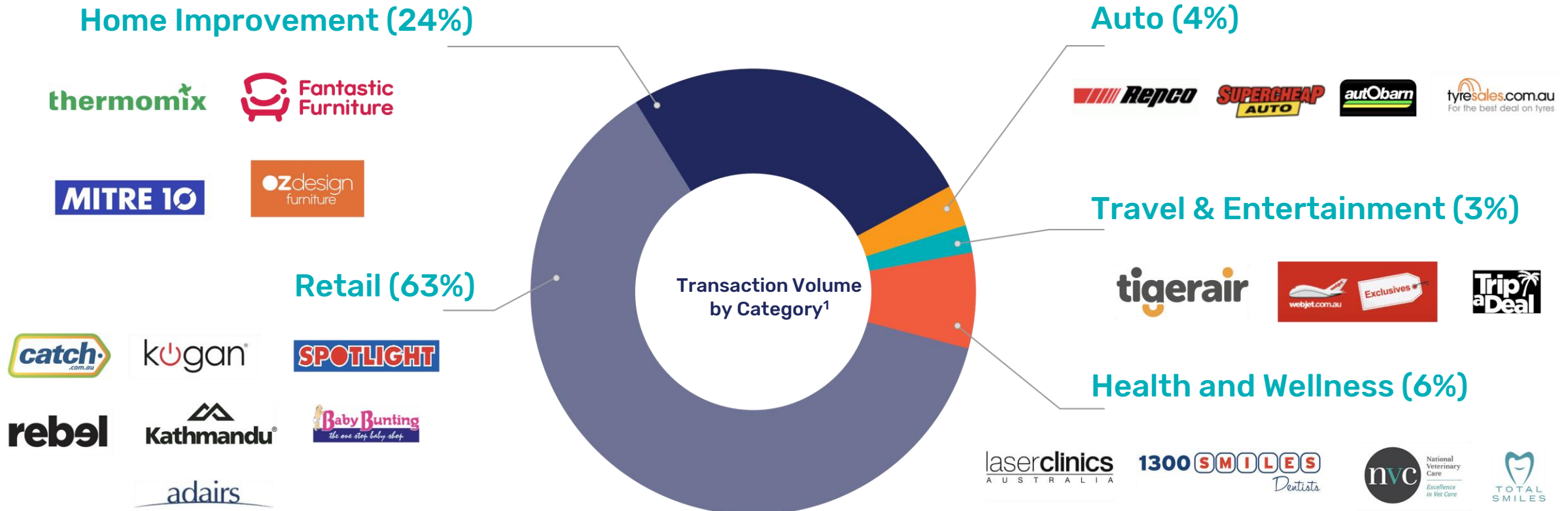
New Brand

Pocketbook

Expanding Retailer Base



Over 10,000 places for consumers to shop – in its target categories, Zip has some of the biggest players.



1. Chart illustrative of Zip's key segments based on transaction value to June 2018.

Successful Co-Marketing Campaigns



We collaborate with our retail partners to help drive both customer acquisition and retransaction behaviour.

The collage features five distinct co-marketing campaign examples:

- zip FOREVER NEW:** A promotional banner featuring a woman's face and the Zip logo.
- zip tigerair:** A banner with the Zip logo, the text "Check out with Zip before you check in online", and a Tigerair plane.
- zip kogan.com:** A banner with the Zip logo, the text "EXCLUSIVE EOFY OFFER", and the Kogan.com logo.
- zip rebel:** A banner with the Zip logo, the text "EXCLUSIVE OFFER FOREVER NEW", and a dog's face.
- zip vuly:** A banner with the Zip logo, the text "EXCLUSIVE EOFY OFFER", and a child jumping on a trampoline.

Five callout circles highlight key strategies:

- Partner launches and promos:** Highlighted on the zip FOREVER NEW banner.
- Social campaigns to increase reach:** Highlighted on the zip tigerair banner.
- EOFY saw up to 100%+ uplift for partners:** Highlighted on the zip kogan.com banner.
- Inclusion in partner TVCs:** Highlighted on the zip rebel banner.
- New in-app features for partners:** Highlighted on the zip vuly banner.

Growing Consumer Base

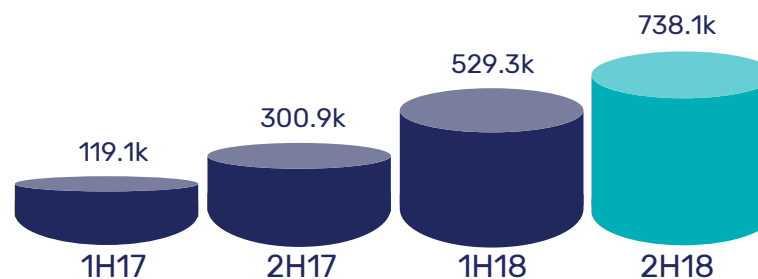


Our consumer numbers and engagement metrics continue to grow.

