



15 July 2020

Q4 FY20 TRADING UPDATE

ZIP DELIVERS DURING COVID AND ACCELERATES GLOBAL GROWTH STRATEGY

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to provide a trading update for the quarter ended 30 June 2020 (**Q4 FY20**).

GROUP HIGHLIGHTS

- **Achieved full year FY20 revenue of \$161.2m (up 91% on FY19), with record quarterly revenue of \$46.4m (up 72% YoY).**
- **Achieved \$2.3bn in annualised transaction volume¹ (vs target \$2.2bn) in FY20, with quarterly volume of \$570.7m (up 62% YoY). Transaction numbers were up 120% YoY.**
- **Receivables increased to \$1.2bn, up 73% YoY.**
- **Customers increased to 2.1 million, up 63% YoY (197k added in quarter).**
- **Merchants on the platform increased to 24.5k, up 51% YoY.**
- **Strong credit performance notwithstanding COVID-19 with net bad debts of 2.24% at the end of Q4, in line with expectations and significantly outperforming the market.**
- **Monthly arrears, a forward indicator of future losses, reduced from 1.55% in March to 1.33% in June – an outstanding result in the current climate.**
- **Announced the acquisition of US-based BNPL company QuadPay together with an investment of up to \$200m from Susquehanna Investment Group (SIG) to accelerate Zip's global expansion strategy and drive growth. The transaction is subject to a number of closing conditions, including shareholder approval at the EGM expected to be next month.**
- **QuadPay delivered a very strong Q4 across its core metrics, benefiting from the surge to online – \$233m² in TTV (annualising at \$0.9bn), \$16.4m² in revenue (annualising at \$66m) and 1.8m customers.**

¹ Transaction volumes for Zip AU & NZ only, annualised based on Q4 FY20.

² All figures in AUD, converted at USD: AUD FX rate of 0.70

- **Post completion, Zip will emerge as a global BNPL leader across 5 markets (AU, NZ, US, UK and SA) with pro-forma annualised TTV of \$3.2bn³, annualised revenue of \$252m and 3.9m customers⁴.**

Managing Director and CEO Larry Diamond said:

“We are very pleased with the results for the full year FY20, and in particular Q4, as Zip continued to deliver on its ANZ strategy whilst accelerating its global growth ambitions. This was testament to the hard work of the entire Zip team and the support of our 24.5k retail partners.

The business model was tested during COVID-19 and proved extremely resilient – in terms of transaction volume, strong revenue mix and outstanding customer repayment performance. Our product differentiation, strong proprietary credit platform and penetration into defensive, everyday spend categories delivered in spades. Zip is well funded and uniquely positioned to continue to trade and grow in the current environment.

Pleasingly, we beat the goals we set for the Company in 2019 with a target of \$2.2bn in annualised transaction volume, which was supported by a number of marquee merchants and a top-10 rated app.

We continue to believe the credit card model is fundamentally broken with customers demanding flexible, responsible, interest free alternatives – the flight to BNPL is indeed a global trend.

The recently announced QuadPay transaction is an important step in our global expansion and provides access to the world’s largest retail market, the USA (\$5tr and 15x Australia) during a time when interest-free instalments are transforming the way people pay. We look forward to the EGM in August and completing the transaction. ”

³ Transaction volumes for Zip AU, NZ & QuadPay based on Q4 FY20 annualised. Converted at USD: AUD FX rate of 0.70.

⁴ Number of active customer accounts.

KEY OPERATIONAL METRICS⁵

All key operating metrics include Zip's operations in Australia and New Zealand only.

Financial and Operational Performance	Results Q4 FY20 ⁶	% increase on Q3 FY20 ⁶	% increase on Q4 FY19 ⁶
Revenue	\$44.2m	5% ↑	64% ↑
Merchants ⁷	24.5k	8% ↑	51% ↑
Customers ⁸	2.1m	9% ↑	60% ↑
Receivables ⁹	\$1,144.8m	2% ↑	68% ↑
Transaction volume	\$570.7m	10% ↑	62% ↑
Transactions	2.9m	1% ↑	81% ↑
Arrears ¹⁰	1.33%	1.55%	1.89%
Net Bad Debts ¹⁰	2.24%	1.84%	1.63%

ZIP ANZ

During the quarter Zip achieved a new milestone, with more than 2 million active customer accounts across the region (up 60% YoY). Close to 200k customers were added in Q4 as customers continue to abandon the legacy, broken credit card.

Customers transacted 2.9m times during the quarter, spending \$570m with significant growth across online, everyday spend and the home categories. For the financial year, transaction volume was \$2.1bn, up 77% YoY - a great result considering the significant impact of COVID-19 for the majority of brick and mortar retailers.

