Appendix 4E: Preliminary Final Report

Year Ended 30 June 2019

Contents

Zip Co Limited
ABN 50 139 546 428 ASX: Z1P

Results for Announcement to the Market

NAME OF ENTITY	ZIP CO LIMITED
ABN	50 139 546 428
Reporting period	Year ended 30 June 2019
Previous corresponding period	Year ended 30 June 2018

Results for Announcement to the Market

Zip Co Limited and its controlled entities (also referred to as the Group or Zip) results for announcement to the market are detailed below:

		30 JUNE 2019 $	30 JUNE 2018 $
Revenue from ordinary activities	Up 108%	84,231,132	40,406,686
Loss from ordinary activities after income tax attributable to members	Down 51%	(11,133,810)	(22,549,726)
Total comprehensive loss attributable to members	Down 51%	(11,133,810)	(22,549,726)

	30 JUNE 2019	30 JUNE 2018
Net tangible asset backing per ordinary share	18.73 cents	7.80 cents

Brief Explanation of the Above Figures

Please refer to the Review of Operations for an explanation of the results.

Details of Controlled Entities

There has been no gain or loss of control over entities during the financial period.

Associates/Joint Venture Entities

Zip Co Limited has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures in the year ended 30 June 2019.

Audit Status

This report is based on accounts which are in the process of being audited.

Dividends

No dividends have been declared for the year ended 30 June 2019 or for the previous corresponding period.

Review of Operations

Zip Co Limited is a leading player in the digital retail finance and payments industry. The Group provides point-of-sale credit and digital payment services across the retail, home, health and wellness, auto, travel and entertainment sectors, and Is the owner of Pocketbook, a leading Personal Financial Management App.

Pocketbook has over 700,000 users and helps them track their budget, and save, by automatically categorising spending (e.g. clothes, groceries, childcare) and providing smart alerts.

Zip offers consumers an interest-free digital wallet and credit through its Zip Pay (up to $1,500) and Zip Money (up to $50,000) products. Zip generates revenue from both merchants (through a Merchant Services Fee) and customers (predominantly Monthly Fees, Establishment Fees and Interest).

Zip is now accessible by more than 1.3 million customers across more than 16,000 merchants. Customers simply sign-in to their Zip digital wallet, online or in-store, and authenticate the transaction to confirm the purchase – all without the exchange of cash or credit card information.

The Group saw significant growth in all operating metrics during the course of the financial year:

- Customer numbers increased by 80% to over 1.3 million
- Merchant numbers increased by 54% to over 16,000
- Transaction volumes increased by 108% to $1.1 billion
- Number of transactions processed increased by 154% to 4.8 million

Revenue more than doubled when compared to the previous financial year, increasing from $40.4million to $84.2 million, an increase of 108%.

Gross profit increased 257% to $32.5 million from $9.1 million in the prior financial year, being 39% of revenue compared to 23% in the prior year.

Operating costs grew from $32.8 million to $45.0 million, an increase of 37%. The Group continues to leverage its cost base with the increase in the cost base being significantly below the increase in revenue.

Salaries and employee benefits, being the most significant operating cost, increased 32% as a consequence of the Group's permanent headcount increasing from 138 at the start of the financial year to 185 at the end, and an increase in casual staff to support its operations team from approximately 38, to 52, over the course of the financial year.

The Group reported a loss before income tax of $11.1 million compared to $22.5 million in the prior financial year. Of this, $6.8 million was recorded in the first half of the financial year and $4.3 million in the second half of the financial year.

Receivables

The Group's gross receivables portfolio increased to $682.6 million at 30 June 2019, up from $316.7 million at 30 June 2018, an increase of 116%. The monthly customer repayment profile ranged between 13-14% (of the opening receivables balance repaid each month) during the year, which equates to the book recycling approximately every 7-8 months.

Bad debt write-offs (net of recoveries) decreased from 2.61% at 30 June 2018, to 1.63% at 30 June 2019, well below management's expectations of 3%, and market comparisons. Excluding the impact of recoveries, bad debt write-offs fell from 2.70% at 30 June 2018 to 1.82% at 30 June 2019. The Group wrote off $10.8 million in bad debts during the financial year, as compared to $8.2 million in the prior financial year.

The provision for expected credit loss for customer receivables, calculated on an expected loss basis in accordance with AASB9, reduced to 3.75% of closing gross customer receivables compared to 4.57% at 1 July 2018 as a result of the improvement in historic roll rates over the financial year.

The reported arrears rate (accounts over 60 days past due) stabilised at below 2% over the course of the year with the Group reporting 1.87% at the end of June 2018 and 1.89% at the end of June 2019.

