



24 July 2019

Q4 FY19 QUARTERLY UPDATE
ZIP SMASHES TARGETS

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly update for the period ending 30 June 2019 (**Q4 FY19**).

HIGHLIGHTS

- **Zip exceeded all financial targets set at the beginning of FY19 – transaction volume up 108% on prior year to \$1.1bn (target: \$1.0bn), customer numbers up 80% to 1.3 million (target: 1.0 million) and grew rapidly whilst improving cash EBTDA.**
- **Record quarterly revenue of \$27.0m, up 17% on Q3.**
- **Receivables increased to \$682.6m, up 21% on Q3.**
- **Quarterly transaction volume of \$351.8m, up 105% year on year, with June volume over \$130m.**
- **Customer numbers increased to over 1.3 million, up 159k in the quarter, an increase of 14% on Q3.**
- **Zip App achieved a top 10 ranking across both the Apple (#7) and Google Stores (#7).**
- **Delivered market-leading credit performance with net bad debts 1.63%, down from 1.75% in Q3.**
- **Operating leverage continues with scale – costs (as a percentage of average receivables), fell from 15.5% in Q3 to 14.8% in Q4.**
- **Signed Australian specialty fashion retailer Just Group with iconic brands: Smiggle, Peter Alexander, Just Jeans, Jay Jays, Portmans, Jacqui E and Dotti.**
- **Kmart Australia, Bing Lee, and Freedom joined the platform in the quarter, with a number of other major retailers in advanced discussions.**
- **Signed partnership agreement with Tyro, a leading provider of EFTPOS terminals servicing approximately 20,000 merchants.**
- **Natively integrated into leading ecommerce platform, BigCommerce, enabling Zip for thousands of Australian sites.**
- **Personal finance manager app, Pocketbook finished the quarter with a total user base of c.700,000.**

Managing Director and CEO Larry Diamond said:

“We are pleased to report another record quarter with revenue of \$27.0 million, and strong growth across all key drivers – receivables, transaction volumes, customers and merchants.”

We signed a number of strategic payments partnerships (Tyro, Adyen) as well as continued to onboard well-known enterprise clients to the platform – Just Group and Kmart Australia being the standouts.

We finished FY19 with a strong end of financial year, having achieved all financial targets set at the beginning of the year. We also processed over \$1.1 billion on the Zip platform up 108% from \$542.9 million the prior year. This included online and physical experiences, with instore payment volume now representing ~40% of total payment volume.

As a credit card disruptor, we continue to see large numbers of customers adopt the Zip interest free digital wallet as we strive to be the first payment choice everywhere and every day.”

KEY OPERATIONAL METRICS

The Company has continued to deliver rapid growth in its underlying operations, as outlined below:

Financial and Operational Performance	Q4 FY19 Results (unaudited)	% increase on Q3 FY19 (unaudited)	% increase on Q4 FY18 (unaudited)
Revenue	\$27.0m	17% ↑	105% ↑
Merchants ¹	16,249	13% ↑	54% ↑
Customers ²	1,325,052	14% ↑	80% ↑
Receivables ³	\$682.6m	21% ↑	115% ↑
Transaction volume	\$351.8m	25% ↑	105% ↑
Transactions	1,608,414	30% ↑	166% ↑

1. Number of accredited merchants
2. Number of active customer accounts (not including Pocketbook users)
3. Amounts due from Customers

The 2019 financial year saw Zip significantly increase the number of merchants on the payments platform, finishing the year with over 36,000 points of presence where customers can check out with Zip at over 16,200 merchants. We also introduced personalised promotions to our customers, along with new features such as search for local dentists, simplified repayments, gift card purchases, along with numerous engagement initiatives aimed at delivering increased customer usage.

As a result of these activities, Zip has seen the average receivables balance on active customer accounts increase by 20% over the last twelve months, and the average number of transactions undertaken by a customer in a month increase by over 30%. Additionally, consistent with Zip's strategy of penetrating everyday spend, the average transaction value on a Zip account dropped by 25% to \$217. Interestingly this compares with \$103 for Visa and Mastercard, and \$229 for American Express (RBA 2019, Zip estimates).

NATIVE APP UPDATE

The Zip native App, launched in August last year, continues to drive enormous engagement value for the Zip platform and is quickly becoming the centrepiece in the relationship between the Company and its users:

- Total downloads across IOS and Android is now over 891,000 with monthly active users (MAUs) up significantly over the quarter.
- Ranked #7 in the finance category in Google Play with a customer rating 4.8 (Android) and ranked #7 in the shopping category in Apple Store with a customer rating of 4.9 (IOS).

