

21 July 2022

Q4 FY22 RESULTS UPDATE ZIP EXECUTING ON CORE STRATEGY

Zip Co Limited (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announced its fourth quarter results for the three month period ending 30 June 2022 (“**Q4 FY22**”).

KEY HIGHLIGHTS

- Group quarterly revenue of \$160.1m (up 27% YoY).
- Transaction volume for the quarter of \$2.2b (up 20% YoY).
- Transaction numbers for the quarter of 19.4m (up 37% YoY).
- Customer numbers increased to 12.0m (up 64% YoY).
- Merchants on the platform lifted to 90.7k (up 77% YoY).
- Signed key enterprise merchants, including Qantas (in AU) and Bed Bath & Beyond (in the US). Best Buy went live during the quarter and eBay is expected to go live in the coming months in AU.
- Cash transaction margin remained strong at 2.4% (vs 2.3% in Q3).
- Revenue margin remained healthy at 7.5% (vs 7.8% in Q3).
- As at 30 June, Zip had available cash and liquidity of \$278.6m which is expected to be sufficient reserves to support the Company through to cash EBTDA profitability. The Company remains well placed with regards to its debt funding, with capacity of \$396.9m in AU and US\$183.1m in the US available to fund transaction and receivables growth.
- Earlier this month, Zip announced that in light of current macroeconomic and market conditions, Zip and Sezzle had mutually agreed to terminate the proposed acquisition of Sezzle by Zip.
- In line with its strategic objective to focus on the core markets of ANZ and the US, this quarter Zip has continued to make changes and decisions to right-size its global footprint and reduce group cash burn.

CEO UPDATE

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

"We are pleased to announce another solid set of results across our key operating metrics in Q4, demonstrating the continued strength of the Zip business. All this was done whilst balancing and implementing our updated financial strategy to fast-track profitability, by reducing our global cost base, and refocusing our capital and efforts on core products and core markets.

Given the significant and swift changes to the broader macro and capital environment since signing, Sezzle and Zip mutually agreed to terminate the proposed transaction, both businesses opting to focus on their core strategy. As Directors we saw this to be in the best interests of shareholders – we wish Charlie and the Sezzle team all the best in FY23. This coupled with recent decisions made, as well as ongoing strategic initiatives, will see the group reach cash EBTDA profitability earlier than anticipated.

As we celebrate our 9th birthday, we reflect on the incredible growth, from start-up pioneering the role of BNPL, to a publicly listed, global business with over 12m customers. Our role as a financial services technology provider is becoming even more crucial in the current climate as we support our customers and merchant partners through this inflationary period. The resilience of Zip and its business model has us well placed to thrive through this next stage of the journey and even though we are nine years in, it genuinely feels like we are only getting started!"

BUSINESS PERFORMANCE

Zip continues to deliver solid top line metrics with strong results across its consumer operations in the United States, Australia, New Zealand and Rest of World ("RoW")¹, despite growth being tempered by a deterioration in consumer sentiment and adjustments to risk settings.

Reported figures based on Zip's unaudited financials as of 30 June 2022. Differences in the growth rates presented below to the regional updates reflect changes to exchange rates versus the prior corresponding periods.

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

Financial Performance ² (AUD)	Q4 FY 22	QoQ	YoY
Revenue	\$155.4m	0%	27% ↑
USA	\$67.3m	2% ↓	12% ↑
ANZ	\$79.6m	2% ↑	30% ↑
RoW	\$8.5m	0%	n/a
			(73% ↑ YoY pro forma)
Transaction Volume	\$2,119.9m	5% ↑	20% ↑
USA	\$1,003.7m	3% ↑	17% ↑
ANZ	\$956.7m	7% ↑	7% ↑
RoW	\$159.5m	3% ↑	n/a
			(66% ↑ YoY pro forma)
Transactions	19.4m	6% ↑	37% ↑
USA	5.8m	4% ↑	18% ↑
ANZ	10.9m	6% ↑	18% ↑
RoW	2.7m	13% ↑	n/a
			(29% ↑ YoY pro forma)

Operational Performance	As at 30 Jun 22	QoQ	YoY
Customers³	12.0m	5% ↑	64% ↑
USA	7.0m	6% ↑	59% ↑
ANZ	3.2m	3% ↑	14% ↑
RoW	1.8m	6% ↑	n/a
			(86% ↑ YoY pro forma)
Merchants⁴	90.7k	5% ↑	77% ↑
USA	21.9k	11% ↑	40% ↑
ANZ	43.2k	4% ↑	22% ↑
RoW	25.6k	2% ↑	n/a
			(532% ↑ YoY pro forma)

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

³ Number of active customer accounts.

