

24 January 2023

## Q2 FY23 RESULTS UPDATE ZIP ON TARGET

Zip Co Limited (ASX: ZIP) (“Zip”, or the “Company”) today announced its second quarter results for the three month period ending 31 December 2022 (“Q2 FY23”).

### KEY HIGHLIGHTS

- Record group quarterly revenue of \$188.0m (up 12% YoY).
- Record transaction volume for the quarter of \$2.7b (up 22% QoQ).
- Record transaction numbers for the quarter of 22.6m (up 15% QoQ).
- Cash transaction margin lifted to 2.6% for the quarter, a great result in a rising interest rate environment, and in line with medium term targets (up from 2.2% in Q1 FY23).
- Revenue margin remained solid at 6.9%, (reflecting seasonality vs 6.4% in Q2 FY22).
- Zip US delivered positive cash EBTDA in November and December with a very strong seasonal performance and is on track to exit FY23 cash EBTDA positive on a sustainable basis.
- Zip US saw credit loss rates improve substantially to 1.1% of TTV (on peak volumes, down from 2.4% in Q1 FY23). On a cohort basis, the business exited the quarter with an expected loss rate of 1.4% and 1.6% for the November and December cohorts respectively, a very strong result.
- Zip ANZ delivered strong revenue growth of 17% YoY.
- Active customer numbers at the quarter end of 7.4m.
- Merchants on the platform increased to 97.5k (up 19% YoY).
- In AU, Zip went live with new enterprise merchants, Jetstar, Uber and eBay AU, and in the US, launched with Barnes & Noble College across all campus stores.
- On 13 December 2022, Zip retired \$70.0m of its \$400.0m Zero Coupon Senior Convertible Notes. The transaction was highly accretive for Zip with the combined share conversion and cash payment (fully funded by an equity placement) to participating noteholders implying a payment of approximately 23c in the dollar for notes retired.

- As at 31 December, Zip had available cash and liquidity of \$78.5m which is expected to be sufficient reserves to support the Company through to cash EBTDA profitability.
- Zip has always been a strong supporter of fit for purpose regulation and remains well positioned with regards to business as usual with the three potential options under consideration for regulation of BNPL in the Australian market.
- Zip renewed its Climate Neutral certification, recognising the Company's efforts as a global organisation to measure and reduce emissions.

#### CEO UPDATE

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

*"We are very pleased to deliver another strong quarter of record volumes despite the challenging external environment and adjustments to our risk settings. During the quarter Zip continued to make great progress on the strategy to deliver sustainable growth, right-size our global cost base and accelerate our path to profitability.*

*It was very exciting to onboard great brands such as Uber, Jetstar and eBay to our payments platform in Australia and deliver positive cash EBTDA for the US business in November and December, including very strong results on credit performance. We also made great inroads to our liability management retiring \$70m of convertible notes in a highly accretive transaction.*

*We continue to provide increased benefits to both customers and merchants in today's high cost environment and are well-positioned for any potential future regulatory changes. The underlying business remains strong, and we are pleased with the benefits and reduction in cash burn from the ongoing simplification of the business footprint and focus on core products and core markets.*

*In the current environment of heightened inflation and cost of living pressures, Zip continues to provide a simple, fair and easy to use product that customers can use everywhere and every day, creating a world where people can live fearlessly today, knowing they're in control of tomorrow."*

## BUSINESS PERFORMANCE

Zip continues to deliver solid top line metrics with strong results across its consumer operations in its core markets the United States and ANZ, despite growth being tempered by adjustments to internal risk settings, as well as the external environment. Rest of World (“RoW”)<sup>1</sup> results were impacted by actions to close Zip’s businesses in the UK, Singapore and Mexico as part of the strategic review.

Reported figures are based on Zip’s unaudited financials as of 31 December 2022. The growth rates presented in the table below include changes in the average exchange rate used this period versus the prior corresponding periods.