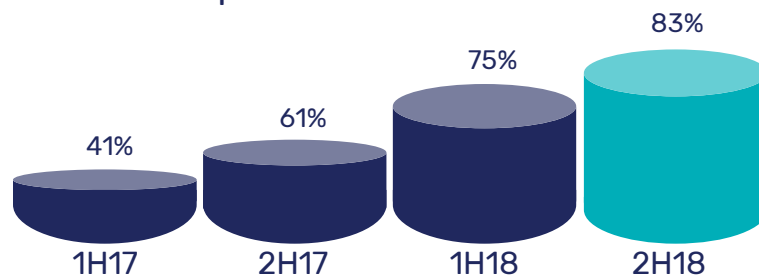
Driven by a range of initiatives delivered in FY18:

- Expanded Zip network
- Targeted marketing campaigns
- New brand launched in June
- Product feature releases

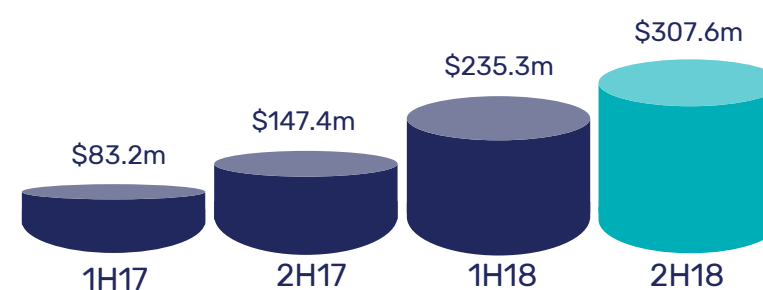
Consumers



Repeat Transaction Rate



Transaction Value



High Quality Consumer Base, Strong Demand for Interest Free



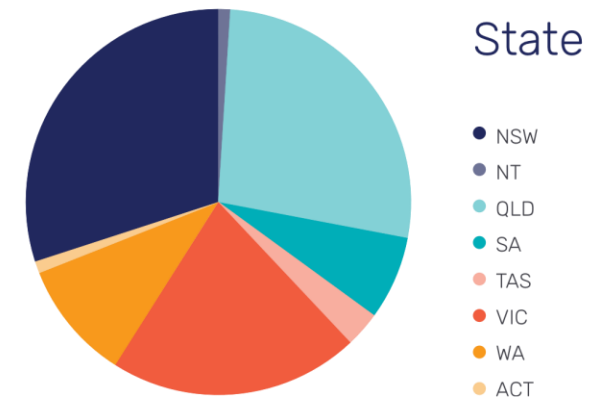
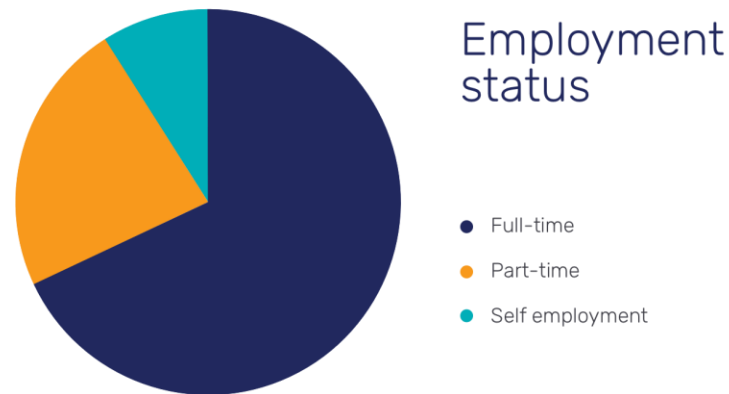
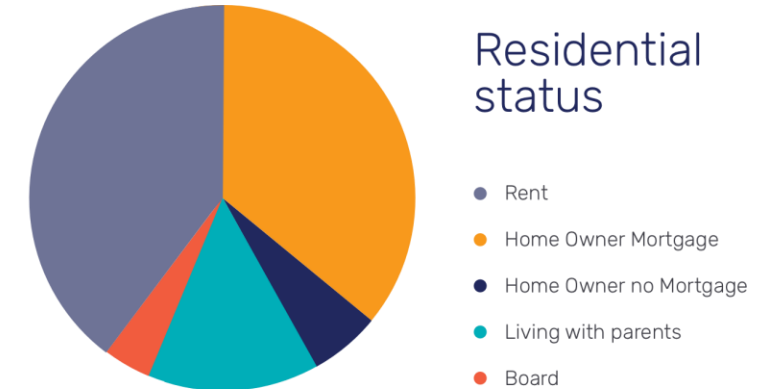
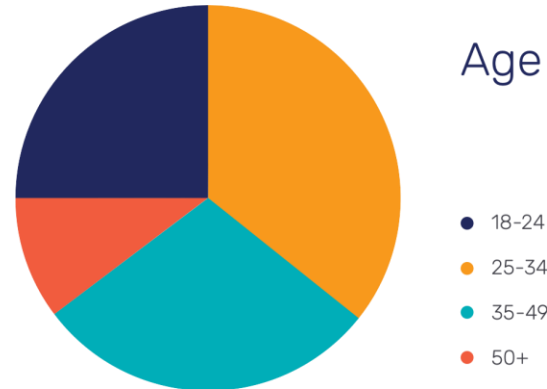
Alternate payments appeal to a diverse audience.