Review of Operations

Continued

Capital Management

Throughout the financial year the Group had two funding programs in place, the zipMoney Trust 2017-1 (total facility amount currently available $660.0 million, drawn $530.0 million at 30 June 2019) and the zipMoney Trust 2017-2 (total facility amount currently available $71.5 million, drawn $57.5 million at the end of June 2019). The Group progressed the launch of the Zip Master Trust during the financial year and on 29 July 2019 mandated the National Australia Bank to arrange a series of ABS investor meetings for the establishment of the Trust. On 19 August 2019, NAB launched a transaction to secure $400.0 million in debt funding with the potential to increase the funding sought to $500.0 million. The transaction is expected to settle on 5 September 2019. Once the transaction is completed, the Group's total facilities available to fund receivables will increase from $731.5 million to $931.5 million.

In March 2019 the Group raised a total of $56.8 million ($54.5 million net of costs) in equity, with final settlement in April 2019. The capital raise comprised $47.9 million from new and existing retail, institutional, sophisticated and professional investors, and Westpac exercised its top up right for an amount of $8.9 million.

Cashflows

The Group generated an operating cash inflow of $22.6 million during the financial year compared to an inflow of $1.4 million in the previous financial year. This excludes the impact of bad debts written-off in the financial year of $10.8 million (2018: $8.2 million) shown in the net movement in receivables. Cash inflows from operations in the second half of the financial year were $15.0 million compared to $7.6 million in the first half of the financial year.

Receipts from customers totalled $83.7 million for the financial year, a 111% increase from $39.6 million in the prior financial year, in line with the increase in revenue. In the previous financial year the Group received an R&D tax incentive, going forward any such incentives will be received by way of reduction in future tax payments. Payments to suppliers and employees totalled $39.0 million up from $26.4 million in the prior financial year. Interest payments on borrowings to fund the Group's receivables increased 69% from $13.2 million to $22.3 million.

Cashflow used in investing activities increased from $176.9 million in the prior financial year to $374.1 million in the financial year to 30 June 2019. The payments for plant and equipment includes the amount paid to acquire information technology and office equipment during the year, and has fallen from $3.5 million to $0.3 million, following the office move in the previous financial year. The Group spent $3.6 million in the financial year on product development, an increase of 44% on the prior financial year. The increase in customer loans, net of repayments and bad debts written-off totalled $370.2 million, compared to $170.9 million in the prior financial year.

Cash from financing activities totalled $351.4 million. Proceeds from the issue of shares in the capital raising and the conversion of options totalled $57.8 million, $55.5 million net of transaction costs. The Group incurred costs of $1.6 million to renew certain funding facilities and borrowed an additional $297.5 million to fund receivables in the financial year.

Post Balance Date Events

In addition to the increase in the facilities provided by NAB and launch of the Zip Master Trust noted above, on 20 August 2019 the consolidated entity announced it had entered into an agreement, subject to shareholder approval, to acquire 100% of the share capital of PartPay Limited a New Zealand based Group with operations in New Zealand, the United Kingdom and South Africa. In addition, PartPay Limited has an investment in QuadPay Inc a New York based organisation. PartPay Limited and QuadPay Inc operate in the Buy Now Pay Later industry in their respective geographies. The acquisition comprises an upfront consideration of NZ$50.8 million, and a further NZ$15.0 million over the next two years based on the achievement of certain performance based milestones relating to minimum transaction volumes on the PartPay platform being achieved. The acquisition will be settled through the issue of shares in Zip Co Limited and is subject to shareholder approval at a general meeting. The initial issue of shares will be at $2.76, a 5% discount to the 10 day VWAP up to and including the execution date of the Share Purchase Agreement 19 August 2019.

The consolidated entity also announced on 20 August 2019 it had entered a subscription agreement to invest approximately US$11.4 million in QuadPay Inc, which, when combined with Part Pay's existing investment will result in the consolidated entity having a 15% shareholding in QuadPay Inc. The investment of US$11.4 million will be settled in cash.

There have been no other material items, transactions or events subsequent to 30 June 2019 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2019

	NOTE	30 JUNE 2019 $	30 JUNE 2018 $
Portfolio Income	3	82,876,663	39,274,390
Cost of Sales	4	(50,347,990)	(30,156,805)
Gross Profit		32,528,673	9,117,585
Other income	3	1,354,469	1,132,296
Expenditure			
Administration expenses		(13,269,252)	(6,919,865)
Depreciation expense		(967,809)	(763,351)
Amortisation of intangibles		(3,587,464)	(2,809,729)
Finance costs		(1,454,303)	(1,575,617)
Occupancy expenses		(2,124,132)	(1,569,675)
Salaries and employee benefits expenses		(20,398,797)	(15,586,151)
Share-based payments		(3,215,195)	(3,575,219)
Loss Before Income Tax		(11,133,810)	(22,549,726)
Income tax benefit	6	–	–
Loss After Income Tax		(11,133,810)	(22,549,726)
Other comprehensive income for the year, net of tax		–	–
Total Comprehensive Loss for the Period Attributable to Members of Zip Co Limited		(11,133,810)	(22,549,726)
Basic loss per share	7	(3.52)	(7.84)
Diluted loss per share	7	(3.52)	(7.84)

