20 July 2023

ZIP IMPROVES MARGINS AND STRENGTHENS BALANCE SHEET

Zip Co Limited (ASX: ZIP) **("Zip",** or the **"Company")** today announced its fourth quarter results for the three month period ending 30 June 2023 **("Q4 FY23").**

KEY HIGHLIGHTS

- Group quarterly revenue of $193.8m (up 21.1% YoY).
- Transaction volume for the quarter of $2.3b (up 6.4% YoY).
- Cash Transaction Margin for the core business[1] improved again to 3.1% for the quarter (up from 2.8% in Q3 FY23), a particularly strong result in a rising interest rate environment.
- Very strong revenue growth delivered by both core markets with Zip ANZ up 26.1% YoY and Zip US up 13.6% YoY.
- Revenue margin for the core business improved to 8.5% (vs 7.6% in Q4 FY22).
- Active customer numbers for the core business at the quarter end of 6.2m.
- Zip US credit loss rates (net) were again a standout at 0.85% of TTV (vs 1.2% in Q3 FY23 and 2.7% in Q4 FY22).
- Zip US continued its solid momentum and exited FY23 cash EBTDA positive on a monthly basis, providing a strong platform for growth in FY24.
- Key enterprise merchants signed or launched include Webjet, Peloton, Sheike and Hewlett Packard in Australia, and WHP Global, Mitchell and Ness, Fevo, Hanes Brand and Lovely Wholesale in the US.
- Zip completed the divestment of its businesses in Central and Eastern Europe (Twisto), South Africa (Payflex) and the Middle East (Spotii). Zip has now delivered on its objective of neutralising cash burn from its Rest of World ("RoW") footprint by the end of the financial year.
- In June, Zip undertook a significant liability management exercise reducing its zero coupon convertible note liabilities by $192.2m to $137.8m at an effective rate of 47.5 cents in the dollar. The exercise comprised both an incentivised conversion and a consent solicitation process to amend the terms and conditions of the remaining notes. The exercise is expected to deliver a material reset of Zip's balance sheet with no cash impact to the Company.
- Zip successfully completed a $200m rated note issuance in the Zip Master Trust (2023-1) to fund its Australian receivables, with the senior notes being AAA rated.

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

- Zip will report on its Cash EBTDA performance in its upcoming FY23 result, including Core Cash EBTDA relative to its target of up to 50% improvement in H2 FY23 versus the ($33.2m) result for HY FY23.

- As at 30 June 2023, Zip had available cash and liquidity of $57.3m. Zip remains well funded with sufficient available cash and liquidity to support the Company to achieve group cash EBTDA profitability during H1 FY24.

CEO UPDATE

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

> *"Today we delivered another strong set of results driven by particularly strong revenue growth of 21.1%, improved margins, and a disciplined approach in how we grow and run our business. We've seen the cash transaction margin for the core business improve again to 3.1% and we are pleased to deliver such a strong result despite the rising cost and interest rate environment. This performance yet again demonstrates the resilience and strength of the business in a challenging macroeconomic environment.*
>
> *Pleasingly, this result was underpinned by strong revenue growth in both our core markets, with the credit performance in the US business also a standout at 0.85% of TTV. As we finish FY23, I am excited to see the US business exit the year cash EBTDA positive on a monthly basis and very well-positioned for sustainable growth in FY24.*
>
> *During the quarter, we continued to attract new merchants to the platform such as Webjet and Peloton in Australia, and Fevo and Hanes Brands in the US. In Australia, we welcomed the decision from Treasury to provide certainty around the BNPL regulatory framework. The option endorsed by Government was the option we supported and is aligned to our existing values and business practices, which include the capability of conducting full ID, credit and affordability checks on our customers, and holding an Australian Credit Licence.*
>
> *We've continued to deliver on our strategy - we've reduced our cost base and exited our non-core businesses in RoW. With these successful divestments, we have neutralised cash burn from our RoW footprint by the end of the financial year as planned.*
>
> *Liability management was a key highlight of this period, with the successful exercise undertaken in June reducing our convertible note liability from $330.0m to $137.8m at a significant discount to face value. The exercise provides Zip with a materially strengthened balance sheet and positions the company for future profitable growth in FY24 and beyond.*
>
> *We acknowledge that many consumers are doing it tough with the cost of living a challenge for many households. We remain committed to delivering for our customers and merchants 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

Zip continues to deliver solid top line numbers with strong results in its core markets of the United States and ANZ, despite growth being tempered by adjustments to internal risk settings and the external environment. RoW includes the results of Zip's businesses in the Middle East (Spotti), Central and Eastern Europe (Twisto) and South Africa (Payflex) up to the date of divestment, and Zip's operations in Canada. From Q1 FY24 RoW will be discontinued and Zip's Canadian business will be reported as part of the Americas with the US business.

