



29 April 2019

Q3 FY19 QUARTERLY UPDATE
ZIP DELIVERS RECORD QUARTERLY REVENUE

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to announce its quarterly update for the period ending 31 March 2019 (**Q3 FY19**).

HIGHLIGHTS

- **Record quarterly revenue of \$23.0m, up 20% on Q2.**
- **Receivables increased to \$565.3m, up 16% on Q2.**
- **Transaction volume of \$281.4m, up 107% year on year. Transaction volume for March back above \$100m levels.**
- **Customer numbers increased to 1.2 million, up 143k in the quarter, an increase of 14% on Q2.**
- **Market-leading credit performance with net bad debts 1.75%, down from 1.81% in Q2.**
- **Operating leverage continues with scale – costs (as a percentage of average receivables), fell from 16.1% in Q2 to 15.5% in Q3.**
- **Raised \$56.7 million (before costs) in equity capital.**
- **Signed wholesale agreement with global payments provider Adyen, allowing them to market Zip to their Australian clients.**
- **Chemist Warehouse, General Pants and Lorna Jane joined the platform, with a strong enterprise pipeline going into Q3.**
- **Zip officially launched in New Zealand, supporting the roll out of Super Retail Group.**

Managing Director and CEO Larry Diamond said:

"We are pleased to report another record quarter with revenue of \$23.0m, and strong growth in receivables, in what is traditionally the weakest seasonal quarter in retail sales and transaction volumes. Although transaction volume fell 8%, total transaction numbers were flat over the quarter as our focus on driving monthly active usage generated positive results. We continued to sign well-known enterprise clients to the platform – Chemist Warehouse being the standout.

We successfully raised ~\$57m in equity to accelerate growth and capitalise on the large market opportunity before us in the BNPL and credit card sectors. We would like to thank all those who participated in the capital raise for their strong support that resulted in oversubscriptions in both the Share Placement and the Share Purchase Plan.

Zip participated in the Senate inquiry into "credit and financial services targeted at Australians at risk of financial hardship" during the quarter and was pleased to see that the Senate Committee's recommendations were in line with Zip's current practices. We also saw equity market conditions improve as the clouds of uncertainty over the sector were finally cleared.

Following four successive quarters of positive net cash from operating activities, Zip is no longer required to prepare an Appendix 4C, but intends to continue to provide regular business updates to keep the market informed on its progress."

KEY OPERATIONAL METRICS

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

Financial and Operational Performance	Q3 FY19 Results (unaudited)	% increase on Q2 FY19 (unaudited)	% increase on Q3 FY18 (unaudited)
Revenue	\$23.0m	20% ↑	105% ↑
Merchants ¹	14,363	13% ↑	60% ↑
Customers ²	1,166,247	14% ↑	86% ↑
Receivables ³	\$565.3m	16% ↑	113% ↑
Transaction volume	\$281.4m	8% ↓	107% ↑
Transactions	1,237,320	0%	162% ↑

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

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 now tally over 740k with monthly active users (MAUs) up significantly over the quarter.
- Ranking #5 in the finance category in Google Play with a customer rating 4.8 (Android), and ranking #10 in the shopping category in Apple Store with a customer rating of 4.9 (IOS).
- A range of new features and updates were recently released including maps, in-store payments, user onboarding 'welcome series' and lifecycle management.

FINANCIAL DASHBOARD

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

- **Revenue Yield** – The yield on the receivables portfolio decreased to 17.2% in Q3 (compared to 17.8% in Q2), 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 Q3. 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 8.3% in Q2 to 8.2% in Q3. 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 reduced to 7.3% from 7.8% in Q2. Cash Operating Costs comprise all other costs, excluding non-cash costs (funding program establishment costs amortisation, share based payments, depreciation and amortisation).

CAPITAL RAISING

In March, Zip raised a total of \$56.7 million in equity (before costs), with the final settlement in April. Both the Share Placement and Share Purchase Plan were heavily oversubscribed. The raising comprised:

- \$42.8 million by way of a Placement at \$1.53 to new and existing institutional, sophisticated and professional investors;
- \$8.9 million from Westpac as it exercised the Top-up Right granted to it at the time of its original investment; and
- \$5.0 million under a Share Purchase Plan.

