

21 April 2022

Q3 FY22 RESULTS UPDATE

ZIP ACCELERATES PATH TO PROFITABILITY

Zip Co Limited (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announced its third quarter results for the period ending 31 March 2022 (“**Q3 FY22**”).

KEY HIGHLIGHTS

- Group quarterly revenue of \$159.2m (up 39% YoY).
- Transaction volume for the quarter of \$2.1b (up 27% YoY).
- Transaction numbers for the quarter of 18.3m (up 48% YoY).
- Customer numbers increased to 11.4m (up 78% YoY).
- Merchants on the platform lifted to 86.2k (up 90% YoY).
- Signed key enterprise merchants, including Best Buy and eBay Australia.
- Cash transaction margin was strong at 2.3% (vs 2.1% in H1).
- Zip announced the proposed acquisition of US BNPL Sezzle (ASX:SZL). The transaction is expected to significantly enhance Zip’s scale and offering in the key US market, accelerating growth and delivering significant synergies, which will support the group’s path to EBTDA profitability and positive cash flow during FY24.
- In line with strategic objectives outlined as part of our recent HY22 results update, Zip has undertaken a series of proactive steps to reduce its global and people cost base. On the people side these actions are expected to decrease global people costs by \$30m+ in FY23.
- Zip successfully raised a total of \$172.7m through a fully underwritten institutional placement and a share purchase plan. Zip is now in a strong position with \$303.4m in available cash and liquidity - this excludes the SPP proceeds of \$24m which were received in April - which is expected to be sufficient capital to see the Company through to cash flow break even in FY24.
- Zip has changed its ASX ticker to ZIP (from Z1P). From the commencement of trade on 21 April 2022, Zip will trade under its new ticker “ZIP”.

CEO UPDATE

Zip Co-Founder and Global CEO, Larry Diamond said:

“In the half year results we acknowledged a change in external factors and announced several adjustments to our strategy - with a refined focus on sustainable growth, strong unit

economics and fast tracking profitability. The quarter saw us continue to deliver top line growth and strong revenue margins, while beginning to implement this refreshed strategy.

The Sezzle acquisition remains on track and will deliver significant scale and synergies, directly supporting our objective of accelerating and winning in our core US market, and building a profitable business at scale.

Our merchant pipeline is exceptionally healthy and we look forward to welcoming game changing merchants to the platform in Q4.

The underlying business remains strong, we are well funded and positioned to execute on the significant market opportunity as we aim to take control of our future. We are well on our way to disrupting the unfair and broken credit card, with a better and fairer digital alternative for the customer of tomorrow.”

BUSINESS PERFORMANCE

Zip continues to deliver in what is typically a weaker seasonal quarter with strong results across its consumer operations in the United States, Australia, New Zealand and Rest of World (“RoW”)¹:

Reported figures based on Zip’s unaudited financials as of 31 March 2022.

Financial Performance ² (AUD)	Q3 FY22	QoQ	YoY
Revenue	\$155.0m	4% ↓	38% ↑
USA	\$68.5m	13% ↓	26% ↑
ANZ	\$78.0m	3% ↑	35% ↑
Rest of World ¹	\$8.5m	29% ↑	N/A (166% ↑ YoY pro forma)
Transaction Volume	\$2,021.2m	21% ↓	26% ↑
USA	\$973.3m	16% ↓	28% ↑
ANZ	\$893.1m	30% ↓	7% ↑
Rest of World ¹	\$154.8m	30% ↑	N/A (144% ↑ YoY pro forma)
Transactions	18.3m	16% ↓	48% ↑
USA	5.6m	14% ↓	24% ↑
ANZ	10.3m	23% ↓	30% ↑
Rest of World ¹	2.4m	33% ↑	N/A (50% ↑ YoY pro forma)

¹ Rest of World includes Canada, Mexico, Payflex (South Africa), Spotii (UAE & KSA), Twisto (Poland & Czech Republic) and the UK.

² Unaudited management accounts. All financial figures are translated into AUD using the average quarterly foreign exchange rates for the respective quarter.

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Operational Performance	As at 31 Mar 2022	QoQ	YoY
Customers³	11.4m	15% ↑	78% ↑
USA	6.6m	16% ↑	74% ↑
ANZ	3.1m	3% ↑	19% ↑
Rest of World ¹	1.7m	42% ↑	N/A
			(113% ↑ YoY pro forma)
Merchants⁴	86.2k	5% ↑	90% ↑
USA	19.7k	6% ↑	52% ↑
ANZ	41.5k	3% ↑	28% ↑
Rest of World ¹	25.0k	8% ↑	N/A
			(1,686% ↑ YoY pro forma)

GROUP UPDATES

In line with our strategic objectives outlined in our H1 results, Zip continues to focus on sustainable growth, unit economics and delivering on EBTD profitably and positive cash flow during FY24.