Strong appeal to millennials:

- 60% below 35
- Median age 31

Large share of home ownership with proven credit history.

Home owners see Zip as a 'better deal'.



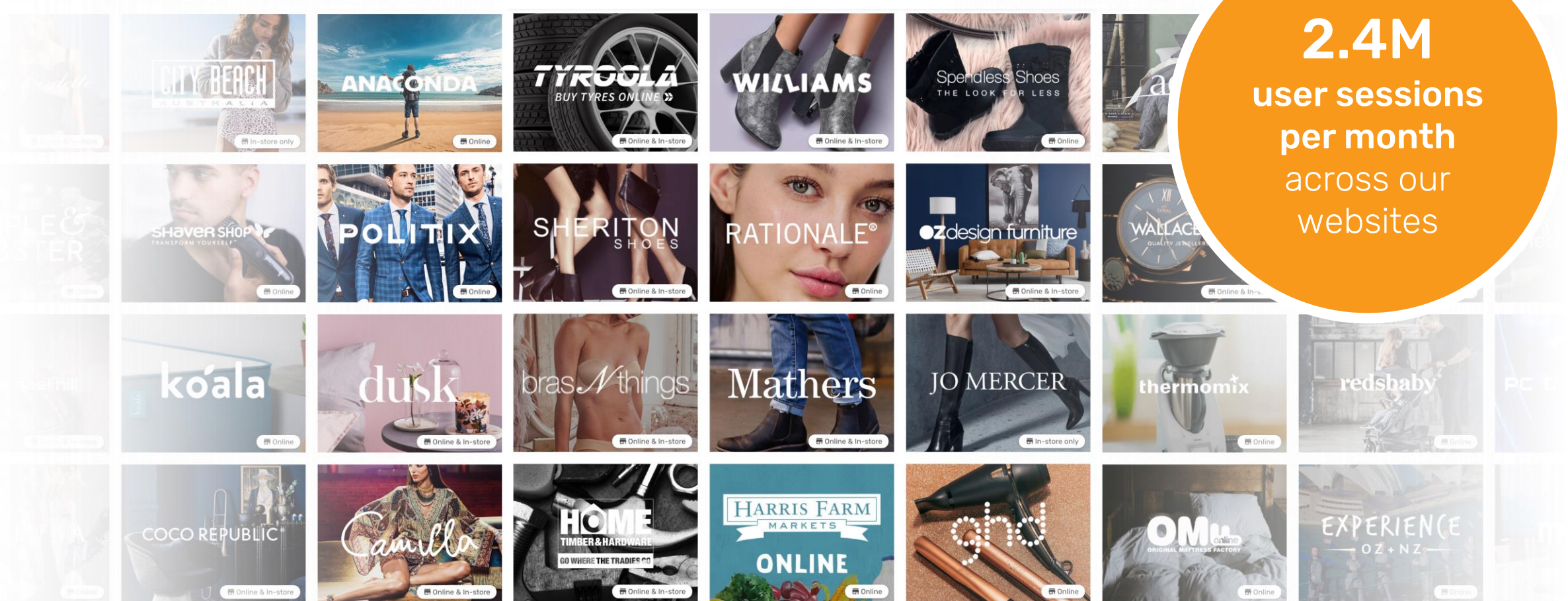
Note: Residential and employment data is based on the Zip Money consumer receivables as at 30 June 2018.

New Store Directory



An easier way for consumers to find the stores and products they need and want.

