



27th February 2020

H1FY20 HALF YEAR RESULTS RECORD HALF YEAR RESULT, INVESTING FOR GROWTH

Zip Co Limited (ASX: Z1P) ("**Zip**", or the "**Company**") is pleased to announce today its half-year results for the period ending 31 December 2019.

KEY HIGHLIGHTS (H1 FY20)

- **Record revenue, \$69.6 million, up 103% on H1FY19.**
- **Record transaction volume, \$964.7 million, up 95% on H1FY19.**
- **Loan book (receivables) surpassed \$1 billion, up 52% from June 2019.**
- **1.8m customers in ANZ (up 80% from December 2018), transacting across 21k merchants.**
- **Continued to deliver Cash EBTDA breakeven, whilst investing for growth, demonstrating strong unit economics.**
- **Acquired global instalment technology platform PartPay for upfront consideration of \$60 million, providing immediate exposure to New Zealand, United Kingdom, United States and South Africa. Subsequently, increased investment in US BNPL provider QuadPay to 15%.**
- **Acquired SME credit provider Spotcap ANZ for total consideration of \$9 million - Zip Biz, now in beta, leverages Spotcap's market leading credit decisioning capability as part of a SME focused BNPL offering.**
- **Launched with Amazon Australia in November 2019. Zip is Amazon Australia's first instalment payment option. Big W, Carsales.com, Ola, Optus, Seafolly, Mighty Ape, Freedom and a number of other household brands recently joined the platform - strong pipeline ahead.**
- **Continued strong credit performance with net bad debts of 1.68%.**
- **Released a number of new product innovations - instore QR payments, facial ID verification and Zip Biz.**
- **The Zip app continues to rank in the top 10 across both the Apple (#7, rating 4.9) and Google Stores (#4, rating 4.8) with more than 1.3m downloads.**
- **Pocketbook, Australia's leading personal financial management app has over 747k users.**
- **Strengthened the executive team with a number of key appointments (across product, commercial, marketing, people and culture).**
- **Successful capital raising of \$62 million (before costs) from institutional, sophisticated and retail investors. Launched world first master trust program in the BNPL sector with an initial \$500 million issuance.**

CEO UPDATE

Zip Managing Director and CEO Larry Diamond said:

"The December half was another record for the Company and confirmation of the hard work and dedication of the entire Zip team, together with the support of our extensive customer and retailer community.

We saw record results across all key drivers: customer engagement, transactions, in-store volume and revenue. We are pleased to report that we are ahead of our expectations for FY20 and are seeing significant growth opportunities in the recently added NZ and UK markets.

Zip was founded six 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 customers.

Our investment in 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 both in AU and now abroad."

FOCUS ON GROWTH

In FY20 Zip is focused on 3 key growth areas, with the latest status updates provided below.

1. Focus on Core:

- Strong momentum across core metrics – 95% growth in transaction volume and 140% growth in transactions over H1FY19.
- Launched Zip's first brand campaign in Q2 and dramatically improved awareness, with 1 in 3 Australians having heard of Zip (vs 1 in 4 prior to the campaign).
- Investment in the app, inclusion of new, lighthouse brands and the attraction of interest free terms drove increased customer engagement and transactions:
 - App usage was up 105% year on year
 - New customers transacting 25% more often than prior year cohorts
 - 33% increase in transactions per active customer compared to early 2019
- The merchant acceptance network expanded by 4.7k new retailers including: Amazon, Ola, Optus and Freedom across ANZ.

2. Product Innovation:

- Demonstrated strong demand for Zip Biz, with pilot SMEs transacting over 3x per month.
- Streamlined ID verification with OCR and facial ID technology to support seamless onboarding.
- Continued improvement in both the online and in-store payment experience with new features including one-click checkout, QR code and native mobile SDK.

3. Global Expansion:

- NZ showing good momentum since acquisition, with customer numbers up 81% in H1. Net transaction margin was over 2% and losses remained stable at 1%.
- Success in onboarding AU clients in NZ under regional agreements – recent retailer wins include Bunnings NZ and Mighty Ape.
- Appointed UK MD, Anthony Drury in Jan '20, currently building out sales channels and partners. Significant investment in platform in preparation of an official launch in Q4 FY20.
- Strategic investments in BNPL players, QuadPay (US) and Payflex (South Africa), are paying off. Unlocking strong synergies across the group.

RECEIVABLES AND CREDIT UPDATE

Gross receivables for the Group was \$1,035.2 million at 31 December 2019, a 52% increase on the \$682.6 million reported at 30 June 2019.

