

HY 19 Results

Investor Presentation

Zip Co Ltd (ASX: Z1P)



February 2019

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

**Poor product
structure**

**Banks put
you on the
minimum**

**Loyalty
programs
eroding value**



Our Purpose

Reimagining payments.
Improving every day.



Our Mission

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





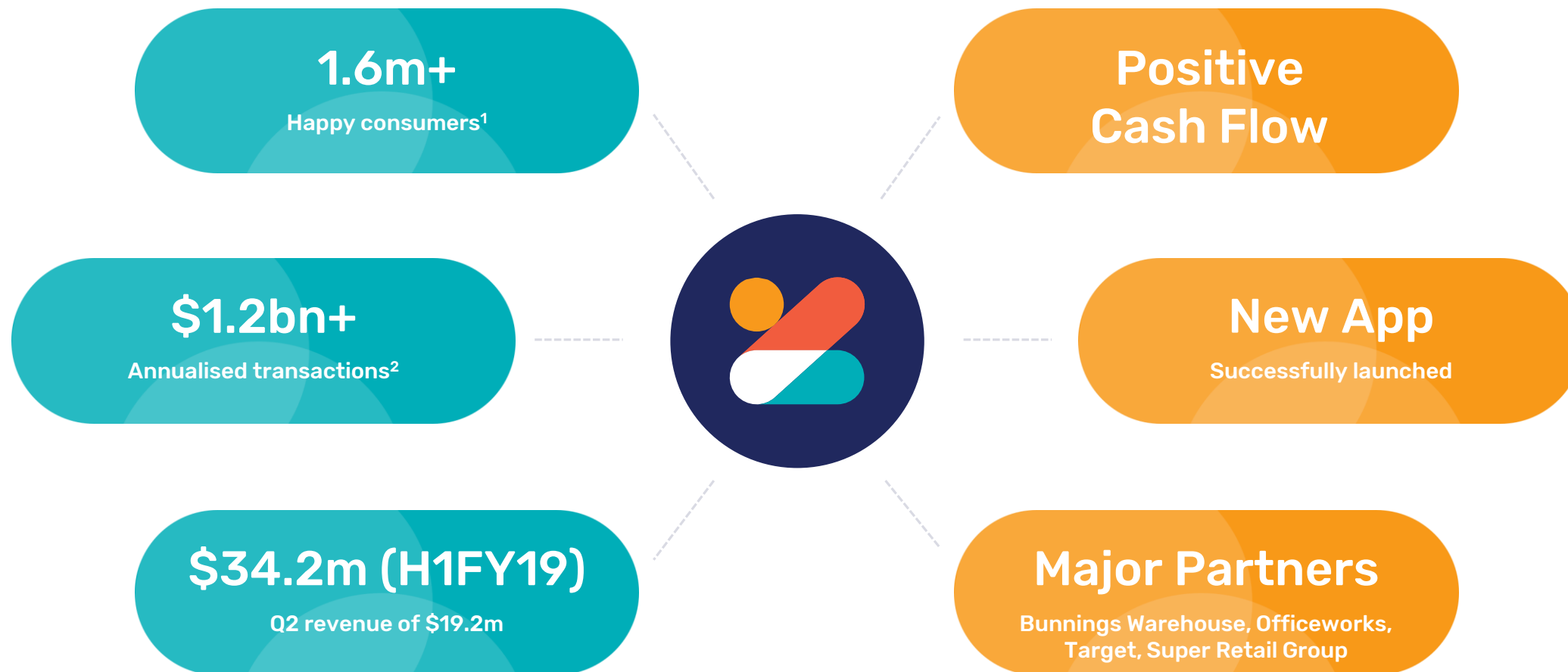
Highlights

Company

Financials

Outlook

H1FY19 Key Highlights



1. Circa 1.6 million consumers across Zip and Pocketbook.
2. Quarterly run-rate annualised transaction volume as at 31 December 2018.

FY19 Progress



Zip is delivering on the strategic priorities it set for FY19:

1 Targets

- ✓ Transaction volumes are annualising at over \$1bn.
- ✓ Over 1 million active customer accounts.
- ✓ Achieved rapid growth whilst delivering positive Cash EBTDA.

3 Expand the Zip network

- ✓ Major retailers continue to join (Super Retail Group, Bunnings, Target, Officeworks and Chemist Warehouse)
- ✓ Bills and Gift Cards launched to improve acceptance.
- ✓ Strong pipeline of retail and payments ecosystem partners.

2 Increase consumer engagement

- ✓ Native App launched successfully in Aug '18 with a top 10 rating and more than 500k downloads
- ✓ Brand awareness has increased, embraced by retail and feedback has been consistently positive.
- ✓ Extensive product and ux work ongoing.

4 Favourable operating environment

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

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.