The Zip app continued to enjoy market leading engagement - top 10 app in the Apple and Google app stores with ratings of 4.9 and 4.8, respectively. App downloads increased over 100% YoY to 2.1m downloads, whilst transactions by users increased more than 120% driven by increased merchant acceptance, brand awareness and improved mobile UX.

Zip NZ enjoyed a record quarter during Q4 with over NZ\$35m in transaction volume (up 55% QoQ) driven by the flight to online. The New Zealand economy emerged from level 4 COVID-19 lockdown towards the end of the quarter, with most businesses (excluding travel, events) bouncing back strongly.

⁵ Unless stated otherwise, all key operating metrics include Zip's operations in Australia and New Zealand from November 2019 (following the acquisition of PartPay). The data does not include Spotcap or Pocketbook.

⁶ Unaudited management accounts.

⁷ Number of accredited merchants.

⁸ Number of active customer accounts.

⁹ Amounts due from Customers.

¹⁰ Australian figures only. 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.

Product development

Merchants are increasingly looking for global payment providers who can provide integration simplicity, whilst meeting the needs of local regions. The recent quarter saw continued investment in product innovation, making it easier for global retailers to onboard and customers to check out across all payment journeys:

- Food ordering app, Hey You went live with Zip, taking advantage of the new mobile SDK, providing a seamless mobile app integration for partners.
- Zip launched its first global payments partner, the Cotton On Group, through the new Single Merchant Interface (SMI), a single point of integration, for all Zip's markets. Cotton On is live in Australia, New Zealand & UK, with USA and South Africa a fast follow.
- Zip fast-tracked its *Shop Everywhere* feature, supporting customers during COVID-19 with the ability to transact at any merchant online, using a one-time virtual card. The feature was very well received by customers, who were able to purchase their everyday needs from the safety of their living room.

Merchant and partner wins

Consistent with our mission to be "the first payment choice, everywhere and every day", Zip continued to drive both enterprise, small business and channel partnerships. At the end of June there were over 24.5k merchants (up 50% YoY) and ~60k points of presence across ANZ, where Zip is accepted as a payment method.

Significant merchant partnerships that went live in the quarter, included:

- AU: Cotton On, Canon, Petbarn, Camilla & Marc, Tupperware, Wizard Pharmacies, Greencross vets, Carpet Court, Oscar Wylee and OzSale.
- NZ: Sony, Bunnings, Cotton On, NZ Sale, Nutrimetics, Trade Depot and Playtech.

During the quarter Zip also signed a deal with Epay Australia Ltd, a leading alternative payment provider with more than 23k locations Australia-wide including leading brands such as Vodafone, Telstra, Optus, Microsoft, Sony, Adobe, BP, Woolworths, JB Hi-Fi, Harvey Norman and WH Smith. This agreement will enable a streamlined way for retailers to accept Zip instore payments alongside Alipay, WeChat Pay and Union Pay QR payments.

Credit performance

Zip moved decisively in March 2020 to tighten credit, for both new and existing customers as a result of COVID-19. Specifically, Zip adjusted its application underwriting algorithms and leveraged its real-time portfolio management tools to actively monitor account behaviour and adjust limits accordingly.

Zip's market-leading credit-decision technology continues to demonstrate resilience and drive superior receivables performance:

- Strong transaction volumes coupled with exceptional repayment rates, saw the receivables increase by only 2% over the quarter to \$1,143.2m.
- The average monthly repayment rate increased to 15.6% by the end of the quarter (calculated as % of the opening receivables balance) and equates to the book recycling every ~6 months.
- Strong credit performance during COVID-19 with net bad debts of 2.24% at the end of the quarter (gross bad debts of 2.52%), in line with management expectations and significantly outperforming the market.
- Monthly arrears, a forward indicator of future losses, reduced from 1.55% in March to 1.33% in June - an outstanding result in the current climate.

- No material change to the number of requests for hardship assistance, following the peak at the end of March (currently less than 0.08% of receivables are subject to hardship claims).

Zip believes its investment in its credit-decision technology, proven track record in the management of its receivables portfolio, low arrears levels, credit checks from day one, flexible product construct, along with steps already taken to mitigate the impact of COVID-19 position the business to weather any potential outcomes from the current trading environment.

ZIP BIZ & SPOTCAP

A number of successful pilots ran prior to COVID-19 for Zip Biz, with the beta project put on hold as the small business segment was adversely impacted by the various lockdowns, and the uncertain outlook. The time provided an opportunity to build a stronger pipeline, refine the operating model and prepare for a launch in FY21.