2.4M
user sessions
per month
across our
websites



New Native App

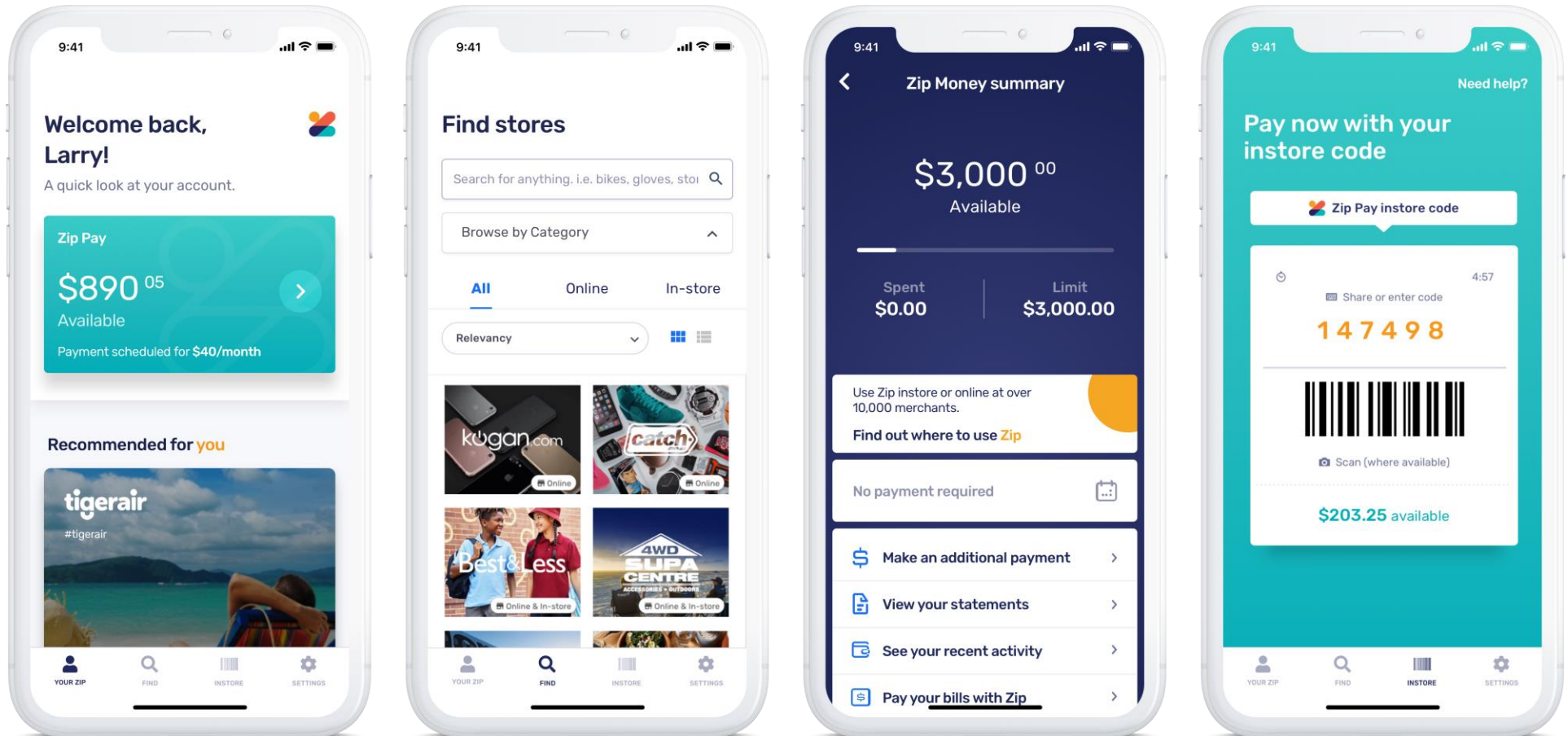


Now live in the App and Play Stores as of August 2018.

Consumers can browse, shop and manage their account from one, convenient place.

Captive platform for promoting retailer offers and discounts.

Scannable barcodes and QR codes will improve the instore experience.