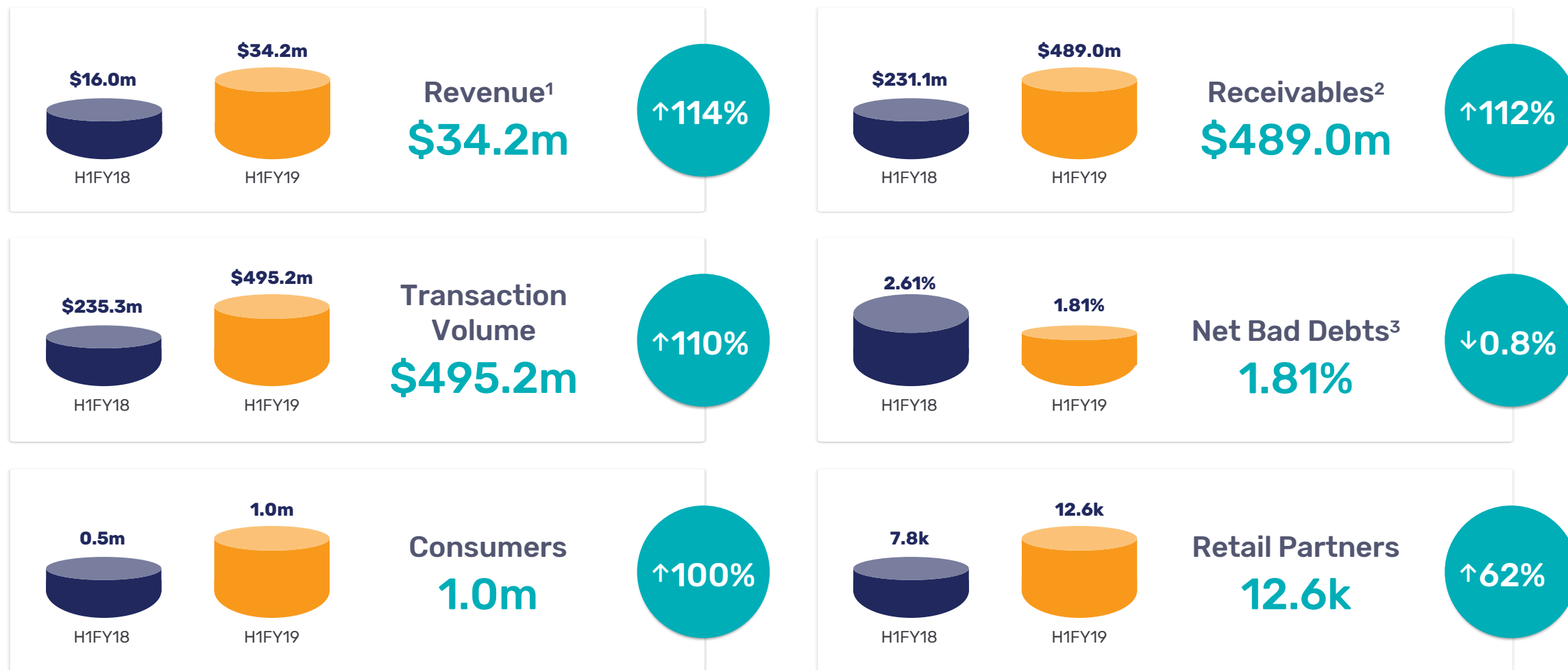
Competitive acquisition model

Low, single digit & cost per acquisition (CPA) vs banks.

Network value

Established payments network built online and instore with partners.

H1FY19 Key Metrics



1. Revenue includes Portfolio income and other income.

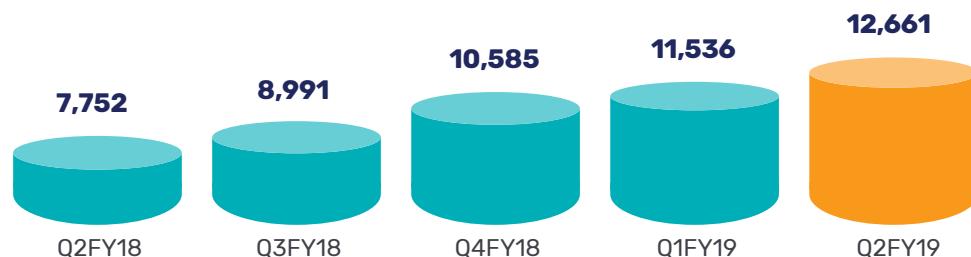
2. Gross receivable value at 31 December 2018.

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.

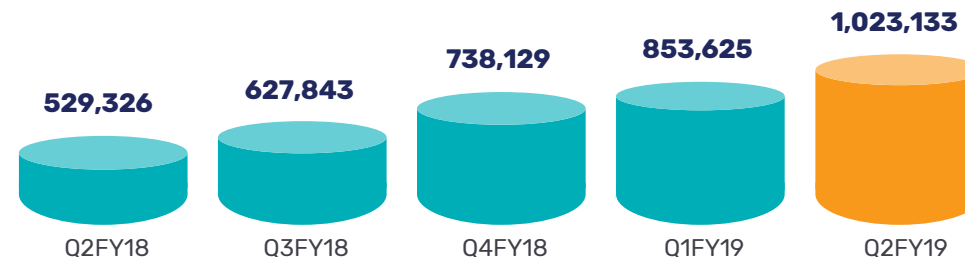
Key Metrics by Quarter



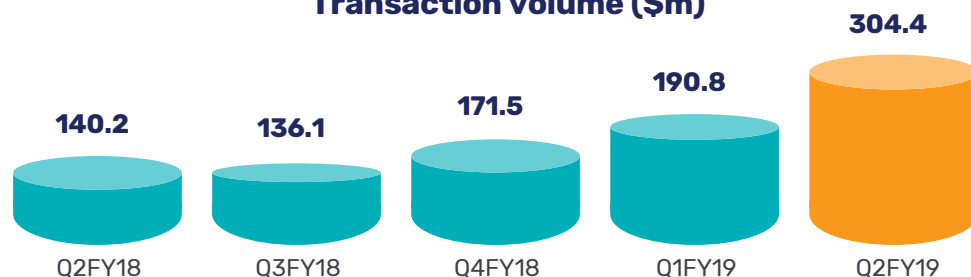
Retail Partners



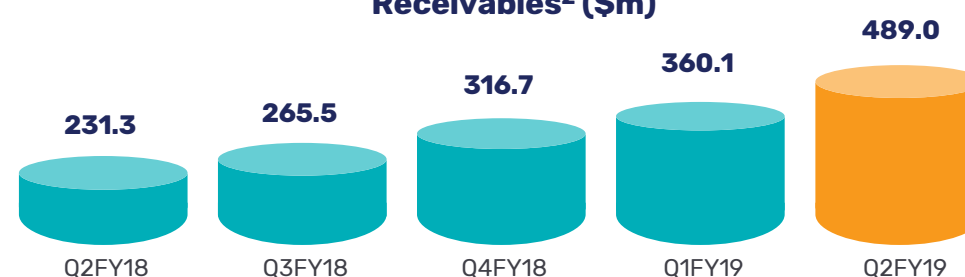
Consumers



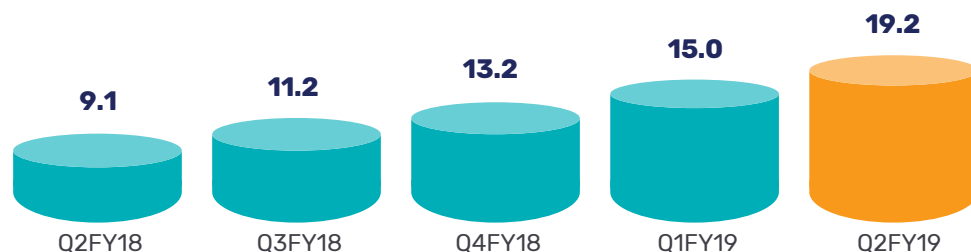
Transaction volume (\$m)