⁴ Number of accredited merchants.

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UPDATE ON GROUP STRATEGIC PRIORITIES

Zip continues to focus on sustainable growth, unit economics and delivering on cash EBTDA profitability and positive cash flow during FY24.

Growth

Sustainable growth in core markets remains a key focus. Despite adjustments to its risk settings, Zip has maintained solid growth in its customer and merchant numbers, engagement metrics and customer LTV⁵.

Zip continues to see increased demand for its products from both new and existing customers. In a world where consumers are experiencing cost of living pressures, Zip continues to provide day to day value and benefits in managing budget and lifestyle, and customers are transacting at a growing breadth of merchants. During the quarter, Zip AU customers transacted at over 450k locations capturing both everyday and discretionary spend.

New products and services delivered for customers during the period included:

- In the US, the launch of a physical card, key to unlocking the large addressable offline opportunity and making it even easier for customers to pay with Zip in store.
- In AU, following a pilot in Q4, the ability to redeem Zip rewards in store was launched in July, providing Zip customers with the ability to earn cashback both instore and online, in real time.

Zip is also pleased to announce a new partnership with Qantas in AU, allowing customers to book domestic and international flights on qantas.com using Zip and earn Qantas Points. Qantas Frequent Flyers will also be able to choose to earn Qantas Points through Zip's loyalty program, Zip Rewards. Zip is now integrated at over 90k merchants globally.

Unit Economics

Zip remains focused on improving unit economics. Zip continues to take further actions to deliver better credit outcomes across credit decisioning, portfolio management and collections.

- In the US, these actions continue to see results trend toward short-term targets despite further deterioration in consumer confidence and the external environment. Zip US saw loss rates decrease to 2.7% of TTV for the quarter and exited the quarter with an expected loss rate of 2.2% for the late June cohort. Continued fine tuning and optimisation is expected to see losses below the target level of 2% on a cohort basis before the end of the calendar year.
- In AU, Zip experienced a peak in losses, with previous actions taken now positively impacting performance, resulting in a decrease in arrears roll rates (a forward indicator of losses), with losses trending down over the course of FY23.

⁵ Lifetime value.

- As previously disclosed at Zip's H1 results, H2 losses for the group are expected to remain at similar levels to H1, as losses from volume written in H1 are realised. The initiatives and actions outlined above are expected to drive improved performance in FY23, trending towards medium-term targets of <2% of TTV.
- For the group, revenue and cash transaction margins remained healthy at 7.5%, and 2.4%, respectively.

Zip has a number of levers at its disposal and is well placed to maintain margins in an environment of rising interest rates. In addition to the above actions and focus on credit losses, there are several initiatives undertaken or underway to maintain or increase margins. These include consumer and merchant repricing, increased activity to deliver improvements to customer repayment velocity and collections, and reducing processing costs.

Zip's product construct and capital recycling profile (i.e. very short duration loans) mean that the benefits of the above initiatives flow through the receivables and drive improvements very quickly. This makes Zip more resilient to a rising rate environment than credit cards and other consumer credit businesses. The US business in particular is well placed to maintain margins in a rising rate environment, with any 25bps rise in base rate only impacting cost of funds by ~2bps per transaction.

