

Zip Co Limited

2018 AGM Presentation

Zip Co Ltd (ASX: Z1P)



30 November 2018

The 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.



5 Key Messages



- FY19 is shaping to be another record year for Zip with November to be the Company's first ever \$100 million month.
- The Company rebrand and introduction of the Zip native app has been a 'game changer' for the business. The app consistently ranks in the top 10 for shopping and finance, with all engagement metrics significantly up on digital web.
- The current quarter has seen Zip's biggest partners join the platform (Bunnings, Target) and expansion of its product offering and utility.
- Zip achieved its first quarter of positive Cash EBTDA and expects this measure to grow from here.
- ASIC's review of the BNPL sector was released on 28 November. Zip's strong focus on transparent, responsible, affordable, and flexible credit products means it is well placed for any potential changes to the regulatory environment, should they arise.

The Zip Difference



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

Responsible financial services

Credit and ID checks for all applicants, delivering tailored account limits with greater control and transparency

Disrupting credit cards

We offer interest free terms, flexibility and a digital alternative

Big data advantage

Significant investment in decision technology and data sciences

Payment flexibility

Uniquely positioned to offer credit for both small and large purchases

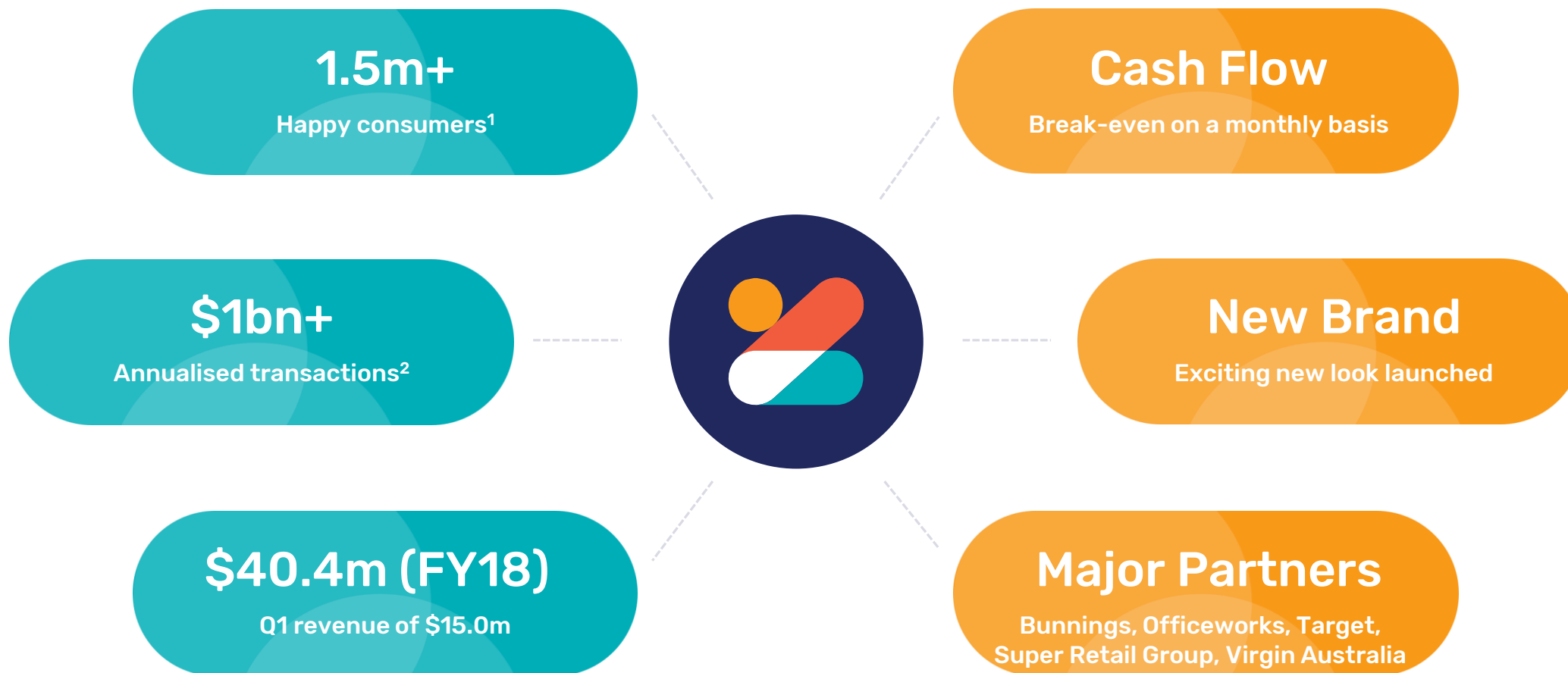
Competitive acquisition model

Low, single digit \$ cost per acquisition (CPA) vs banks

Network value

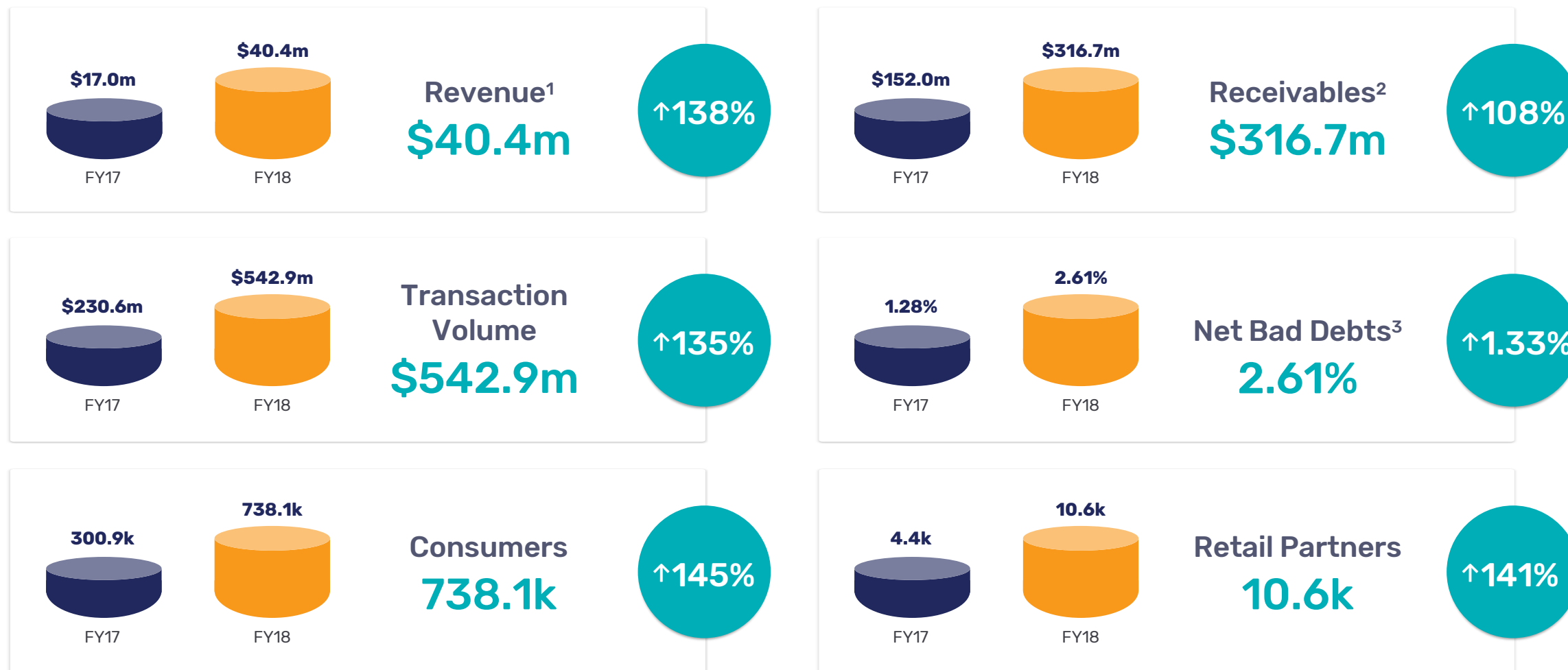
Established payments network built online and instore with partners

Key Highlights



1. Circa 1.5 million consumers across Zip and Pocketbook.
2. Run-rate annualised transaction volume as at 30 September 2018.

FY18 Key Metrics



1. Revenue includes Portfolio income and other income.

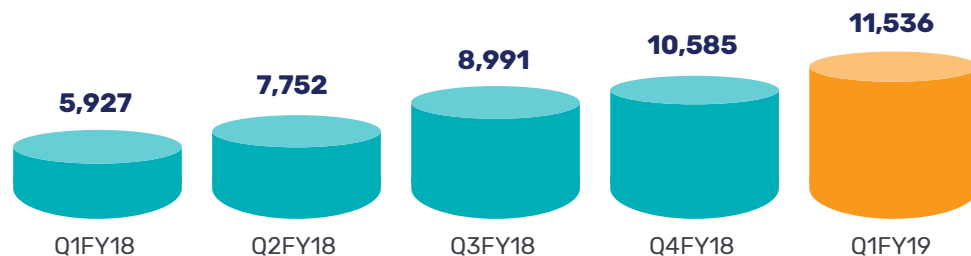
2. Gross receivable value at 30 June.

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.

