

20 October 2022

## Q1 FY23 RESULTS UPDATE ZIP TAKING CONTROL

**Zip Co Limited** (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announced its first quarter results for the three month period ending 30 September 2022 (“**Q1 FY23**”).

### KEY HIGHLIGHTS

- Group quarterly revenue of \$163.2m (up 19% YoY).
- Transaction volume for the quarter of \$2.2b (up 15% YoY).
- Transaction numbers for the quarter of 19.6m (up 33% YoY).
- Customer numbers<sup>1</sup> for the Group of 12.0m (up 50% YoY).
- Active customer numbers<sup>2</sup> at quarter end of 7.4m (up 17% YoY).
- Merchants on the platform increased to 94.1k (up 70% YoY).
- Key enterprise merchants signed or launched in the quarter include Hoyts (in AU) and Barnes & Noble College (in the US). eBay AU went live during October, with Jetstar to launch in Q2 in time for the holiday travel season.
- Revenue margin remained healthy at 7.4%.
- Cash transaction margin remained solid at 2.2%.
- Zip US saw credit loss rates decrease to 2.4% of TTV (down from 2.7% in Q4 FY22), exiting the quarter with an expected loss rate of below 2% for the September cohort, in line with target levels.
- As at 30 September, Zip had available cash and liquidity of \$140.7m which is expected to be sufficient reserves to support the Company through to cash EBTDA profitability.
- On 1 September 2022, Zip retired \$40m of interest-bearing convertible notes with a payment of \$43m from existing cash reserves to CVI Investments Inc. (“CVI”).
- Zip successfully completed an upsized \$300m debt issuance (with the senior notes AAA rated) which was used to refinance the 2020-1 Zip Master Trust series. The Company remains well placed with regards to its debt funding, with capacity of \$317.8m in AU and US\$183.1m in the US available to fund transaction and receivables growth.

<sup>1</sup> Number of active customer accounts.

<sup>2</sup> Active customers defined as customer accounts that have had transaction activity in the 12 months to 30 September 2022.

**CEO UPDATE**

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

*"We are pleased to deliver another solid set of numbers as Zip resets and moves toward positive cash flow, taking control of our future. During the quarter we made great progress on our refreshed strategy to deliver sustainable growth, right-size our global cost base and accelerate our path to profitability.*

*With a more focused strategy on our core markets ANZ and the US, we substantially lowered credit losses, repaid \$40m of debt, and completed an upsized \$300m receivables funding transaction, demonstrating the resilience of the business model in the face of ongoing external volatility.*

*We continue to add new customers to the platform and provide increased benefits to both customers and merchants as they navigate a rising cost environment. The underlying business remains strong, and with the simplification of the business following adjustments to strategy, we are well funded and positioned to execute ahead of seasonal peak volumes and beyond into H2 FY23.*

*Zip's simple, fair and easy to use product is becoming even more important to customers and we are well on our way to disrupting the traditional credit card model and providing people with control of their financial lives."*

## BUSINESS PERFORMANCE

Zip continues to deliver solid top line metrics with strong results across its consumer operations in the United States, ANZ and Rest of World (“RoW”)<sup>3</sup>, despite growth being tempered by adjustments to internal risk settings, as well as the external environment.

Reported figures based on Zip’s unaudited financials as of 30 September 2022. Differences in the growth rates presented in the table below include changes in the average exchange rate used this period versus the prior corresponding periods.

<b>Financial Performance<sup>4</sup> (AUD)</b>	<b>Q1 FY23</b>	<b>QoQ</b>	<b>YoY</b>
<b>Revenue</b>	<b>\$158.4m</b>	<b>2% ↑</b>	<b>19% ↑</b>
USA	\$66.9m	1% ↓	0%
ANZ	\$83.0m	4% ↑	29% ↑
RoW	\$8.5m	0%	n/a
			(35% ↑ YoY pro forma)
<b>Transaction Volume</b>	<b>\$2,175.7m</b>	<b>3% ↑</b>	<b>15% ↑</b>
USA	\$1,026.1m	2% ↑	7% ↑
ANZ	\$994.6m	4% ↑	8% ↑
RoW	\$155.0m	3% ↓	n/a
			(22% ↑ YoY pro forma)
<b>Transactions</b>	<b>19.6m</b>	<b>1% ↑</b>	<b>33% ↑</b>
USA	5.8m	0%	9% ↑
ANZ	11.1m	2% ↑	21% ↑
RoW	2.7m	0%	n/a
			(13% ↑ YoY pro forma)

<sup>3</sup> Rest of World includes Canada, Mexico, Payflex (South Africa), Spotii (UAE & KSA), Twisto (Poland & Czech Republic), the UK and Singapore.