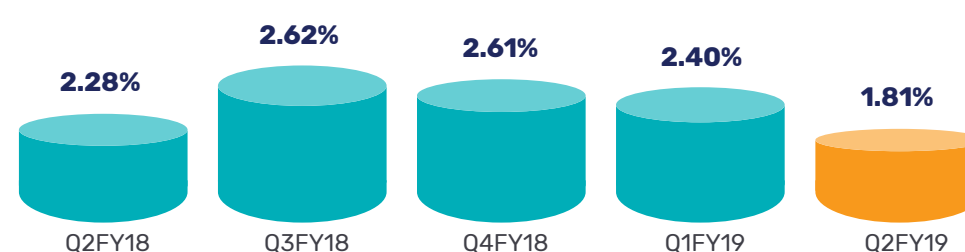
Receivables² (\$m)



Revenue³ (\$m)



Net 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 on average receivables.

	H2FY17	H1FY18	2HFY18	H1FY19	Q2FY19	Medium Term Target
Revenue Yield ¹	17.1%	17.0%	17.7%	17.6%	17.8%	20%
Cash Cost of Sales ^{1,2}	(16.7)%	(13.2)%	(9.7)%	(8.5)%	(8.3)%	(8)%
Cash Operating Costs ^{1,3}	(14.0)%	(12.4)%	(9.6)%	(8.2)%	(7.8)%	(5)%
Cash EBTDA ^{1,3}	(13.6)%	(8.6)%	(1.6)%	0.9%	1.7%	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 amortisation.

Regulatory Environment



The recent focus on the Buy Now Pay Later (BNPL) sector, firstly 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.

- 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.**



Highlights

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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

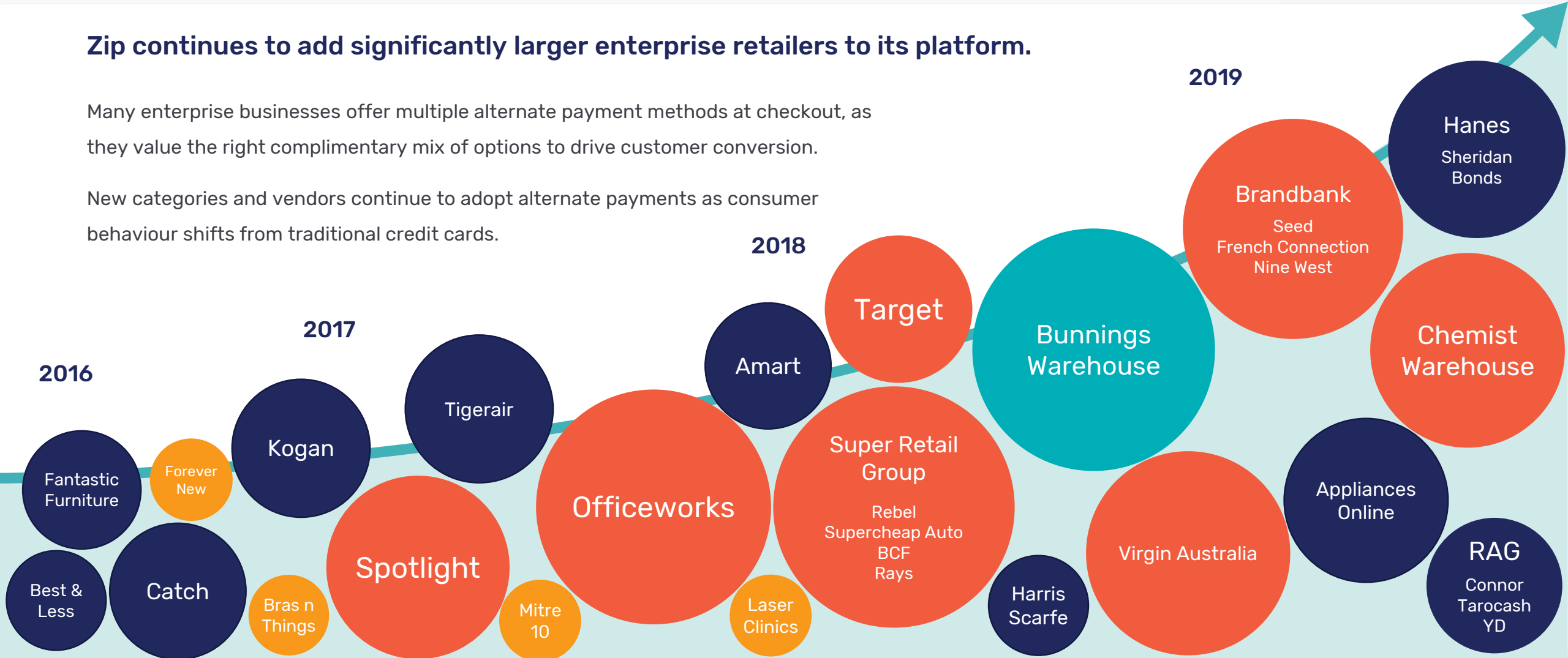
Winning Major Partners



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

Many enterprise businesses offer multiple alternate payment methods at checkout, as they value the right complimentary mix of options to drive customer conversion.

New categories and vendors continue to adopt alternate payments as consumer behaviour shifts from traditional credit cards.



Note: Size of bubbles indicate approximate size of business. Large red bubbles include +\$1bn billion in annual sales, teal bubbles include +10bn in annual sales.