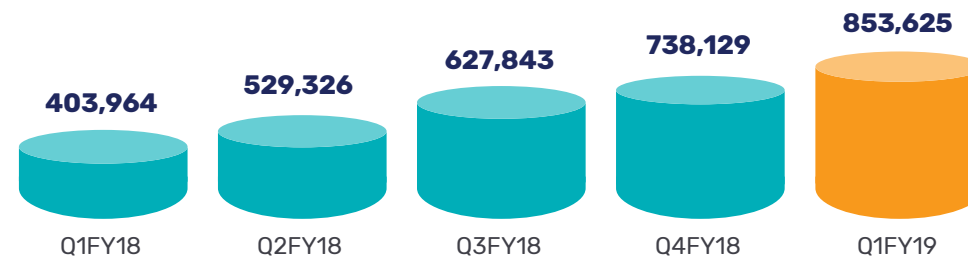
Key Drivers



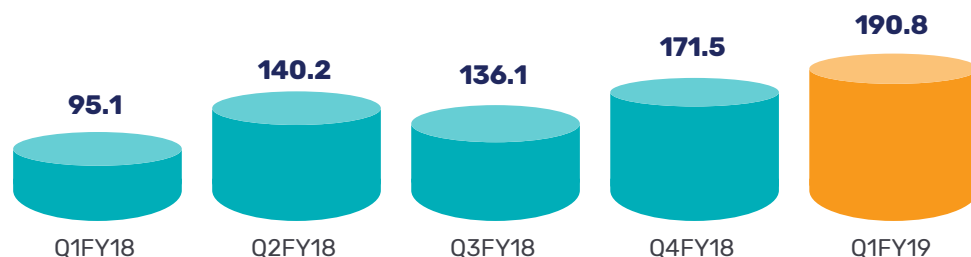
Merchants



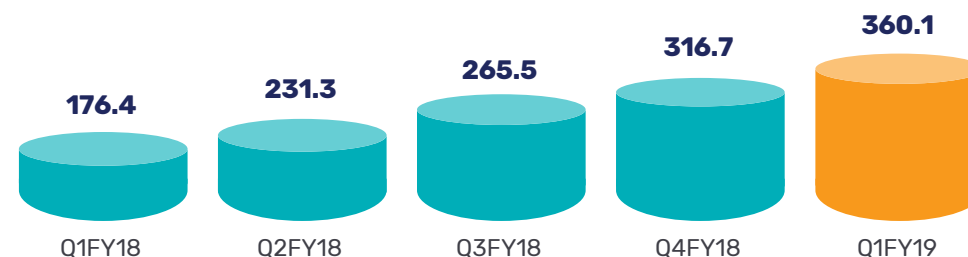
Customers



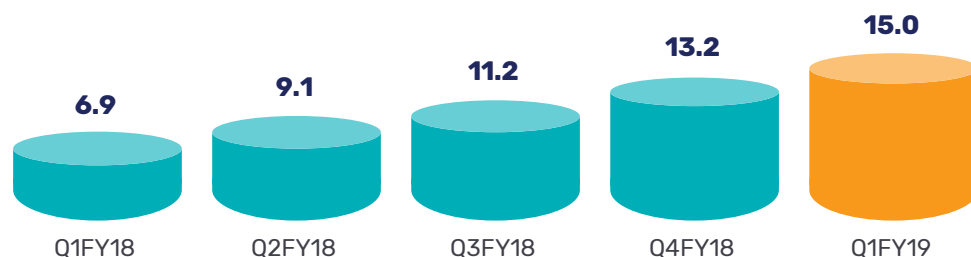
Transaction volume (\$m)



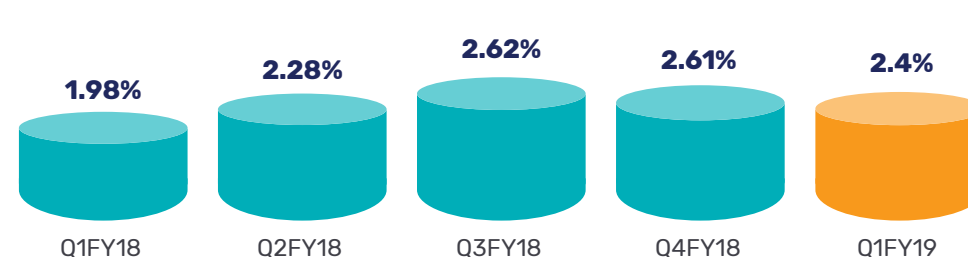
Receivables² (\$m)



Revenue³ (\$m)



Bad debts⁴



1. Based on unaudited financials;
2. Receivables gross, before provisions.
3. Revenue including Portfolio and Other Income.
4. 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.