Growth - More value for merchants

Zip has entered agreements with a number of enterprise merchants this quarter in both Australia and the US which are expected to drive top line growth. The merchant pipeline in these core markets remains very healthy, with a number of additional large enterprise partners at the contracting stage. Specifically, Zip is pleased to announce partnerships with two marquee names:

- Best Buy:** Zip has entered into a merchant services arrangement with NYSE-listed Best Buy (NYSE: BBY). During an initial pilot, Zip's product will be used across Best Buy's online and in-store platforms in the US. In FY22, Best Buy delivered US\$47b in sales of which online was approximately 34%. The pilot is expected to commence during Q4 and the extension of services beyond the initial term will be subject to the performance during the pilot period.
- eBay:** Zip Pay and Zip Money will be available as payment options to buyers on eBay Australia in the coming months. eBay is the largest online marketplace in Australia and this relationship delivers on Zip's strategy to partner with key enterprise merchants in our core markets.

Growth - Sezzle update

In connection with Zip's pending acquisition of Sezzle Inc., the waiting period under Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, expired on April 18, 2022. Therefore, the corresponding closing condition under the definitive merger agreement has been satisfied. The transaction remains subject to the satisfaction or waiver of other customary closing conditions, including the receipt of the requisite approval by the Zip shareholders and the Sezzle stockholders.

³ Number of active customer accounts.

⁴ Number of accredited merchants.

The transaction is expected to deliver potential cost and revenue synergies of up to c. A\$130m in FY24 and supports Zip's accelerated path to EBTDA to profitability and positive cash flow during FY24.

Unit Economics - Managing credit performance

Due to a combination of both internal and external factors, credit losses increased outside our target range. Zip is executing on adjustments to its risk settings to drive down credit losses towards target levels, while still maintaining top line growth.

- Zip US has initiated a range of actions to deliver better outcomes with regards to credit performance, including the rollout of new machine learning models and comprehensive diagnostic analysis. These adjustments have seen an immediate improvement in February and March cohorts, with losses from these cohorts tracking at 2.2% of TTV. Further fine tuning and optimisation is expected to see losses continue to trend towards our target level of 2% and below in the medium term.
- In AU, adjustments to risk settings for both new and existing customers have been implemented, along with initiatives undertaken on portfolio management and collections, which combined are expected to see performance trend back to target levels in H1 FY23.
- As previously disclosed at our H1 results, the group expects H2 losses to remain at similar levels to H1 (c. 2.6%), as losses from volume written in H1 are realised. We expect the initiatives and actions outlined above to drive improved performance throughout Q4 and into FY23, trending towards our medium-term targets of <2% of TTV.
- For the quarter, our revenue and cash transaction margins remained healthy at 7.7%, and 2.3%, respectively.

Accelerating path to profitability - Cost management

Earlier this month, Zip made a number of proactive changes to its global cost base that are expected to decrease global people costs by approximately \$30m+ in FY23.

This process involved an internal re-organisation to support more efficient growth in the core ANZ and US markets, while streamlining our costs to support RoW.

Additional initiatives across procurement and automation are also underway, and these will be realised in the coming quarters.

A financially fearless world: Zip hired a number of key roles in the quarter and continues to invest in social and financial wellbeing initiatives. Key achievements this period include:

- Ram Muthaiyan joined as Chief Credit Officer in the key US market, bringing 17 years' experience from JP Morgan across a number of disciplines.
- The ANZ leadership team will be further strengthened with George Gorman joining as ANZ Chief Technology Officer in June.

- Exceeding our group target, Zip achieved 42% representation of women across our global workforce. Zip also renewed its partnership with Women Who Code, a global not-for-profit empowering women in technology careers.
- Launched a partnership with Zolo, Australia's first tech-cycling service to recycle Zip and Zip employee's e-waste in Australia.

REGIONAL UPDATES

Zip US

All key operating metrics include Zip's consumer operations in the US based on Zip's unaudited financials as of 31 March 2022.

Financial Performance ²	Q3 FY22 (USD)	QoQ (USD)	YoY (USD)
Revenue	\$49.5m	14% ↓	18% ↑
Transaction volume	\$704.6m	17% ↓	20% ↑
Transactions	5.6m	14% ↓	24% ↑

Operational Performance	As at 31 March 2022	QoQ	YoY
Customers ³	6.6m	16% ↑	74% ↑
Merchants ⁴	19.7k	6% ↑	52% ↑

Key highlights in the US included:

- Strong growth in customer numbers, up 74% YoY, led by continued merchant growth and improved brand awareness.
- Solid top line growth, despite external economic uncertainty, in what is typically a weaker seasonal quarter, off the back of record numbers in Q2.
- In addition to the pilot with Best Buy, which is due to go live in the next few weeks, a number of new merchants were signed in Q3, including American department store Gabe's, American discount retailer Citi Trends, and spa franchise Hand & Stone.
- We also launched in a number of differentiated merchant categories including auto, with industry brands CarParts and Driven Brands, supporting our focus on in-store distribution. Zip continues to build a solid merchant pipeline, strengthening our penetration in the consumer electronics, automotive and service industries.
- Key improvements were made to the mobile app checkout flow, driving an improved user experience for customers, while driving increased demand towards merchant partners.
- A cross-functional effort is underway with WebBank, our bank partner, to finalize the rollout and implementation of Zip app transactions under a banking partnership program.

