3 November 2022

2022 AGM - Managing Director and CEO's Address

Zip Co Limited (ASX: ZIP) ("**Zip**", or the "**Company**") releases to the market the address of the Managing Director and CEO, Larry Diamond to be delivered at Zip's Annual General Meeting at 10:00am today.

Release approved by the Board.

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For more information, please contact:

Vivienne Lee
Director, Investor Relations
vivienne.lee@zip.co

For general investor enquiries, email investors@zip.co

About Zip

ASX-listed Zip Co Limited (ZIP: 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

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

Managing Director and CEO’s Address

Thank you Diane, good morning and good evening from NYC.

Thank you to all for joining us today, in particular our shareholders, key stakeholders and our Zipster staff.

I would like to thank all shareholders for your investment in Zip and your continued support of the Company. Today, I’m going to take you through my presentation for the 2022 Annual General Meeting, which covers reflections on our Company’s achievements in the 2022 financial year, year to date trading and our priorities for the current financial year, together with some comments on the outlook.

Mission and Purpose

Before we get started today, I would like to remind investors of Zip’s mission and purpose that underscore who Zip is and what we exist to achieve:

- **Our Purpose** is to create a world where people can live fearlessly today, knowing they are in control of tomorrow.
- **Our Mission** is to be the first payments choice everywhere and every day.

We believe we have the opportunity to rebalance the payments landscape, by putting people, not financial institutions, at the centre. We exist to create a more financially fearless world knowing that when you give people the knowledge, access, and ability to control their financial lives, you give them the opportunity to live every day with confidence. We do this by providing customers and merchants with simpler, fairer and more transparent ways to pay.

Strong performance in FY22

Financial year 2022 was another transformative 12 months for Zip. We delivered significant growth in what was our ninth year of operations, though acknowledge it has also been a year of change and consolidation.

We started the fiscal year executing on our global growth strategy at a rapid pace, operating in many markets and taking advantage of the early BNPL adoption curve, however over the last 12 months the external environment for technology and financial services changed significantly, and we have responded.

We proactively refined our strategic initiatives to deliver on sustainable growth, strong unit economics and cost management, with a focus on our core markets ANZ and the US. I am pleased with the progress on our strategy reset and what we have achieved in this financial year.

In FY22, Zip continued to deliver strong growth across all key operating metrics. Top line metrics, including transaction volumes and revenue were all up over 50% year on year. We finished FY22 with 11.4 million customers, up 56% year on year, and over 90,000 integrated merchants globally, up 77% year on year.

During the year we increased our focus on sustainable growth and have a clear line of sight on our path to profitable group cash EBTDA. Revenue margins lifted by 30 basis points to 7.1% driven by our differentiated and robust revenue model, and the cash transaction margin was solid at 2.3%.

FY22 highlights

Our network business model continues to deliver value to both customers and merchants. In FY22 we welcomed new major brands to the Zip platform, including Best Buy, Bed Bath & Beyond, Qantas and Virgin Australia. We also signed with eBay – Australia's largest online marketplace. This expanded our presence across electronics, homewares, travel and everyday spend categories. It also demonstrates that as a true credit card disruptor, we are diversifying away from discretionary spend verticals of fashion, beauty and apparel.

Our ongoing investment in product development and engineering continues to provide enhanced value to our customers. In Australia we now enable customers to shop anywhere with Zip Money, our longer term instalment product, as well as the ability to redeem rewards in-store - this has provided solid growth as consumers shifted from online back to physical bricks and mortar post COVID-19. In the US, we were excited to recently announce the launch of a Zip 'Pay in 4' physical card, with our partners Stripe and WebBank, enabling customers to shop everywhere. Given some of the legacy payments infrastructure in the US, this was key to unlocking the large addressable in-store opportunity.

As we introduce more customers to more merchant partners, we can see that our proposition continues to resonate, driving deeper engagement - transactions per active customer in core markets increased 45% in financial year 2022. It is also worth highlighting our Australian business, which serves as a blueprint for a more mature BNPL operating model has delivered four years of positive cash EBTDA, including a record $28 million in cash EBTDA in FY22.

The past 12 months has made it clear that a focused, agile business, guided by its purpose and mission, can emerge stronger from challenging times. Financial year 2022 saw Zip pivot to accelerate our path to profitability as market conditions shifted, with a rising rate and cost of living environment emerging globally.

I'd like to thank our shareholders who supported our capital raising of $173 million earlier this year. We are well placed with sufficient cash and liquidity to support the business through to cash EBTDA profitability in FY24.

