



25th October 2018

## **Q1 FY19 QUARTERLY UPDATE**

### **A STRONG START TO THE YEAR, GROWTH ACCELERATING INTO Q2**

**Zip Co Limited** (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly performance for the period ending 30 September 2018 (**Q1 FY19**).

#### **HIGHLIGHTS**

- **Record quarterly revenue of \$15.0 million, up 14% on Q4.**
- **Receivables increased to \$360.1m, up 14% on Q4.**
- **Record transaction volume of \$190.8m, up 11% on Q4, a pleasing result noting Q1 follows a seasonally stronger Q4.**
- **Current October volumes already at an annualised run rate of \$1 billion, building strongly into the peak Christmas period for retail.**
- **First full quarter of positive Cash EBTDA.**
- **Customer numbers increased by over 115,000 in the quarter to over 853,000, up 16% on Q4. Customer engagement continues to increase and has reached an 84% repeat rate.**
- **Very strong credit performance with Net Bad Debt write-offs for the quarter of \$2.2m (2.4%), down from \$2.3m (2.6%), an outstanding result considering a rapidly growing receivables book.**
- **Launch of Zip native App which is resonating strongly with customers and is currently top 10 in *Shopping* in the *App Store* and Top 3 in *Finance* in the *Google Play Store*. Over 250,000 downloads in 2 months with very strong customer ratings.**
- **Operating leverage continues with scale. Cash Cost of Sales and Cash Operating Costs continue to reduce as a percentage of average receivables, from 18.6% in Q4 to 17.2% in Q1.**
- **Enterprise partners Officeworks and Target joined the Zip platform.**

Managing Director and CEO Larry Diamond said:

*"Zip, the interest-free credit card disruptor, has kicked off FY2019 in strong fashion as momentum builds across all facets of the business. The quarter delivered both record volume and revenue, placing the business in a fantastic position to launch into the seasonally strongest trading quarter."*

*"On the product and technology side, we saw a number of major milestones including the release of our native App, which has been a game-changer for the business and is now a Top 10 Shopping App."*

*"We continue to add well-known brands like Target, Officeworks and Rebel to the platform whilst enabling bill payments to Telcos and Utility providers, all contributing to a very strong lift in engagement levels."*

*Zip built its foundation on the tenets of transparency, responsibility and flexibility. We saw an opportunity to disrupt the credit card by providing a better and fairer, digital alternative. Every Zip transaction is interest-free and our business model does not rely on late payment fees to drive revenue. Rather, our model is based on providing customers with credit products that are affordable and sustainable.*

*Right from the outset we designed our product set and proprietary lending processes to sit within the regulated credit environment. As such, Zip believes it is very well placed to satisfy any increase in regulation with little or no disruption to our business.”*

## KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q1 FY19 Results (unaudited)	% increase on Q4 FY18 (unaudited)	% increase on Q1 FY18 (unaudited)
Revenue	\$15.0m	14% ↑	117% ↑
Merchants <sup>1</sup>	11,536	9% ↑	95% ↑
Customers <sup>2</sup>	853,625	16% ↑	111% ↑
Receivables <sup>3</sup>	\$360.1m	14% ↑	104% ↑
Transaction volume	\$190.8m	11% ↑	101% ↑
Transactions	677,487	12% ↑	118% ↑

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

## Native App

The Zip native App was launched as planned in August with great success, reaching top 10 status in the App Store in the first week. Since launch, there have been over 250,000 downloads across both the iOS and Google/Android platforms. The App has a very strong rating of 4.9 out of 5 in the App store and early signs suggest it is significantly enhancing customer engagement levels.