Reported figures are based on Zip's unaudited financials as of 30 June 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.

CONSUMER

Financial Performance[2] (AUD)	Q4 FY23	QoQ	YoY
Revenue	**$190.3m**	**6.7% ↑**	**22.5% ↑**
USA	$82.5m	12.2% ↑	22.6% ↑
ANZ	$100.3m	4.9% ↑	26.1% ↑
RoW	$7.5m	N/A	N/A
Transaction Volume	**$2,297.2m**	**3.7% ↑**	**8.4% ↑**
USA	$1,223.8m	14.3% ↑	21.9% ↑
ANZ	$957.7m	4.9% ↓	0.1% ↑
RoW	$115.7m	N/A	N/A
Transactions	**19.9m**	**2.2% ↓**	**2.4% ↑**
USA	6.6m	11.0% ↑	13.1% ↑
ANZ	11.5m	3.9% ↓	5.9% ↑
RoW	1.8m	N/A	N/A

[2] 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 30 Jun 23	QoQ	YoY
Active customers[3]	**6.2m**	**0.9% ↓**	**3.5% ↓**
USA	3.9m	0.7% ↓	5.9% ↓
ANZ	2.3m	1.1% ↓	0.7% ↑
Merchants[4]	**72.3k**	**1.5% ↑**	**11.2%↑**
USA	24.0k	0.2% ↑	9.7% ↑
ANZ	48.3k	2.1% ↑	11.9% ↑

UPDATE ON GROUP STRATEGIC PRIORITIES

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

Unit Economics

Zip continued to deliver improvements to its unit economics, which was again a strong result given the challenging external economic conditions and rising interest rate environment.

- Cash transaction margin for the core business was 3.1% (vs 2.8% in Q3), a strong result as Zip focused on increasing revenue margins and improving credit losses to offset the significant impact of increasing interest rates.

- Revenue margin for the core business improved to 8.5%, up 90bps 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 support profitable growth. Monthly cohort loss rates in Q4 are expected to deliver loss rates of 1.3% - 1.5%. Risk settings are now being adjusted following the business reset and seasonal low, and losses are expected to trend in a controlled way towards target rates of 1.5% - 2.0% of TTV, providing a solid platform for accelerated and profitable growth in FY24.

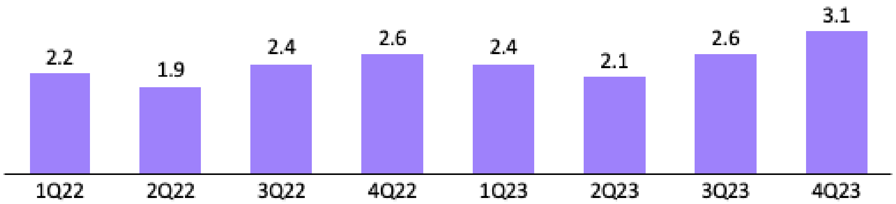
- Zip AU experienced net bad debts of 3.11% of TTV reflecting a combination of controlled TTV, seasonality, increasing softness in the external environment impacting consumer credit more broadly, and the impacts of some one-off issues with third party payment processing. Zip AU has a proven track record in managing its portfolio, in a variety of external environments and growth settings, and has again adjusted settings and implemented initiatives in response to current market conditions.

[3] Active customers defined as customer accounts that have had transaction activity in the 12 months to 30 June 2023. Excludes customers related to Twisto, Spotii and Payflex businesses which were divested during the quarter.
[4] Number of accredited merchants. Excludes merchants related to Twisto, Spotii and Payflex businesses which were divested during the quarter.