Financial Dashboard



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

	1H17	2H17	1H18	2H18	1Q19	Medium Term Target
Revenue Yield ¹	20.7%	17.1%	17.0%	17.7%	17.5%	20%
Cash Cost of Sales ^{1,2}	(15.5)%	(16.7)%	(13.2)%	(9.7)%	(8.8)%	(8)%
Cash Operating Costs ^{1,3}	(16.8)%	(14.0)%	(12.4)%	(9.6)%	(8.4)%	(5)%
Cash EBTDA ^{1,3}	(11.6)%	(13.6)%	(8.6)%	(1.6)%	0.3%	7%

1. All figures expressed as a percentage of half year/quarter 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.

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.

We're Just Getting Started

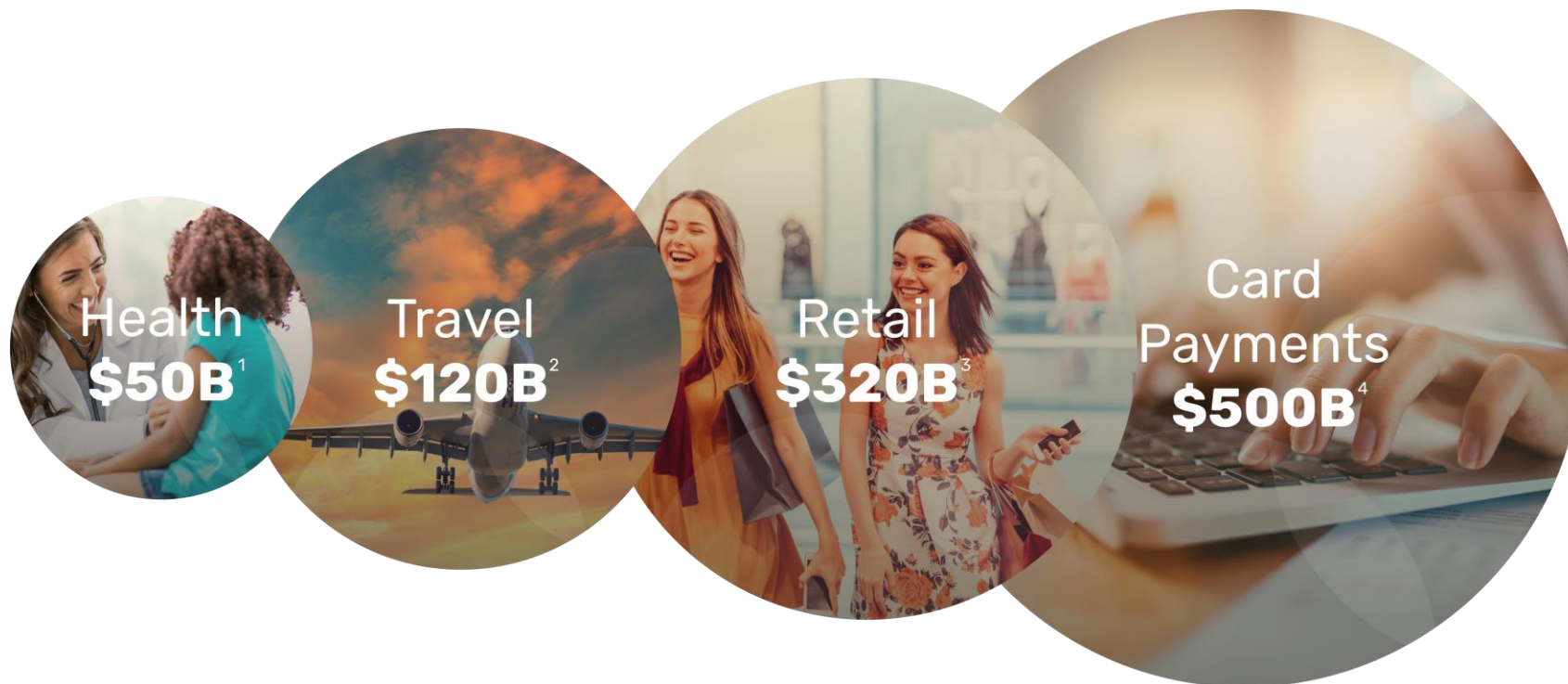


We are currently processing annualised transaction volume of \$1bn+, less than 0.1% of the market.

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 alternative 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.ra.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.