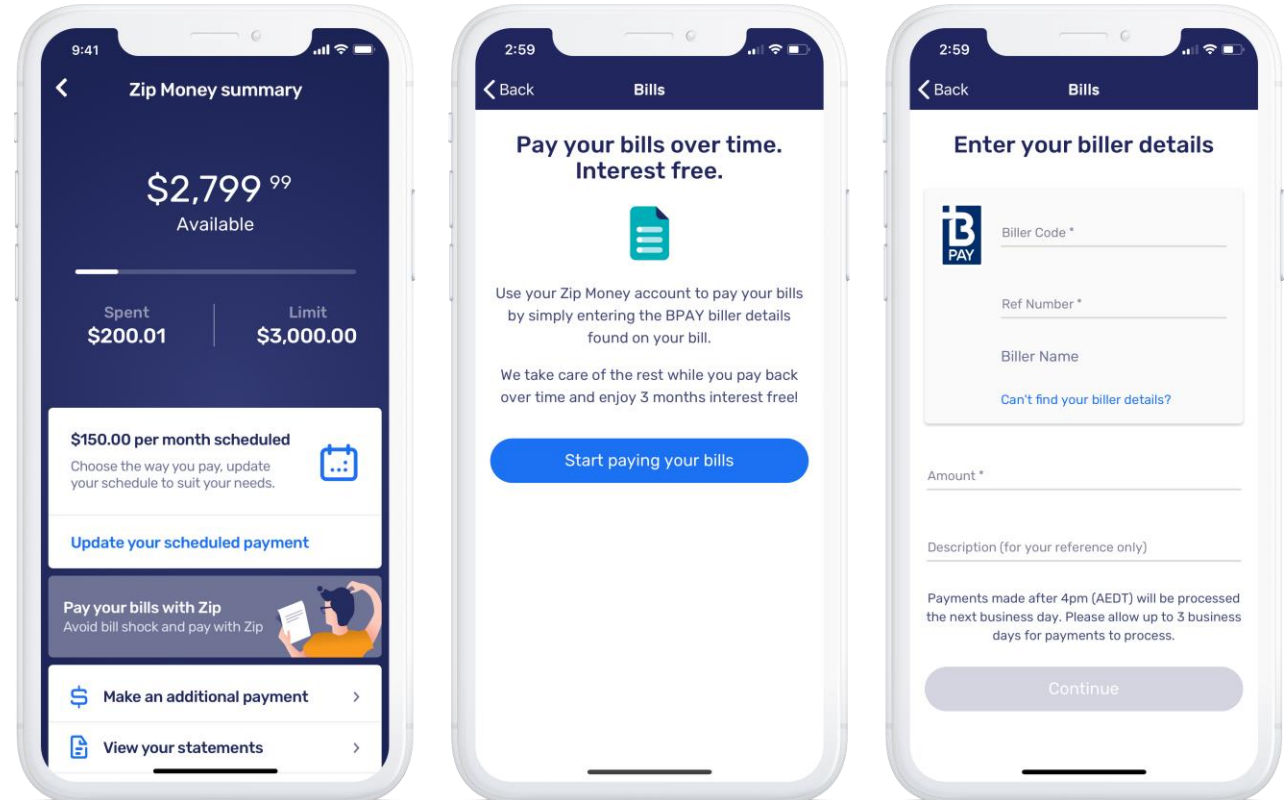
New Product Feature – Pay Bills with Zip



New, innovative product feature released, giving consumers more ways to use their Zip account.

In March, Zip ran a beta trial of a new feature, Pay Bills With Zip:

- Consumers were able to make BPAY payments from their Zip Money account with 3 months interest free.
- BPAY is the preferred way to pay bills, with 45% of Australians using it in the last month¹.
- This feature expanded Zip's partner base by 45,000+ billers and received an overwhelmingly positive response.
- Consumers used the feature to pay everyday bills like telco and utilities, but also to 'smooth' larger bills, such as school fees and tax, over the interest free period.



1. RFI Payments Diary May 2018.

A New Brand – Architecture



Our new brand clearly unifies Zip Pay and Zip money as two distinct accounts under one master brand.



A New Brand – Visual Design and Voice



We're fresh, bold and dynamic.



A New Brand – The ‘Own it’ Platform



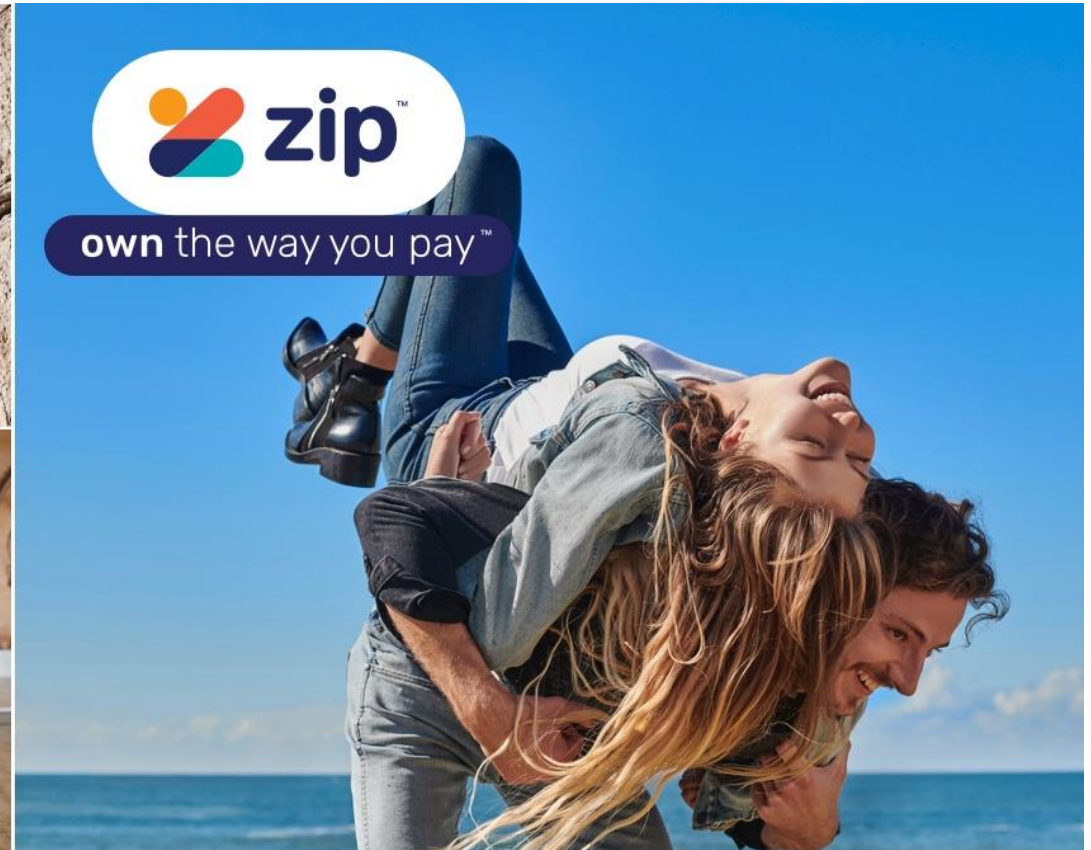
We launched ‘Own it’ as a brand platform – a powerful, evocative phrase that sums up how the brand empowers both shoppers and sellers. It also speaks to how seriously Zip owns its responsibilities and integrity.