Cost management - Review global presence and reduce cash burn

In line with strategic objectives to focus on the core markets of ANZ and the US, Zip is taking actions to right size its global cost base and accelerate the group's path to profitability. Specifically, steps undertaken during the last quarter included:

- **Singapore:** Zip is in the process of closing its Singapore business, consistent with the aim to reduce group cash burn. The closure is expected to be completed by September.
- **Other RoW businesses:** While Zip's RoW businesses continue to deliver strong growth, these assets are non-core, in an earlier stage of their lifecycle, and further away from profitability. Zip is currently undertaking a strategic review of its RoW businesses (including the UK). A more detailed update will be provided in the FY22 full year results.

Reflecting current market conditions, the Company has reviewed the goodwill against the Spotti, Twisto and Quadpay assets and is assessing the need to take an impairment charge against the carrying value of goodwill in its FY22 accounts.

Cost management - Focus on the core

During the quarter, Zip made several proactive changes to its Australian business, simplifying and prioritising initiatives to focus resources on core products and drive increased cash EBTDA and further margin expansion.

- Zip will wind down Zip Business and exit the product suite of Trade and Trade Plus. Zip Business Capital in Australia and New Zealand is not affected by this change and will continue to operate as normal.

- Due to the complexity and investment required to support and maintain Pocketbook, Zip has decided to retire the product and brand (both the app and web services). Zip remains committed to providing customers with tools to assist with their budgeting and financial wellbeing and will be developing similar money management features in its app during FY23.
- Previously planned new financial services products, (including crypto and investment products) have been deprioritised.

As announced in the Q3 FY22 result, Zip executed on changes to its global cost base that are expected to decrease global people costs by \$30m+ in FY23. The actions also involved an internal reorganisation to reduce complexity, and streamlining of operations to support more efficient growth in the core ANZ and US markets.

Sustainability and Social impact

Zip continues to invest in social and financial wellbeing initiatives for its employees and the broader community, including:

- Reviewed and revised Zip's five-year measurable objectives (FY21 - FY26) for gender diversity to 40% women / 40% men / 20% any gender at all levels. This led to the revision of the target for Executives and the introduction of the same targets for the Board.
- Extension of Zip's miscarriage bereavement leave supporting US Zip employees to travel to obtain out of state support if required to terminate a pregnancy.
- Continued to support financial literacy and entrepreneurial education in the community through skilled volunteering with Young Change Agents.
- Renewed Zip's partnership with The Pinnacle Foundation, a not-for-profit supporting LGBTQIA+ youth across Australia through scholarships and mentoring and hosted a series of internal events to celebrate Pride Month.

REGIONAL UPDATES

Zip US

All key operating metrics include Zip's consumer operations in the US based on Zip's unaudited financials as of 30 June 2022.

Financial Performance ²	Q4 FY22 (USD)	QoQ (USD)	YoY (USD)
Revenue	\$48.6m	2% ↓	5% ↑
Transaction volume	\$718.5m	2% ↑	9% ↑
Transactions	5.8m	4% ↑	18% ↑

Operational Performance	As at 30 Jun 2022	QoQ	YoY
Customers	7.0m	6% ↑	59% ↑
Merchants	21.9k	11% ↑	40% ↑

Key highlights in the US included:

- Customer and TTV growth remains solid though was tempered by external factors and adjustments to risk settings.
- Notable merchants to launch during the period were Bed Bath & Beyond, the pilot with Best Buy, Manhead Merch and scaling of the Citi Trends and Gabe's store presence.
- Zip has entered a partnership with Q2 Holdings, Inc., a provider of digital transformation solutions for banking and lending. This allows Zip to offer BNPL capabilities within Q2's digital banking solution to Q2 banks and credit unions as part of Q2's Partner Marketplace Program.
- Zip partnered with WebBank to be the issuer in the Zip physical card program, for which a pilot began in June. Approximately 200k customers have registered for the Zip Card with a full launch planned for Q1 FY23. Scaling of the physical card is a key strategic initiative to deliver growth and penetrate the significant in-store opportunity. (WebBank is also the issuer and lender for Zip App transactions).
- The WebBank partnership also provides regulatory and funding benefits to the Zip program. Through its relationship with WebBank, Zip is able to provide access to the Zip product in all states with consistent product offerings.
- On 12 July, Zip announced the mutually agreed termination of the Sezzle acquisition. Without the activity of a substantial integration exercise, this decision allows the standalone Zip business to focus on the core, fast tracking profitability and delivering on its strategy in the US market.