As announced, proceeds are to be used to accelerate a range of growth initiatives and strengthen the Company's balance sheet. 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.

Following the successful raise, management has adjusted its FY20 planning to include a range of new growth opportunities and future partnerships.

FUNDING UPDATE

At the end of the quarter, the Company had total facilities available of \$631.5 million, having agreed an increase in the NAB facility of \$100 million in January 2019. An amount of \$522.5 million was drawn at the end of the quarter (\$109m undrawn).

The Company is pleased to announce it has come to an agreement with both NAB and FIIG as primary funders of the zipMoney 2017-1 Trust to extend the Trust for an additional two years. The terms provide for the Group to be able to sell assets into a new Zip Master Trust structure once the new Master Trust program has become operational. The Zip Master Trust structure will deliver greater scale at a lower cost and is expected to be announced in Q4 FY19.

MERCHANT AND PARTNER UPDATE

Zip's merchant base continued to expand and there are now over 14,300 partners that accept Zip digital payments. New partners that went live on the platform in the quarter or currently in integration include:

Retail Apparel Group	Lorna Jane	Decathlon	Lego	Plush
Drummond Golf	Bupa Health Services	Strathfield Car Radio	Bob Jane T-Marts	Stratco
Decathlon	Koala Living	Supercheap Auto NZ	Computer Alliance	Tradelink

Zip signed a wholesale agreement with global payments group Adyen during the quarter. Under the terms of the agreement with Adyen, Zip is enabled as an integrated payment option for all Retailers using the Adyen platform (both online and instore) making go-live a simple proposition for businesses. This is the first material wholesale agreement Zip has entered into with a global payments company, supporting Zip's strategy to leverage channels to enable multiple acceptance points under a single commercial relationship. Further agreements of this nature are expected to be signed in due course.

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 16% over the quarter to \$565.3m.
- The customer repayment profile remains at a healthy 14% (of the opening receivables balance repaid each month), which equates to the book recycling approximately every 7 months.
- Net bad debt write-offs (bad debts written-off less bad debt recoveries) were 1.75% at the end of the quarter compared to 1.81% at the end of Q2, gross bad debt write offs were 1.95%, compared to 2.05%.
- Reported arrears were 1.32% at the end of Q3, compared to 1.40% at the end of Q2.
- Zip wrote off \$2.7 million in net bad debts in Q3, compared to \$2.3m written off in Q2.

POCKETBOOK

Pocketbook had another impressive quarter adding over 60k customers to the platform (+10% growth for the quarter), taking user numbers to 660,000. Engagement statistics, including Monthly Active Users (MAUs) also spiked during a seasonally stronger period, with many customers coming back into the app to get on top of their financial health at the start of the new calendar year.

Management is investing further into the app, beginning in Q4 FY19 as it seeks to expand beyond tracking, budgeting and saving. In an environment of digital banking, the Pocketbook business presents an exciting asset with a very large user base and a healthy head start. Management will update the market at the end of Q4 FY19 on the next phase of the product roadmap.

CONCLUSION

In summary, the Company has delivered on its strategy and objectives and is well positioned to continue its growth trajectory in FY19 and beyond, as evidenced by:

- Continued growth across most key operating metrics, in what is a traditionally weaker seasonal quarter.
- Continued and ongoing commitment to achieve cashflow breakeven on a monthly basis.
- Strong growth in our merchant base with significant enterprise partners including Chemist Warehouse, Retail Apparel Group and BUPA Health Services joining the payments platform.
- Fifth consecutive quarter of positive operating cashflow and positive Cash EBTDA.
- Native App has enjoyed over 740,000 downloads since launch in August 2018 and continues to remain a top 10 app in the App Stores.
- Execution of the channel strategy to significantly increase points of acceptance for the Zip digital wallet, and support the roll-out of small and medium size (SME) businesses.
- Continued push into every day spend categories to grow from a BNPL operator to a true credit card disruptor.