Financial Performance <sup>2</sup> (AUD)	Q2 FY23	QoQ	YoY
<b>Revenue</b>	<b>\$183.9m</b>	<b>16% ↑</b>	<b>13% ↑</b>
USA	\$85.7m	28% ↑	8% ↑
ANZ	\$88.6m	7% ↑	17% ↑
RoW	\$9.6m	13% ↑	19% ↑
<b>Transaction Volume</b>	<b>\$2,686.4m</b>	<b>23% ↑</b>	<b>4% ↑</b>
USA	\$1,304.0m	27% ↑	12% ↑
ANZ	\$1,199.7m	21% ↑	6% ↓
RoW	\$182.7m	18% ↑	19% ↑
<b>Transactions</b>	<b>22.6m</b>	<b>15% ↑</b>	<b>1% ↑</b>
USA	6.9m	19% ↑	6% ↑
ANZ	12.8m	15% ↑	4% ↓
RoW	2.9m	7% ↑	16% ↑

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

<sup>2</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 31 Dec 22	QoQ	YoY
Active customers <sup>3</sup>	7.4m	0%	1% ↓
USA	4.0m	3% ↑	7% ↓
ANZ	2.3m	0%	5% ↑
RoW	1.1m	8% ↓	22% ↑
Merchants <sup>4</sup>	97.5k	4% ↑	19% ↑
USA	23.8k	3% ↑	29% ↑
ANZ	45.9k	3% ↑	14% ↑
RoW	27.8k	6% ↑	20% ↑

#### UPDATE ON GROUP STRATEGIC PRIORITIES

Zip continues to focus on its strategic objectives of delivering sustainable growth in its core markets (ANZ and the US), unit economics and cost management, and is on track to deliver group positive cash EBTDA during H1 FY24.

#### 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 improved to 2.6% - a strong result in a rising interest rate environment (up from 2.2% in Q1 FY23).
- Revenue yield, although impacted by seasonality, remained solid at 6.9%, up 0.5% YoY (medium term target 7.0% - 7.5%).
- Zip US continues to deliver improved credit results with credit losses reducing to 1.1% of TTV (on peak volumes down from 2.4% in Q1 FY23). US loss rates from older cohorts delivered better than expected results with September - November cohorts now expected to deliver net loss rates of 1.4%, despite further deterioration in the external environment. Loss rates are now in line with Zip's target loss rates of <2.0%.

<sup>3</sup> Active customers defined as customer accounts that have had transaction activity in the 12 months to 31 December 2022.

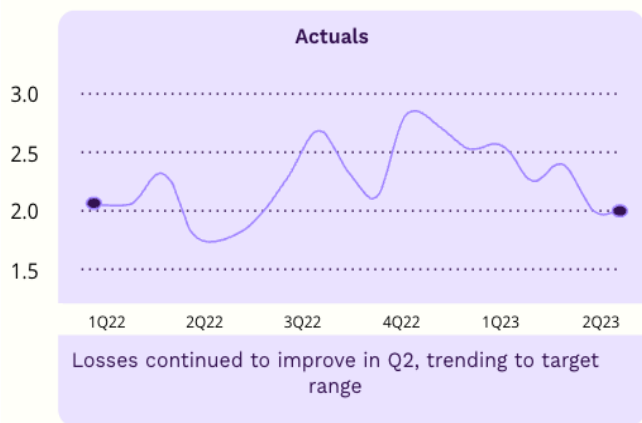
<sup>4</sup> Number of accredited merchants.

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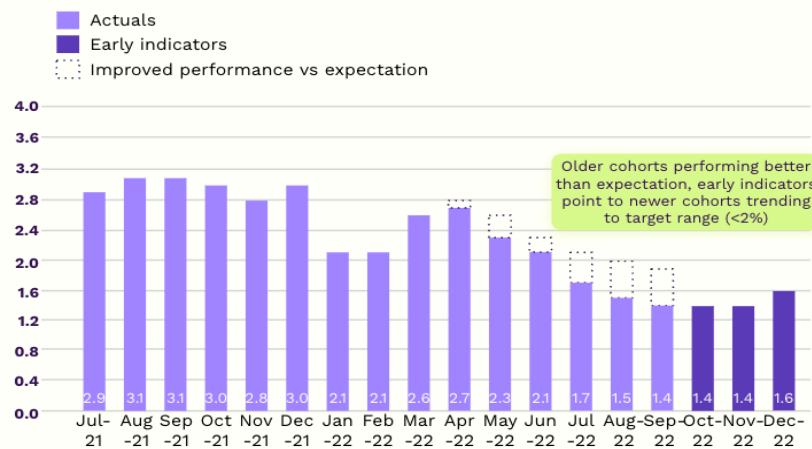
- In AU, credit losses continue to improve with an ongoing focus on proactively managing risk settings, for both acquisition and the overall portfolio, and optimising repayments and collections. For the quarter, credit losses in AU were 2.10% of TTV.
- As a result of the actions taken to manage losses throughout the credit cycle, at a group level Zip delivered credit losses of 1.49% for the quarter and is on track to achieve credit loss levels inline with medium-term targets of <2.0% of TTV.
- Cash transaction margin for the quarter of 2.6% (a very strong result in a rising interest rate environment and in line with medium targets of 2.5% - 3.0%) was achieved as Zip focused on increasing revenue margins, as well as reducing losses and processing costs to offset the impact of increasing interest rates.