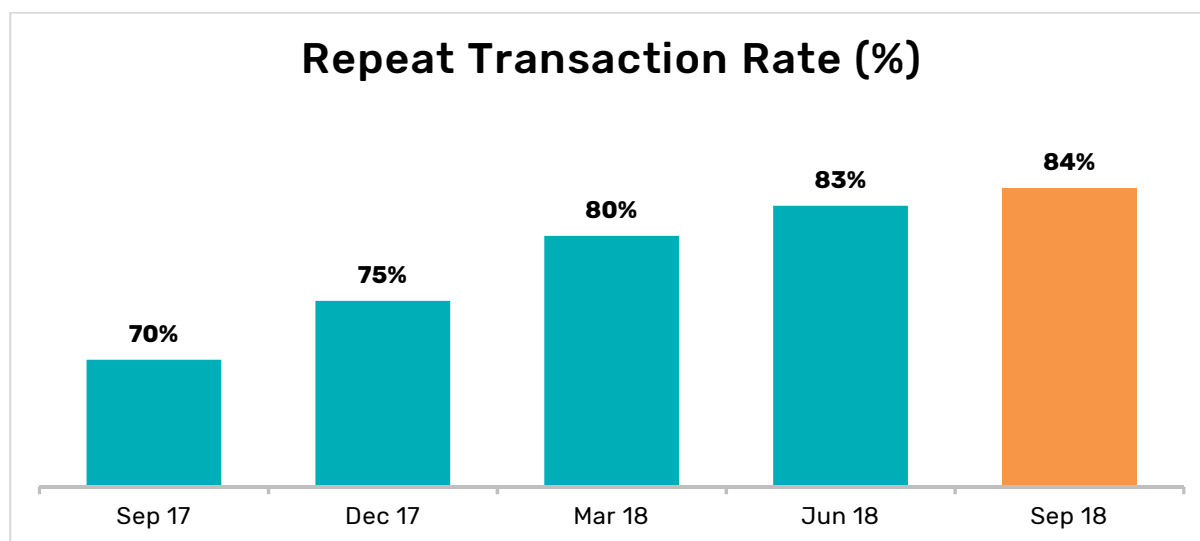
Zip also improved the in-store payments experience for both customers and partners through the introduction of in-App barcode functionality. This works across integrated and non-integrated solutions and is driving strong in-store purchase activity, which bodes well leading into the retail sector’s busiest season.

## Bill Payments

The company completed the rollout of the *Pay Bills with Zip* product feature in the quarter, giving all 853,000 customers the ability to pay bills from their Zip Account. The feature can be used at over 45,000 BPAY billers with Zip Money customers enjoying 3 months interest free on all bill payments; bills paid by Zip Pay customers are interest free always. *Pay Bills with Zip* links directly to Zip’s broader vision around being everywhere a consumer makes payments. The bills sector is a multi-hundred-billion-dollar market and early signs demonstrate strong uptake by Zip’s customers.

## CUSTOMER ENGAGEMENT

Customer engagement metrics continued to improve over the quarter, with the repeat transaction rate growing to 84% as shown below.

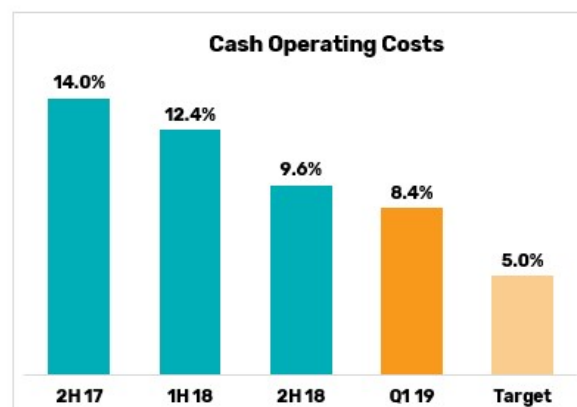
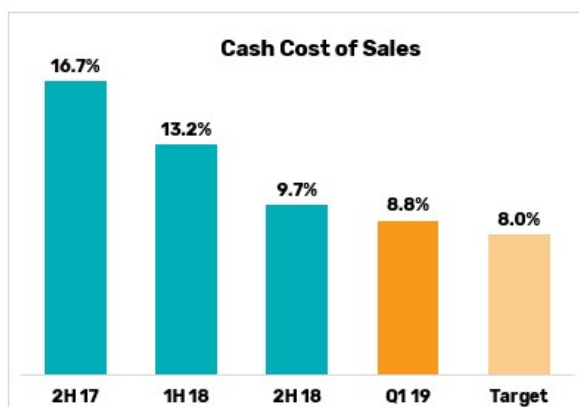
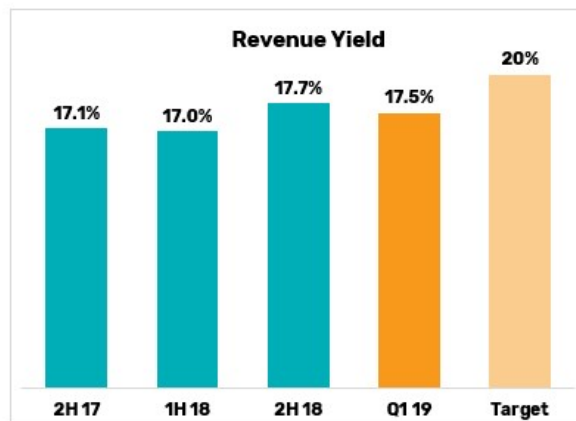


