20 April 2023

Q3 FY23 RESULTS UPDATE
ZIP IMPROVES MARGINS AND REMAINS ON TRACK FOR CASH EBTDA PROFITABILITY DURING H1 FY24

Zip Co Limited (ASX: ZIP) (**"Zip"**, or the **"Company"**) today announced its third quarter results for the three month period ending 31 March 2023 (**"Q3 FY23"**).

KEY HIGHLIGHTS

- Group quarterly revenue of $182.1m (up 15% YoY).
- Transaction volume for the quarter of $2.2b (up 9% YoY).
- Transaction numbers for the quarter of 20.3m (up 12% YoY).
- Cash Transaction Margin for the core business[1] improved to 2.8% for the quarter (up from 2.5% in Q3 FY22), a very strong result in a rising interest rate environment, and in line with medium term targets.
- Revenue margin for the core business improved to 8.3% (vs 7.9% in Q3 FY22).
- Active customer numbers at the quarter end of 7.2m.
- Zip ANZ delivered very strong revenue growth of 23% YoY.
- Zip US credit loss rates were 1.2% of TTV (vs 3.7% in Q3 FY22).
- Zip US continued its solid momentum despite the external environment and remains on track to exit FY23 cash EBTDA positive on a sustainable basis.
- Key enterprise merchants signed or launched include ASICS in Australia, PlaceMakers in NZ and Pet Supermarket and World Wrestling Entertainment ("WWE") in the US. Subsequent to the period end, in Australia Zip also signed and launched with Peloton.
- In line with its announcement on 30 March 2023, Zip expects aggregate net cash inflows of approximately $20m to be received during H2 FY23 relating to the divestment of its businesses in Central and Eastern Europe (Twisto) and South Africa (Payflex), and the wind-down of its business in the Middle East.
- Zip remains on track to deliver up to 50% Core Cash EBTDA improvement in H2 FY23 versus the ($33.2m) result for H1 FY23, and is well funded with sufficient available cash and liquidity, plus the above inflows and reduction in Rest of World ("RoW") cash burn, to support the Company through to group cash EBTDA profitability during H1 FY24.

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[1] Core business includes ANZ, Americas and Zip Business.

- In line with Zip's commitment to support initiatives aligned with Zip's values, and provide employees with opportunities to engage with community initiatives they are passionate about, Zip partnered with other Australian corporates to help launch the DV Collective.

CEO UPDATE

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

> *"We are very pleased to again deliver both solid topline growth and strong, improved margins for the quarter. Zip's differentiated business model, which is less reliant on discretionary consumer spending, is proving resilient in the current operating environment with core cash transaction margin increasing to 2.8%, driven by revenue margin expansion to 8.3% and an ongoing focus on credit performance.*
>
> *The US business continued its solid momentum despite the external environment and remains on track to exit FY23 cash EBTDA positive on a sustainable basis. The cash flow positive Australian business delivered strong growth with record revenue, while market conditions and industry consolidation provide a great opportunity to increase market share.*
>
> *We continued the execution of our stated strategy to simplify the portfolio by focusing on our core businesses, ANZ and the US, with signed agreements to divest non-core businesses and the wind-down of our Middle East business on track. Critically, this will see Zip neutralise cash burn from its RoW footprint during H2 FY23 as planned.*
>
> *With expected cash inflows from strategic review outcomes of approximately $20m this half, RoW cash burn neutralised and the up to 50% improvement in Core Cash EBTDA we are expecting in H2 FY23 versus H1 FY23, we remain confident that we have sufficient cash and liquidity to deliver on our target of group positive cash EBTDA during H1 FY24.*
>
> *We recognise that many household budgets are under pressure, whether it be inflation or the rising cost-of-living, which means our mission and purpose has never been more relevant. We aim to provide customers with a simple, fair and easy to use product that can be used everywhere and every day, creating a world where people can live fearlessly today, knowing they're in control of tomorrow."*

BUSINESS PERFORMANCE

Following the seasonal peak in Q2, Zip continues to deliver solid top line numbers with strong results across its consumer operations in its core markets of the United States and ANZ, despite growth being tempered by adjustments to internal risk settings and the external environment. Rest of World ("RoW")[2] results reflected the actions to close Zip's business in the Middle East and divest its businesses in Central and Eastern Europe (Twisto) and South Africa (Payflex) as a result of its strategic review.