<sup>4</sup> 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 30 Sep 22	QoQ	YoY
<b>Active customers<sup>2</sup></b>	<b>7.4m</b>	<b>1% ↓</b>	<b>17% ↑</b>
USA	3.9m	5% ↓	3% ↓
ANZ	2.3m	0%	5% ↑
RoW	1.2m	9% ↑	n/a (71% ↑ YoY pro forma)
<b>Merchants<sup>5</sup></b>	<b>94.1k</b>	<b>4% ↑</b>	<b>70% ↑</b>
USA	23.2k	6% ↑	36% ↑
ANZ	44.6k	3% ↑	18% ↑
RoW	26.3k	3% ↑	n/a (437% ↑ YoY pro forma)

## UPDATE ON GROUP STRATEGIC PRIORITIES

Zip continues to focus on its strategic objectives of sustainable growth in its core markets (ANZ and USA), unit economics, cost management and reducing cash burn in line with delivering on positive cash EBTDA during H1 FY24.

### Focus on core markets

Earlier this month, co-founder and Global CEO Larry Diamond relocated to the US. The US market remains a significant and early stage opportunity for the business and Larry's on ground presence aligns with the Company's objective to scale Zip's competitive position and drive sustainable growth in this strategic market. Larry will remain Global CEO of Zip, co-founder Peter Gray's role as Global COO remains unchanged and Cynthia Scott remains MD of the core ANZ region.

### Capital Management

As at 30 September 2022 Zip had \$140.7m in available cash and liquidity. The balance at the end of the quarter was as a result of the following significant non-operating cash movements during the quarter:

- \$16.3m paid in relation to the mutual termination of the potential acquisition of Sezzle.
- \$43.0m (including accrued interest) paid to CVI in relation to the retirement of \$40m of the \$100m interest bearing convertible notes held by CVI.
- \$24.4m of additional equity invested in Zip's debt funding program, classified as restricted until released.
- \$15.9m of available cash and liquidity reported at 30 June 22, now reported as receivables on Zip's balance sheet (not in a funding vehicle) at 30 September following the full repayment of the Zip Business Trade and Trade + facility in July 2022. As customers make repayments this will become available as cash.

<sup>5</sup> Number of accredited merchants.

Underlying monthly cash burn has continued to decrease and is expected to further improve with the benefits of actions taken to reduce cash burn from Zip's RoW footprint. Zip remains confident that based on its current trajectory and plan, including actions to improve cash flow, margins and costs, that its current available cash and liquidity position is sufficient to see the Company through to generating positive cash flow.

Total cash on the Balance Sheet at 30 September 2022 was \$319.1m.

### **Unit Economics**

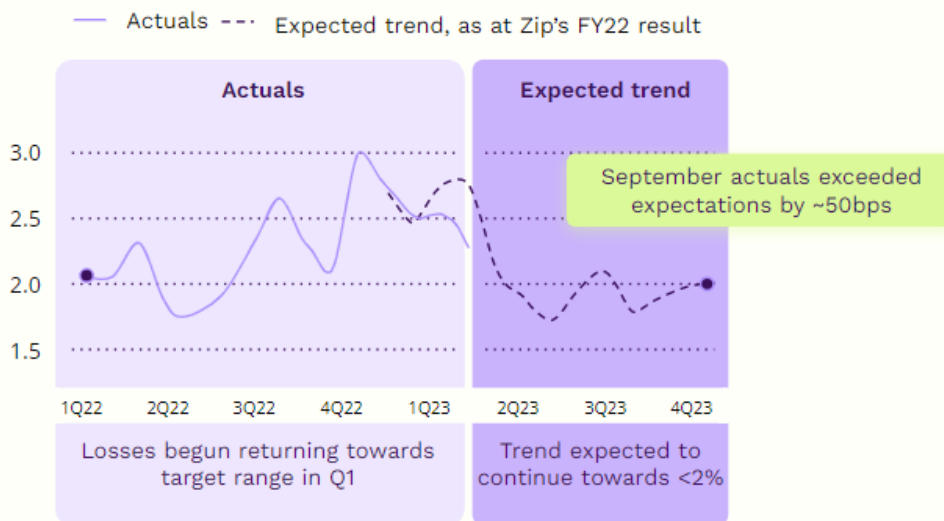
Zip remains focused on improving unit economics and is delivering results in line with expectations from actions taken to maintain healthy margins and deliver better credit outcomes.