Note: Repeat Transaction Rate defined as percentage of quarterly transactions made by existing customers.

## FINANCIAL DASHBOARD

The Company continues to leverage its cost base with growing scale, reporting a reduction in both Cash Cost of Sales and Cash Operating Costs as a percentage of average receivables. Quarterly Cash EBTDA (cash earnings before tax depreciation and amortisation) was positive for the first time, at 0.3% of average receivables, and comprised the following:

- **Revenue Yield** – The yield on the receivables portfolio remained stable at 17.5% in Q1, compared to 17.6% in Q4. 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 fell from 9.7% in Q4 to 8.8% in Q1. Management has a medium-term target of 8% for this metric. 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 8.9% in Q4 to 8.4% in Q1, excluding one off re-branding costs (which is now complete). Cash Operating Costs comprise all other costs, excluding non-cash costs (funding program establishment costs amortisation, 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;
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

The Company reported a positive operating margin (net cash from operating activities in the Appendix 4C) of \$2.5m in Q1. Net cash from operating activities in the quarter comprised:

- Receipts from customers of \$14.9m, up 16% from \$12.9m in the previous quarter.
- Cash payments for Operating Costs (staff, administration and corporate costs) of \$8.2m compared to \$7.4m forecast for the quarter. The variance includes non-recurring costs of approximately \$0.4m and year-end compliance costs of \$0.2m impacting the quarter.
- One-off rebranding costs of \$0.3m as previously advised, completing the re-branding project that began in Q4 2018.
- Interest and other finance costs increased from \$3.4m in Q4 to \$4.0m in Q1 in line with growing receivables balance.

Net bad debt write-offs for the quarter totalled \$2.2m compared to \$2.3m in Q4. These amounts form part of the net movement in receivables (item 2.5 as per Appendix 4C).

## FUNDING UPDATE

The Company has completed documentation to increase the funding facility provided by NAB by \$100m. Zip appreciates the strong and growing support from NAB and all of the Company's

funding partners. At the end of the quarter, the Company had total facilities available of \$501m, of which \$334m was drawn and \$167m undrawn.

The Company is well advanced in its 2019 funding plans, in order to ensure the company retains the ability to fund its continued growth, at a reduced cost.

Zip holds just under \$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**

There are now over 11,500 retail partners that accept Zip transactions. Virgin Australia and Target signed up to the Zip platform during the quarter, adding to the portfolio of major retail partners adopting alternative payments and offering Zip at checkout. Target is already live both online and in-store, and Virgin Australia is expected to go live in early 2019.

New partners that went live on the platform in the quarter or currently in integration include:

<b>Target</b>	<b>Amart Furniture</b>	<b>Dyson</b>	<b>Harris Scarfe</b>	<b>Clark Rubber</b>
<b>Gorman</b>	<b>ARB</b>	<b>Sony</b>	<b>Alannah Hill</b>	<b>Dangerfield</b>
<b>Kitchen Connection</b>	<b>Princess Highway</b>	<b>MSY Technology</b>	<b>Genea IVF</b>	<b>Shiploads</b>

Strategic partnerships with key payments ecosystem partners are a core part of growing Zip's 'closed loop' network strategy:

- The Company is currently integrated into 55 different Point of Sale (POS) and ecommerce providers across the retail and health services sector, with 5 new providers to be added this quarter.
- There are also several landmark payment partnership deals in final stages of negotiation and Zip looks forward to announcing further news in coming quarters.

