



30 January 2019

Q2 FY19 QUARTERLY UPDATE
ZIP DELIVERS RECORD BREAKING QUARTER WITH OVER 1M CUSTOMERS

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly performance for the period ending 31 December 2018 (**Q2 FY19**).

HIGHLIGHTS

- **Record quarterly revenue of \$19.2m, up 28% on Q1.**
- **Receivables increased to \$489.0m, up 36% on Q1.**
- **Record transaction volume of \$304.4m, up 60% on Q1 and 117% year on year.**
- **Transaction volume for November and December both exceeded \$100m.**
- **Customer numbers increased to over 1 million, up 170k in the quarter, a 20% increase on Q1.**
- **Market-leading credit performance with net bad debts 1.81%, down from 2.40% in Q1. Net bad debts written off were \$2.3m, flat on Q1 – an outstanding result considering a rapidly growing receivables book.**
- **Operating leverage continues to enhance with scale – costs continue to reduce as a percentage of average receivables, dropping from 17.2% in Q1 to 16.1% in Q2.**
- **Record Q2 cash operating result of \$4.6m, up 84% on Q1.**
- **Bunnings Warehouse, Appliances Online and Officeworks joined the platform, with a strong pipeline going into Q3.**

Managing Director and CEO Larry Diamond said:

“The December quarter was a record for the Company and a testament to the hard work and dedication of the entire Zip team, together with the support of our extensive consumer and retailer community.

We saw record results across all key metrics: customer engagement, transactions, in-store volumes, revenue and bad debts. We were pleased to report two months with transaction volumes in excess of \$100 million and see significant growth ahead as our market penetration remains below 1%.

Zip was founded 5 years ago when we saw a large opportunity to disrupt the broken and unfair world of credit cards and retail finance. We wanted to provide a modern alternative and a great experience – and we wanted it to be responsible, transparent, flexible and supportive for consumers.

Our investment in our credit technology, big data and strategic choices around upfront customer due diligence, has ensured we continue to build a robust and sustainable platform in the Buy Now Pay Later (BNPL) sector.”

KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q2 FY19 Results (unaudited)	% increase on Q1 FY19 (unaudited)	% increase on Q2 FY18 (unaudited)
Revenue	\$19.2m	28% ↑	111% ↑
Merchants ¹	12,661	10% ↑	63% ↑
Customers ²	1,023,133	20% ↑	93% ↑
Receivables ³	\$489.0m	36% ↑	111% ↑
Transaction volume	\$304.4m	60% ↑	117% ↑
Transactions	1,235,506	82% ↑	153% ↑

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

PRODUCT DEVELOPMENT AND CUSTOMER ENGAGEMENT

Zip finished the quarter with its strongest customer engagement metrics to date, delivered off the back of a successful native app launch, the introduction of a large number of retail partners, enhanced marketing campaigns and the implementation of its marketing automation platform:

- Between September and December, monthly transacting users (MTU) increased by 65% and total customers increased by 20%
- Between September and December, the number of transactions per MTU increased by 27%
- There are more than 3.3m unique visitors engaging across Zip websites each month
- Zip delivered its biggest promotional campaigns to date, with Zip Frenzy, Black Friday, Cyber Monday and Boxing Day all recording more than twice the volumes achieved in the previous year