We're Just Getting Started

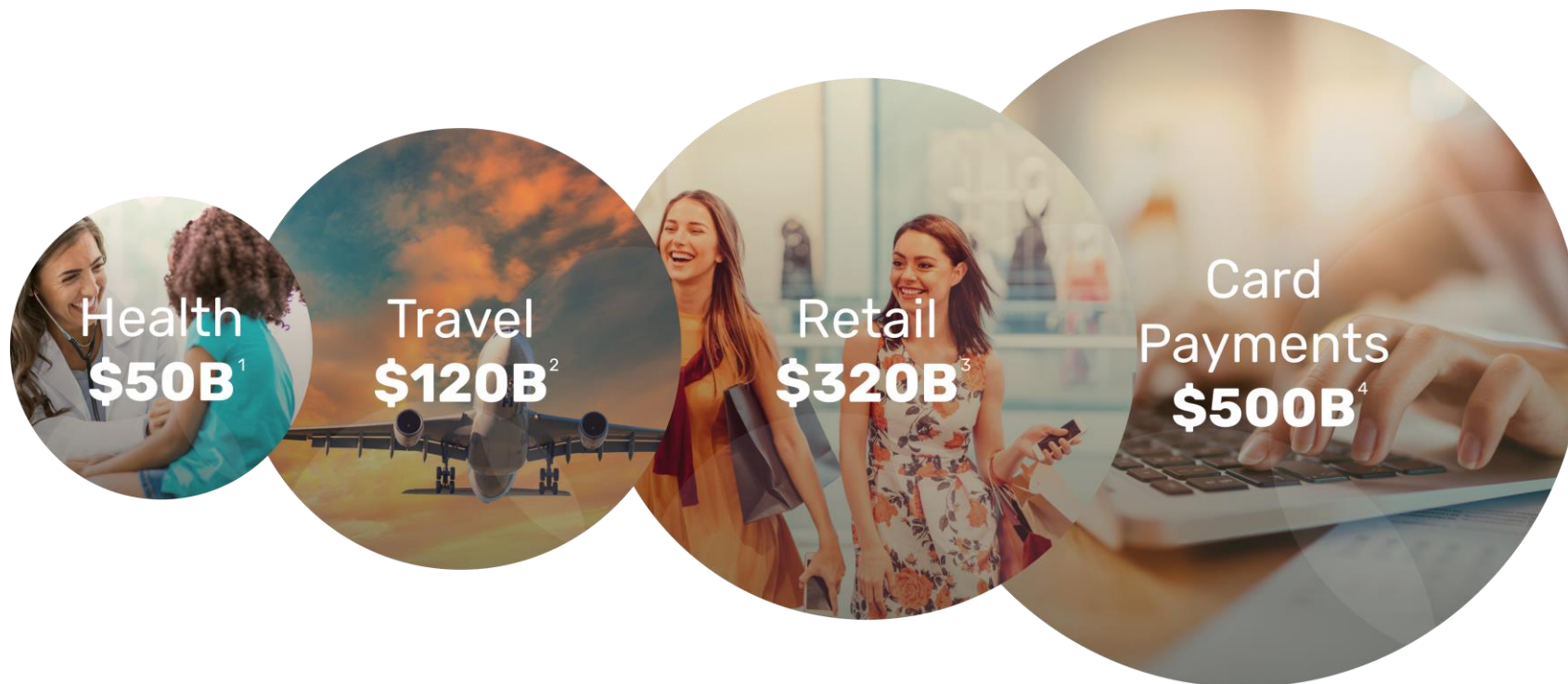


We are currently processing annualised transaction volume of \$1.2bn+, less than 0.1% of the market.

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

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

Increasing adoption of alternative payment methods is driving industry acceptance right across the ecosystem, particularly banks and acquirers.



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

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

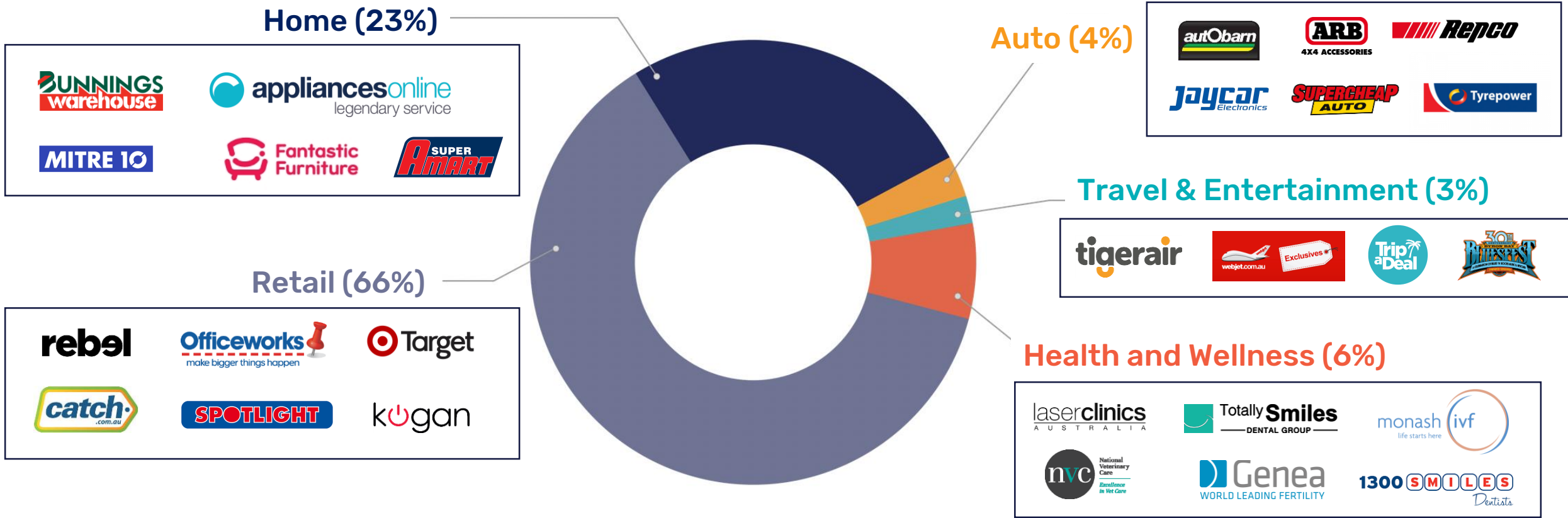
3. Australian Bureau of Statistics www.abs.gov.au/ausstats/abs@nsf/mf/85010.

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.

Expanding Retailer Base



Over 12,500 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 December 2018.

