

25 August 2022

FY22 RESULTS UPDATE

Zip reports a strong operating performance, delivering improvements to U.S. credit losses and taking actions to reduce cash burn, accelerating its path to profitability

Zip Co Limited (ASX: ZIP) ("**Zip**", or the "**Company**") today announces its full-year results for the period ending 30 June 2022 ("**FY22**").

CEO UPDATE

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

"As we look back on the past 12 months, it's clear the world is vastly different than when we started the year.

In our Half Year results we acknowledged changes in the external environment were quicker and more severe than first anticipated. Against this backdrop, we changed strategy and shifted to delivering sustainable growth, right-sizing our global cost base and accelerating the path to profitability.

To that end, I want to share that we have already delivered on a number of initiatives to reduce cash burn, manage credit losses and improve unit economics. Our ability to pivot and adapt to the new world, showcases the resilience and viability of our business model as we focus on the opportunity ahead in FY23.

It has also been an incredible year for innovation and top-line growth led by our fearless Zipsters. We're thrilled to welcome a number of marquee enterprise merchants to the platform and we continue to deliver significant benefits to customers through our differentiated product offerings.

While FY22 has been a year of change and consolidation, our mission and values remain constant. In times of heightened inflation and cost of living pressures, BNPL has become even more of an important budgeting tool for everyday consumers. That is why we have never felt more passionate about giving people the knowledge, access and the ability to control their financial lives so they can live every day with confidence."

KEY HIGHLIGHTS

- Record group revenue of \$620.0m (up 57% YoY)
- Record transaction volume (TTV) of \$8.7b (up 51% YoY)
- Record transaction numbers of 74.3m (up 80% YoY)
- Customer numbers increased to 11.4m (up 56% YoY)
- Merchant numbers increased to 90.7k (up 77% YoY)
- Cash gross profit of \$203.7m (up 12% YoY)
- Group Cash EBTDA of (\$207m)
- Record result with Australia delivering \$28m cash EBTDA (up 250% YoY), demonstrating the profitability of strong unit economics and Zip's unique model as the business continues to scale
- Available cash and liquidity of \$279m as of 30 June 2022
- Zip remains well funded for growth, with debt funding capacity of \$397m in AU and US\$183m in the US

STRATEGIC PRIORITIES

During FY22, Zip pivoted its strategic focus in response to the significant changes in the external environment. Consequently, Zip refocused on delivering sustainable growth in core markets, improvement in unit economics and optimising its global cost base, accelerating the path to EBTDA profitability in FY24. Delivering on the strategy included the following achievements in the second half of the fiscal year:

- **Growth in core markets:**
 - **Launch enterprise merchants:** Launched with top 100 US retailers Best Buy and Bed, Bath and Beyond and in AU, entered new verticals with Qantas, Virgin and Hoyts
 - **Drive deeper engagement:** Enhanced rewards program in AU with a partnership with Qantas and in-store rewards
 - **New products and innovation:** Launched a physical card in the US making it easier for customers to pay in 4 with Zip in-store and delivered enhanced instalment services for Zip Money in AU
- **Improved unit economics:**
 - **Drive down credit losses:** In response to credit losses exceeding Zip's target range, the Company took a number of actions, which are improving losses in AU and the US. Zip has tightened its decisioning rules and cut off scores, enhanced credit limit

management and optimised its approach to repayments and collections. Zip US saw loss rates meaningfully improve, with July cohorts trending towards target levels at 2.1% on a cohort basis. In AU, recoveries of written-off accounts lifted by 71% in Q4. Group credit losses are expected to trends towards ~2% of TTV through FY23