The above Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Financial Position

as at 30 June 2019

	NOTE	30 JUNE 2019 $	30 JUNE 2018 $
Assets			
Cash and cash equivalents	8	12,610,993	12,658,134
Other receivables		10,919,590	5,016,738
Term deposit		1,179,087	1,209,153
Customer receivables	9	647,544,007	300,602,824
Property, plant and equipment		2,547,443	3,240,753
Goodwill	10	4,548,276	4,548,276
Other intangible assets	11	5,812,951	5,792,007
Total Assets		**685,162,347**	**333,067,885**
Liabilities			
Trade and other payables		19,657,522	8,027,403
Employee provisions		1,367,637	841,239
Deferred R&D tax incentives		392,324	757,966
Deferred contingent consideration		-	337,200
Borrowings	12	587,445,319	289,723,751
Total Liabilities		**608,862,802**	**299,687,559**
Net Assets		**76,299,545**	**33,380,326**
Equity			
Issued capital	13	141,211,369	81,328,159
Share-based payment reserves		3,519,637	4,379,167
Accumulated losses		(68,431,461)	(52,327,000)
Total Equity		**76,299,545**	**33,380,326**

The above Preliminary Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Preliminary Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2019

	ISSUED CAPITAL $	RESERVES $	ACCUMULATED LOSSES $	TOTAL $
Balance at 1 July 2017	**37,066,688**	**4,335,903**	**(29,777,274)**	**11,625,317**
Loss for the period	–	–	(22,549,726)	(22,549,726)
Total ComprehensiveLoss	**–**	**–**	**(22,549,726)**	**(22,549,726)**
Shares issued during the period	40,000,000	–	–	40,000,000
Recognition of share-based payments	–	3,536,889	–	3,536,889
Exercise of share-based payments	–	(3,493,625)	–	(3,493,625)
Issue of ordinary shares under share-based payments plans	1,819,455	–	–	1,819,455
Exercise of options	2,743,500	–	–	2,743,500
Costs of issue	(301,484)	–	–	(301,484)
Balance at 30 June 2018	**81,328,159**	**4,379,167**	**(52,327,000)**	**33,380,326**
Adjustment on adoption of AASB 9*	–	–	(4,970,651)	(4,970,651)
Balance at 1 July 2018	**81,328,159**	**4,379,167**	**(57,297,651)**	**28,409,675**
Loss for the period	–	–	(11,133,810)	(11,133,810)
Total Comprehensive Loss	**–**	**–**	**(11,133,810)**	**(11,133,810)**
Recognition of share-based payments	–	3,215,195	–	3,215,195
Exercise of share-based payments	–	(4,074,725)	–	(4,074,725)
Issue of ordinary shares under share-based payment plans	2,343,279	–	–	2,343,279
Issue of ordinary shares upon achievement of performance milestones relating to the acquisition of Pocketbook	1,500,000	–	–	1,500,000
Exercise of options	1,605,695	–	–	1,605,695
Issue of shares – capital raising	56,765,609	–	–	56,765,609
Costs of issue	(2,331,373)	–	–	(2,331,373)
Balance at 30 June 2019	**141,211,369**	**3,519,637**	**(68,431,461)**	**76,299,545**

The above Preliminary Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

* Impact of adoption of AASB 9 is set out in Note 14.

Preliminary Consolidated Statement of Cash Flows

for the Year Ended 30 June 2019

	NOTE	30 JUNE 2019 $	30 JUNE 2018 $
Cash Flows from Operating Activities			
Receipts from customers		83,668,204	39,606,139
Payments to suppliers and employees		(39,016,084)	(26,429,754)
R&D tax incentives		–	1,204,234
Interest received		197,287	255,400
Interest paid		(22,257,574)	(13,210,462)
Net Cash Flow from Operating Activities		22,591,833	1,425,557
Cash Flows from Investing Activities			
Payments for plant and equipment		(274,498)	(3,502,080)
Payments for software development		(3,608,408)	(2,541,794)
Net movement in receivables		(370,176,966)	(170,856,326)
Net Cash Flow to Investing Activities		(374,059,872)	(176,900,200)
Cash Flows from Financing Activities			
Proceeds from the issue of shares		57,802,659	41,031,000
Costs of share issues		(2,331,373)	(301,484)
Borrowing transaction costs		(1,550,388)	(451,000)
Proceeds from borrowings		297,500,000	204,000,000
Repayment of borrowings		–	(75,360,000)
Net Cash Flow from Financing Activities		351,420,898	168,918,516
Net decrease in cash and cash equivalents		(47,141)	(6,556,127)
Cash and cash equivalents at the beginning of the year		12,658,134	19,214,261
Cash and Cash Equivalents at the End of the Year	8	12,610,993	12,658,134

The above Preliminary Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report

Note 1: Significant Accounting Policies of the Preliminary Final Report

a. Basis of preparation

The Preliminary Final Report (the Report) has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The report is to be read in conjunction with any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and Australian Securities Exchange Listing Rules.