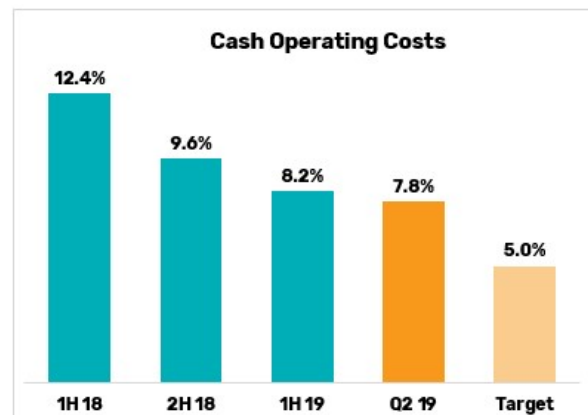
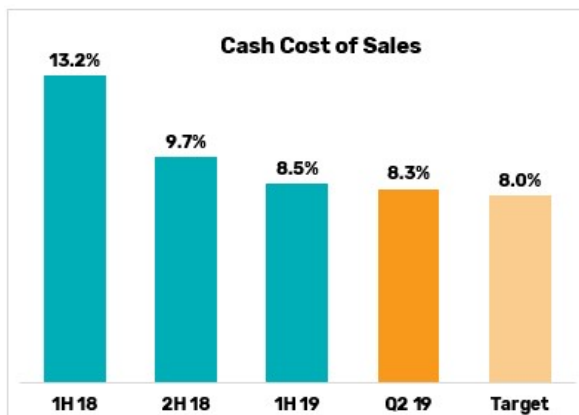
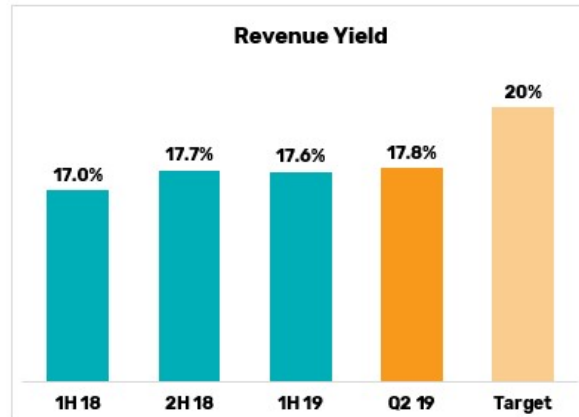
The Zip native App launched in August continues to drive enormous engagement value for the Zip platform and finished the calendar year in a very strong position:

- Total downloads across IOS and Android over 520k
- Ranking #9 in shopping category in Apple Store with a customer rating of 4.9 (IOS)
- Ranking #4 in finance category in Google Play with a customer rating 4.8 (Android)

FINANCIAL DASHBOARD

Both Cash Cost of Sales and Cash Operating Costs as a percentage of average receivables continue to trend down towards management's targets. Quarterly Cash EBTDA (cash earnings before tax depreciation and amortisation) increased to 1.7% of average receivables, up from 0.3% in Q1 and comprised the following:

- **Revenue Yield** – The yield on the receivables portfolio increased to 17.8% in Q2, compared to 17.5% in Q1. 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 8.8% in Q1 to 8.3% in Q2. 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 to 7.8% from 8.4% in Q1 (excluding one off re-branding costs incurred in Q1). 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 \$4.6m in Q2, up from \$2.5m in Q1. Net cash from operating activities in the quarter comprised:

- Receipts from customers of \$19.1m, up 28% from \$14.9m in the previous quarter.
- Cash payments for Operating Costs (staff, administration and corporate costs) of \$9.8m compared to \$8.2m in Q1.
- Interest and other finance costs increased from \$4.0m in Q1 to \$4.7m in Q2 in line with a growing receivables balance.

Net bad debt write-offs for the quarter totalled \$2.3m compared to \$2.2m in Q1. These amounts form part of the net movement in receivables (item 2.5 as per Appendix 4C).

FUNDING UPDATE

At the end of the quarter, the Company had total facilities available of \$531m. Subsequent to the quarter end, the Company finalised the documentation to increase the NAB facility by a further \$100m, taking total facilities to \$631m. An amount of \$462m was drawn at the end of the quarter and \$69m undrawn (\$169m including the NAB increase).

Zip is well advanced on its medium-term funding roadmap to replace the current warehouse facilities. The new structure will deliver greater scale at a lower cost, and is expected to be announced in Q4 FY19.

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

Major retailers Bunnings and Officeworks joined the platform in the December quarter and there are now over 12,600 retail partners that accept Zip transactions.

The pipeline continues to grow as retailers recognise the increased awareness and usage of BNPL solutions in the Australian market. With several major retailers in advanced stages of negotiations, the strong growth in retailers accepting Zip transactions is expected to continue into 2019.