- **Capital recycling:** On average Zip recycles its receivables book every 3.8 months, a materially faster rate than traditional credit cards and other consumer finance offerings. Zip continued to enhance repayment options and increase repayment velocity, demonstrating how the business model is resilient to a rising rate environment. In particular, the US business is well placed, with any 25bps rise in base rate impacting cost of funds by only ~2bps per transaction. Interest costs as a percentage of TTV improved by 20bps YoY reflecting an improvement in facilities pricing in AU and the US
 - **Revenue margins:** In FY22, the Company implemented a number of product re-pricing initiatives in ANZ to reflect the higher cost operating environment, supporting strong revenue margins of 8.3% for Q4 in the region
- **Optimise global cost base:**
 - **Global footprint:** Made the decision to close Singapore and the UK, in line with initiatives to reduce group cash burn, whilst commencing a strategic review of the RoW businesses
 - **Operating costs:** Undertook an internal reorganisation to reduce people costs (\$30m+ benefit in FY23) with ongoing work focused on reducing non-people spend, such as technology and other third party costs in FY23
 - **Focus on core products:** In ANZ, wind down of non-core products including Zip Business Trade and Trade Plus; retirement of Pocketbook; and the deprioritisation of new crypto/investment products to focus resources on the core business, driving incremental margin expansion
- **Sustainability:** As a global organisation, Zip remains committed to operating responsibly and in a way that positively impacts all stakeholders. Zip revised its measurable objectives for gender diversity (at all levels) to 40% women / 40% men / 20% any gender by FY26. Zip also continued its community engagement partnering with Women Who Code, the Pinnacle Foundation and Young Change Agents and established a baseline reporting structure aligned to TCFD (Task Force on Climate-Related Financial Disclosures)

BUSINESS PERFORMANCE

Zip continues to deliver with strong FY results across its consumer business in the United States, Australia, New Zealand and Rest of World (RoW)¹:

Pro-forma figures based on Zip's unaudited financials as of 30 June 2022.

Financial performance ¹ (AUD)	FY22	YoY
Revenue	\$603.1m	57% ↑
USA	\$282.0m	69%↑
ANZ	\$297.4m	39% ↑
RoW	\$23.7m	n/a
		(8% ↑ YoY pro forma)
Transaction volume	\$8,589.7m	50%↑
USA	\$4,093.6m	67%↑
ANZ	\$4,040.4m	25% ↑
RoW	\$455.7m	n/a
		(27% ↑ YoY pro forma)
Transactions	74.2m	80% ↑
USA	23.2m	62% ↑
ANZ	43.9m	64% ↑
RoW	7.1m	n/a
		(23% ↑ YoY pro forma)

Operational performance	FY22	YoY
Customers²	11.4m	56% ↑
USA	6.4m	45% ↑
ANZ	3.2m	14%↑
RoW	1.8m	n/a
		(74% ↑ YoY pro forma)
Merchants³	90.7k	77% ↑
USA	21.9k	40%↑
ANZ	43.2k	22% ↑
RoW	25.6k	n/a
		(524% ↑ YoY pro forma)

¹ Unaudited management accounts. All financial figures are translated into AUD using the average full yearly foreign exchange rates for the respective full year.

² US customer numbers in Zip Q4 FY22 Results Update from 21 July 2022 included approximately 600k accounts which were not activated as at 30 June 2022.

³ Number of accredited merchants.

ZIP BUSINESS

Financial performance	FY22	YoY
Revenue	\$16.9m	55% ↑
Transaction volume	\$152.3m	87% ↑

Operational performance	As at 30 Jun 2022	YoY
Customers	12.8k	54% ↑

FY22 RESULTS CONFERENCE CALL DETAILS

Shareholders and investors are encouraged to participate in a Conference Call (Call ID “**ZIPFY22**”) to discuss the results on **Thursday, 25th August 2022 at 11:00 AM AEST**.

The dial in details are as follows:

Reference the Call ID: “**ZIPFY22**”.

Participant Toll free

Australia:	1800 144 837
New Zealand:	080 044 9207
US:	800 895 3361
Hong Kong:	800 901 494
Japan:	0053 116 0855
India:	000 800 100 7615
U.K.:	0808 101 1183
Czech Republic:	800 700 539
Poland:	00 800 112 4099
Mexico:	001 800 514 6145
Singapore:	800 101 2018
South Africa:	080 098 1020

For all other countries, the call can be accessed by Toll number.

Participant Toll +1 785 424 1062

Alternatively, you can access the audio-only webcast [HERE](#) or visit the below link.

<https://event.on24.com/wcc/r/3877550/91B900808B531A09C8EDC8CD1BA64960>

Note: Q&A functionality is only available through the conference call line.

Release approved by the CEO on behalf of the Board.

- ENDS -

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About Zip

ASX-listed Zip Co Limited (Z1P: ASX) (ABN 58 164 440 993) is a leading global financial services company, offering innovative, people-centred 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 around the world, including through strategic investments, connecting millions of customers with its global network of tens of thousands of merchants.

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 is managed by a team with over 100 years' experience in retail finance and payments. Zip is also a licensed and regulated credit provider and was founded in Australia in 2013.

For more information, visit: www.zip.co

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