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

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



**US Monthly cohorts, 120 day performance as a % of cohort TTV**



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Net bad debts as a percentage of TTV improved 89bps for the group, driven by a reduction in credit losses in core markets.

Net bad debts (% of TTV)	Q2 FY23	Q1 FY23
Group	1.49%	2.38%
AU	2.10%	2.49%
USA	1.07%	2.36%

### Capital Management

On 13 December 2022, Zip announced the successful completion of its liability management exercise to retire \$70.0m of its \$400.0m Zero Coupon Senior Convertible Notes due 2028. The conversion of 5.8m shares and a cash payment (fully funded by an equity placement) of \$17.9k per every \$100k of existing notes being converted by note holders implied a total consideration of approximately 23c in the dollar for convertible notes retired. The highly accretive transaction had no impact on Zip's cash balance. Zip will continue to proactively manage its outstanding liabilities, including targeting options that are value accretive to shareholders.

As at 31 December 2022 Zip had \$78.5m in available cash and liquidity. The balance at the end of the quarter was impacted by the following significant non-operating cash movements totalling \$30.6m during the quarter:

- \$22.6m of deferred consideration and performance payments paid following the acquisitions of QuadPay and Payflex, in accordance with transaction conditions agreed at completion.
- \$8.0m of additional equity invested in Zip's debt funding program, which is now classified as restricted until released.

Underlying monthly cash burn has continued to decrease and is expected to further improve with the benefits of actions taken to deliver profitability in core markets and reduce cash burn from Zip's RoW footprint. In addition, executed non-binding term sheets and decisions made on business closures as part of its strategic review provides Zip with expectations of cash inflows in the near term.

Zip remains confident that based on its current trajectory and plan, including actions to improve cash flow, margins and costs, and outcomes from the RoW strategic review process, 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 31 December 2022 was \$269.7m.

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### **Review global presence and reduce cash burn**

Zip's RoW strategic review continues and during the quarter, Zip completed the closure of its businesses in the UK and Singapore, started the process to close its business in Mexico and earlier this month commenced the wind down of its operations in the Middle East.

Zip is on track to neutralise cash burn from its RoW businesses during H2 FY23 and will provide a further update to the market on the progress of its strategic review at the upcoming HY23 result.

### **Regulation - AU Treasury review**

Zip is supportive, and always has been, of simple, fit-for-purpose regulation and has proactively engaged with Treasury regarding the potential regulation of BNPL products in the Australian market.

The Treasury released an Options paper in November 2022, which identified three potential options for regulation of BNPL. Of the options identified, Zip strongly advocates for Option 2, which would require providers of BNPL products to hold an Australian Credit Licence ("ACL") and comply with modified and scalable Responsible Lending Obligations under the Credit Act, including conducting credit and affordability checks on all applicants.

Zip believes that amending the Credit Act to require BNPL providers to hold an ACL will ensure the right obligations for internal and external dispute resolution, hardship provisions, compensation arrangements, fee caps and marketing rules.

Zip also believes Option 2 would achieve an appropriate balance, protecting consumers and building confidence in the sector, while encouraging and supporting innovation and competition, providing access to simpler and better financial products for millions of Australians.

Zip holds an ACL 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 business as usual no matter the outcome of the Treasury review process.