- Cash transaction margin was stable at 2.2% (medium term target 2.5% - 3.0%).
- Revenue yield remained strong at 7.4% and in line with Zip's target range.
- Zip US saw credit loss rates decrease to 2.4% of TTV for the quarter (down from 2.7%) and exited the quarter with an expected loss rate of below 2% for the September cohort, with performance now at or better than target levels. These results demonstrate the impact of the actions taken to deliver lower loss rates despite further deterioration in the external environment and sees the business well positioned ahead of the peak retail season.
- In AU, credit losses continue to improve after peaking in Q4 FY22, as a result of actions taken during H2 FY22. Actions included adjustments to risk settings, tightened credit limit and account management, and collections improvement and optimisation. Zip expects credit losses in AU to continue to trend down over the course of FY23.
- At a group level, Zip expects credit losses to continue to improve and deliver on medium-term targets of <2% of TTV over the course of FY23.

**Actions taken across the credit lifecycle are delivering improved credit performance:**

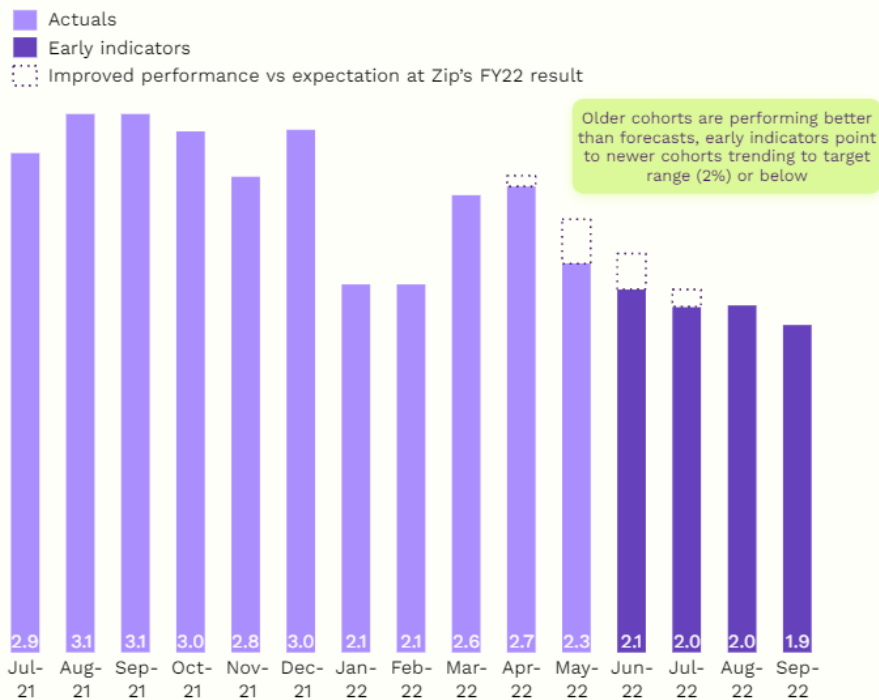
In AU decisioning and risk management is driving credit losses to target levels.

AU net bad debts written-off, as a % of TTV



US credit losses are trending to target range on a cohort basis.

Monthly cohorts, 120 day credit loss performance as a % of cohort TTV



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Net bad debts (% of TTV)	Q1 FY23	Q4 FY22
Group	2.38%	2.69%
AU	2.49%	2.69%
USA	2.36%	2.71%

In conjunction with initiatives to deliver improved credit performance Zip is focused on additional initiatives to maintain strong unit economics and margins in an environment of rising interest rates. These initiatives include further repayment optimisation to improve recycling of the receivables, consumer and merchant repricing, introduction of products and features to deliver incremental revenue streams, and initiatives aimed at 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 traditional credit products. 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.

**Review global presence and reduce cash burn**

Zip is well advanced in its strategic review process, and is currently considering a number of options which are expected to neutralise cash burn, or result in cash inflows, from its RoW businesses during H2 FY23. Zip will continue to update the market on its progress.

**Regulation**

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 and is engaging with Treasury as part of their review of the sector. Zip already holds an Australian Credit License and the Zip Money product is fully regulated under the National Consumer Credit Protection Act (“NCCPA”). Zip conducts identity, credit and affordability checks on its customers, and is well-placed for BAU should further, fit for purpose regulation, result in BNPL products coming under the NCCPA.