High Quality Consumer Base, Strong Demand for Interest Free



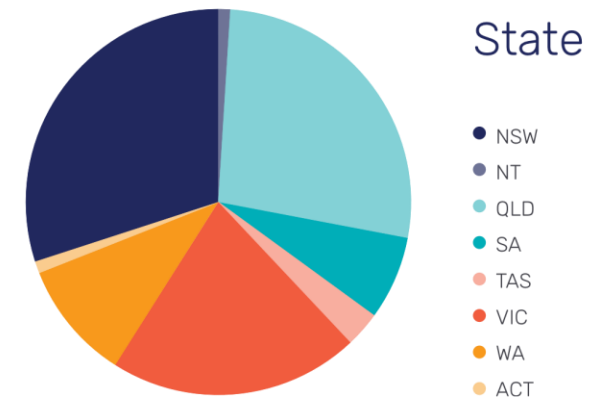
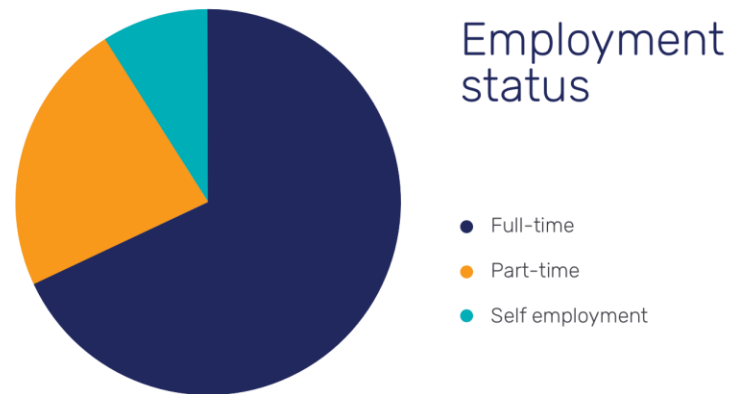
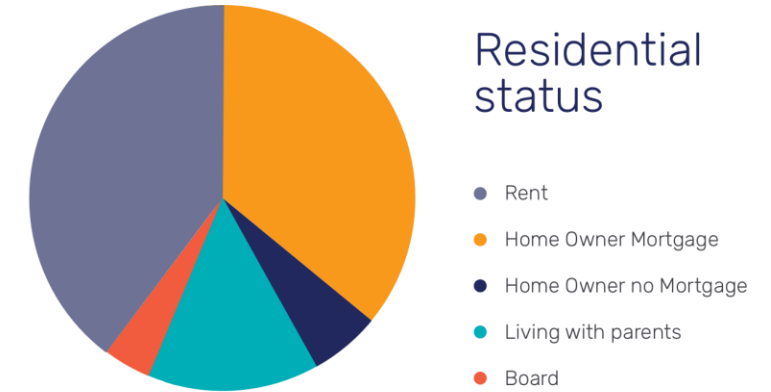
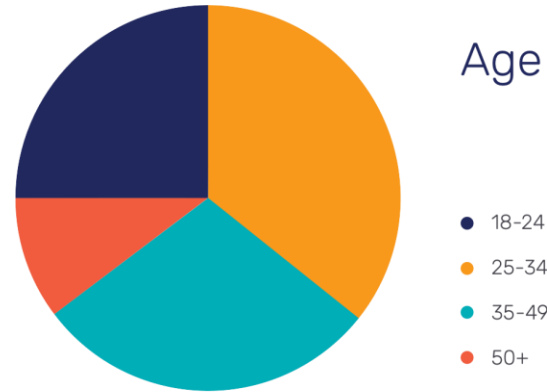
Alternate payments appeal to a diverse audience.

Strong appeal to millennials and Gen X:

- 59% below 35
- Median age 34

Large share of home ownership with proven credit history.

Home owners see Zip as a 'better deal'.



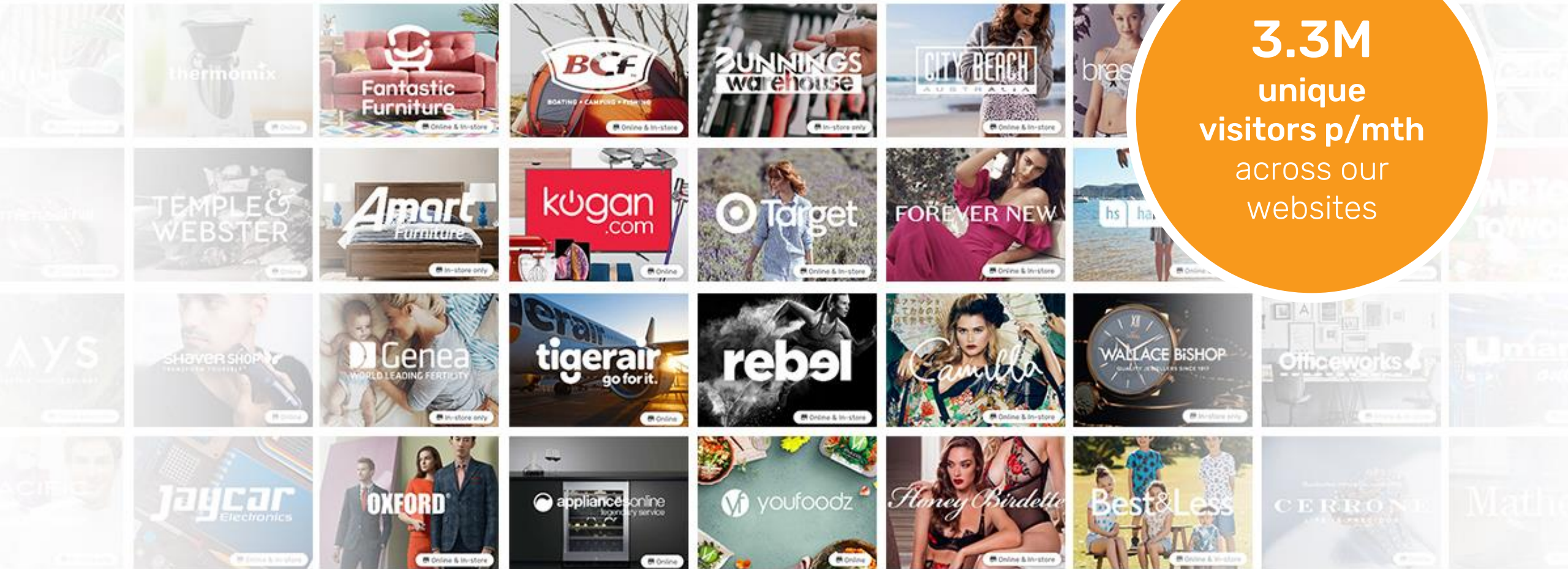
Note: Residential and employment data is based on the Zip Money consumer receivables as at 31 December 2018.