## **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 December 2022.

Financial Performance <sup>2</sup>	Q2 FY23 (USD)	QoQ (USD)	YoY (USD)
Revenue	\$56.4m	24% ↑	2% ↓
Transaction volume	\$858.1m	22% ↑	2% ↑
Transactions	6.9m	19% ↑	6% ↑

Operational Performance	As at 31 Dec 2022	QoQ	YoY
Active customers <sup>3</sup>	4.0m	3% ↑	7% ↓
Merchants <sup>4</sup>	23.8k	3% ↑	29% ↑

Key highlights in the US included:

- The business delivered positive cash EBTDA in November and December and is on track to exit FY23 cash EBTDA positive on a sustainable basis.
- Zip US delivered a record-breaking quarter, with US\$858.1m in TTV (+22% QoQ) and nearly 7.0m transactions, along with continued improvements in credit loss rates.
- Active customers finished the quarter at 4.0m, principally led by risk management actions taken to proactively manage risk settings (50%+ lower bad debts YoY) for both acquisition as well as overall portfolio management.
- Launched with Barnes & Noble College in all campus stores across the country and for apparel through online checkout. The business has continued to optimise traffic and volumes with enterprise merchants such as Best Buy and experienced strong volume growth QoQ.
- Zip's physical card program continues to gain momentum with more than 300k cards issued and strong activation and usage rates. Volume processed by physical cards in December made up 28% of all instore purchases, with instore volume for the quarter up 57% YoY.

### 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 December 2022.

Financial Performance <sup>2</sup>	Q2 FY23 (AUD)	QoQ	YoY
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Revenue	\$88.6m	7% ↑	17% ↑
Transaction volume	\$1,199.7m	21% ↑	6% ↓
Transactions	12.8m	15% ↑	4% ↓

Operational Performance	As at 31 Dec 2022	QoQ	YoY
Active customers <sup>3</sup>	2.3m	0%	5% ↑
Merchants <sup>4</sup>	45.9k	3% ↑	14% ↑

Credit Performance <sup>2</sup> (AU)	As at 31 Dec 22	As at 30 Sep 2022
Arrears	2.13%	1.92%
Net bad debts <sup>5</sup>	3.73%	3.53%
Receivables	\$2,425.7m	\$2,240.5m

Key highlights in ANZ included:

- Strong revenue growth of 17% YoY for the quarter.
- Over 1.0m customers used Zip in November, delivering record TTV on Black Friday and across the BFCM weekend. TTV growth rates for the quarter reflected changes to internal risk settings compared to the prior period.
- Revenue margin of 7.4% increased 140bps versus pcp.
- New merchants launched in the quarter include eBay AU, Jetstar, Uber, Motorserve, Modern Star and BOWENS.
- Zip continues to focus on the growth of its higher margin products, experiencing strong demand for its higher margin product Zip Money. Zip Money TTV was up 26% YoY in the quarter, including a record TTV month in November.
- Leveraging Pocketbook IP, Zip continues to assist customers to manage their budget and spending with Zip's bank linking feature recently going live, allowing customers to view transactions from all aggregated accounts in the Zip app.
- Zip NZ delivered positive cash EBTDA in November and December and record TTV in December.

<sup>5</sup> Net bad debts above is calculated as annualised net write offs in the month of December 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 31 December 2022.

Financial Performance <sup>2</sup>	Q2 FY23 (AUD)	QoQ	YoY
Revenue	\$9.6m	13% ↑	19% ↑
Transaction volume	\$182.7m	18% ↑	19% ↑
Transactions	2.9m	7% ↑	16% ↑

Operational Performance	As at 31 Dec 2022	QoQ	YoY
Active customers <sup>3</sup>	1.1m	8% ↓	22% ↑
Merchants <sup>4</sup>	27.8k	6% ↑	20% ↑

Key highlights from Zip's RoW included:

- RoW delivered strong top line growth with revenue and transactions volumes both up 19% YoY.
- Payflex, the market-leading BNPL in South Africa, traded strongly through the peak retail season with quarterly TTV increasing 265% YoY and ended the period with 2.5k merchants and 344.4k active customers. During the quarter, Payflex went live with Massmart (a Walmart company and one of the largest retailers in South Africa) as well as with leading brands Zando, CTM and Loot. Payflex generated a cash NTM of 2.3% in the quarter, was cash EBTDA breakeven in November 2022 and is expected to be sustainably cashflow positive during H2 FY23.
- Zip's European business, Twisto continued its focus on margins and reducing cash burn with the implementation of repricing and cost saving initiatives and adjustments to risk settings. The business delivered positive NTM in both Czech and Polish markets and added 1,800 new merchants.
- During the quarter, Zip successfully completed the wind-down of its UK and Singaporean businesses and commenced the process to wind down its business in Mexico. Earlier this month Zip commenced the wind-down of its operations in the Middle East.