Earlier this year the U.S. Consumer Financial Protection Bureau (“CFPB”) engaged with leading US BNPL players, including Zip, to gather data insights as part of its research into the industry. The CFPB has now released a report which details its findings from this research and industry engagement.

Zip considers the report to be fair and well balanced as it highlights both the benefits and potential risks of BNPL. It also positions BNPL favourably in contrast to other forms of credit. As the CFPB’s report states, “The fact is that BNPL imposes significantly lower direct financial costs on consumers than legacy credit products.” There is nothing in the report that inhibits or requires changes to Zip’s processes or the provision of its products and services, and Zip continues to ensure that its products are compliant with federal and state laws. Zip looks forward to continuing an open dialog with the CFPB and other regulators to showcase its consumer-friendly products.

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## 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 September 2022.

Financial Performance <sup>4</sup>	Q1 FY23 (USD)	QoQ (USD)	YoY (USD)
Revenue	\$45.5m	6% ↓	8% ↓
Transaction volume	\$701.0m	2% ↓	0%
Transactions	5.8m	0%	9% ↑

Operational Performance	As at 30 Sep 2022	QoQ	YoY
Active customers <sup>2</sup>	3.9m	5% ↓	3% ↓
Merchants <sup>5</sup>	23.2k	6% ↑	36% ↑

Key highlights in the US included:

- TTV and customer growth rates were impacted by adjustments to internal risk settings (decreased approval rates, reduced credit limits and forced account closures), as well as external factors, with the reset driving a significant improvement in loss rates ahead of the peak sales season.
- App downloads were 671k (up 14% QoQ).
- TTV for October is now tracking strongly ahead of September (up 9% MoM).
- Notable merchants to sign or go live with Zip during the period were Barnes & Noble College, department store chain, Forman Mills and Pet Supermarket, as well as the WWE (for online merchandise). Zip's pilot with Best Buy (launched in Q4 FY22) has also been extended and expanded to a greater proportion of the retailer's overall traffic.
- Zip's physical card program was stepped up in September and over 100k cards have now been shipped to customers. Early metrics from September are very promising in terms of both increased transaction frequency and dollar spend, and penetration has quickly accelerated with over 10% of total in-store volume now driven by cards.
- Zip introduced a self-service payment date change feature within the app that enables customers to flex payment dates to better suit personal circumstances driving reductions in both credit losses and customer support requests, delivering cost savings for Zip.

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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 September 2022.

Financial Performance <sup>4</sup>	Q1 FY23 (AUD)	QoQ	YoY
Revenue	\$83.0m	4% ↑	29% ↑
Transaction volume	\$994.6m	4% ↑	8% ↑
Transactions	11.1m	2% ↑	21% ↑

Operational Performance	As at 30 Sep 2022	QoQ	YoY
Active customers <sup>2</sup>	2.3m	0%	5% ↑
Merchants <sup>5</sup>	44.6k	3% ↑	18% ↑

Credit Performance <sup>4</sup> (AU)	As at 30 Sep 22	As at 30 Jun 2022
Arrears	1.92%	2.30%
Net bad debts <sup>6</sup>	3.53%	4.81%
Receivables	\$2,240.5m	\$2,251.5m

Key highlights in ANZ included:

- Strong revenue growth of 29% YoY.
- New merchants launched in the quarter include Hoyts, Dior and Nisbets, with eBay going live earlier this month.
- In line with the initiative to grow adoption of higher margin products, Zip has experienced strong demand in its higher margin product with limits for new Zip Money accounts increasing 26% YoY in the September quarter.
- Continued to invest in platforms, including to refine the merchant onboarding experience, improve the performance of the rewards platform, and further strengthen controls through an integrated financial crime solution.
- In line with strategic objectives to focus on core products, Zip executed on the actions announced at Q4 FY22 to cease Zip Business Trade and Trade plus products (Zip Business Capital continues to operate as normal), decommission Pocketbook and deprioritise previously planned financial services products (crypto and investment products).

<sup>6</sup> To better align reporting measures with the ratings agencies, net bad debts above is calculated as annualised net write offs in the month of September over opening receivables for the month.

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## 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 September 2022.