New Native App

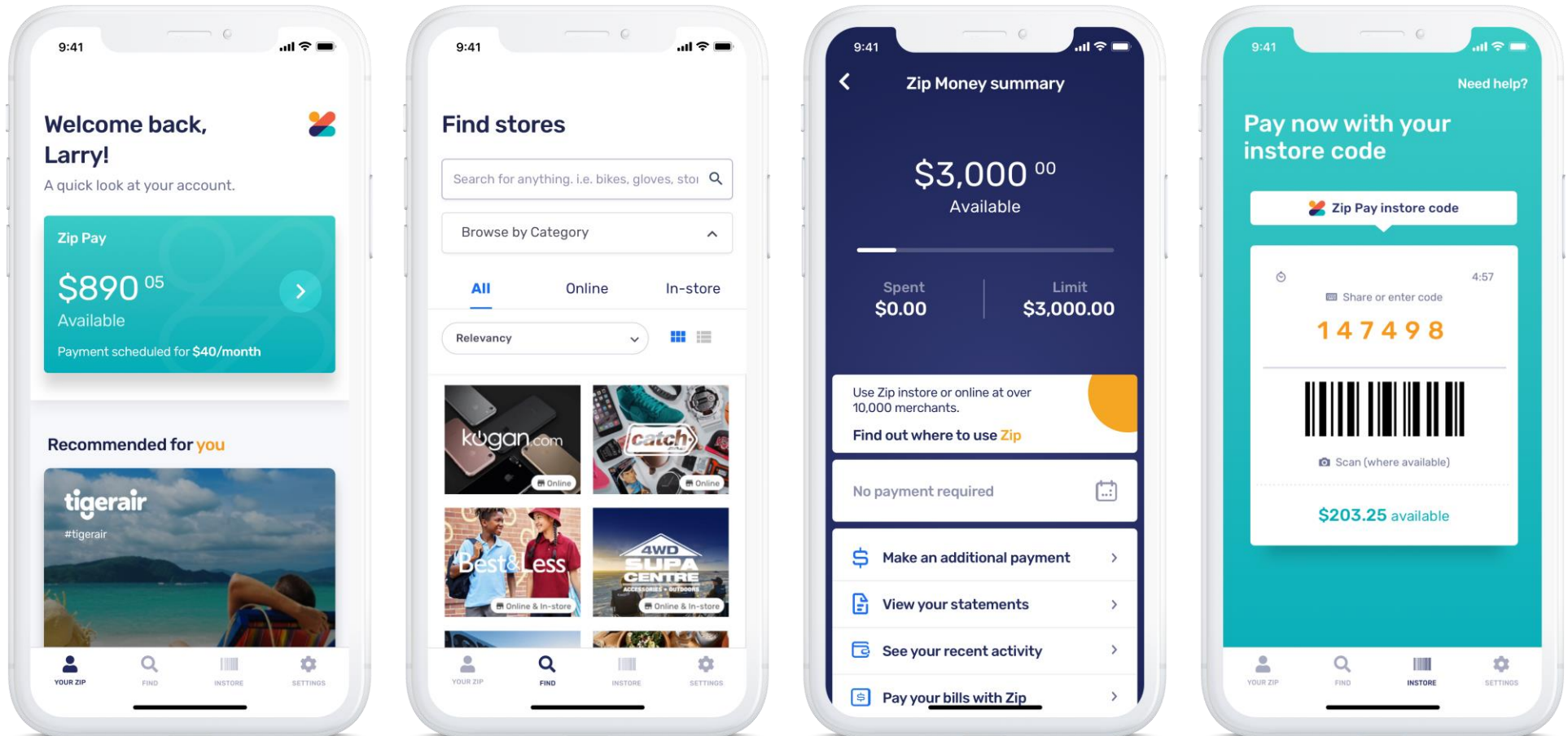


Now live in the App and Play Stores as of August 2018.

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

Captive platform for promoting retailer offers and discounts.