Growing Store Directory



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

3.3M
unique
visitors p/mth
across our
websites



Leading Shopping App



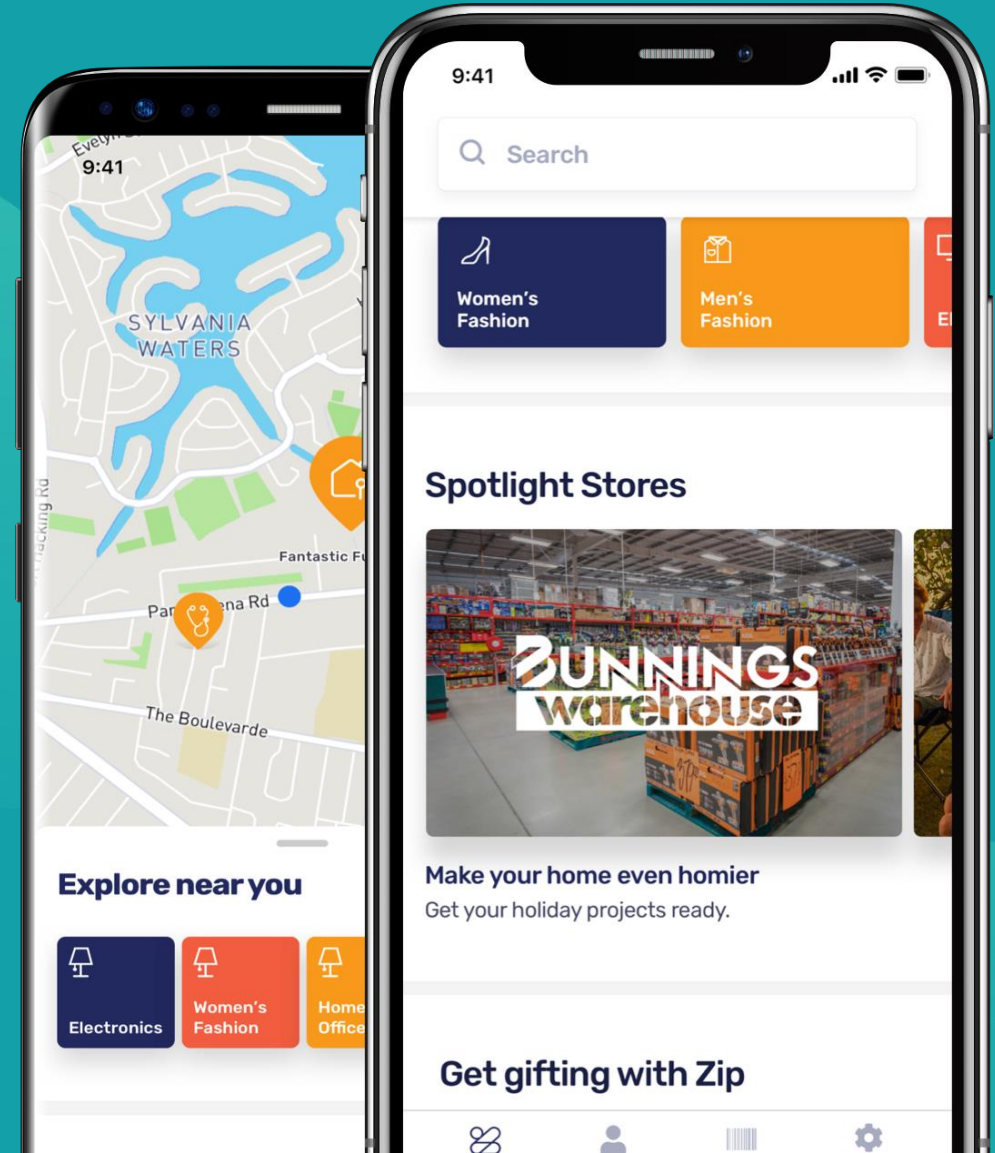
26 weeks since launch.

536k Zip customers.

Top 10 in App Store & Google Play Store.

4.9★ rating.

Zip app customer downloads, ranking and customer rating are reviewed as at 15 January 2019.



Pocketbook H1FY19 Highlights



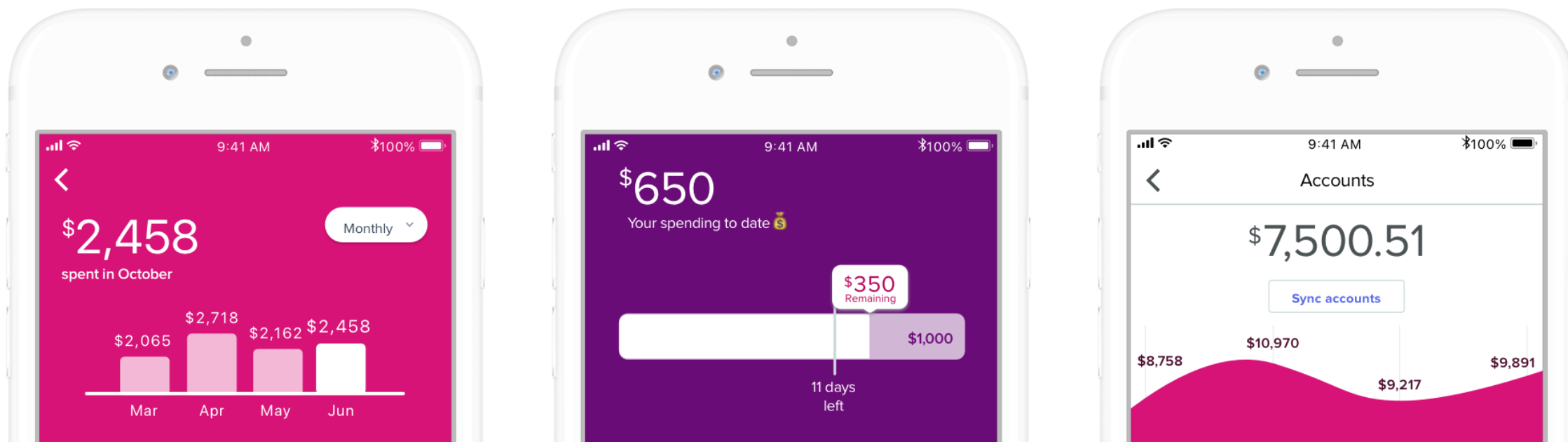
One of Australia's leading personal financial management (PFM) apps – users can track, budget and save