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Zip ANZ

All key operating metrics include Zip's consumer operations in Australia and New Zealand based on Zip's unaudited financials as of 30 June 2022.

Financial Performance ²	Q4 FY22 (AUD)	QoQ	YoY
Revenue	\$79.6m	2% ↑	30% ↑
Transaction volume	\$956.7m	7% ↑	7% ↑
Transactions	10.9m	6% ↑	18% ↑

Operational Performance	As at 30 Jun 2022	QoQ	YoY
Customers	3.2m	3% ↑	14% ↑
Merchants	43.2k	4% ↑	22% ↑

Credit Performance ⁶ (AU)	As at 30 Jun 22	As at 31 Mar 2022
Arrears	2.30%	2.29%
Net Bad Debts	3.82%	3.40%
Receivables	\$2,251.5m	\$2,186.9m

Key highlights in ANZ included:

- Strong revenue growth of 30% YoY.
- For Zip Money, June 2022 was the third highest month on record for both TTV and number of transactions. Improvements made to the Zip Money product are a key component of delivering growth in transaction volume and revenue in FY23 (customers with both Zip Pay and Zip Money accounts also have a significantly higher LTV).
- In addition to Qantas, new merchants signed or launched in the quarter include Ngahua group (one of New Zealand's top 10 largest retail groups), Hoyts which is due to launch during Q1 FY23, Stuff, Reebok, Glue Store, amongst others. During the quarter, Zip also completed the extension of its agreement with The Warehouse Group in NZ and eBay remains on track to launch in the coming months.
- Zip continues to embed complementary offerings into core products which enable the business to both deepen its relationship with customers and deliver incremental revenue streams. Product protection insurance was launched this quarter (as a pilot) and the full product launch is expected to be rolled out in Q1 FY23.

⁶ 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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- Further enhanced Zip’s rewards proposition, which is a pillar of Zip’s ongoing engagement strategy, adding to Zip Rewards the ability for customers to earn both Qantas points and redeem Zip Rewards for Qantas points.
- Following a pilot in Q4 FY22, the ability to redeem Zip rewards in store was also launched earlier this month, allowing Zip customers to get the cashback however they shop (instore or online).
- In relation to recent commentary regarding the potential regulation of BNPL products in the Australian market, Zip is supportive, and always has been, of simple, fit-for-purpose regulation. Zip already holds an Australian Credit License and the Zip Money product is fully regulated under the NCCPA. Zip conducts identity, credit and affordability checks on its customers, and is well-placed should further, fit for purpose regulation, result in BNPL products coming under the NCCPA.

Zip RoW

All key operating metrics include Zip’s consumer operations from Canada, Mexico, Payflex (South Africa), Spotii (UAE & KSA), Twisto (Poland & Czech Republic), Singapore and the UK, based on Zip’s unaudited financials as of 30 June 2022.

Financial Performance ²	Q4 FY22 (AUD)	QoQ (Actual)	YoY (Pro forma)
Revenue	\$8.5m	0%	73% ↑
Transaction volume	\$159.5m	3% ↑	66% ↑
Transactions	2.7m	13% ↑	29% ↑

Operational Performance	As at 30 Jun 2022	QoQ (Actual)	YoY (Pro forma)
Customers	1.8m	6% ↑	86% ↑
Merchants	25.6k	2% ↑	532% ↑

Key highlights from Zip’s RoW included:

- RoW delivered 73% revenue growth YoY and 66% transaction growth on a pro forma basis.
- Payflex now has approximately 1.8k merchants and 300k customers. This quarter saw the business launch FlexiAdvance - a merchant lending product offered to Payflex merchants in partnership with Merchant Capital.
- In the Middle East, Spotii focused on unit economics supported by initiatives such as improving cohort risk analytics and launching its own card vault. The card vault allows Zip to route repayments to different acquirers and is expected to drive lower processing costs and deliver a better customer experience.