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

Bunnings	Officeworks	Surfstitch	Hanes (Bonds, Sheridan)	Jaycar Electronics
Matt Blatt	Appliances Online	Brandbank (Seed, Nine West)	Novo Shoes	EB Games

Zip anticipates the signing of a number of strategic partnerships with key payments ecosystem partners this financial year. These signings are a core part of growing Zip's "closed loop" network and will enhance Zip's ability to sign up and integrate merchants on those networks.

Zip's health services division signed an integration partnership during the quarter with *Software of Excellence*, the global leader in providing dental management software with more than 2,500 clinics on its platform. A pilot commenced in December 2018 with plans to launch before the end of February 2019.

RECEIVABLES AND CREDIT UPDATE

Receivables increased by 36% over the quarter to \$489.0m. 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.

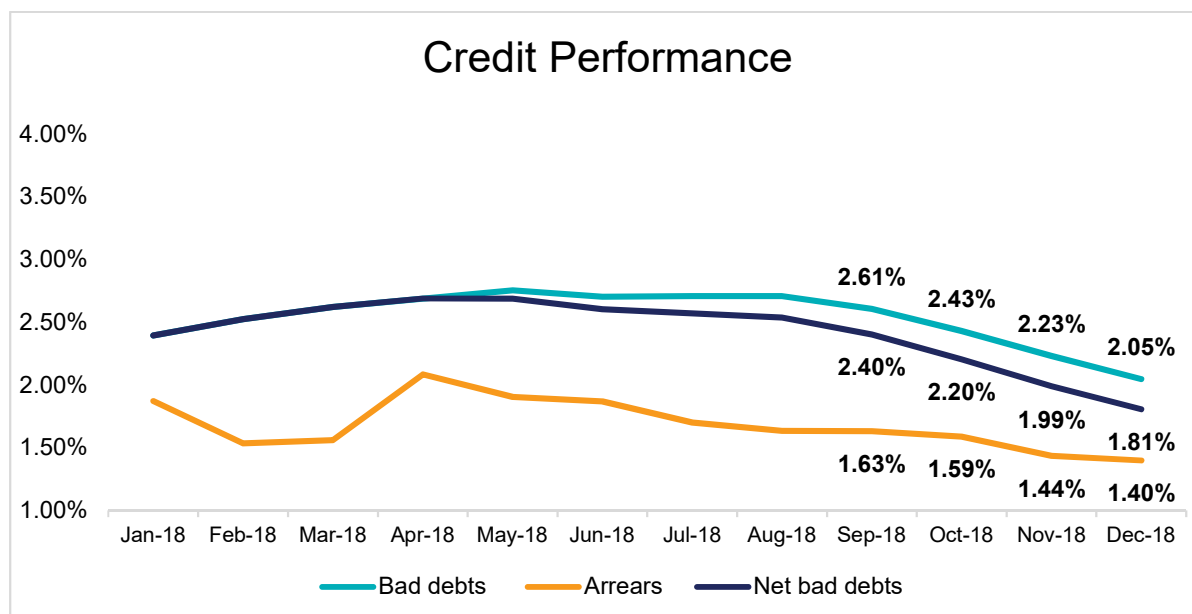
The average age of a Zip customer confirms an “older millennial” profile with recent data pointing to the average age of a Zip Pay customer of 33 years and the average age of a Zip Money customer of 36 years.

Net bad debt write-offs (bad debts written-off less bad debt recoveries) were 1.81% at the end of the quarter, gross bad debt write offs were 2.05%, and reported arrears 1.40%. Zip wrote off \$2.3 million in net bad debts in Q2, compared to \$2.2m written off in Q1. An exceptional result in light of the rapid growth of the receivables balance.

Gross bad debts continues to improve and remain well ahead of both management’s previous guidance of 3%, and industry standards.

Executive Director & COO Peter Gray said:

“The loan book continues to perform well above expectations validating our market leading credit underwriting platform. We are extremely well placed to fine-tune the credit models to maximise our revenue potential, whilst balancing performance. A bad debt result of 1.8% surpassing our internal guidance of 3%, is a true testament to the hard work of our credit and data science divisions.”