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The partnership is set to launch towards the end of April, and will enable the scaling of physical cards, a key strategic in-store initiative.

Zip ANZ

All key operating metrics include Zip's consumer operations in Australia and New Zealand based on Zip's unaudited financials as of 31 March 2022.

Financial Performance ²	Q3 FY22 (AUD)	QoQ	YoY
Revenue	\$78.0m	3% ↑	35% ↑
Transaction volume	\$893.1m	30% ↓	7% ↑
Transactions	10.3m	23% ↓	30% ↑

Operational Performance	As at 31 March 2022	QoQ	YoY
Customers ³	3.1m	3% ↑	19% ↑
Merchants ⁴	41.5k	3% ↑	28% ↑

Credit Performance ⁵ (AU)	As at 31 Mar 2022	As at 31 Dec 2021
Arrears	2.29%	1.64%
Net Bad Debts	3.40%	2.83%
Receivables	\$2,211.0m	\$2,164.2m

Key highlights in the ANZ business included:

- Strong Q3 revenue growth of 35% YoY, up 3% QoQ, despite a seasonally weaker quarter for TTV.
- Launched the *Pay* tab, the new 'one stop shop' for all payment tools in the Zip app. The product enhancement consolidates the market leading 8 'ways to pay' into a single location demonstrating our focus on delivering seamless customer experiences.
- Zip Money installments is now available everywhere online, giving our customers access to previously untapped verticals to pay in installments over time.
- In partnership with Pizza Hut, launched 'Login with Zip', a feature which allows customers to create (or sign in to) a Pizza Hut account using their Zip account. Since launch, the feature has delivered a 6% lift in checkout conversion for Pizza Hut.
- In addition to the eBay Australia agreement, a number of new merchants were signed or launched in the quarter, including: Nespresso, BIG4, Zjoosh, Klook and Ingenia.

⁵ Australian figures only. Arrears defined as those accounts greater than 60 days delinquent. Bad debts defined as those accounts greater than 180 days delinquent on an annualised basis. Receivables defined as amounts due from customers.

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- Released transaction enrichment for spending activity within the Zip app, helping our customers easily identify a transaction. This initiative is the first step in integrating experiences from Pocketbook into the Zip app.

Zip RoW

All key operating metrics include Zip's consumer operations from Canada, Mexico, Payflex (South Africa), Spotii (UAE & KSA), Twisto (Poland & Czech Republic) and the UK, based on Zip's unaudited financials as of 31 March 2022.

Financial Performance ²	Q3 FY22 (AUD)	QoQ (Actual)	YoY (Pro forma)
Revenue	\$8.5m	29% ↑	166% ↑
Transaction volume	\$154.8m	30% ↑	144% ↑
Transactions	2.4m	33% ↑	50% ↑

Operational Performance	As at 31 Mar 2022	QoQ (Actual)	YoY (Pro forma)
Customers ³	1.7m	42% ↑	113% ↑
Merchants ⁴	25.0k	8% ↑	1,686% ↑

Key highlights from Zip's RoW included:

- RoW continues to scale and now makes up over 5% of group revenue. Twisto, Spotii and Payflex all delivered record revenue in the quarter.
- In South Africa, Zip completed the acquisition of the leading BNPL provider Payflex.
- In the Middle East, Spotii delivered a record quarter for TTV with 13% QoQ growth⁶. We are also in the process of modifying our product construct in the Middle East to Pay-in-3 to better align with customer pay cycles, with early performance delivering improved cash and risk management.
- Zip's European business, Twisto, reached 1.1m customers and we launched Pay-in-3 product at merchant checkout in Czech and Poland. Three large PSP's (ComGate, Zen and TPay) signed up and are currently integrating, further solidifying Twisto's position as the leading BNPL player in its operating markets.
- New merchants signed or launched in Q3 include:
 - Mexico: Omnilife (+100 brands), Juguetron (including Lego and other toy brands), Weber, Mobo, Crocs, K-Swiss, Nautica and Lotto.
 - South Africa: Takealot (largest ecommerce company in South Africa), Zando and Puma, Webber, Le Creuset, Ben Sherman, Cans, Diesel, Superfry, Jeep and Hurley.

⁶ QoQ rate is a pro forma growth rate. The acquisition of Spotii was completed on 18 October 2021.