own your freedom



own your success



Pocketbook FY18 Highlights

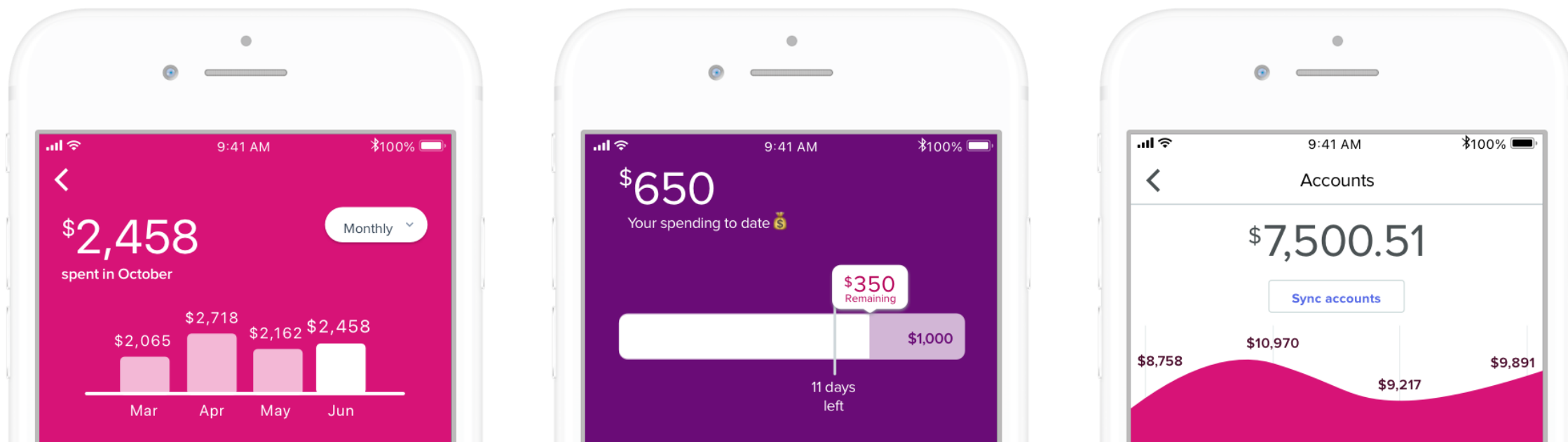


 540,000 users, 30 institutions.

 500m+ transactions, totaling ~\$200b.

 Australian first open banking integration (Macquarie Bank).








 3m+ bill notifications, users saved \$30m+.



Pocketbook's Growing Features



Evolving capabilities continue to set the bar by helping users track, budget and save.

-  Single view of all bank accounts
-  "Safely Spend" budgeting tool
-  Smart notifications
-  Receipt capture
-  Bills and Income scheduling
-  Home loan insights
-  Separate apps for tax