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## ZIP BUSINESS

Financial Performance <sup>2</sup>	Q2 FY23 (AUD)	QoQ	YoY
Revenue	\$3.9m	3% ↑	15% ↑
Transaction volume	\$21.7m	5% ↓	19% ↑

Operational Performance	As at 31 Dec 2022	QoQ	YoY
Customers	1.4k	5% ↑	36% ↑

Key highlights from Zip Business included:

- Zip Business Capital delivered revenue and TTV of \$3.9m and \$21.7m respectively.
- Zip completed the wind-down of Trade and Trade+ in the quarter, including the sale of all outstanding Trade and Trade+ receivables. Revenue of \$0.2m was generated from this part of the business during the quarter which is not included in the above numbers.
- Zip Business had a total of \$88.7m in receivables with \$57.6m in Australia and \$31.1m in New Zealand as at 31 December 2022.

## CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at Dec 22	Maturity
AU	Zip Master Trust			
	- Rated Note Series			
	*2021-1	\$475.0m	\$475.0m	Apr-24
	*2021-2	\$617.5m	\$617.5m	Sep-24
	*2022-1	\$285.0m	\$285.0m	Nov-23
	- Variable Funding Note	\$535.4m	\$480.4m	Mar-24
	- Variable Funding Note 2	\$136.2m	\$116.7m	Jan-24
	2017-1 Trust	\$264.7m	\$254.9m	May-23
	2017-2 Trust	\$100.0m	\$90.0m	Sep-23

	<b>Total</b>	<b>A\$2,413.8m</b>	<b>A\$2,319.5m</b>	
<b>US</b>	AR2LLC	US\$300.0m	US\$129.9m	May-24
<b>NZ</b>	Zip NZ Trust 2021-1	NZ\$30.0m	NZ\$18.4m	Jul-23
<b>EMEA</b>	Twisto Czech	Kč 958.0m	Kč 617.9m	Mar 23
	Twisto Poland	€19.5m	€15.5m	Nov 23
	Payflex South Africa	R85.0m	R60.0m	Jan-25
	<b>Total</b>	<b>A\$100.3m</b>	<b>A\$69.8m</b>	
<b>SME</b>	Zip Business			
	- Capital Australia	\$60.0m	\$37.8m	Mar-24
	- Capital New Zealand	NZ\$40.0m	NZ\$29.6m	Nov-23
	<b>Total</b>	<b>A\$97.3m</b>	<b>A\$65.5m</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 November 2023. The proceeds from this deal were used to repay Zip Master Trust 2020-1 maturing in October 2022.
- In December 2022, Zip refinanced Variable Funding Note 2 with RBC as the senior funder and FIIG as the new mezzanine funder with a revised limit of \$136.2m maturing in January 2024.
- As at 31 December, Zip AU had \$94.3m undrawn and available to fund receivables.
- As at 31 December, Zip US had US\$170.1m undrawn and available to fund US receivables. This capacity supports an increase of approximately US\$1.9b 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 31 December, Zip had available cash and liquidity of \$78.5m. Zip remains confident that based on its current trajectory and plan, including actions to improve cash flow, margins and costs, and outcomes from the RoW strategic

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review process, that its current available cash and liquidity position is sufficient to see the Company through to generating positive cash flow.

- Zip Business facilities in Australia and New Zealand have \$31.8m undrawn and available to fund receivables.
- In November 2022, Twisto refinanced the senior Polish facility for a further year, maturing in November 23. Twisto has debt facilities with a combined limit of €59.1m and an undrawn balance at 31 December of €18.1m.
- In November 2022, Payflex refinanced their debt facility with a revised limit of R85.0m from R55.0m. Payflex has debt facilities with a limit of R85.0m and an undrawn balance at 31 December 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) 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 provides fair, flexible and transparent payment options to individual consumers, 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>.