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- Middle East: PatPat, Arabian Automobiles, Majid Al Futtaim Gift Cards and Virgin Mobile.
- Canada: Clek, Fanatics, Lids, Famous Footwear and Naturalizer.
- UK: Revlon Hair Tools, Braun Shop, Mercedes Benz and GlossyBox.

ZIP BUSINESS

All key operating metrics include Zip's service offerings to small and medium-sized businesses across ANZ based on Zip's unaudited financials as of 31 March 2022

Financial Performance	Q3 FY22 (AUD)	QoQ	YoY
Revenue	\$4.2m	2% ↓	83% ↑
Transaction volume	\$38.9m	5% ↑	80% ↑

Operational Performance	As at 31 Mar 2022	QoQ	YoY
Customers	11.9k	8% ↑	170% ↑

Key highlights for Zip Business included:

- Zip Business achieved record TTV of \$38.9m, up 80% YoY.
- Signed with Coates, Australia's leading equipment hire and solutions provider, to support growing customer segments, including trades, carpenters, landscapers and plumbers when hiring tools and equipment at their 150 branches. The integration is currently in pilot with full launch expected in May.
- Signed and completed a payments integration with LEADER Computers, a national IT&T distributor and Australia's largest PC manufacturer.
- Product improvements including the ability to save BPay billers, as well as in app bill payments, delivered a 28% increase in usage.

CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at Mar 22	Maturity
AU	Zip Master Trust			
	- Rated Note Series			
	*2020-1	\$285.0m	\$285.0m	Oct-22
	*2021-1	\$475.0m	\$475.0m	Apr-24
	*2021-2	\$617.5m	\$617.5m	Sep-24
	- Variable Funding Note	\$535.4m	\$430.2m	Mar-24
	- Variable Funding Note 2	\$200.0m	\$10.0m	Jan-23
	2017-1 Trust	\$264.7m	\$211.0m	May-23
	2017-2 Trust	\$100.0m	\$47.0m	Sep-23
	Total	A\$2,477.6m	A\$2,075.7m	
US	AR2LLC	US\$300.0m	US\$131.9m	May-24
NZ	Zip NZ Trust 2021-1	NZ\$30.0m	NZ\$16.0m	Jul-23
EMEA	Twisto Czech	Kč 958.0m	Kč 510.0m	Mar 23
	Twisto Poland	€19.4m	€14.3m	Nov 22
	Payflex South Africa	R55.0m	R21.0m	Jan-25
	Total	A\$92.2m	A\$54.2m	
SME	Zip Business			
	- Capital Australia	\$60.0m	\$32.8m	Mar-24
	- Capital New Zealand	NZ\$12.0m	NZ\$8.0m	April-22
	- Trade/Trade+	\$100.0m	\$11.5m	Nov-23
	Total	A\$171.2m	A\$51.7m	

Key highlights included:

- As at 31 March, Zip AU had \$401.9m undrawn and available to fund receivables.
- The Zip Business (Capital) facility in Australia has been refinanced with NAB as the Senior funding partner. The facility has a limit of A\$60m with an availability period until March 2024.
- Zip Business NZ facility is currently under renewal and is at the documentation stage. The facility is expected to be renewed with an increased limit.
- Zip US has US\$168.1m undrawn and available to fund US receivables.
- Following an increase of Kč 300m in its Czech facility in the quarter, Twisto has debt facilities with a combined limit of €58.4m and an undrawn balance at 31 March of €23.4m.

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- Payflex has debt facilities with a combined limit of R55.0m and an undrawn balance at 31 March of R34.0m.
- Zip has \$303.4m in available cash and liquidity (excluding SPP proceeds received in April), and remains well placed with regards to its capital management and debt funding requirements.

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

- ENDS -

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About Zip

ASX-listed Zip Co Limited (ZIP: ASX) (ABN 58 164 440 993) is a leading global financial services company, offering innovative, people-centered products that bring customers and merchants together. On a mission to be the first payment choice everywhere and every day, Zip offers point-of-sale credit and digital payment services in 14 markets around the world, including through strategic investments, connecting millions of customers with its global network of tens of thousands of merchants.

One of the fastest growing BNPL providers globally, Zip has a presence in Australia, Canada, Czech Republic, India, Mexico, New Zealand, the Philippines, Poland, Saudi Arabia, Singapore, South Africa, UAE, the United Kingdom and the USA. Zip provides fair, flexible and transparent payment options to individual consumers and SMBs, helping them to take control of their financial future and helping merchants to grow their businesses. Zip is committed to responsible lending and also owns Pocketbook, a leading personal financial management tool. Zip is managed by a team with over 100 years' experience in retail finance and payments and is a licensed and regulated credit provider. Zip was founded in Australia in 2013.

For more information, visit: www.zip.co

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