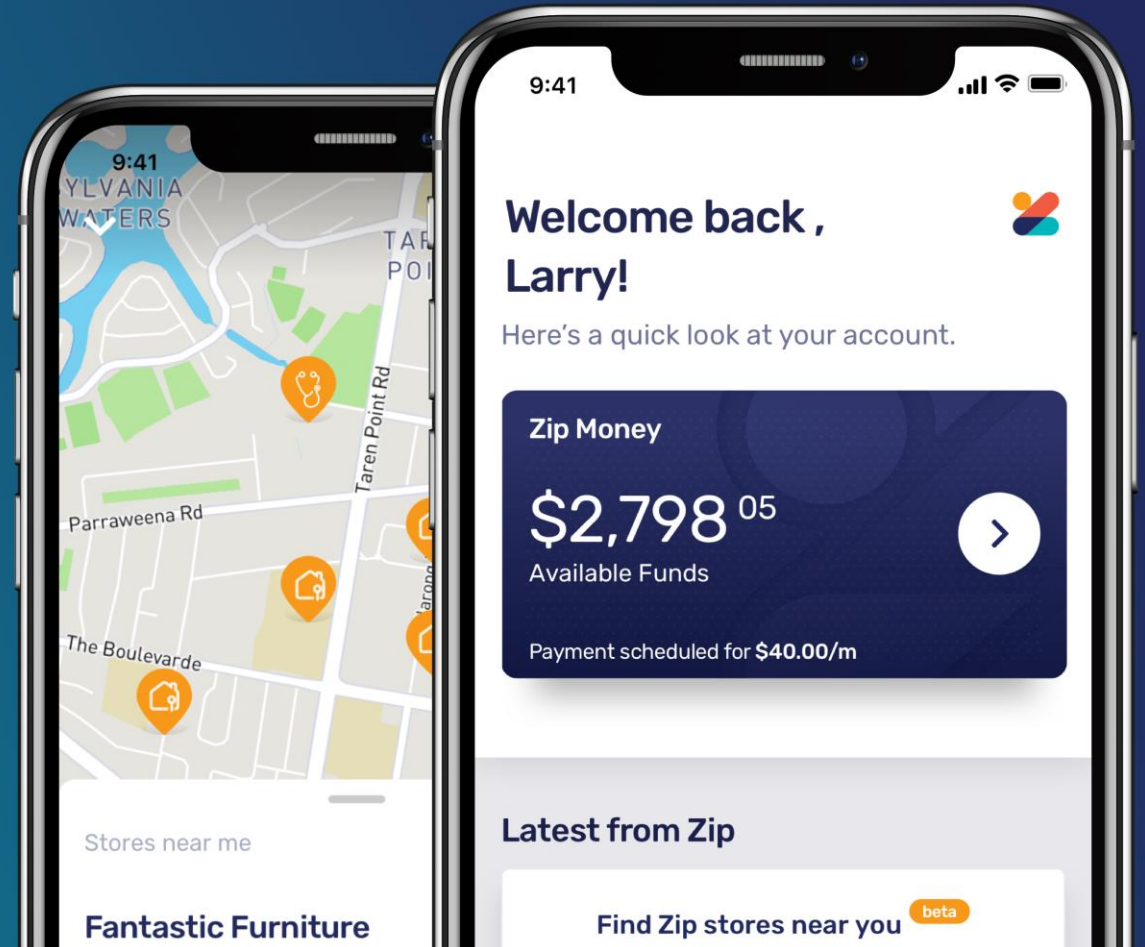
Scannable barcodes used to transact instore.



Native App Adoption



12 weeks.
375k happy customers.
Top 10 in appstore.
4.9 ★ rating.