The last quarter saw further expansion in Zip's health services division, specifically in Veterinary and Fertility. Zip welcomed VetPartners Australia, Small Specialist Animal Hospital and Genea Fertility to the payment's platform, and the pipeline continues to build. Zip maintained its growth momentum in Dental, with Zip Pay and Zip Money now available at over 1,000 practices nationally.

## **RECEIVABLES AND CREDIT UPDATE**

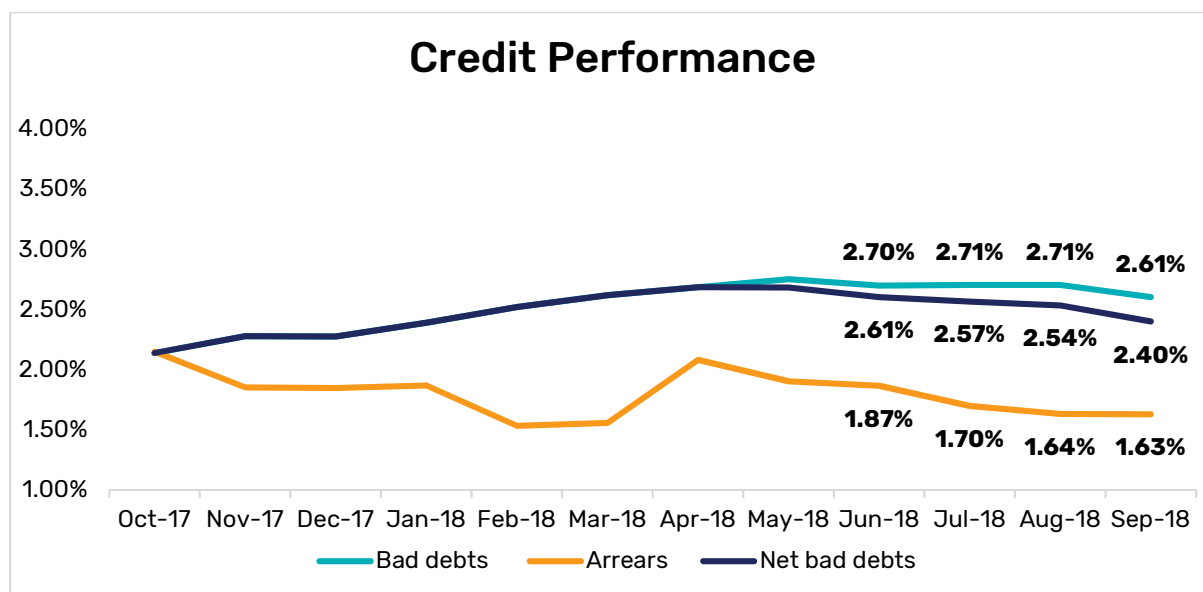
Receivables increased by 14% over the quarter to \$360.1m. The customer repayment profile remains at a healthy 14% (of the opening receivables balance repaid each month), which equates to the book recycling approximately every 7 months.

Net bad debt\* write offs were 2.40% at the end of the quarter, gross bad debt write offs were 2.61%, and reported arrears 1.61%. Zip wrote off \$2.2 million in net bad debts in Q2, a strong improvement on Q3 of \$2.4m in light of the rapid growth of the receivables balance.

The rate of gross bad debt write offs has settled in the range of 2.61% - 2.71% over the last seven months, well ahead of management's expectations and guidance of 3%, and well below industry standards.