Highlights

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Credit Performance

Funding Update

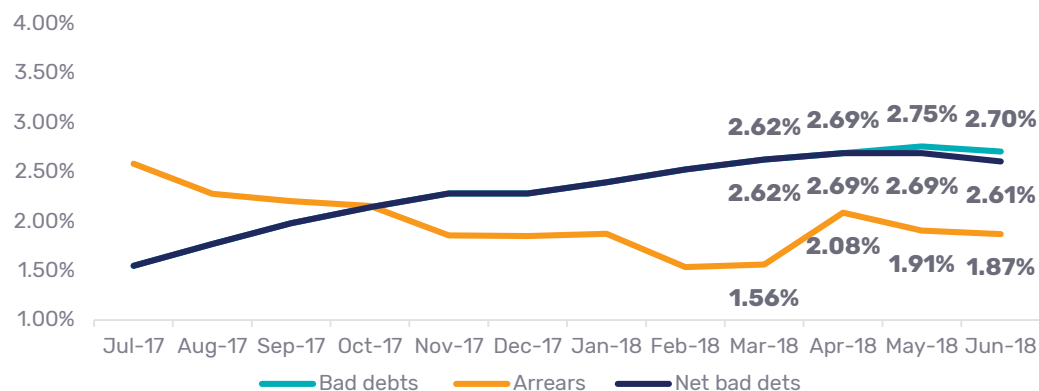
Financial Performance

Strong Credit Performance

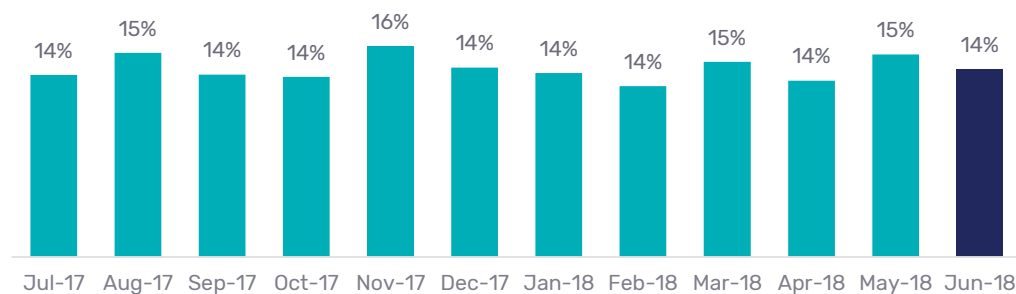


- Credit performance significantly better than industry benchmarks, and in line with management's expectations.
- Bad debt recoveries improving bottom line.
- Application flow re-designed to optimise decisioning.
- Enhancement of Zip's proprietary decision technology including:
 - Sophisticated machine learning models
 - Additional data sources
 - Implementation of new risk rules and policies
- We are now well placed to fine-tune approval and scorecard thresholds to target revenue maximisation while managing losses.

Credit Performance¹



Repayment Rate²



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.

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

Funding Update



- Completed the refinancing of all receivables out of expensive legacy funding program during the 1H FY18.
- Existing trust structure provides flexibility at a reduced cost.
- Total facility size to increase to \$500m:
 - Documentation commenced for an increase of \$100m in facilities available in the 2017-1 Trust.
 - Completed documentation post year end for an additional \$20m in the 2017-2 Trust.
- Ongoing funding cost expected to be maintained below 6% in the short term, with further reduction expected in the medium term.
- Zip maintains an equity position of \$16.4m in its various trusts.

	Jun 18 \$M	Jun 17 \$M
Facility Size (Class A and B)		
2017-1 Trust	360.0	240.0
2017-2 Trust	20.0	33.4
2015-1 Trust	-	139.5
Total Available	380.0	412.9
Facilities Utilised		
Securitisation Warehouses	290.0	155.4
Working Capital	-	6.0
Total Utilised	290.0	161.4
Cost of Funds¹	5.2%	9.6%

1. Cost of funds reflects weighted average interest rate on loans outstanding at the end of the financial year.

Income Statement



- Portfolio Income hit record levels, 140% increase on FY17.
- Cash EBTDA¹ (\$1.2m) in 2H18, compared to (\$7.6m) in 1H18.
- Demonstrating operating leverage in the cost base half on half, as growth in income far exceeds growth in cost base.
- Bad debts provision in increasing with receivables balance, and maintained at approximately 3% of the period end receivables balance.
- Amortised Finance Costs comprise the amortised cost of establishing the funding programs,
- Depreciation and Amortisation increases – \$0.9m IT development and software, \$0.6m Leasehold improvement and computer equipment, and \$0.2m Amortisation of acquired intangibles.

	FY18 \$M	FY17 \$M	Change %
Portfolio Income	39.3	16.4	140%
Other Income	1.1	0.6	83%
Total Income	40.4	17.0	138%
Cash Cost Of Sales ²	(25.1)	(14.7)	71%
Cash Gross Profit	15.3	2.3	565%
Cash Operating Costs ²	(24.1)	(13.3)	81%
Cash EBTDA¹	(8.8)	(11.0)	(20%)
Movement in Provision for Doubtful Debts	(5.0)	(3.3)	52%
Amortised Finance Costs	(1.5)	(1.3)	15%
Shared-Based Payments	(3.6)	(3.2)	13%
EBTDA¹	(18.9)	(18.8)	1%
Depreciation and Amortisation	(3.6)	(1.9)	105%
Earnings Before Tax	(22.5)	(20.7)	9%

1. Cash Earnings Before Tax, Depreciation and Amortisation.

2. Cash Cost of Sales and Cash Operating Costs comprise those expenses that have an Operating Cash Outflow.

Cost Base



- Interest Costs reduction reflects the exiting of expensive legacy funding facilities.
- Bank Fees and Data Costs reducing per unit costs as business scales.
- Net Bad Debts Written-Off of 2.61% (of the closing receivables balance) remains below industry benchmarks.
- Permanent headcount increased over the year to 138 at 30 Jun 2018, compared to 108 at 30 Jun 2017 and under 50 at 30 Jun 2016.
- Marketing Costs include one-off \$0.4m re-branding costs.
- Other Operating Costs reflects:
 - Increased occupancy costs due to the office move
 - Reduced consulting costs
 - Increased IT costs as the business grows