We remain committed to our FY23 Priorities

Fellow shareholders, we are laser focused on our priorities in financial year 2023 as we execute on our strategic pillars: sustainable growth in core markets, improved unit economics and a reduction in our global cost base, with our focus firmly on accelerating our path to profitability. In line with the Company goals we shared with you at the end of financial year 2022, we have three clear areas of focus that we are working towards.

Firstly, as a group, capital allocation and resources will be focused on sustainable growth in the core markets of ANZ and the US. Merchants are a significant driver of growth and customer engagement for Zip. In this financial year, we will continue to pursue new profitable merchant partnerships which will fuel customer acquisition, transaction activity and TTV growth, with a focus on driving growth in higher margin merchant segments and customer engagement in higher margin products.

Secondly, we are continuing to adjust and optimise risk rules and executing on portfolio management and collections initiatives to manage credit losses. Further margin initiatives such as lower processing costs are also being explored and implemented to improve unit economics.

Finally, we are resetting the business and right-sizing our global cost base. The wind down of the Singapore business is complete and closure of the UK progressing smoothly. As a more streamlined business in financial year 2023, continued cost discipline will be necessary and we are pursuing options to do more to reduce spend in our core markets.

Momentum continues in Q1 FY23
As we continue to reset the business in the first quarter of financial year 2023, Zip maintained solid top line growth, with TTV up 15% year on year and revenue growth of 19%.

In line with our focus on customer engagement, active customers is a metric that we started reporting on in FY22. This was up 17% year on year in the first quarter and there is an opportunity to deliver future upside as we re-engage with customers who have not transacted in the last 12 months.

ANZ continued its strong performance with revenue growth of 29% and transactions up 21%, demonstrating healthy customer engagement. In the US we have successfully tempered growth to drive better credit performance, with TTV up 7%, while credit losses improved substantially. Cohort performance is now at or below target levels of 2% of TTV.

Group cash transaction margin and revenue margins were both solid at 7.4% and 2.2%, respectively.
Finally, in the month of October, TTV has been strong with 8% growth month on month in our core markets, and the business is now well placed for seasonal peak volumes.

YTD progress against FY23 strategic priorities
We continue to make great progress on our refreshed strategy. We've secured new merchants, adding Barnes and Noble College in the US, and in Australia signed with Hoyts. Ebay launched in October, and we are preparing to go live with Jetstar this quarter in time for the peak holiday season.

Our focus on higher margin products is starting to gain traction with limits for Zip Money accounts up 26% in the first quarter and the US physical card program scaling well, driving over 10% of in-store volume in September and increasing steadily.

We have substantially improved credit losses – a key area of focus for management and importantly positioning the business strongly ahead of the peak retail season. With the achievements so far on this priority, we are confident that we will be able to deliver on management's target range in this financial year.

As part of the strategic review of our Rest of World footprint, we are working through several options to neutralise cash burn, which may also include opportunities for some cash realisation. We are close to finalising the outcome of this review, and will update the market in due course.

While we've been resetting the business, the company took actions to optimise its balance sheet and successfully retired $40 million of interest-bearing liabilities in September. In addition, Zip completed an upsized $300 million debt raising which was used to refinance the 2020-1 Zip AU Master Trust facility that matured on 10 October. This is a great result given the current environment and a testament to the strength of Zip's business model and its technology-led credit decisioning capabilities.

Actions taken are delivering improved credit performance in core markets
With regards to unit economics, there are a number of actions we've taken to maintain and increase margins, in particular the considerable response underway to drive better credit performance.

As you can see, we have made substantial progress to bring losses back towards our target range. Our ability to swiftly influence credit outcomes is enabled by Zip's product construct and rapid repayment cycle which is an advantage over traditional consumer credit businesses. We have demonstrated our ability to execute quickly, adjust risk settings and minimise losses with dynamic portfolio management.

In the US, we exited the quarter with an expected loss rate of below 2% for the September cohort. It was very important for us to position the business well ahead of peak volumes, and performance is now at or better than target levels despite further deterioration in the external environment.

In Australia, credit losses continue to improve after peaking in the fourth quarter of last financial year. To date, in financial year 2023, we have delivered ahead of the expectations we presented at the financial year 2022 result in August.

Zip continues to expect credit losses to improve and deliver on medium-term targets of below 2% of TTV over the course of this financial year.

Zip's unique business model supports strong performance through current market conditions.
We are confident that Zip is well-placed with its unique product offering and business model, which continues to deliver results despite challenging external conditions.