The Company is very well placed to continue its rapid growth, delivering on strategy and guidance, and will continue to take advantage of operating leverage as it continues to scale.

– ENDS –

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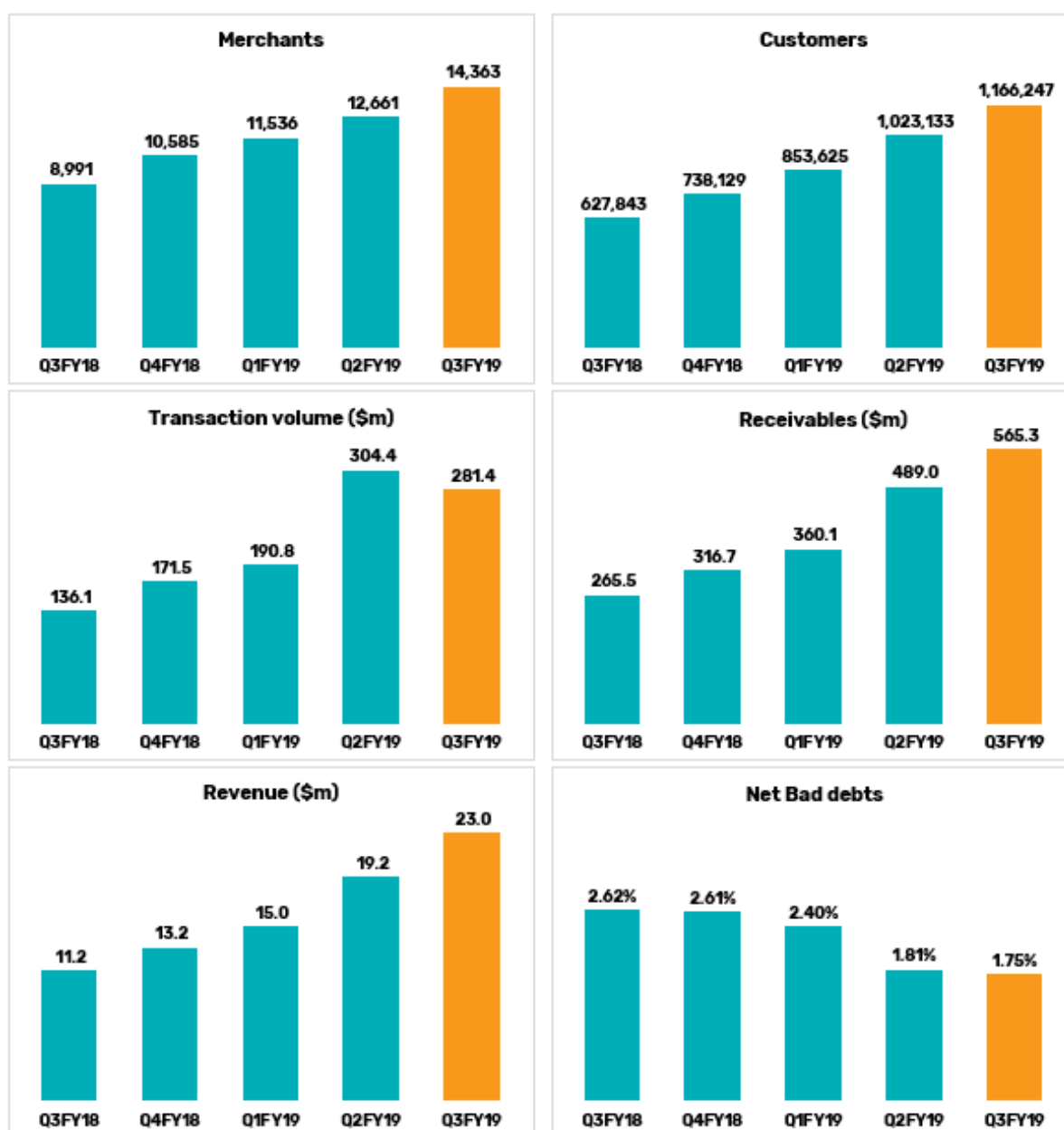
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About Zip

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.