The Report, comprising the financial statements and notes of the consolidated entity, complies with the recognition and measurement requirements of Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Selective disclosure requirements of Australian Accounting Standards have been included. The Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in respect of the recognition and measurement requirements.

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

b. Going concern

The directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The preliminary consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2019 reflects a consolidated entity's loss after tax of $11.1 million. The preliminary consolidated statement of cash flows for the year ended 30 June 2019 reflects net cash flows from operations of $22.6 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2020. The cash flow forecast indicates that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the preliminary financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The preliminary financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

c. Adoption of new and revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

New and amended Accounting Standards that are effective for the current year:

AASB 9 *Financial Instruments*

In the current financial year, the consolidated entity has applied AASB 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other Accounting Standards that are effective for annual periods that begins on or after 1 July 2018.

Additionally, the consolidated entity adopted consequential amendments to AASB 7 *Financial Instruments: Disclosures* that were applied to the disclosures for the current year.

Notes to the Preliminary Final Report

Continued

AASB 9 introduced new requirements for:

(1) The classification and measurement of financial assets and financial liabilities,

(2) Impairment of financial assets, and

(3) General hedge accounting.

Details of these new requirements as well as their impact on the consolidated entity's preliminary consolidated financial statements are described below.

The consolidated entity has applied AASB 9 in accordance with the transition provisions set out in AASB 9 and has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

(a) Classification and measurement of financial assets and financial liabilities.

The date of initial application (i.e. the date on which the consolidated entity has assessed its existing financial assets and liabilities in terms of the requirements of AASB 9) is 1 July 2018. Accordingly, the consolidated entity has applied the requirements of AASB 9 to instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018.

The directors of the consolidated entity reviewed and assessed the consolidated entity's existing financial assets and financial liabilities as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 does not have an impact on the consolidated entity's financial assets and financial liabilities as regards their classification and measurement.

The consolidated entity's preliminary consolidated statement of financial position includes financial instruments, the majority of which are customer receivables and borrowings. Where the entity's business model is to collect contractual cash flows and the contractual cash flows are solely payments of principle and interest, the debt instrument is measured at amortised cost (such as with customer receivables). Conversely, where the financial instrument is managed on a fair value basis, that instrument will be measured as such.

(b) Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the consolidated entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

A general three stage model applies to debt instruments at amortised cost for recognising impairment losses.

The consolidated entity has both long term and short term customer receivables. The consolidated entity's provision for expected credit loss on customer receivable changed upon adoption of AASB 9.

The adoption of AASB 9 impacts the consolidated entity's customer receivables balance which is measured at amortised cost. An adjustment of $4.97 million has been made to increase the impairment of customer receivables to recognise impairment on an expected loss basis for the adoption of AASB 9.

The cumulative effect of applying the change for the first time has been recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.

(c) General hedge accounting.

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. The consolidated entity does not have any hedging arrangements in place.

(d) Disclosures in relation to the initial application of AASB 9

There were no financial assets or financial liabilities which the consolidated entity had previously designated as at FVTPL (Fair Value Through Profit and Loss) under AASB 139 and hence there were no such financial assets or financial liabilities subject to reclassification or which the consolidated entity has elected to reclassify upon the application of AASB 9. There were no financial assets or financial liabilities which the consolidated entity has elected to designate as at FVTPL at the date of initial application of AASB 9.

The impact of initial application of AASB 9 for each preliminary consolidated financial statement line item is listed in Note 14.

The application of AASB 9 has had no impact on the preliminary consolidated cash flows of the consolidated entity.

AASB 15 Revenue from Contracts with Customers

AASB 15 must be applied for annual reporting periods beginning on or after 1 January 2018. The consolidated entity has adopted this standard from 1 July 2018.

The standard contains a single model that applies to all revenue arising from contracts. AASB 15 introduces a single principles-based five step model for recognising revenue and introduces the concept of recognising revenue when an obligation to a customer is satisfied.

AASB 15 does not have a material impact on the revenue recognition accounting policy for the consolidated entity given that substantially all revenue streams fall within the scope of AASB 9 – Financial Instruments.

New Accounting Standards and Interpretations not yet mandatory or early adopted:

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory and which are expected to have a significant impact on the financial statements are presented below.

AASB 16 Leases

AASB 16 eliminates the operating and finance lease classifications for lessees currently the model under AASB 117 Leases for lessees. It instead requires an entity to recognise most leases on its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right-of-use asset in its statement of financial position for most leases.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. The application date of this standard is for annual reporting periods beginning on or after 1 January 2019. It has not been early adopted by the consolidated entity for the full year ended 30 June 2019. The date of initial application of AASB 16 for the consolidated entity will be 1 July 2019.