POCKETBOOK

Pocketbook continues to maintain its position as one of Australia’s leading personal financial management apps. It reached a new milestone of 600,000 users on the app, with an additional 34,000 users added in the quarter.

SENATE INQUIRY

Zip appeared before the Senate Inquiry into credit and financial services targeted at Australians at risk of financial hardship. At the hearing Zip advocated for sector-specific regulation to ensure minimum standards are delivered consistently across the BNPL industry.

Zip also released its policy recommendations highlighting that new regulations should support continued industry innovation while ensuring BNPL products remain a viable alternative to credit cards.

Larry Diamond, Co-Founder and CEO of Zip, commented:

“At Zip, we’ve worked hard to be one of the most responsible players in market and were delighted to share our insights on how BNPL regulation should unfold. From inception, we have conducted credit and identity checks on every single applicant and use real-time bank statements to verify income and expenditure.”

“We wholeheartedly support ASIC’s position that BNPL is a form of credit. Every BNPL provider has a duty of care to ensure their products are suitable, and customers can afford the repayments. Zip encourages this Committee to explore a reasonable and sector-specific regulatory regime for BNPL products.”

CONCLUSION

In summary, the Company reported record revenue and transaction growth and remains well positioned to continue its rapid growth trajectory. This is 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, Bunnings and Officeworks live in the quarter, joining Target and Super Retail Group.
- A very healthy pipeline at the end of the quarter, and the Company looks forward to announcing a number of major partnerships in the coming months.
- A business model that is well positioned to implement any potential regulatory changes arising from the Senate Inquiry.
- Already ahead of our goals of transaction volumes of a \$1 billion run rate and a consumer base of 1 million.

– ENDS –

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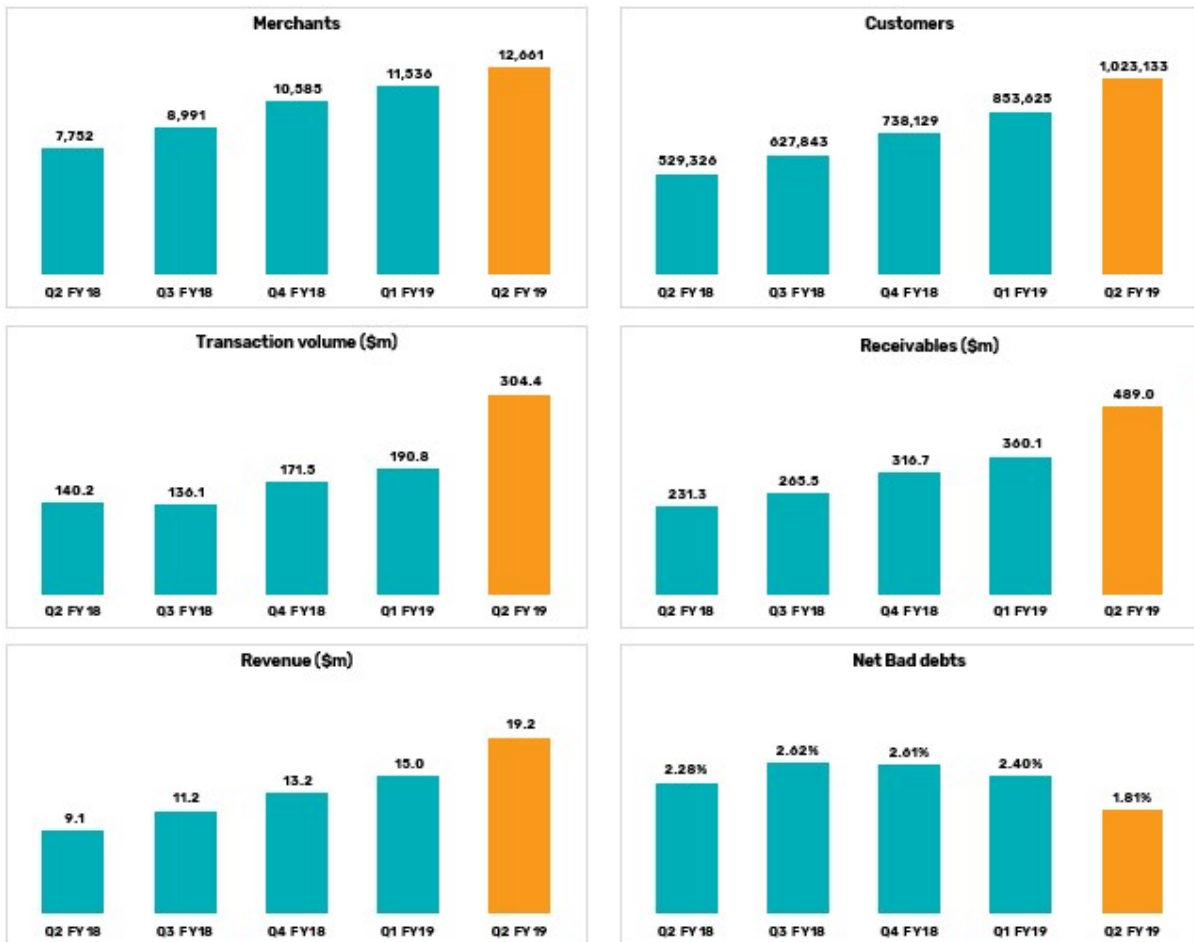
For general investor enquiries, email investors@zip.co