 620,000 users on the platform

 1bn+ transactions categorised

 First open API integration w/Macquarie Bank

 3m+ bill notifications recorded





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Financials

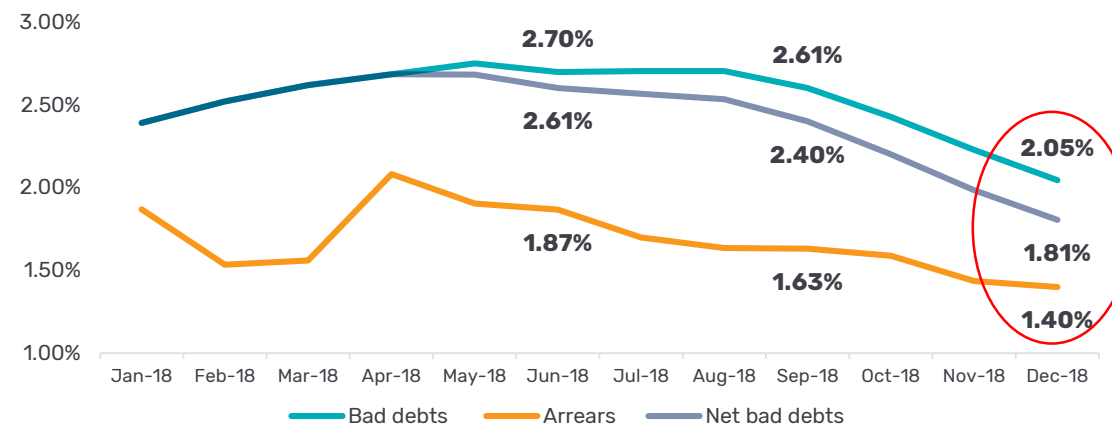
Outlook

Strong Credit Performance

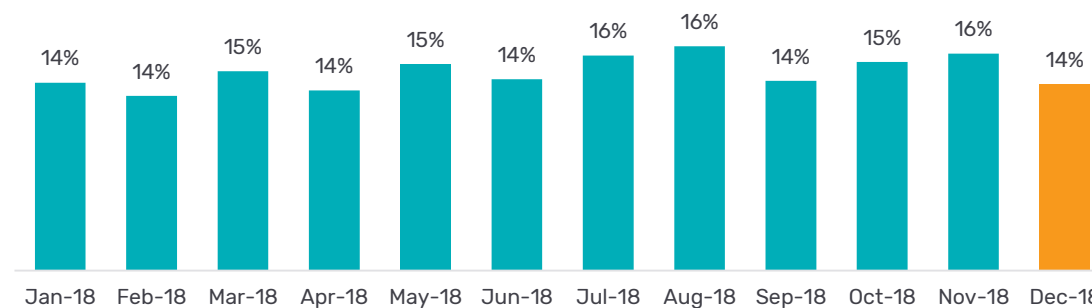


- Net bad debts down to 1.81% from 2.61% at June 2018.
- Arrears down to 1.40% from 1.87% at June 2018.
- Credit performance significantly better than industry benchmarks, and ahead of management's guidance.
- Continued enhancement of Zip's proprietary decisioning technology and application flow to optimise performance.
- We are now well placed to fine-tune our credit models to target revenue maximisation while managing losses.
- Repayment profile remains healthy at 14%, with the book recycling approximately every seven months.

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 programs during H1FY18.
- Total facility size increased to \$630.0m in Jan '19, following an increase in facilities provided by NAB in the 2017-1 Trust. Unused facility of \$143.0m at 31 Jan 19.
- Well advanced on the medium term funding roadmap to replace the 2017-1 Trust with a structure to deliver scale at a reduced cost.
- Zip maintains an equity position of \$16.0m in its various trusts.

	Jan 19 \$M	Dec 18 \$M	Jun 18 \$M
Facility Size (Class A and B)			
2017-1 Trust	560.0	460.0	360.0
2017-2 Trust	70.0	70.0	20.0
Total Available	630.0	530.0	380.0
Facilities Utilised			
Securitisation Warehouses	487.0	462.0	290.0
Working Capital	-	-	-
Total Utilised	487.0	462.0	290.0
Cost of Funds¹	5.36%	5.22%	5.19%

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

Income Statement



- Portfolio Income hit record levels, 116% increase on H1FY18.
- Cash Gross Profit a record \$17.4m, 412% increase on H1FY18
- First half of positive Cash EBTDA¹ reporting \$2.4m in H1FY19, compared to (\$7.6m) in H1FY18 and (\$1.2m) in H2FY18.
- Demonstrable operating leverage in the cost base half on half.
- Bad debts provision increasing with the receivables balance and impact of AASB 9.
- Fall in Share-Based Payments due to a number of one-off awards in H1FY18.
- Depreciation and Amortisation up:
 - \$0.5m on IT development and software.
 - \$0.2m on leasehold improvements and equipment.

	H1FY19 \$M	H1FY18 \$M	Change %
Portfolio Income	33.7	15.6	116%
Cash Cost Of Sales ²	(16.3)	(12.1)	35%
Cash Gross Profit	17.4	3.5	412%
Other Income	0.6	0.4	50%
Cash Operating Costs ²	(15.6)	(11.5)	36%
Cash EBTDA¹	2.4	(7.6)	
Movement in Provision for Doubtful Debts	(4.9)	(2.4)	113%
Amortised Finance Costs	(0.6)	(1.0)	(40%)
Shared-Based Payments	(1.5)	(2.1)	(29%)
EBTDA¹	(4.6)	(13.1)	
Depreciation and Amortisation	(2.2)	(1.5)	47%
Earnings Before Tax	(6.8)	(14.6)	

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 in November 2017.
- Bank Fees and Data Costs reducing per unit costs as business scales.
- Net Bad Debts Written-Off of 1.81% (of the closing receivables balance) remains well below industry benchmarks.
- Permanent headcount increased to 155 at 31 December 2018, compared to 138 at 30 Jun 2018 and 116 at 31 December 2017.
- Marketing Costs increased as the Group invested to drive volumes in the seasonally strongest quarter.
- Increase in other Operating Costs includes additional IT costs to support growth and increased occupancy costs due to the office move in January 2018.