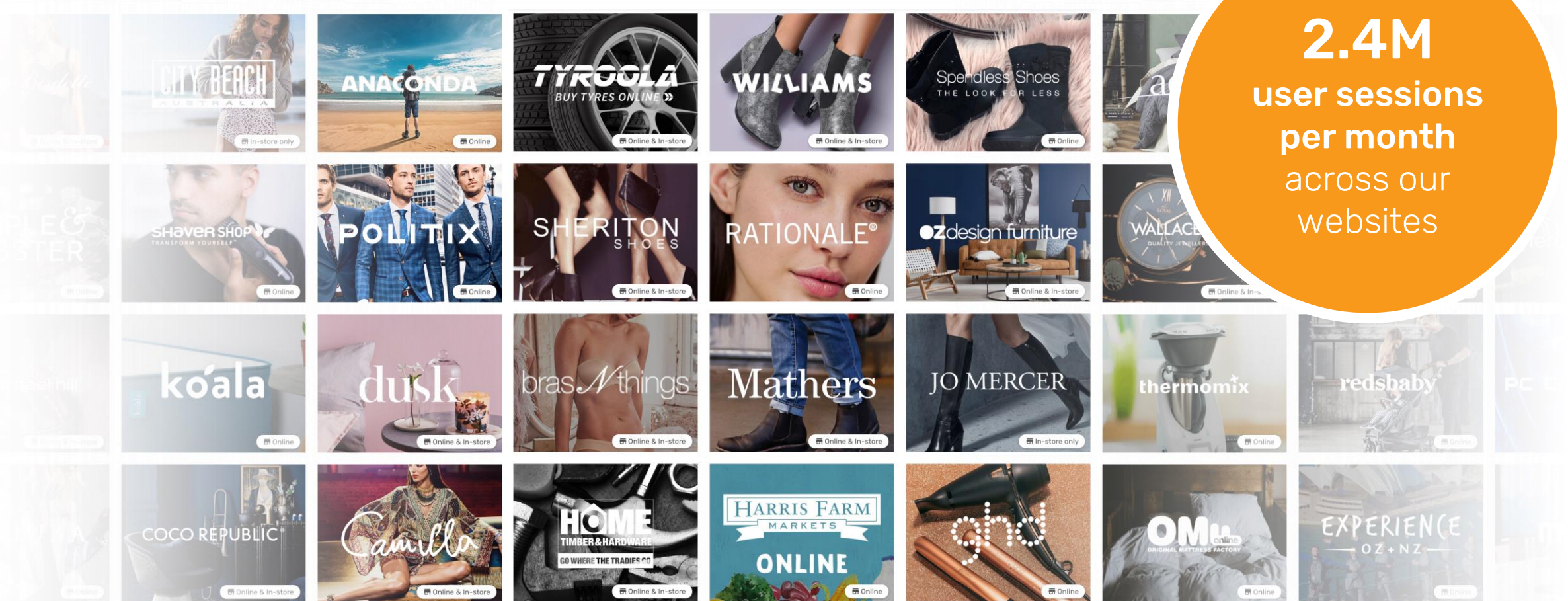


New Store Directory



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

2.4M
user sessions
per month
across our
websites



Pocketbook FY18 Highlights

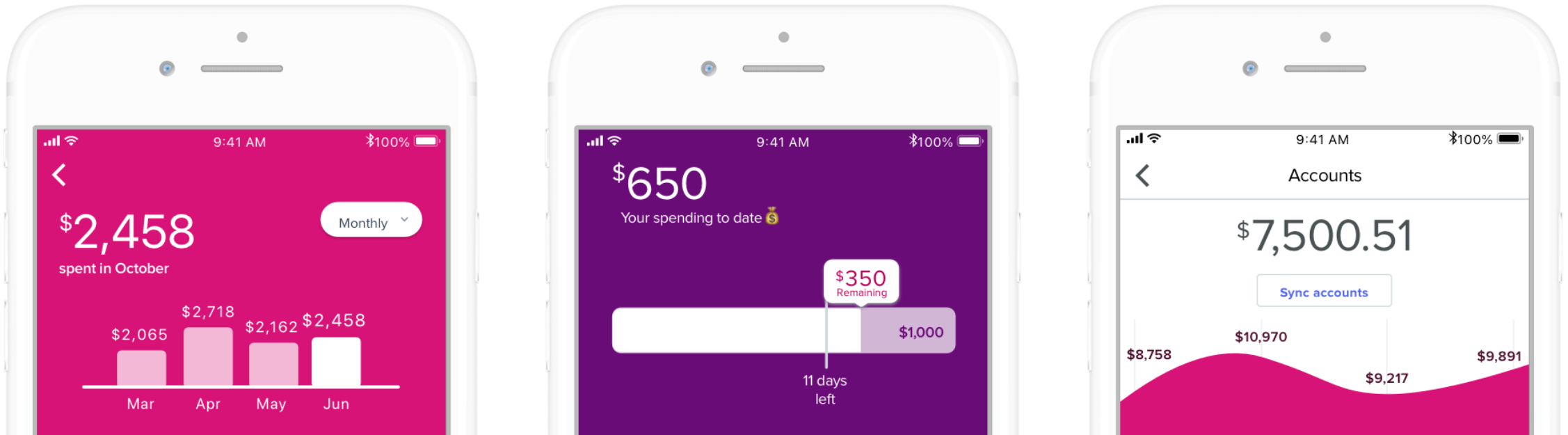


 540,000 users, 30 institutions.

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

 Australian first open banking integration (Macquarie Bank).