	FY18 \$M	FY17 \$M
Cash Cost of Sales	25.2	14.7
% of Average Receivables	11.1%	16.4%
Interest Costs	13.0	10.3
% of Average Receivables	5.7%	11.5%
Bank Fees and Data Costs	3.9	2.5
% of Average Receivables	1.7%	2.8%
Net Bad Debts Written-Off	8.2	1.9
Cash Operating Costs	24.1	13.4
% of Average Receivables	10.6%	15.0%
Salaries and Employment Related Costs	15.6	7.6
Marketing Costs	1.7	0.6
Other Operating Costs	6.8	5.2

Balance Sheet



- Restricted Cash of \$8.7m at Jun 18 (\$12.6m at 30 Jun 17).
- 30 June being a Saturday resulted in an increase in the level of Other Receivables (\$4.9m in customer repayments) and Other Payables (\$5.0m in merchant payments) at year end.
- Growth in Customer Receivables (after deducting unearned future income and allowance for bad debts) supported by an increase in borrowings and equity from Westpac's minority investment.
- PP&E increased due to the relocation and establishment of the new Sydney office.
- Other Intangible Assets comprise IT development and software costs and \$0.4m in acquired intangibles from the Pocketbook acquisition.

	Jun 18 \$M	Jun 17 \$M
Cash and Cash Equivalents	12.7	19.2
Other Receivables	6.3	0.4
Customer Receivables	300.6	143.8
Property, Plant and Equipment	3.2	0.5
Goodwill	4.5	4.5
Other Intangible Assets	5.8	6.1
Total Assets	333.1	174.5
Trade and Other Payables	8.1	1.6
Employee Provisions	0.8	0.6
Deferred R&D Tax Incentives	0.8	0.1
Deferred Contingent Consideration	0.3	0.3
Borrowings	289.7	160.3
Total Liabilities	299.7	162.9
Net Assets	33.4	11.6

Cash Flows



- Generated positive Operating Cashflow for the first time.
- Received 2016 and 2017 R&D Tax Incentives of \$1.2m. Future incentives will be received by way of reduced tax payments.
- The establishment and relocation of the Group's new Sydney office included in payment for plant and equipment.
- Proceeds from the issue of shares comprise Westpac's investment and VPC Option conversion.

	FY18 \$M	FY17 \$M
Receipts from Customers	39.6	16.8
Payments to Suppliers and Employees	(26.5)	(14.9)
Interest and Other Income	1.5	0.1
Interest Paid	(13.2)	(9.6)
Net Cash Flow to/from Operating Activities	1.4	(7.6)
Payments for Plant and Equipment	(3.5)	(0.6)
Payments for Software Development	(2.5)	(2.6)
Payments to Acquire Businesses	-	(1.9)
Net Movement in Receivables	(170.9)	(112.5)
Net Cash Flow to Investing Activities	(176.9)	(117.6)
Proceeds from Issues of Shares	41.0	10.9
Costs of Share Issues	(0.3)	(0.7)
Proceeds from Borrowings	128.2	127.1
Net Cash Flow from Financing Activities	168.9	137.3
Net Decrease/Increase in Cash and Cash Equivalents	(6.6)	12.1



Highlights

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Outlook for FY19



Key priorities for the Company in FY19:

1 Targets

- Drive towards **\$1 billion+ in annual transaction volume**.
- **1 million+ consumers** with an active Zip account.
- Maintain **rapid growth whilst remaining cashflow breakeven**.

3 Expand the Zip network

- Continue to win and rollout large, iconic retail partners in our key verticals.
- Leverage channel relationships to expand Zip's 'rails' and drive acceptance.

2

Increase consumer engagement

- Rollout native app and drive significant monthly active usage.
- Complete the rollout of the new Zip brand and increase awareness and market share.

4

Favourable operating environment

- Capitalise on the positive landscape for Fintechs and Alternate Payment providers.
- Comprehensive Credit Reporting, Open Banking, Productivity Commission.

Summary



FY18 was a record year for Zip as all parts of the business came together and delivered.

- Strong FY18 performance underpinned by record growth across all key metrics – transaction volume, consumers and retail partners.
- Large and growing Australian consumer base, now at 730,000 supported by our extensive retail network.
- We have a clear strategy to drive consumer engagement and increase the average spend per consumer.
- We have a unique offering in market, supported by proprietary decision technology, data science and a scalable platform that continues to deliver market leading credit performance.
- Zip is well positioned for continued growth in FY19 across all of its key segments.
- The cost base has stabilised and the operating leverage will continue to improve as the business scales.

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