FINANCIAL DASHBOARD

The Company delivered another quarter of positive Cash EBTDA (cash earnings before tax depreciation and amortisation) reporting EBTDA of 2.2% of average receivables in Q4, compared to 1.7% in Q3. Both Cash Cost of Sales and Cash Operating Costs as a percentage of average receivables continue to trend down demonstrating the significant leverage in the cost base:

- **Revenue Yield** – The yield on the receivables portfolio was 17.0% in Q4 (compared to 17.2% in Q3), largely due to lower average merchant fees from those enterprise merchants onboarded earlier in the financial year, which made a relatively larger contribution to transaction volumes in Q4. Revenue Yield incorporates portfolio income and excludes other income.
- **Cash Cost of Sales** – Cash Cost of Sales as a percentage of quarterly average receivables fell from 8.2% in Q3 to 7.7% in Q4. Cash Cost of Sales comprise interest, bank fees, data costs and bad debts written-off.
- **Cash Operating Costs** – Cash Operating Costs as a percentage of quarterly average receivables fell from 7.3% in Q3 to 7.1%. Cash Operating Costs comprise all other costs, excluding non-cash costs (funding program establishment costs amortisation, share based payments, depreciation and amortisation).

CAPITAL RAISING

Following the c.\$57 million capital raise last quarter Zip has progressed its plans to accelerate a range of growth initiatives and future partnerships as well as strengthen the Company's balance sheet. Further details will be provided with the release of the Company's results in August 2019.

As previously announced, the use of funds includes:

- **Product, Tech and Data Science** – Accelerate investment in core IP, capitalise on the in-store BNPL opportunity and develop new complementary offerings.
- **Customer Acquisition** – Aggressively drive new customer and partner acquisition.
- **Enter New Markets** – Move from pilot to rollout within New Zealand (first new market expansion).
- **Balance Sheet** – Strengthen the balance sheet and fast-track the delivery of a scalable, lower-cost funding program.
- **Pocketbook** – Expand the product range and begin monetizing the platform.

FUNDING UPDATE

The Company currently has total facilities available of \$731.5m, of which \$587.5m was drawn at the end of the quarter (\$144.0m undrawn).

Zip is in the process of launching the Zip Master Trust, which will allow the Company to scale its funding requirements and reduce its costs over the medium term. Zip will shortly mandate NAB to arrange a series of ABS investor meetings for the establishment of the Master Trust Programme and a potential issuance may follow subject to market conditions.

MERCHANT AND PARTNER UPDATE

Zip's merchant base continued to expand and there are now over 16,200 partners that accept Zip digital payments across ~36,000 points of presence both online and in-store. New partners that went live on the platform in the quarter or currently in integration include:

Kmart Australia	Bing Lee	Freedom	Air Asia	Grill'd
Good Life Health Clubs	King Furniture	Focus On Furniture	Pharmacy Online	Betta Home Living
Just Jeans	Smiggle	Peter Alexander	Jay Jays	Portmans
Jacqui E	Dotti	General Pants	Colette Hayman	Poolwerx

We were delighted to sign one of Australia's leading specialty retailers, Just Group, part of ASX-listed Premier Investments (ASX: PMV) with iconic brands such as Smiggle, Peter Alexander, Just Jeans, Jay Jays, Portmans, Jacqui E and Dotti. We are due to go live towards the end of Q1 FY20.

During the quarter Zip signed a partnership agreement with Tyro one of Australia's leading providers of EFTPOS terminals that service approximately 20,000 merchants. This follows the signing of Adyen last quarter and is in line with our channel strategy to significantly increase points of acceptance for the Zip digital wallet.

We are excited to announce that we are now natively integrated into the BigCommerce platform, making Zip available to thousands of online retailers with just a few clicks. This integration is also strategically important as BigCommerce expand their footprint in Australia with more focus on the local market.

RECEIVABLES AND CREDIT UPDATE

The receivables book continues to perform across all key metrics, with bad debts a key standout once again:

- Receivables increased by 21% over the quarter to \$682.6m.
- The monthly customer repayment profile ranged between 13-14% (of the opening receivables balance repaid each month), which equates to the book recycling approximately every 7-8 months.
- Net bad debt write-offs (bad debts written-off less bad debt recoveries) were 1.63% at the end of the quarter compared to 1.75% at the end of Q3, gross bad debt write offs were 1.82%, compared to 1.95%.
- Reported arrears were 1.89% at the end of Q4, compared to 1.32% at the end of Q3.
- Zip wrote off \$3.4m in net bad debts in Q4, compared to \$2.7m written off in Q3.

POCKETBOOK

Pocketbook had another impressive quarter adding over 38,000 customers to the platform, taking user numbers to ~700,000. Last quarter Pocketbook also released its new Tax Return Calculator and Tax App calculator which combined have already seen over 14,000 downloads.

The Pocketbook team has grown over the quarter and as noted previously is set to expand the core feature set beyond tracking, budgeting and saving in Q1 FY20.