Reported figures are based on Zip's unaudited financials as of 31 March 2023. In line with numbers presented at Zip's HY23 results, all numbers presented comprise Zip's continuing operations as at 31 December 2022 and exclude Zip's operations in the UK, Singapore and Mexico which were discontinued in HY23. 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[3] (AUD)	Q3 FY23	QoQ	YoY
Revenue	**$178.3m**	**3% ↓**	**16% ↑**
USA	$73.5m	14% ↓	7% ↑
ANZ	$95.6m	8% ↑	23% ↑
RoW	$9.2m	4% ↓	28% ↑
Transaction Volume	**$2,216.1m**	**17% ↓**	**11% ↑**
USA	$1,070.7m	18% ↓	10% ↑
ANZ	$1,006.8m	16% ↓	13% ↑
RoW	$138.6m	24% ↓	2% ↑
Transactions	**20.3m**	**10% ↓**	**12% ↑**
USA	5.9m	14% ↓	5% ↑
ANZ	12.0m	6% ↓	17% ↑
RoW	2.4m	17% ↓	9% ↑

[2] Rest of World includes Canada, Payflex (South Africa), Spotii (UAE & KSA), and Twisto (Poland & Czech Republic).
[3] Unaudited management accounts. All financial figures are translated into AUD using the average quarterly foreign exchange rates for the respective quarter.

Operational Performance	As at 31 Mar 23	QoQ	YoY
Active customers[4]	**7.2m**	**2% ↓**	**1% ↓**
USA	3.9m	3% ↓	8% ↓
ANZ	2.3m	0%	3%↑
RoW	1.0m	0%	28% ↑
Merchants[5]	**98.8k**	**1% ↑**	**16% ↑**
USA	23.9k	1% ↑	21% ↑
ANZ	47.3k	3% ↑	14% ↑
RoW	27.6k	0%	14% ↑

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 is delivering strong unit economics supported by actions taken to maintain healthy margins and deliver better credit outcomes.

- Cash transaction margin for the core business improved to 2.8% (up from 2.5% in Q3 FY22) again a strong result as Zip focused on increasing revenue margins and improvements in credit losses to offset the impact of increasing interest rates.
- Revenue yield for the core business improved to 8.3%, up 40 bps YoY and above medium-term targets of 7.0% - 7.5%.
- Zip US continues to deliver improving unit economics driven by an ongoing focus on risk settings that deliver profitable growth and improvements in the repayment journey. All October to March cohorts are now expected to deliver net loss rates of 1.3% or below, despite further deterioration in the external environment. Cohort loss rates have improved by 100+ bps YoY and remain within Zip's target loss rates of <2.0%.
- In Australia, credit losses lifted modestly to 2.6% of TTV reflecting a combination of seasonality and increasing softness in the external environment impacting consumer credit more broadly. Zip has a proven track record in managing its portfolio and has deployed settings and implemented initiatives in response to this softening external environment.

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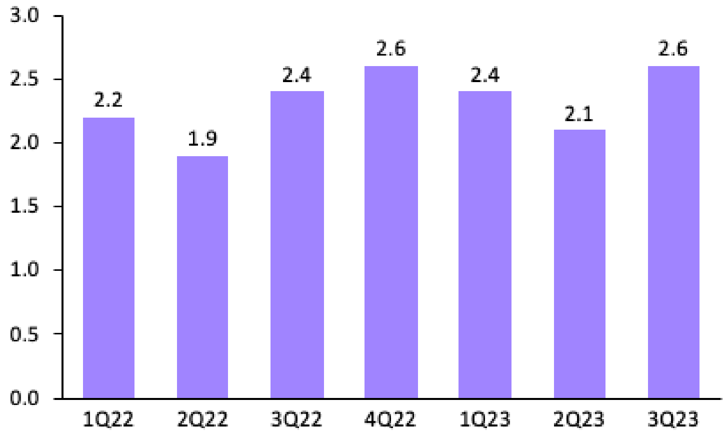
[4] Active customers defined as customer accounts that have had transaction activity in the 12 months to 31 March 2023. Number of Active customers has been rounded to one decimal place. Percentage change has been calculated on the underlying number of active customers before rounding.
[5] Number of accredited merchants.