Executive Director & COO Peter Gray said:

*"We are extremely pleased with the performance of our receivables portfolio. The last quarter was a stand-out for the business, we not only saw a decrease in bad debt and loss rates in percentage terms, but we also delivered a reduction in actual dollar amounts written off which is a very strong result considering a growing receivables portfolio. The investment in our proprietary decision technology, and the use of both conventional and non-conventional credit data has us well ahead of the pack, not only in complying with legislation and responsible lending obligations, but also in delivering market-leading results in credit performance."*



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

## POCKETBOOK

Pocketbook, one of Australia's leading personal financial management (PFM) apps, now reaches over 566,380 users, having acquired 36K users over the last quarter.

During the quarter, Pocketbook achieved the final performance milestone set at the time of its acquisition by Zip, and accordingly 1.9 million shares were issued to the vendors of the business. Since its acquisition in September 2016, Pocketbook has doubled the size of its user base and is now one of Australia's most popular apps in the personal finance sector.

## EXECUTIVE DIRECTOR INCENTIVE REMUNERATION ARRANGEMENTS

During the quarter, the Company engaged remuneration advisors Egan Associates to review the Group's remuneration arrangements in place for the Executive Directors. The review included a comparison of the remuneration arrangements being provided by comparable companies, in terms of both size and sector, and covered fixed remuneration, short term incentives, and long-term incentives.

Following the review, the Board has approved changes to the remuneration arrangements of the Company's Executive Directors Larry Diamond (CEO), and Peter Gray (COO), to comprise the following:

Fixed remuneration: \$350,000 excluding superannuation.

Short - Term Incentive (STI): Targeted at 50% of fixed remuneration.

Long - Term Incentive (LTI): Targeted at 50% of fixed remuneration.

Settlement of the STI will be made in shares (subject to shareholder approval) based on the achievement of short-term targets including Transaction Volumes and Cash EBTDA.

The Company will seek approval at the upcoming Annual General Meeting to issue Performance Rights to each of Larry Diamond and Peter Gray, based on the arrangement outlined above, which would vest subject to the achievement of Total Shareholder Return targets over a 3, 4, and 5 year period.

## **CONCLUSION**

In summary, the Company is continuing to deliver record revenue and transaction growth whilst driving improvements to the bottom line. Given the accelerating growth into our strongest trading quarter, the Company is well positioned to continue its rapid growth trajectory, further supported by:

- Continued strong growth across all key operating metrics, with operating leverage improving with scale.
- Significant enterprise retailers live and transacting on the platform, including Tigerair, Super Retail Group, Officeworks and Target. A further 75 mid-market and enterprise accounts have signed agreements and are anticipated to go live this quarter.
- The successful launch of the Zip native App, with strong daily downloads driving improved engagement levels online and in-store, as well as improved customer repayment behaviour.
- Exciting new brand successfully launched with strong momentum building towards Christmas 2018.