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- Zip’s European business Twisto, in a particularly challenging external environment, concentrated on sustainable growth and capital efficiency across the quarter. In particular, the business focused on improving unit economics across markets by improving risk decisioning and implementing new fraud prevention tools.
- New merchants signed or launched in Q4 include:
 - Mexico: Mobo, Studio F, Tane, Koblenz, Weber, Spring Air, Atlas. Zip Mexico also signed an alliance with T1 Pagos - providing access to over 20k ecommerce merchants. The pipeline is strong and includes a number of large merchants.
 - South Africa: Zando, One Day Only, Steve Madden and Guess amongst others. Payflex is now also available to over 5k merchants through Peach Payments (an online South African PSP) as an integrated offering.
 - Middle East: 132 merchants signed, including Anantara Hotels, Resorts & Spas and RedSea and 123 merchants launched, including Pan Emirates and Kaya Skin Clinic.
 - Europe: Went live with large PSPs in both Poland (Tpay) and the Czech Republic (Comgate) providing access to a combined ~20k merchants. Notable new merchants include BurgerKing and the CCC Group, the largest shoe retailer in Central Europe.

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 30 June 2022.

Financial Performance ²	Q4 FY 22 (AUD)	QoQ	YoY
Revenue	\$4.7m	12% ↑	47% ↑
Transaction volume	\$42.5m	9% ↑	10% ↑

Operational Performance	As at 30 Jun 22	QoQ	YoY
Customers	12.8k	8% ↑	54% ↑

Key highlights from Zip Business included:

- Zip Business achieved record TTV of \$42.5m, up 10% YoY.
- In line with initiatives to simplify the business and focus resources on core products and fast tracking profitability, Zip has begun the wind down of the Zip Business product suite of Trade and Trade Plus.

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- Zip Business Capital in Australia and New Zealand will continue to operate as normal. (Zip Business Capital delivered \$4.1m of the above revenue)
- From FY23 onwards, the remaining Zip Business Capital product will be reported as part of the ANZ segment.

CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at Jun 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	\$15.0m	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\$2,080.7m	
US	AR2LLC	US\$300.0m	US\$116.9m	May-24
NZ	Zip NZ Trust 2021-1	NZ\$30.0m	NZ\$16.0m	Jul-23
EMEA	Twisto Czech	Kč 958.0m	Kč 560.8m	Mar 23
	Twisto Poland	€19.4m	€15.9m	Nov 22
	Payflex South Africa	R55.0m	R30.0m	Jan-25
	Total	A\$93.6m	A\$61.2m	
SME	Zip Business			
	- Capital Australia	\$60.0m	\$32.8m	Mar-24
	- Capital New Zealand	NZ\$40.0m	NZ\$8.0m	Nov-23
	- Trade/Trade+	\$100.0m	\$13.5m	Nov-23
	Total	A\$196.1m	A\$53.5m	

Key highlights included:

- As at 30 June, Zip AU had \$396.9m undrawn and available to fund receivables. This is more than sufficient capacity to support strong TTV growth.
- As at 30 June, Zip US has US\$183.1m undrawn and available to fund US receivables. This capacity supports an increase of approximately US\$2b in TTV.

- Zip has no funding covenants linked to its market capitalisation and remains above all funding covenant thresholds relating to the performance of its receivables within its funding facilities.
- As at 30 June, Zip had available cash and liquidity of \$278.6m which we expect to be sufficient reserves to support the Company through to cash EBTDA profitability.
- Zip Business New Zealand facility has been refinanced. The facility limit has been increased from NZ\$12.0m to NZ\$40.0m and the availability period extended until November 2023.
- Zip Business facilities in Australia and New Zealand have \$142.6m undrawn and available to fund receivables.
- Twisto has debt facilities with a combined limit of €58.1m and an undrawn balance at 30 June of €19.5m.
- Payflex has debt facilities with a combined limit of R55.0m and an undrawn balance at 30 June of R25.0m.

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

- ENDS -

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About Zip

ASX-listed Zip Co Limited (ASX: ZIP) (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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