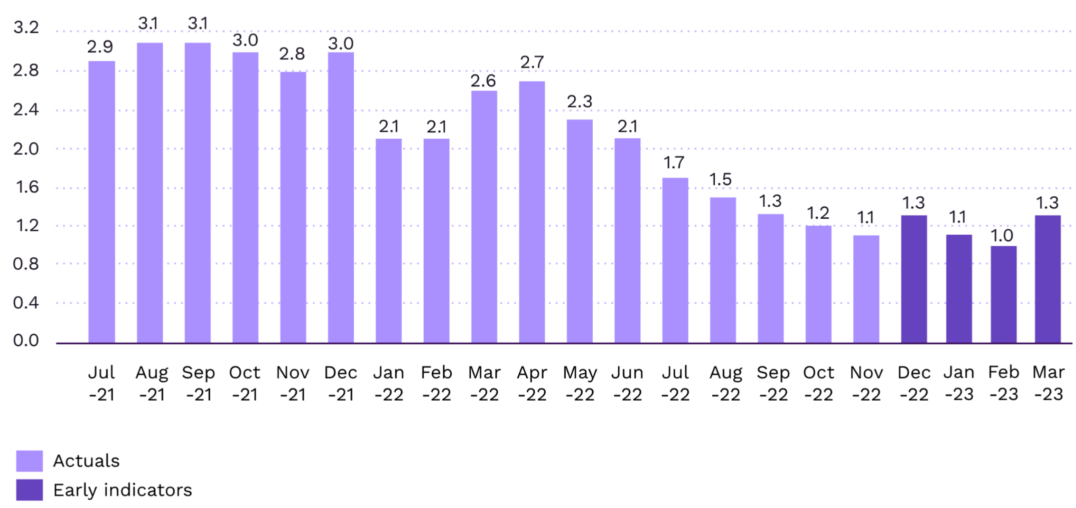
- At a group level Zip delivered credit losses of 1.89% for the quarter, in line with medium-term targets of <2.0% of TTV.
- The improvement in cash transaction margin demonstrates the levers that Zip has at its disposal, and the strength of its business model, enabling the Company to swiftly implement and benefit from changes to settings to offset and manage changes in the external operating environment.

Credit performance across core markets remains a key area of focus.

AU net bad debts written-off, as a % of TTV[6]



US monthly cohorts, 120 day loss performance as a % of cohort TTV



[6] Due to AU book recycling times, adjustments to settings take approximately six to eight months to flow through to outcomes.

Net bad debts as a percentage of TTV moved 41 bps for the group, largely driven by a softness in the broader Australian credit market. Credit losses remain within Zip's target range of <2.0% of TTV.

Net bad debts (% of TTV)	Q3 FY23	Q2 FY23
Group	1.89%	1.48%
AU	2.56%	2.10%
USA	1.15%	1.07%

Capital Management

As at 31 March 2023, Zip had $51.0m in available cash and liquidity, compared to $68.5m reported at HY23 after allowing for the $10m reduction in the available corporate debt facility following the renegotiation and extension of this facility. The balance at the end of the quarter included the following non-operating cash movements totalling net cash flows of ($7.1m):

- $10.8m paid to CVI in relation to the retirement of another $10m of the interest bearing convertible notes held by CVI and accrued interest.
- $5.1m of inflows related to equity released from Zip's debt funding program and bank guarantees cancelled.
- $1.5m of holdback and contingent consideration paid in relation to the acquisition of Payflex.

On 30 March 2023 Zip announced that it had signed agreements to divest its wholly owned businesses in Central and Eastern Europe (Twisto) and South Africa (Payflex) and that the wind-down of Zip's business in the Middle East was on track. Zip expects net cash inflows of approximately $20m to be received during H2 FY23 from these actions, and on completion will have delivered on its objective of neutralising the cash burn from its RoW footprint by the end of this financial year.

Zip's Core Cash EBTDA performance is on track to deliver an improvement of up to 50% in H2 FY23 vs the ($33.2m) result for H1 FY23. Zip remains confident that with inflows from the outcomes of its strategic review process, and the ongoing successful execution of its strategy to fast track profitability, that its current available cash and liquidity position is sufficient to see the Group through to generating positive cash EBTDA during H1 FY24.