The consolidated entity has chosen the modified retrospective application of AASB 16 in accordance with AASB 16 C5(b). Consequently, the consolidated entity will not restate the comparative information. As at 30 June 2019, the consolidated entity's future minimum lease payments under non-cancellable operating leases are $10.1 million on an undiscounted basis and will form the basis of the application of AASB 16.

d. Critical accounting estimates and judgements

In preparing this preliminary final report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

Revenue recognition

The consolidated entity recognises revenue on customer receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of estimated future cashflows and expected life of the customer receivables balance, the directors have considered the historical repayment pattern of the customer receivables on a portfolio basis.

Notes to the Preliminary Final Report

Continued

These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to recognition of revenue will be made in future reporting periods.

Provision for Expected Credit Loss

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. The key sources of estimation uncertainty relate to the provision for expected credit loss against loans receivable. The risk of impairment to customer receivables requires the consolidated entity to assess impairment regularly. The consolidated entity measures the provision for expected credit loss for customer receivables at an amount equal to the lifetime expected credit loss (ECL). Refer to Note 14 for further details.

Intangible assets

Software development asset

Software development costs are capitalised only when:

- the technical feasibility and commercial viability of the project is demonstrated;
- the consolidated entity has an intention and ability to complete the project and use it or sell it; and
- the costs can be measured reliably.

Such costs include payments to external contractors to develop the software, any purchase of materials and equipment and personnel costs of employees directly involved in the project.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 2: Segment Information

Management has determined that the consolidated entity has one reporting segment being the provision of financial products and payment solutions to consumers, and providing a variety of integrated solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. The internal reporting framework is based on the principal activity as discussed above and is the most relevant to assist the Board with making decisions regarding the consolidated entity and its ongoing growth.

The assets as presented relate to the reporting segment, as identified above.

The consolidated entity operates in Australia and New Zealand. At this stage the consolidated entity's operations in New Zealand are immaterial in the context of the consolidated entity's overall revenue and assets.

Note 3: Revenue

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Portfolio income	82,876,663	39,274,390
Other income		
Interest income from financial institutions	197,287	255,400
R&D tax incentives	365,642	545,148
Other	791,540	331,748
Total other income	1,354,469	1,132,296
Total revenue	84,231,132	40,406,686

Note 4: Cost of Sales

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Interest expense	22,939,653	13,024,665
Expected credit loss/Doubtful debts expense	21,946,751	13,190,378
Bank fees and data costs	5,461,586	3,941,762
Total cost of sales	50,347,990	30,156,805

Note 5: Expenses

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Loss before income tax includes the following specific expenses:		
Amortisation of Intangibles:		
Amortisation of acquired intangibles	700,404	700,404
Amortisation of internally generated intangibles	2,887,060	2,109,325
Superannuation expense:		
Defined contribution superannuation expense	1,779,940	1,343,232
Finance costs:		
Amortisation of funding costs	1,089,877	1,463,117
Other funding costs	364,426	112,500
Administration expenses:		
Professional services	1,578,715	1,208,750
Information technology expense	4,787,108	2,720,599
Marketing expense	3,446,413	1,681,612
Other administration expense	3,457,016	1,308,904
Other expenses:		
Operating lease expense	1,849,922	1,271,681

Notes to the Preliminary Final Report

Continued

Note 6: Income Tax Benefit

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(11,133,810)	(22,549,726)
Tax at the statutory tax rate of 30%	(3,340,143)	(6,764,918)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	964,558	1,179,597
Non-deductible expenses	918,903	676,364
R&D tax incentives	(109,693)	(163,544)
	(1,566,375)	(5,072,501)
Prior year tax losses brought to account	(2,066,186)	–
Current year tax losses not recognised	–	3,369,782
Current year temporary differences not recognised	3,632,561	1,702,719
	–	–

Note 7: Loss per Share

a. Losses used in calculating loss per share

ALL FIGURES IN $	30 JUNE 2019	30 JUNE 2018
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(11,133,810)	(22,549,726)

b. Weighted average number of shares used as the denominator

NUMBER OF SHARES	30 JUNE 2019	30 JUNE 2018
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	316,161,274	287,483,273

c. Basic and diluted loss per share

	30 JUNE 2019 CENTS	30 JUNE 2018 CENTS
Basic loss per share	(3.52)	(7.84)
Diluted loss per share (1)	(3.52)	(7.84)

(1) As the consolidated entity had losses for the ended 30 June 2019 and 30 June 2018, no dilutive shares have been included in the EPS calculation.

Note 8: Cash and Cash Equivalents

At 30 June 2019, the consolidated entity had cash at bank of $12,610,993 of which $6,436,059 is in restricted cash (30 June 2018: cash at bank of $12,658,134 of which $8,658,406 was in restricted cash). Cash held in corporate accounts, shown as unrestricted, includes amounts remitted to Trusts the next business day. Restricted cash is held by the zipMoney 2017-1 Trust and 2017-2 Trust and is not available to pay creditors of the consolidated entity.