Financial Performance <sup>4</sup>	Q1 FY23 (AUD)	QoQ (Actual)	YoY (Pro forma)
Revenue	\$8.5m	0%	35% ↑
Transaction volume	\$155.0m	3% ↓	22% ↑
Transactions	2.7m	0%	13% ↑

Operational Performance	As at 30 Sep 2022	QoQ (Actual)	YoY (Pro forma)
Active customers <sup>2</sup>	1.2m	9% ↑	71% ↑
Merchants <sup>5</sup>	26.3k	3% ↑	437% ↑

Key highlights from Zip's RoW included:

- RoW delivered 35% revenue growth YoY and 22% transaction volume growth on a pro forma basis.
- Payflex maintained its position as the leading BNPL offering in the South African market with approximately 2,197 merchants and 287k active customers. This quarter the business went live with Takealot - the largest online retailer in South Africa, istore store - the largest distributor of apple products in South Africa and fashion brands Puma, New Balance and Pandora. The business continues to deliver solid TTV growth and is expected to generate positive cash flow in the coming months.
- Zip's European business Twisto launched with new merchants AboutYou, XXXLutz, and CCC and continued its focus on sustainable growth and capital efficiency. The business implemented PSD2 open banking integration, supporting efforts on risk management and decisioning. Twisto also added Apple Pay and Google Pay as settlement options for customers.
- During the quarter, Zip successfully managed the wind-down of the previously announced closure of the UK and Singapore businesses.

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## ZIP BUSINESS

Financial Performance <sup>4</sup>	Q1 FY23 (AUD)	QoQ	YoY
Revenue	\$4.8m	2% ↑	26% ↑
Transaction volume	\$35.3m	17% ↓	4% ↑

Operational Performance	As at 30 Sep 2022	QoQ	YoY
Active customers <sup>2</sup>	12.5k	2% ↓	29% ↑

Key highlights from Zip Business included:

- Zip Business Capital delivered revenue and TTV of \$3.8m and \$22.8m respectively.
- As previously announced Zip commenced the wind down of Zip Business Trade and Trade plus.

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## CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at Sep 22	Maturity
<b>AU</b>	Zip Master Trust - Rated Note Series *2020-1 <sup>7</sup>	\$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	\$443.7m	Mar-24
	- Variable Funding Note 2	\$200.0m	\$15.0m	Jan-23
	2017-1 Trust	\$264.7m	\$253.6m	May-23
	2017-2 Trust	\$100.0m	\$70.0m	Sep-23
	<b>Total</b>	<b>A\$2,477.6m</b>	<b>A\$2,159.8m</b>	
<b>US</b>	AR2LLC	US\$300.0m	US\$116.9m	May-24
<b>NZ</b>	Zip NZ Trust 2021-1	NZ\$30.0m	NZ\$16.0m	Jul-23
<b>EMEA</b>	Twisto Czech	Kč 958.0m	Kč 564.2m	Mar 23
	Twisto Poland	€19.4m	€17.1m	Nov 22
	Payflex South Africa	R55.0m	R40.0m	Jan-25
	<b>Total</b>	<b>A\$93.2m</b>	<b>A\$64.2m</b>	
<b>SME</b>	Zip Business			
	- Capital Australia	\$60.0m	\$32.8m	Mar-24
	- Capital New Zealand	NZ\$40.0m	NZ\$27.8m	Nov-23
	<b>Total</b>	<b>A\$95.2m</b>	<b>A\$58.9m</b>	

Key highlights included:

- In October 2022, Zip completed its fifth rated note issuance and second AAA-rated issuance under Zip Master Trust 2022-1 for a deal size of \$300.0m (upsized from \$200.0m launch size) maturing in Nov-23. The proceeds from this deal were used to repay Zip Master Trust 2020-1 maturing in October 2022.
- Following the announcement to wind-down Zip Business Trade and Trade Plus, Zip has fully repaid the ZipBiz warehouse facility.
- As at 30 September, Zip AU had \$317.8m undrawn and available to fund receivables. This is sufficient capacity to support future TTV growth.

<sup>7</sup> Fully refinanced in Oct 2022 through the issuance of Series 2022-1.

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- As at 30 September, Zip US has US\$183.1m undrawn and available to fund US receivables. This capacity supports an increase of approximately US\$2.0b 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 September, Zip had available cash and liquidity of \$140.7m which we expect to be sufficient reserves to support the Company through to cash EBTDA profitability.
- Zip Business facilities in Australia and New Zealand have \$36.4m undrawn and available to fund receivables.
- Twisto has debt facilities with a combined limit of €58.5m and an undrawn balance at 30 September of €18.3m.
- Payflex has debt facilities with a combined limit of R55.0m and an undrawn balance at 30 September of R15.0m.

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-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, South Africa, UAE, 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](http://www.zip.co)

Shareholders who would like to receive email communications from Computershare for all future correspondence, visit <http://www.computershare.com.au/easyupdate/ZIP>.