With interest rates rising we are strongly focused on how we maintain margins in this environment. Our product construct and repayment velocity mean that the US business in particular is well-placed to mitigate interest rate rises, with any 25 basis point rise in base rate only impacting cost of funds by ~2 basis points on a per transaction basis.

We're continuing to innovate and implement initiatives to drive improvements in repayments such as customised repayment schedules and collections strategies. Importantly, our differentiated two-sided revenue model also provides us with the flexibility to manage our margins in a rising inflation and interest rate environment.

We know that inflation has lifted substantially and is influencing consumer spending profiles, putting pressure on merchants, both in discretionary and everyday categories. At a time of heightened inflation, we believe our product offering becomes even more important to consumers who are looking to manage their monthly cashflows, giving consumers a zero-interest payment option that enables them to budget and spread costs over time. It's also a real necessity for merchants to drive conversion at the checkout and we continue to deliver value by driving new and repeat customers and increased order values.

Finally, we are well positioned for any potential change to the regulatory landscape. Zip is supportive, and always has been, of simple, fit-for-purpose regulation. Our first credit product, Zip Money, is already regulated under the National Consumer Credit Protection Act (NCCPA) and we conduct identity, credit, and affordability checks on customers. Similarly in the US, Zip continues to ensure that its products are compliant with federal and state laws. We note that the US Consumer Financial Protection Bureau's (CFPB) recent report into the sector positions BNPL favourably in contrast to other forms of credit, stating "the fact is that BNPL imposes significantly lower direct financial costs on consumers than legacy credit products." Zip is committed to providing consumer-friendly products and we look forward to continuing an open dialogue with the CFPB and other regulators.

The opportunity remains significant in our core markets
While our near-term focus on profitability has tempered our top-line growth rate, the continued growth of the business across key metrics in the face of external challenges, reflects the incredible opportunity that exists.

In the US, the addressable market is estimated to be over US$10 trillion and BNPL penetration is still under 2%, including just 4% of e-commerce and 1% of in-store spend[1]. This demonstrates the sheer size, and early stage of the BNPL opportunity that we are positioned to capture.

[1] WorldPay Global Payments Report 2022

With Worldpay predicting BNPL volumes to more than double in 2025 from 2021 levels, we believe that the US penetration is on a similar trajectory to a more mature market like where we started in Australia. In Australia, around one-third of adults have a BNPL account and this number is growing. Zip's brand awareness amongst 18-45 is now close to 60%. In the last financial year, Zip's Australian business made a record $28 million cash EBTDA, 2.5 times cash EBTDA from financial year 2021. This clearly demonstrates the operating leverage of the business model and the potential to deliver strong EBTDA growth at scale.

Building scale in Zip's core markets is critical to the future success of the business. That is the primary reason why I have recently relocated to the US to be on the ground and drive execution in this very important strategic market. I am very excited to be here working alongside the talented team, bringing learnings from our experiences in Australia and embedding company-wide alignment of our thinking, culture and focus as we navigate a path that delivers scale and the next phase of growth for Zip.

Outlook: Accelerated path to profitability

As we look to the remainder of financial year 2023, we will continue to execute on our strategy at pace, building on the momentum we have achieved so far.

Our outlook is unchanged, and we remain as committed as ever to achieve the best outcomes for our customers and merchants, as well as driving long-term shareholder value creation. We have clear medium term targets we are driving the business towards as we scale. Revenue as a percentage of TTV is targeted at 7.0% to 7.5%. Cost of sales as a percentage of TTV targeted at 4.0% to 4.5% and we expect to deliver a cash transaction margin of 2.5% to 3.0%. Achievement of these targets delivers a very profitable business.

We believe Zip's differentiated business model will prove resilient in the current operating environment, when coupled together with our innovative products and position us well to continue to grow market share.

We have simplified the business following adjustments to strategy, underlying monthly cash burn is improving and we are well funded, with approximately $141 million in available cash and liquidity. We are confident that we have the balance sheet to fund the Company through to cash EBTDA profitability. We expect to see the US exiting FY23 cash EBTDA positive and to neutralise the cash burn from our rest of world footprint during the second half of FY23. We are on track to deliver positive cash EBTDA as a group in the first half of financial year 2024.

I would like to thank our Zipsters for their dedication and execution, the leadership team for their tireless efforts and incredible focus, and our Board for your guidance, which sees us well placed to meet the challenges and capitalise on the opportunity.

That is the end of my formal presentation. I want to thank you once again, our shareholders for your support today, into FY23 and beyond.

I'll hand back to Diane to go through the AGM's formal items of business, and I look forward to shareholder questions later on. Thank you.