Total cash on the Balance Sheet at 31 March 2023 was $241.4m.

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 March 2023.

Financial Performance[2]	Q3 FY23 (USD)	QoQ (USD)	YoY (USD)
Revenue	$50.4m	11% ↓	2% ↑
Transaction volume	$732.5m	15% ↓	4% ↑
Transactions	5.9m	14% ↓	5% ↑

Operational Performance	As at 31 Mar 23	QoQ	YoY
Active customers[4]	3.9m	3% ↓	8% ↓
Merchants[5]	23.9k	1% ↑	21% ↑

Key highlights in the US included:

- The business continued its solid momentum and remains on track to exit FY23 cash EBTDA positive on a sustainable basis.
- TTV and customer growth rates remain tempered as Zip continues to manage its risk settings based on a deteriorating external environment and its focus on profitable, sustainable growth. These actions have delivered a significant improvement in Net Transaction Margin (NTM) of ~180 bps YoY providing the business with a solid platform to grow in FY24.
- Credit loss rates continue to trend ahead of expectations, with all October to March cohorts now expected to deliver net loss rates of 1.3% or below.
- Zip went live with a number of merchants, including Pet Supermarket and WWE (World Wrestling Entertainment). Merchant numbers reflect seasonality and a focus from the business on large enterprise and distribution partnerships and nurturing key accounts during the period.
- Zip launched a variable first instalment feature giving customers the opportunity to pay more than 25% of the total purchase in their first instalment, which is expected to unlock higher spend and improvements to NTM.
- Zip's physical card continues to deliver strong customer engagement, with approximately 385k cards now issued and scaling to approximately 31% of all in-store volumes.

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 March 2023.

Financial Performance[2]	Q3 FY23 (AUD)	QoQ	YoY
Revenue	$95.6m	8% ↑	23% ↑
Transaction volume	$1,006.8m	16% ↓	13% ↑
Transactions	12.0m	6% ↓	17% ↑

Operational Performance	As at 31 Mar 23	QoQ	YoY
Active customers[4]	2.3m	0%	3% ↑
Merchants[5]	47.3k	3% ↑	14% ↑

Credit Performance[2,7] (AU)	As at 31 Mar 23	As at 31 Dec 22	As at 31 Mar 22
Arrears	2.65%	2.63%	2.29%
Net bad debts[8]	4.24%	3.73%	4.02%
Receivables	$2,432.6m	$2,416.6m	$2,175.9m

Key highlights in ANZ included:

- Strong growth was delivered in ANZ across key metrics.
- Revenue growth of 23% YoY.
- TTV of $1.0b, an increase of 13% YoY. TTV per MTU lifted 9% YoY.
- Revenue margins increased 80 bps YoY to 9.5% and revenue per customer lifted by 19% YoY.
- New merchants signed or launched in the quarter include ASICS in Australia, and PlaceMakers in NZ. The merchant pipeline remains very healthy, across a range of industries and verticals, and subsequent to the period end Zip signed and launched with Peloton providing an example of the opportunity industry consolidation will present for Zip.

[7] Calculated on receivables related to Zip AU's Master Trust facilities and funding vehicle 2017-1 Trust.
[8] Net bad debts above is calculated as annualised net write offs in the months of March and December over opening receivables for the month.

- In response to the deterioration in the external operating environment in ANZ, arising from increased interest rates and cost of living pressures impacting consumer credit across the market more generally, Zip has further adjusted risk settings.
- Zip's differentiated two-sided business model, which is less reliant on discretionary consumer spending, is proving resilient in this deteriorating operating environment
- In this environment, Zip continued to provide customers with ways to manage their budget with a flexible first instalment feature in NZ that allows customers to pay more than 25% of the total purchase in their first instalment. This feature has shown early signs of higher average order value (AOV) for merchants and benefits to NTM.
- Zip remains supportive of fit-for-purpose regulation in Australia and has 10 years experience of offering fully regulated credit under its credit licence and the NCCPA. Zip's existing processes and capability of conducting full ID, credit and affordability checks has the Company well positioned for upcoming changes to the regulatory framework.
- In March, Zip partnered with other Australian corporates to help launch the DV Collective. DV Collective supports organisations that provide assistance to individuals escaping domestic violence with the aim of helping them recover through financial and emotional independence. Zip product managers worked alongside IBM engineers to create a member portal that connects community organisations working in family and domestic violence to additional resources, products and services provided by Corporate Australia and skill based volunteers.