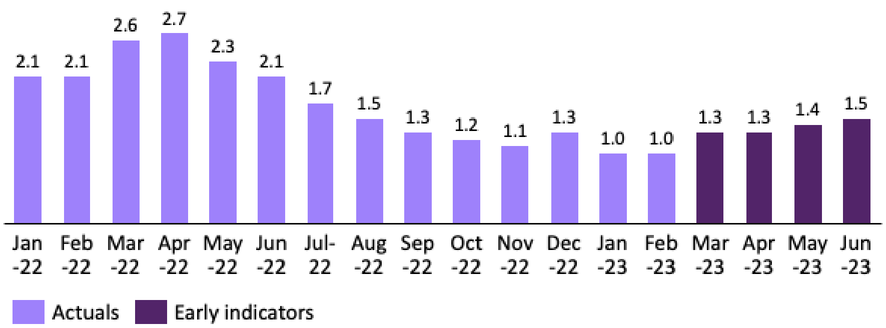
- At a group level Zip delivered credit losses of 1.86% for the quarter, in line with medium-term targets of <2.0% of TTV.
- The solid cash transaction margin demonstrates the resilience and strength of the business and business model, and the levers that Zip has at its disposal, enabling the Company to adjust and swiftly implement changes to settings to offset and manage changes and opportunities 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[5]



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



Net bad debts as a percentage of TTV improved for the group, with improvements in the US performance, partially offset by softness in the broader Australian credit market. Group credit losses remain within Zip's target range of <2.0% of TTV.

Net bad debts (% of TTV)	Q4 FY23	Q3 FY23
Group	1.86%	1.89%
AU	3.11%	2.56%
USA	0.85%	1.15%

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

Reduce cost base

Zip has now successfully delivered on its objective of neutralising cash burn from its RoW footprint by the end of the financial year.

In addition, and in line with its focus on fast tracking group profitability, Zip also made proactive changes to further optimise its operating structure and reduce its cost base during the quarter. The process involved a reduction of approximately $16.1m annualised base salary costs across the US, ANZ and corporate divisions.

Furthermore, and in line with ongoing efforts to simplify and focus on the core business, Zip commenced the wind down of Zip Business Capital in ANZ. Zip expects the wind down to deliver net cash inflows as capital from debt funding facilities for Zip Business loans is released back to Zip.

Capital Management

As at 30 June 2023, Zip had $57.3m in available cash and liquidity, up from $51.0m reported at Q3 FY23. The balance at the end of the quarter included the following non operating cash movements totalling net cash inflows of $18.1m.

- $13.4m of net inflows from the divestment of Twisto and Payflex.
- $6.4m of inflows from the wind down of the Zip Business receivables portfolio.
- $1.7m of outflows in holdback consideration paid in relation to the acquisition of Payflex.

After adjusting for the above non-operating cash items, there was a movement in the available cash position of approximately ($11.8m) relating to Cash EBTDA, Capex and receivables funding in the quarter (which compares to approximately ($10.4m) in the prior quarter).

Total cash on the Balance Sheet at 30 June 2023 was $268.6m.

Liability management exercise

In June, Zip undertook a significant liability management exercise reducing its $330.0m zero-coupon Convertible Note liabilities by $192.2m to $137.8m[6] at an effective rate of 47.5 cents in the dollar. The exercise comprised both an incentivised conversion and a consent solicitation process to amend the terms and conditions of the remaining notes.

The cash component of the transaction was funded via a $24.7m institutional placement with no cash impact to the Company. The transaction was highly accretive for Zip shareholders and is expected to deliver a material reset and de-leverage of Zip's balance sheet to support profitable growth.

[6] On a pre-tax basis.

Trade mark infringement claim
On 1 June 2023, Zip announced that the Company had successfully defended its trade mark infringement claim, and that Zip was also successful in its non-use application, and cross-claim for removal or cancellation of Firstmac's trademark. Zip notes that Firstmac has now lodged an appeal in response to both its failed trade mark infringement claim against Zip, and Zip's success in its non use claim and the consequential cancellation or removal of Firstmac's mark. Zip will continue to defend its use of 'ZIP'.

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 June 2023.

