



# ASX Release

21<sup>st</sup> February 2019

## 1H FY19 Half Year Results – Strong Momentum Continues

**Zip Co Limited** (ASX: Z1P) (“**Zip**”, or the “**Company**”) is pleased to announce today its half year results for the period ending 31 December 2018.

### Key Highlights for 1H FY19

- **Record revenue, \$34.2 million, up 114%\***
- **Record transaction volume, \$495.2 million, up 110%\***
- **Loan book (receivables) of \$489.0 million, up 54% from June 2018**
- **More than 1 million customers on the platform and over 12,500 merchants**
- **Strong credit performance with net bad debts 1.81%, down from 2.61% at June 2018, supported by our marketing-leading decision technology**
- **Major Australian retailers continue to join the platform – Bunnings Warehouse, Target, Officeworks and Super Retail Group, with Chemist Warehouse in 2H FY19**
- **Delivered rapid growth across all key drivers whilst achieving positive Cash EBTDA of \$2.4m, a significant improvement on pcp**
- **Native App launched successfully and rated in the top 10 of its key categories**
- **Pocketbook now has over 620,000 users and is a leading Australian personal financial management app**

\* figures stated as compared to 1HFY18, the previous corresponding period (pcp)

### CEO Update

Zip Managing Director and CEO Larry Diamond said:

*“The December half 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 drivers: customer engagement, transactions, in-store volumes, revenue and bad debts. We are pleased to report that we are ahead of our expectations for FY19 and see significant growth ahead as our market penetration increases across the target verticals.*

*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.”*

## **Product Update and Customer Engagement**

Zip finished the half 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 June and December, monthly transacting users (MTU) increased by 82% and total customers increased by 20%
- Between June and December, the number of transactions per MTU increased by 29%
- There are more than 3.3m unique visitors engaging across Zip websites each month

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

- Total downloads across IOS and Android are now 536k
- Top 10 ranking in App and Google Play Stores with a customer rating of 4.9

## **Receivables and Credit Update**

At 31 December 2018, gross customer receivables were \$489.0m, having grown from \$316.7m at 30 June 2018, an increase of 54%. 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.

Reported arrears and net bad debts remain were well below industry benchmarks at 1.40% and 1.81% of the period end receivables balance, respectively. An exceptional result in light of the rapid growth of the overall receivables balance.

Gross bad debts continue 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 1.81% surpassing our internal guidance of 3%, is a true testament to the hard work of our credit and data science divisions.”*

## **Financial and Funding Update**

The Company generated positive Cash EBTDA of \$2.4m compared to a net outflow of (\$7.7m) in

the six months to December 2017. Cash EBTDA was positive for the first time at 0.9% of average receivables, compared to (8.6%) in H1FY18. This comprised: Revenue yield of 17.6%, Cash Cost of Sales of (8.5%), and Cash Operating Costs of (8.2%).

The Group currently has total funding facilities available of \$631.0m, of which \$462.0m had been drawn at 31 December 2018.

Zip's primary funding program is maturing on 10 May 2019 and the Company 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 \$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.

## Regulatory Environment

The recent focus on the BNPL sector, first by ASIC, and more recently by the Senate Inquiry, has seen ZIP clearly differentiated from other players in the sector. The different revenue models and underwriting processes are very clearly understood by both the regulators and the market.

In summary:

- Zip offers 2 products: Zip Money a regulated product, and Zip Pay a BNPL product.
- Zip has no hidden fees, with transparent and clearly understood consumer costs.
- Only 1/100 Zip customers are late with repayments as compared to 1/5 with other BNPL providers. Late fees are <1% of revenue.
- Zip completes a credit and identity assessment, including a credit bureau check, on every application and has done since inception.
- Zip completes a real time confirmation of bank transactional data to verify income and expenditure.
- The performance of the Zip's receivables demonstrates market leading bad debts and reported arrears rates.

Zip has led the conversation around a potential regulatory framework to deliver minimum standards and consumer protection across the sector. **Zip is very well placed for 'business as usual' with either changes in the regulatory environment, or the continuation of the status quo.**

## FY19 Outlook

Zip is on track to beat the expectations set at the beginning of FY19. The Company reported record revenue and transaction growth and remains well positioned to continue its expansion. This is further supported by:

- Continued strong growth across all key drivers, with operating leverage improving with scale.
- Significant enterprise retailers live and transacting on the platform including, Bunnings, Officeworks, Target and Super Retail Group, with Chemist Warehouse signed recently.

- A very healthy pipeline at the end of the half, 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 -

**For more information, please contact:**

Larry Diamond  
Chief Executive Officer  
larry.diamond@zip.co  
+61 2 8294 2345

Martin Brooke  
Chief Financial Officer  
martin.brooke@zip.co  
+61 2 8294 2345

Sling & Stone  
Media and Communications  
zip@slingstone.com  
+61 431 051 335

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

**About Zip**

ASX-listed Zip Co Limited (ASX: Z1P) 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)