	H1FY19 \$M	H1FY18 \$M
Cash Cost of Sales	16.3	12.1
% of Average Receivables	8.5%	13.2%
Interest Costs	9.3	6.7
% of Average Receivables	4.7%	6.9%
Bank Fees and Data Costs	2.4	1.6
% of Average Receivables	1.3%	1.7%
Net Bad Debts Written-Off	4.6	3.8
Cash Operating Costs	15.6	11.5
% of Average Receivables	8.2%	12.4%
Salaries and Employment Related Costs	9.5	7.4
Marketing Costs	1.3	0.8
Other Operating Costs	4.8	3.3

Balance Sheet



- Cash includes restricted cash of \$6.9m at 31 December 18 (\$8.7m at 30 Jun 18). Unrestricted balance includes amounts remitted to Trusts the following business day.
- Timing differences at 30 June 2018 resulted in an increase in the level of Other Receivables (\$4.9m in customer repayments) and Other Payables (\$5.0m in merchant payments).
- Growth in Gross Customer Receivables to \$489.0m at 31 December 2018 from \$316.7m supported by an increase in borrowings.
- Other Intangible Assets comprise IT development and software costs and acquired intangibles from the Pocketbook acquisition.
- Pocketbook hit all milestones set at the time of acquisition, consequently contingent consideration has been settled in shares.

	Dec 18 \$M	Jun 18 \$M
Cash and Cash Equivalents	19.3	12.7
Other Receivables	2.7	6.3
Customer Receivables	461.0	300.6
Property, Plant and Equipment	2.8	3.2
Goodwill	4.5	4.5
Other Intangible Assets	5.7	5.8
Total Assets	496.0	333.1
Trade and Other Payables	6.9	8.1
Employee Provisions	1.0	0.8
Deferred R&D Tax Incentives	0.6	0.8
Deferred Contingent Consideration	-	0.3
Borrowings	462.9	289.7
Total Liabilities	471.4	299.7
Net Assets	24.6	33.4

Cash Flows



- Generated positive Operating Cashflow of \$7.5m in H2FY18 compared to a loss of \$2.8m in H1FY18, as the business scaled.
- The establishment and relocation of the Group's new Sydney office is included in payment for plant and equipment in H1FY18.
- \$1.6m was invested in the Group's software systems, up from \$1.3m in H1FY18.
- An additional \$172.0m was drawn from the Group's funding program and used to finance receivables.

	H1FY19 \$M	H1FY18 \$M
Receipts from Customers	34.0	16.4
Payments to Suppliers and Employees	(17.8)	(12.3)
Interest and Other Income	-	0.1
Interest Paid	(8.7)	(7.0)
Net Cash Flow to/from Operating Activities	7.5	(2.8)
Payments for Plant and Equipment	-	(2.9)
Payments for Software Development	(1.6)	(1.3)
Net Movement in Receivables	(172.3)	(84.2)
Net Cash Flow to Investing Activities	(173.9)	(88.4)
Proceeds from Issues of Shares	1.0	40.5
Costs of Share Issues	-	(0.3)
Proceeds from Borrowings	172.0	50.1
Net Cash Flow from Financing Activities	173.0	90.3
Net Decrease/Increase in Cash and Cash Equivalents	6.6	(0.9)

Allowance for Bad Debts and AASB 9



- AASB 9 is applicable for the first time in H1FY19 and requires an allowance for bad debts to be recognised on an expected, not incurred basis.
- Calculation takes account of undrawn credit limits of performing facilities as well as macro-economic factors and modelling risk.
- Opening balances were adjusted on initial adoption on 1 July 2018, increasing the allowance to 4,57% of customer receivables.
- Improved arrears at 31 December 2018 and improved roll-rates resulted in the allowance reducing to 3.97%.
- The overall impact of AASB 9 on H1FY19 allowance for bad debts in the income statement was immaterial.
- The application of AASB 9 has no cash impact.

	Customer Receivables \$M	Allowance for Bad Debts \$M	%
30 June 2018	316.7	9.5	3.00%
AASB 9 Adjustment		5.0	
1 July 2018	316.7	14.5	4.57%
Provision Recognised in the Income Statement		9.5	
Receivables Written Off		(4.6)	
31 December 2018	489.0	19.4	3.97%



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H1FY19 Summary



Record result in half, maximising the opportunities of the seasonally strong Q4FY19 with momentum continuing

- Record revenue of \$34.2m, up 114% on H1FY18.
- Record transaction volume of \$495.2m, up 110% on H1FY18. Annualised run-rate \$1.2bn based on Q4FY19.
- Generated positive Cash EBTDA, a significant improvement over 2HFY18 and 1HFY18.
- Customer numbers increased by approximately 500,000 compared to December 2017.
- Very strong credit performance with Net Bad Debt write-offs for the half of \$4.6m compared to \$3.8m in H1FY18. An outstanding result given a rapidly growing receivables book.
- Operating leverage continues with scale. Cash Cost of Sales and Cash Operating Costs continue to reduce as a percentage of average receivables, from 25.6% in H1FY18 to 16.7% in H1FY19.
- Ahead of expectations to deliver on FY19 strategic priorities driven by increased customer engagement, the conversion of the sales pipeline and a number of soon to be announced strategic partnerships.

Outlook for FY19



Key priorities for the Company in FY19 remain:

1 Targets

- Drive **\$1 billion+ in annual transaction volume**.
- **1 million+ consumers** with an active Zip account.
- Maintain **rapid growth whilst growing Cash EBTDA**.

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

- Introduce new features and Increase monthly active usage of the native app.
- Offer tailored promotions to our consumer base.
- Encourage consumers to make every day purchases on their Zip Account.

4 Favourable operating environment

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

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