About Zip

ASX-listed Zip Co Limited (Z1P: ASX) or (“Zip”) is a leading player in the digital retail finance and payments industry. The Company offers point-of-sale credit and digital payment services to the retail, education, health and travel industries. It operates under the Zip Pay, Zip Money and Pocketbook brands. The Company is focused on offering transparent, responsible and fairly priced consumer products. Zip’s platform is entirely digital and leverages big data in its proprietary fraud and credit decisioning technology to deliver real-time consumer responses. Zip is managed by a team with over 50 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zip.co

KEY BUSINESS DRIVERS



Notes: (i) Based on unaudited financials; (ii) Receivables gross, before provisions; (iii) Revenue including Portfolio and Other Income; and (iv) Bad debts defined as those accounts written-off at greater than 180 days' delinquent. It is calculated as the aggregate prior 12 months as a percentage of gross receivables.

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")

31 December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	19,075	33,976
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(909)	(1,244)
(d) leased assets	-	-
(e) staff costs	(4,575)	(8,494)
(f) administration and corporate costs	(4,264)	(8,208)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	35	74
1.5 Interest and other costs of finance paid	(4,710)	(8,668)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
- Re-branding Costs	-	(313)
1.9 Net cash from / (used in) operating activities	4,652	7,123

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(17)	(44)
(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)	(1,200)
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	(126,402)	(172,310)
- Term Deposits	-	30
2.6 Net cash from / (used in) investing activities	(127,019)	(173,524)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	978	1,037
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	(2)	(12)
3.5 Proceeds from borrowings	128,000	172,000
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 Net cash from / (used in) financing activities	128,976	173,025

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	12,673	12,658
4.2 Net cash from / (used in) operating activities (item 1.9 above)	4,652	7,123

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)	(127,019)	(173,524)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	128,976	173,025
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	19,282	19,282

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 (Includes cash held in corporate account remitted to Trusts next business day)	12,377	4,132
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (restricted cash)	6,905	8,541
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	19,282	12,673

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

Current quarter \$A'000

252

-

- 6.3 Include below any explanation necessary to understand the transactions included in
items 6.1 and 6.2

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7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	531,000	462,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

At 31 December 2018, the Group had two funding programs in place the zipMoney Trust 2017-1 (facility amount \$460m, drawn \$419m) and the zipMoney Trust 2017-2 (facility amount \$71m, drawn \$43m). Subsequent to the quarter end, the Group increased the facilities available from NAB within the zipMoney Trust 2017-1 by \$100m.

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	4,800
9.6 Administration and corporate costs	4,300
9.7 Other (provide details if material)	
- Interest and other costs of finance	6,100
9.8 Total estimated cash outflows	16,600

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.



30 January 2019

Sign here:

(Company secretary)

Date:

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.