Spotcap had a subdued June quarter as a result of COVID-19, however the easing of restrictions and opening up of small businesses resulted in a pick-up in June volumes, with green shoots appearing across a number of resilient industry segments. Spotcap recorded Q4 revenue of \$2.2m on receivables of \$37.3m, with drawdowns of \$6.5m for the quarter. Spotcap continued to actively offer both existing and SME Guarantee Scheme¹¹ loans to small businesses with no additional hardship cases noted since 1 June. Arrears levels remained in line within management expectations during the quarter.

POCKETBOOK

Pocketbook finished FY20 with ~790k users, helping many Australians take greater control over their personal finances - tracking, budgeting and savings. Pocketbook 2.0 is in its final stages of beta-testing before its full public release in August 2020. Q1 FY21 will see Pocketbook add support for many more banks, new ways to help users to define and achieve their savings and lifestyle goals, whilst improving their financial wellbeing. The app continues to play an important role in the Zip product range, as the Company strives to empower everyday Australians with simple to use, technology-enabled tools.

QUADPAY (USA)

On 2 June 2020, Zip announced the acquisition of US-based BNPL company QuadPay for \$403m together with an investment of up to \$200m from Susquehanna Investment Group (SIG) to accelerate Zip's global expansion strategy and drive growth. The transactions are subject to a number of closing conditions, including shareholder approval, at the EGM expected to be next month.

QuadPay continued its growth with another quarter of very strong numbers. QuadPay processed over 1.4m transactions in the quarter, an increase of 982% on the same period in FY19. This delivered TTV of US\$163m for the quarter, up 9% QoQ and up 800% YoY. Customer numbers continue to increase as a result of the strong drive to online in the USA. More than 325k new customers were added in the quarter, bringing total customers to 1.8m, up 475% on the same period in FY19.

During the quarter Quad secured a \$US200m credit facility to support the expansion of its BNPL services to new merchants throughout the USA.

¹¹ [Australian Government Coronavirus SME Guarantee Scheme](#)

Financial and Operational Performance¹²	Results Q4 FY20 (USD)	Results Q4 FY20 (AUD¹³)	% increase on Q4 FY19
Revenue	\$11.5m	\$16.4m	1,050%
TTV	\$163.0m	\$232.9m	801%
Transactions	1.4m	1.4m	982%
Customers	1.8m	1.8m	475%

Post completion, Zip will emerge as a truly global BNPL player, operating across 5 key markets (AU, NZ, US, UK and SA) with pro-forma annualised TTV of \$3.2bn, annualised revenue of \$252m and more than 3.9m customers. Zip looks forward to completing the QuadPay transaction, whilst capitalising on the momentum in the BNPL space and continuing to deliver on the broader global opportunity.

CAPITAL MANAGEMENT

Zip has three funding warehouses in place to support its customer receivables portfolio:

Facility Type	Facility Limit	Drawn at 30 June 20	Maturity
Zip Master Trust			
- Rated Note Series	\$475.0m	\$475.0m	Aug 2021
- Variable Funding Note	\$139.5m	\$69.5m	Feb 2022
2017-1 Trust	\$460.0m	\$440.0m	May 2021
2017-2 Trust	\$70.0m	\$65.5m	Dec 2020
Total	\$1,144.5m	\$1,050.0m	

Zip had total available facilities of \$1,144.5m with \$94.5m undrawn as at 30 June 2020. Subsequent to 30 June, Zip agreed to an increase of \$95.0m in the facility available within the Master Trust, bringing total undrawn facilities to \$189.5m. In addition to this increase, Zip has a number of initiatives underway that will ensure adequate funding capacity to meet the continued growth of the business over the medium term.

FINANCIAL TARGETS

In August 2019, Zip set itself a target of *annualised transaction volumes at EOFY 2020, of \$2.2bn*. Based on Q4 results, Zip is pleased to announce it beat the TTV target, delivering \$570m in the final quarter, or \$2.3bn in annualised TTV. This is also prior to the acquisition of QuadPay, which post completion, would combine to more than \$3.2bn in annualised TTV on a pro forma basis.

Release approved by the Chief Executive Office on behalf of the Board.

- ENDS -

¹² Unaudited management accounts.

¹³ Converted at USD: AUD FX rate of 0.70.

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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, home, health, automotive and travel industries. Zip has operations across Australia, New Zealand and the United Kingdom, with associates in the USA and South Africa. Zip also owns Pocketbook, a leading personal financial management tool and SME lending provider Spotcap. The Company is focused on offering transparent, responsible and fairly priced consumer and SME products. Zip’s platform is entirely digital and leverages big data in its proprietary fraud and credit-decisioning technology to deliver real-time responses. Zip is managed by a team with over 100 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zip.co