Zip RoW

All key operating metrics include Zip's consumer operations from Canada, Payflex (South Africa), Spotii (UAE & KSA) and Twisto (Poland & Czech Republic), based on Zip's unaudited financials as of 31 March 2023.

Financial Performance[2]	**Q3 FY23 (AUD)**	**QoQ**	**YoY**
Revenue	$9.2m	4% ↓	28% ↑
Transaction volume	$138.6m	24% ↓	2% ↑
Transactions	2.4m	17% ↓	9% ↑

Operational Performance	**As at 31 Mar 23**	**QoQ**	**YoY**
Active customers[4]	1.0m	0%	28% ↑
Merchants[5]	27.6k	0%	14% ↑

Key highlights from Zip's RoW included:

- During the quarter, Zip announced that it has signed agreements to divest its businesses in Central and Eastern Europe (Twisto) and South Africa (Payflex). The transactions are expected to complete during H2 FY23.
- Zip continues to progress the wind-down of its operations in the Middle East, which is on track to be completed by the end of June.
- On completion of the above actions, Zip will have successfully delivered on its objective of neutralising cash burn for RoW prior to the end of FY23.

ZIP BUSINESS (SMEs)

Financial Performance[2]	Q3 FY23 (AUD)	QoQ	YoY
Revenue	$3.8m	3% ↓	15% ↑
Originations	$13.0m	40% ↓	34% ↓

Operational Performance	As at 31 Mar 23	QoQ	YoY
Customers	1.4k	3%↑	26% ↑

Key highlights from Zip Business included:

- Zip Business Capital delivered revenue and TTV of $3.8m and $13.0m respectively.
- Originations in the period reflect tightened risk settings, seasonality and a deterioration in the operating environment for small business in ANZ.

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FUNDING FACILITIES

	Facility Vehicle	Facility Limit	Drawn at Mar-23	Maturity
AU	Zip Master Trust - Rated Note Series *2021-1 *2021-2 *2022-1 - Variable Funding Note - Variable Funding Note 2	 $475.0m $617.5m $285.0m $535.4m $136.2m	 $475.0m $617.5m $285.0m $498.2m $120.7m	 Apr-24 Sep-24 Nov-23 Mar-24 Jan-24
	2017-1 Trust	$264.7m	$261.9m	May-23
	2017-2 Trust	$90.0m	$90.0m	Dec-23
	Total	**A$2,403.8m**	**A$2,348.3m**	
US	AR2LLC	US$300.0m	US$125.4m	May-24
NZ	Zip NZ Trust 2021-1	NZ$30.0m	NZ$16.0m	Jul-23
EMEA	Twisto Czech Twisto Poland Payflex South Africa	Kč 958.0m €19.6m R85.0m	Kč 545.2m €13.5m R65.0m	Apr 23 Nov 23 Jan-25
	Total	**A$105.2m**	**A$65.1m**	
SME	Zip Business - Capital Australia - Capital New Zealand	 $60.0m NZ$40.0m	 $33.4m NZ$29.6m	 Mar-24 Nov-23
	Total	**A$97.4m**	**A$61.2m**	

Key highlights included:

- 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.
- Zip continues to progress upcoming refinances and new transactions as part of BAU.
- As at 31 March, Zip AU had $55.5m undrawn and available to fund receivables.
- In February 2023, Zip extended the maturity of the 2017-2 facility to 29 December 2023, with a reduction in limit to $90m, and an option for Zip to extend for an additional three months.
- As at 31 March, Zip US had US$174.6m undrawn and available to fund receivables.

- Zip Business facilities in Australia and New Zealand have $36.2m undrawn and available to fund receivables.
- Following the signing of the agreement (announced 30 March 2023) to divest its Twisto operations, Zip has been working with the acquirer to extend / refinance the Twisto facilities and short term extensions have been agreed in relation to the Czech facility to accommodate this.

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

– ENDS -

For more information, please contact:

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

For general investor enquiries, email investors@zip.co
For media enquiries, email media.relations@zip.co

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

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