Note 9: Customer Receivables

Classification and Measurement

Under AASB 9, customer receivables are initially recognised at fair value upon recognition. Subsequently, they are classified and measured at amortised cost as:

- The consolidated entity provides accounts with lines of credit to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and permit customers to vary the dates and frequency of payments.

Impairment

AASB 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost, debt financial assets at FVOCI (Fair Value Through Other Comprehensive Income) and loan commitments. The guidance requires assets to be classified into the following three stages:

Stage 1: instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and "effective interest" revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.

Stage 2: instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but "effective interest" revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and "effective interest" revenue is calculated on the net carrying amount.

Provisioning Model

In determining the appropriate level of provision for expected credit loss, the consolidated entity has considered receivables attributable to Zip Pay and Zip Money customers separately. For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a 12 months period, to the credit limits of those customers that are considered current and to the respective arrears balances for those customers in arrears. The consolidated entity's policy is to write off balances that are outstanding for over 180 days in accordance with historical experience and industry practice. Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected life time losses emerge within a 12 month period by applying historical roll rates to the credit facility limits. For customers in arrears, historical roll rates are applied to the arrears balances over the expected life of the credit facility to determine an amount of expected credit loss.

In calculating a provision for expected credit loss, an allowance for loss debt recoveries is applied to the resulting estimated exposure at default and an economic overlay is added to take account of forward looking macro-economic factors and modelling risks.

Notes to the Preliminary Final Report

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Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due as the absolute criteria to identify increases in credit risk.

Definition of default and credit-impaired assets

Customer receivables 180 days past due are defined as in default and written off.

The following table summarises customer receivables as at reporting date:

	CONSOLIDATED		
	30 JUNE 2019 $	1 JULY 2018* $	30 JUNE 2018 $
Gross customer receivables	682,555,716	316,741,362	316,741,362
Unearned future income	(9,420,505)	(6,636,297)	(6,636,297)
Provision for expected credit loss /Allowance for bad debts	(25,591,204)	(14,472,892)	(9,502,241)
	647,544,007	295,632,173	300,602,824

* Impact of adoption of AASB 9 is set out in Note 14.

The following tables summarise gross carrying amount of customer receivables and provision for expected credit loss by stages:

	30 JUNE 2019 $	1 JULY 2018 $
Gross customer receivables		
12 month expected loss	649,426,854	298,964,242
Lifetime	33,128,862	17,777,120
Total gross carrying amount	682,555,716	316,741,362
Unearned future income	(9,420,505)	(6,636,297)
Total gross carrying value including valuation adjustments	673,135,211	310,105,065
Less provision for expected credit loss		
12 month expected loss	4,727,653	4,306,903
Lifetime	20,863,551	10,165,989
Total provision for expected credit loss	25,591,204	14,472,892
Net balance sheet carrying value	647,544,007	295,632,173

Provision for expected credit loss movement

From 1 July 2018 to 30 June 2019, the provision for expected credit loss has increased by $11,118,312 to $25,591,204, which was primarily driven by the $365,814,354 increase in the value of receivables. The provision for expected credit loss as a percentage of receivables has fallen from 4.57% of the gross customer receivables balance at 1 July 2018 to 3.75% at 30 June 2019 as a result of an improvement in the historic roll rates at 30 June 2019 compared to 1 July 2018.

DETAILS	DATE	$
Balance	30 June 2017	**4,561,500**
Doubtful debts expense recognised during the year to profit or loss		13,190,378
Receivables written-off during the year		(8,559,961)
Recoveries during the year		310,324
Balance	30 June 2018	**9,502,241**
Impact of adoption of AASB 9*		4,970,651
Balance	1 July 2018	**14,472,892**
Expected credit loss recognised during the year to profit or loss		21,946,751
Receivables written-off during the year		(12,358,317)
Recoveries during the year		1,529,878
Balance	30 June 2019	**25,591,204**

* Impact of adoption of AASB 9 is set out in Note 14.

Note 10: Goodwill

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Cost	4,548,276	4,584,276
Less : Accumulated impairment losses	–	–
	4,548,276	**4,584,276**

Note 11: Other Intangible Assets

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Carrying amounts of		
Brand names and trademarks	116,103	145,308
Customer database	206,992	298,996
IT development and software	5,489,856	5,347,703
	5,812,951	**5,792,007**

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	BRAND NAMES AND TRADEMARKS $	CUSTOMER DATABASE $	IT DEVELOPMENT AND SOFTWARE $	TOTAL $
Cost				
Balance at 1 July 2018	207,258	460,000	10,320,078	10,987,336
Additions	6,195	–	3,602,213	3,608,408
Balance at 30 June 2019	213,453	460,000	13,922,291	14,595,744

	BRAND NAMES AND TRADEMARKS $	CUSTOMER DATABASE $	IT DEVELOPMENT AND SOFTWARE $	TOTAL $
Accumulated amortisation				
Balance at 1 July 2018	61,950	161,004	4,972,375	5,195,329
Amortisation for the year	35,400	92,004	3,460,060	3,587,464
Balance at 30 June 2019	97,350	253,008	8,432,435	8,782,793