CONCLUSION

In summary, the Company has delivered on its strategy and objectives set for FY19 and is set up for a strong FY20 as evidenced by:

- Over \$1.1 billion in transaction volume processed on platform in the financial year.
- More than 1.3 million Zip active customer accounts.
- Continued growth across all key operating metrics, transactions, customers and merchants.
- Strong growth in the merchant base with significant enterprise partners including Kmart Australia, Just Group and Bing Lee joining the payments platform.
- Sixth consecutive quarter of positive operating cashflow and positive Cash EBTDA.
- Native App has enjoyed over 891,000 downloads since launch in August 2018 and continues to remain a top 10 app in the App Stores.

The Company is very well placed to continue its rapid growth and will be providing a growth outlook statement to market in the FY19 full year results presentation in August 2019.

– ENDS –

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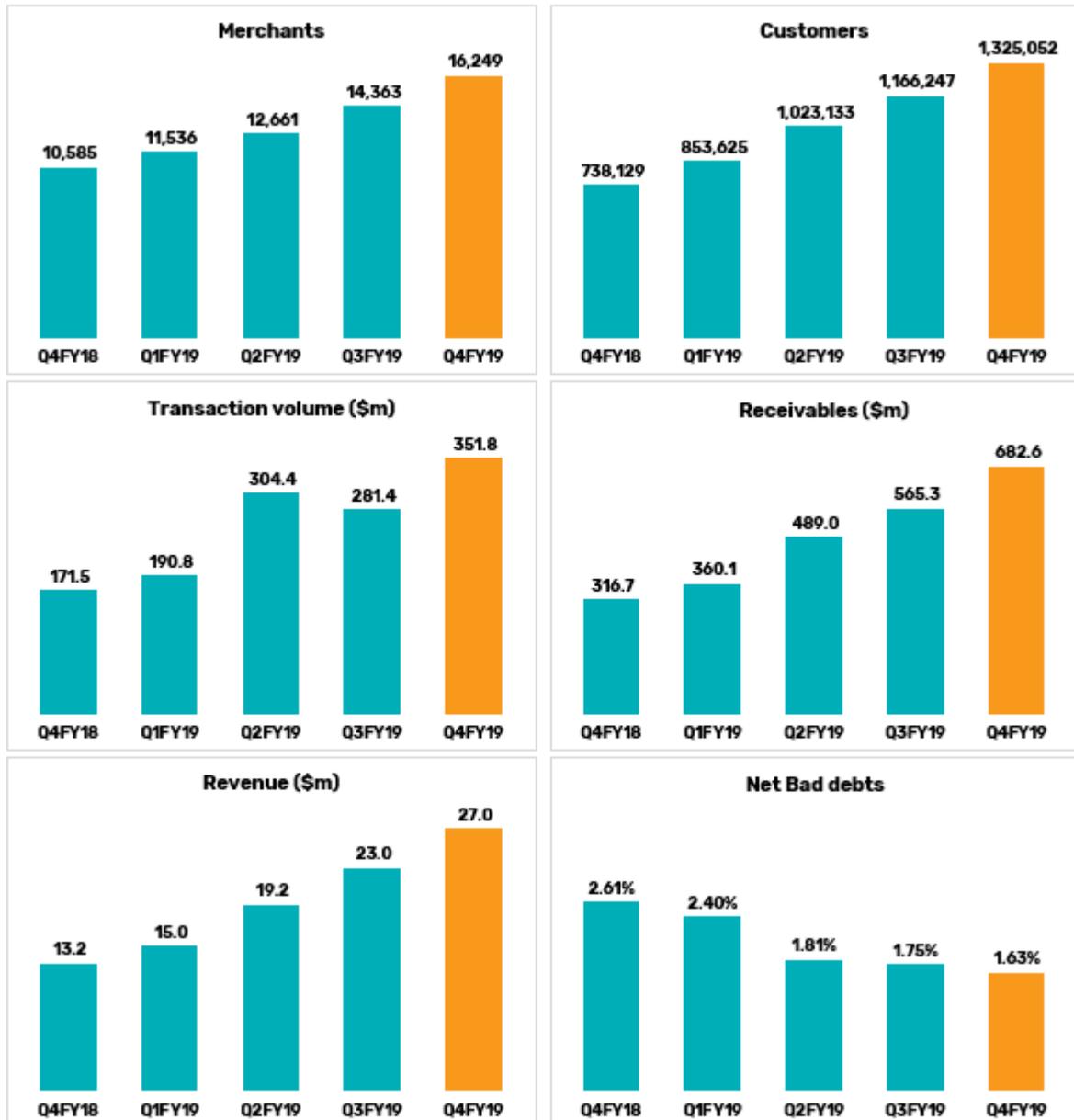
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About Zip

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.

For more information, visit: www.zip.co

KEY BUSINESS DRIVERS



Notes: (i) Based on unaudited financials; (ii) Receivables gross, before provisions; (iii) Revenue including Portfolio and Other Income; and (iv) 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



Notes: (i) All figures expressed as a percentage of quarterly average receivables. All figures are on an annualised basis; (ii) Cash cost of sales includes interest, bank fees, data costs, and bad debts written-off; (iii) Cash operating costs exclude funding program establishment costs, share based payments, depreciation and amortisation.