- ENDS -

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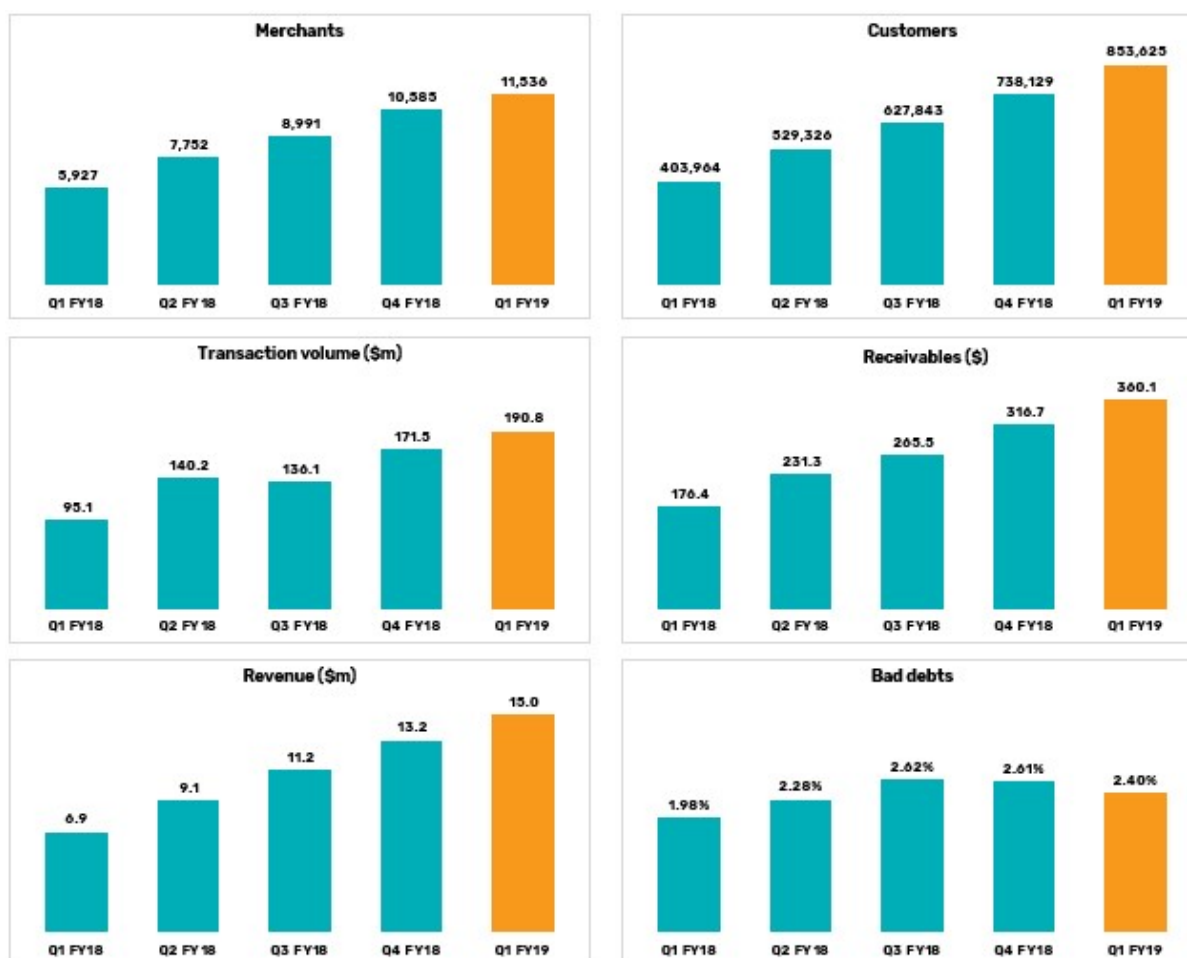
For general investor enquiries, email [investors@zip.co](mailto:investors@zip.co)

**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](http://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.

## 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")**

30 September 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	14,901	14,901
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(335)	(335)
(d) leased assets	-	-
(e) staff costs	(3,919)	(3,919)
(f) administration and corporate costs	(3,944)	(3,944)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	39	39
1.5 Interest and other costs of finance paid	(3,958)	(3,958)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
- Re-branding Costs	(313)	(313)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>2,471</b>	<b>2,471</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(27)	(27)
(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	(600)	(600)
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	(45,908)	(45,908)
	- Term Deposits	30	30
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(46,505)</b>	<b>(46,505)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	59	59
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	(10)	(10)
3.5	Proceeds from borrowings	44,000	44,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	<b>Net cash from / (used in) financing activities</b>	<b>44,049</b>	<b>44,049</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	12,658	12,658
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,471	2,471

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)	(46,505)	(46,505)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	44,049	44,049
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>12,673</b>	<b>12,673</b>

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	4,132	4,000
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (restricted cash)	8,541	8,658
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,673</b>	<b>12,658</b>

**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
-

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**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
-
-

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**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
501,000	334,000
-	-
-	-

8.1 Loan facilities

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 September 2018, the Group had two funding programs in place the zipMoney Trust 2017-1 (facility amount \$460m, drawn \$313m) and the zipMoney Trust 2017-2 (facility amount \$41m, drawn \$21m).

**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	800
9.4	Leased assets	
9.5	Staff costs	4,200
9.6	Administration and corporate costs	3,500
9.7	Other (provide details if material)	
	- Interest and other costs of finance	4,800
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>13,900</b>

**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: 25 October 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.