Note 12: Borrowings and Securitisation Warehouse

Borrowings and securitisation warehouse

The consolidated entity sells customer receivables to special purpose vehicle securitisation warehouses (zipMoney Trust 2017-1 and zipMoney Trust 2017-2) through its asset-backed securitisation program. The special purpose vehicles are consolidated as the consolidated entity is exposed to, or has rights to, variable equity returns, and has the ability to affect its returns through its power over the securitisation vehicles. The consolidated entity may serve as a manager, servicer, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Class A Notes	526,000,000	230,000,000
Class B Notes	61,500,000	60,000,000
Add: Accrued interest	1,431,108	749,029
Less: Unamortised costs	(1,485,789)	(1,025,278)
	587,445,319	289,723,751

At 30 June 2019 the undrawn facility amounted to $44.0 million (30 June 2018: $90.0 million).

Total secured liabilities

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Class A Notes	526,000,000	230,000,000
Class B Notes	61,500,000	60,000,000
	587,500,000	290,000,000

Assets pledged as security

The table below presents the assets and underlying borrowings as a result of the securitisation warehouse:

	CONSOLIDATED	
	30 JUNE 2019 $	30 JUNE 2018 $
Customer receivables (1)	644,277,022	295,794,526
Cash held by securitisation warehouse	6,436,059	8,658,406
	650,713,081	304,452,932
Borrowings related to receivables (2)	660,000,000	306,400,000

(1) The amount recognised above represents the carrying value of the customer receivables held by the zipMoney Trusts and is net of provision for expected credit loss and unearned future income. This excludes customer receivables totaling $3.3 million held by zipMoney Payment Pty Ltd at 30 June 2019 and $4.8 million at 30 June 2018.

(2) Including $72.5 million Class C Notes held by zipMoney Payments Pty Ltd ($16.4 million at 30 June 2018).

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	30 JUNE 2019 $	30 JUNE 2018 $
Total facility size		
Total facility size – securitisation warehouse	621,500,000	370,000,000
Total facility size – working capital	10,000,000	10,000,000
Used at the reporting date		
Used facility – securitisation warehouse	587,500,000	290,000,000
Used facility – working capital	–	–
Unused at the reporting date		
Unused facility – securitisation warehouse	34,000,000	80,000,000
Unused facility – working capital	10,000,000	10,000,000

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Terms of the facilities

As at 30 June 2019, the consolidated entity had two securitisation warehouse in place.

Under each warehouse program, loans are originated on the consolidated entity's balance sheet and continuously sold into a program administered by Perpetual Trustee Limited.

As at 30 June 2019, the zipMoney Trust 2017-1 had $560.0 million in committed Class A and B wholesale debt financing with a term maturing in May 2021. The facility is secured against the underlying pool of receivables with no credit recourse back to the consolidated entity. Subsequent to the reporting period end, the consolidated entity increased the facilities available from NAB within the zipMoney Trust 2017-1 by $100.0 million.

As at 30 June 2019, the zipMoney Trust 2017-2 had $71.5 million in committed Class A wholesale debt financing with a term maturing on 31 December 2020 and Class B debt financing with a term maturing on 17 November 2019. The facility is available to fund customer receivables junior notes and as a source of working capital funding to the consolidated entity. The facility is secured against the underlying pool of receivables and by way of corporate guarantee provided by the parent Zip Co Limited.

Note 13: Issued Capital

	CONSOLIDATED			
	30 JUNE 2019 SHARES	30 JUNE 2019 $	30 JUNE 2018 SHARES	30 JUNE 2018 $
Ordinary shares – fully paid	352,137,991	141,211,369	295,548,222	81,328,159
Performance shares	20,000,000	–	33,330,000	–
	372,137,991	**141,211,369**	**328,878,222**	**81,328,159**

Movements in ordinary share capital

DETAILS	DATE	SHARES	$
Balance	1 July 2017	**238,673,009**	**37,066,688**
Issue of shares – employee incentives		2,442,497	1,819,455
Issue of shares – placement		49,382,716	40,000,000
Issue of shares – exercise of options		5,050,000	2,743,500
Costs of issue during the period		–	(301,484)
Balance	30 June 2018	**295,548,222**	**81,328,159**
Balance	1 July 2018	**295,548,222**	**81,328,159**
Issue of shares – employee incentives		2,286,407	2,343,279
Issue of shares – Pocketbook achievement of performance milestones		1,887,942	1,500,000
Issue of shares – exercise of options		1,983,715	1,605,695
Issue of shares – capital Raising		37,101,705	56,765,609
Conversion from performance shares		13,330,000	–
Costs of issue during the period		–	(2,331,373)
Balance	30 June 2019	**352,137,991**	**141,211,369**