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

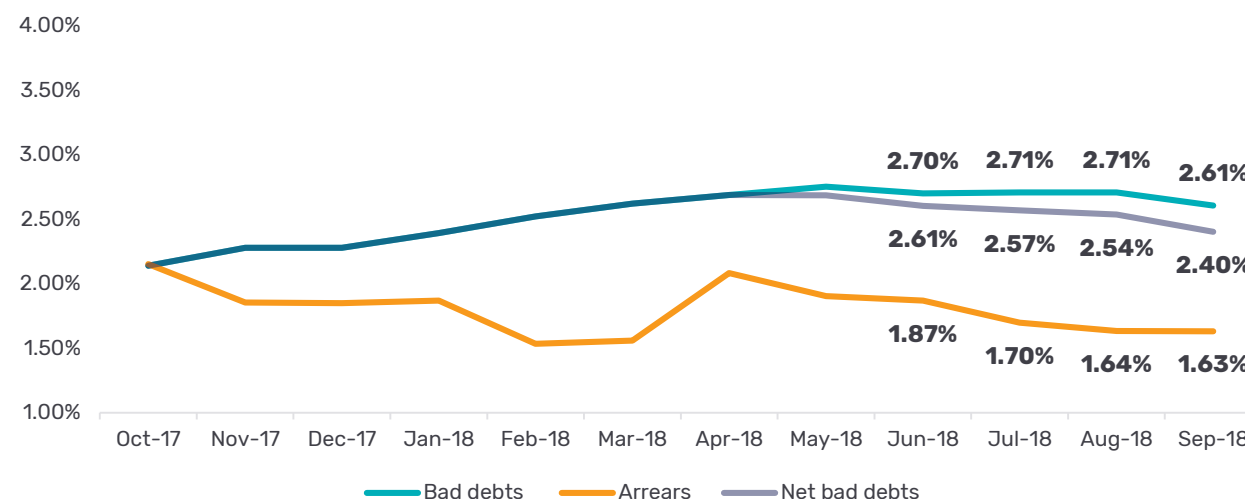


Strong Credit Performance

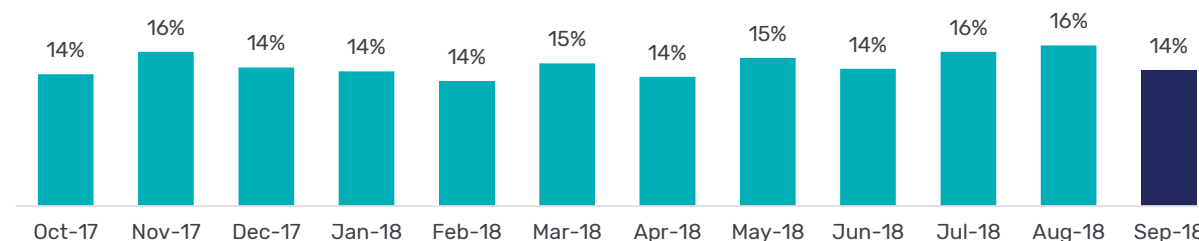


- Credit performance significantly better than industry benchmarks, and in line with management's expectations.
- Strong performance continuing throughout Q1 FY19.
- Bad debt recoveries improving bottom line.
- Enhancement of Zip's proprietary decision technology including:
 - Sophisticated machine learning models
 - Additional data sources
 - Implementation of new risk rules and policies
- We are now well placed to fine-tune approval and scorecard thresholds to enhance 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 now increased to \$501m.
- Working on a structure to meet the funding requirements of the business over the next 3 to 5 years.
- 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 \$15.6m in its various trusts.

	Sep 18 \$M	Jun 18 \$M	Jun 17 \$M
Facility Size (Class A and B)			
2017-1 Trust	460.0	360.0	240.0
2017-2 Trust	41.0	20.0	33.4
2015-1 Trust	-	-	139.5
Total Available	501.0	380.0	412.9
Facilities Utilised			
Securitisation Warehouses	334.0	290.0	155.4
Working Capital		-	6.0
Total Utilised	334.0	290.0	161.4
Cost of Funds¹	5.1%	5.2%	9.6%

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



Zip welcomes the release of ASIC's Buy Now Pay Later industry report and supports efforts from the regulator to increase standards across the sector.

- The Report reinforces that customers are embracing alternative payment products such as Zip Pay that deliver better customer outcomes.
- The Report supports our business model.
- Since inception Zip has performed credit and identification checks on every application and has introduced our bank verification step into the Zip Pay product. The Zip business model does not rely on late payment fees or customers not being able to afford their repayments to drive revenue.
- Given the rapid growth of the sector, Zip supports ASIC's recommendation to grant Product Intervention Power ("PIP") and believe further regulation will enhance consumer trust and confidence in the sector.
- **Zip is well placed for any changes in the regulatory environment.**

November Business Update



FY19 is shaping to be another record year for Zip. November will be the first ever \$100 million month.

- Record performance continues, underpinned by growth across all key metrics – revenue, transaction volume, consumers and retail partners.
- On track to beat our goals of transaction volumes annualising at \$1 billion run rate and a consumer base of 1 million.
- Our biggest promotional campaigns delivered record transaction volumes: Zip Frenzy, Black Friday, and Cyber Monday.
- Recent big wins include: Bunnings, EB Games, General Pants, Surfstitch, VideoPro, and Monash IVF.
- Very strong credit performance with Net Bad Debt write-offs standing at 2.4% at the end of Q1, and reducing again in October, an outstanding result considering a rapidly growing receivables book.
- Zip app downloads across IOS and Android platforms since inception total over 375k¹:
 - IOS platform: Ranking #6 in shopping category in Apple Store with customer rating 4.9¹
 - Android platform: Ranking #3 in finance category in Google Play with customer rating 4.8¹

1. Zip app customer downloads, ranking and customer rating are reviewed as at 27 Nov 2018.

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 positive**.

3 Expand the Zip network

- Continue to win and rollout large 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 Alternative Payment providers.
- Comprehensive Credit Reporting, Open Banking, Productivity Commission.

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