Customer receivables was \$997.0 million, a 46% increase on the balance at 30 June 2019. The repayment profile remains healthy, equating to the book recycling approximately every 7.5 months (13% of the opening receivables balance repaid each month). Reported arrears were 1.58% at 31 December 2019, with net bad debts of 1.68%, well below industry benchmarks. The strong performance of the receivables is validation of the investment in our market leading credit decisioning and upfront customer diligence.

Business receivables (Spotcap) were \$36.9 million at 31 December 2019, the arrears rate was 1.94% and bad debts written off 2.50%.

FINANCIAL UPDATE

The Company generated positive Cash EBTDA of \$1.5 million (excluding acquisition costs) compared to \$2.4 million in the six months to December 2018 – in line with guidance, as it invested for growth. Operating costs increased as a result of Zip's first ever brand campaign, together with material investments in product, engineering and data sciences.

Excluding the impact of acquisition costs, Cash EBTDA was 0.2% of average quarterly receivables, compared to 0.9% in H1FY19. This comprised Revenue yield of 16.4%, Cash Cost of Sales of 8.0%, and Cash Operating Costs of 8.2%.

FUNDING UPDATE

The Company completed the first issuance of the Zip Master Trust in August raising \$475.0 million. This was the largest issuance by a fintech in Australia and the first globally in the BNPL sector.

Facilities in place of \$1,006.5 million available to fund customer receivables, drawn \$903.5 million at 31 December 2019. Facilities were increased by \$139.5 million in January bringing undrawn facilities to \$242.5 million.

Facilities in place to fund New Zealand and small business receivables were \$24.4 million, drawn \$21.6 million at 31 December 2019. Facilities were increased by \$14.0 million in January increasing bringing undrawn facilities to \$16.8 million.

CORPORATE ACTIVITY

The Company acquired global BNPL technology platform PartPay Limited, providing Zip exposure to four key geographies: New Zealand, United Kingdom, United States (QuadPay) and South Africa (Payflex). Zip invested a further A\$17 million in QuadPay bringing its stake up to 15%.

In the half, Zip also acquired SME lender Spotcap in Australia and New Zealand. The Spotcap technology platform provides Zip with a market-leading commercial credit decisioning engine that leverages traditional credit data, accounting data and bank transactional data to provide real-time onboarding and has already been integrated into the Zip Biz SME product offering.

EXECUTIVE APPOINTMENTS

Zip continued to bolster its executive team, adding a number of world class and experienced leaders, as it transitions into a global player. The most recent appointments include:

- Anna Buber-Farovich to the position of Chief People & Culture Officer. Anna has 15+ years of transformational HR and people development experience. Formerly at Google and Marvell Technology.

- Hamish Moline to the position of Chief Commercial Officer. Hamish has 20+ years of digital brand experience in partnerships and leading global expansion strategy. Formerly at Visa, PayPal and eBay.
- Steve Brennen to the position of Chief Customer Officer. Steve was formerly Director of Marketing at Uber, eBay and PayPal, and was recently awarded top honours in the CM050 list for 2019.
- Patrick Collins to the position of Chief Product Officer. Patrick was formerly SVP Product and Engineering at Moovweb, and founder of the Aussie Founders Network based out of Silicon Valley.
- Anthony Drury to the position of Managing Director, Zip UK. Anthony has 20+ years' experience in retail, travel and payments. He was formerly at American Express, PayPal and EasyJet.

REGULATORY ENVIRONMENT

Zip is taking a leadership position and actively engaging with regulators, industry groups and government to help shape the sector's regulatory environment. Given Zip's robust business model and focus on financial responsibility, Zip remains well placed in the regulatory environment.

Reviews, consultations and active engagements under way include:

- The *AFIA BNPL Code of Practice* industry consultation.
- Ongoing ASIC review of the BNPL industry and updated market survey.
- RBA review of Retail Payments Regulation and focus on BNPL surcharging.
- The Royal Commission recommendation to remove the point-of-sale exemption.
- The Senate Select Committee on Fintech and Regtech.
- Consumer data right (CDR) and Open Banking.

Zip Executive Director and COO Peter Gray said:

"Zip is encouraged by the regulatory and government focus on the fast growing BNPL segment. We fully support regulations that deliver minimum standards and appropriate levels of consumer protection. We are actively engaged with various stakeholders to encourage the ongoing use of technology and innovation in order to deliver consumers choice and better outcomes. Although there are a number of reviews underway, we do not see any future disruptions to our business model."

FY20 FINANCIAL TARGETS

Zip is tracking well against its FY20 financial targets:

- Zip is now annualising at transaction volumes of \$2.3 billion for Q2, against a target for EOFY 2020 of \$2.2 billion.
- Zip currently has 1.8 million customers with an active Zip account against an EOFY 2020 global target of 2.5 million.

- ENDS -

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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, 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. The Company has offices in Sydney, Melbourne, Brisbane, Auckland and London.

For more information, visit: www.zip.co

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