Movements in performance shares

DETAILS	DATE	SHARE NUMBERS
Balance	30 June 2017	33,330,000
Balance	30 June 2018	33,330,000
Conversion to ordinary shares		(13,330,000)
Balance	30 June 2019	**20,000,000**

The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility ("Warehouse Facility"). The provision of the "Warehouse Facility" was not completed and accordingly the performance milestones are unable to be met. The consolidated entity's shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

The 13,330,000 performance shares converted to ordinary shares represent those shares issued to the original vendors in the event pre-tax break-even was achieved in a consecutive three calendar month period prior to 17 September 2018. On 7 January 2019 the consolidated entity announced that the third performance milestone arising from the original acquisition of zipMoney Holdings Pty Ltd by Rubianna Resources Limited in September 2015 had been met, and accordingly 13,330,000 performance shares converted to ordinary shares from that date.

Movements in options

DETAILS	DATE	OPTION NUMBERS
Balance	30 June 2017	**7,368,000**
Options issued to Westpac Banking Corporation		9,800,000
Employee unlisted options issued		285,715
Options exercised		(5,050,000)
Balance	30 June 2018	**12,403,715**
Options exercised		(1,983,715)
Options expired not exercised		(320,000)
Balance	30 June 2019	**10,100,000**

Movements in performance rights

DETAILS	DATE	RIGHTS NUMBERS
Balance	30 June 2017	–
Balance	30 June 2018	–
Issue of performance rights		2,750,000
Balance	30 June 2019	**2,750,000**

The issue of 2,750,000 performance rights represent those shares issued under the Employee Incentive Plan approved at the consolidated entity's Annual General Meeting held on 30 November 2018.

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Note 14: Impact of Initial Application of AASB 9 on the Preliminary Consolidated Financial Statements

Following a review of the impact of AASB 9 on the preliminary financial statements the consolidated entity concluded that an increase in the provision for expected credit loss recorded against customer receivables at 30 June 2018 was required. In accordance with the requirements of AASB 9 an additional amount of $4,970,651 was added to the provision for expected credit loss and a corresponding amount recognised as an adjustment to retained earnings.

The tables below show the adjustment made to each line in the financial statements impacted by the application of AASB 9 on the opening balances for the financial year ended 30 June 2019.

Impact on assets, liabilities and equity as at 1 July 2018

CONSOLIDATED1 JULY 2018	30 JUNE 2018 $	AASB 9 ADJUSTMENTS $	1 JULY 2018 $
Customer receivables	300,602,824	(4,970,651)	295,632,173
Net assets	**33,380,326**	**(4,970,651)**	**28,409,675**
Accumulated losses	(52,327,000)	(4,970,651)	(57,297,651)
Equity	**33,380,326**	**(4,970,651)**	**28,409,675**

The application of AASB 9 has had no impact on the preliminary consolidated cash flows of the consolidated entity.

Note 15: Subsequent Events

As noted in note 12, in July 2019 the consolidated entity agreed an increase of $100.0 million in its available zipMoney Trust 2017-1 facility commitments with financier NAB.

The consolidated entity mandated NAB to arrange a series of ABS investor meetings for the establishment of the Zip Master Trust Programme in July 2019. The mandate has been confirmed and an indicative Term Sheet was issued by NAB on 29 July 2019. The Indicative Term Sheet sought expressions of interest for debt funding of $400.0 million to refinance the funding of existing receivables within Zip's portfolio. On 19 August 2019, NAB launched a transaction to secure $400.0 million in debt funding with the potential to increase the funding sought to $500.0 million. The transaction is expected to settle on 5 September 2019. Once the transaction is completed, Zip's total facilities available to fund receivables will increase from $731.5 million to $931.5 million.

On 20 August 2019 the consolidated entity announced it had entered into an agreement, subject to shareholder approval, to acquire 100% of the share capital of PartPay Limited a New Zealand based Group with operations in New Zealand, the United Kingdom and South Africa. In addition, PartPay Limited has an investment in QuadPay Inc a New York based organisation. PartPay Limited and QuadPay Inc operate in the Buy Now Pay Later industry in their respective geographies. The acquisition comprises an upfront consideration of NZ$50.8 million, and a further NZ$15.0 million over the next two years based on the achievement of certain performance based milestones relating to minimum transaction volumes on the PartPay platform being achieved. The acquisition will be settled through the issue of shares in Zip Co Limited and is subject to shareholder approval at a general meeting. The initial issue of shares will be at $2.76, a 5% discount to the 10 day VWAP up to and including the execution date of the Share Purchase Agreement 19 August 2019.

The consolidated entity also announced on 20 August 2019 it had entered a subscription agreement to invest approximately US$11.4 million in QuadPay Inc, which, when combined with Part Pay's existing investment will result in the consolidated entity having a 15% shareholding in QuadPay Inc. The investment of US$11.4 million will be settled in cash.

There have been no other material items, transactions or events subsequent to 30 June 2019 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

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