Financial Performance[2]	Q4 FY23 (USD)	QoQ (USD)	YoY (USD)
Revenue	$55.2m	9.6% ↑	13.6% ↑
Transaction volume	$818.0m	11.7% ↑	13.8% ↑
Transactions	6.6m	11.0% ↑	13.1% ↑

Operational Performance	As at 30 Jun 23	QoQ	YoY
Active customers[3]	3.9m	0.7% ↓	5.9% ↓
Merchants[4]	24.0k	0.2% ↑	9.7% ↑

Key highlights in the US included:

- The business continued its solid momentum and exited FY23 cash EBTDA positive on a monthly basis.
- Zip US delivered solid TTV growth underpinned by profitable growth from existing customers in higher margin channels such as the app and physical card. Customer growth rates remain tempered by Zip's internal risk settings.
- Zip's physical card continues to deliver strong customer engagement. TTV from the Zip card grew by 27% QoQ and lifted to approximately 32% of in-store volumes.
- Zip signed with a number of merchants, including WHP Global,, Mitchell and Ness, Fevo, Hanes Brand and Lovely Wholesale.
- Monthly cohort loss rates in the June quarter are expected to deliver loss rates of 1.3% - 1.5%. Risk settings are now being adjusted following the business reset and seasonal low providing a solid platform for accelerated and profitable growth in FY24.

- Zip expanded its partnership with WebBank so that WebBank is now the lender for the Zip lending program in 45 states, providing further regulatory support to the Zip offering.

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 June 2023.

Financial Performance[2]	Q4 FY23 (AUD)	QoQ	YoY
Revenue	$100.3m	4.9% ↑	26.1% ↑
Transaction volume	$957.7m	4.9% ↓	0.1% ↑
Transactions	11.5m	3.9% ↓	5.9% ↑

Operational Performance	As at 30 Jun 23	QoQ	YoY
Active customers[3]	2.3m	1.1% ↓	0.7% ↑
Merchants[4]	48.3k	2.1% ↑	11.9% ↑

Credit Performance[2,7] (AU)	As at 30 Jun 23	As at 31 Mar 23	As at 30 Jun 22
Arrears	3.53%	2.65%	2.84%
Net bad debts[8]	4.00%	4.24%	4.53%
Receivables	$2,401.3m	$2,432.6m	$2,240.9m

Key highlights in ANZ included:

- ANZ again delivered strong revenue growth of 26.1% YoY, with revenue margins increasing by 220bps YoY to 10.5%.
- Zip signed or went live with a number of large merchants, including Sheike, Webjet, Peloton and Hewlett Packard in Australia, and re-signed with The Warehouse Group in New Zealand. The merchant pipeline remains very healthy, across a range of industries and verticals.
- Transaction volume growth rates were impacted by adjusted risk settings and proactive portfolio management actions in response to the impact of increased interest rates and cost of living pressures impacting consumer credit across the market more generally.

[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 June and March over opening receivables for the month.

- Zip welcomed the announcement from Treasury in May to further strengthen the BNPL regulatory framework (Option 2), providing clarity and consistency across the sector. The regulatory framework announced will formalise a fit-for-purpose minimum standard that will protect consumers while promoting competition and innovation. Zip is actively engaging with Treasury in their consultation process to finalise the details of this framework. Zip has 10 years experience offering fully regulated credit under its credit licence and the NCCPA. Zip already complies with the obligations under Option 2 of the proposed framework given the Company's existing processes and capability of conducting full ID, credit and affordability checks on its customers.
- Zip NZ delivered positive Cash EBTDA for the quarter and for FY23.

Zip RoW

All key operating metrics include Zip's consumer operations from Payflex (South Africa), Spotii (UAE & KSA) and Twisto (Poland & Czech Republic) up to the date of divestment and Zip's operations in Canada, based on Zip's unaudited financials as of 30 June 2023.

Financial Performance[2]	Q4 FY23 (AUD)
Revenue	$7.5m
Transaction volume	$115.7m
Transactions	1.8m

In line with its strategic objectives, Zip successfully completed the divestment of its businesses in Central and Eastern Europe (Twisto), South Africa (Payflex), and the Middle East (Spotii). Zip has now delivered on its objective of neutralising cash burn from its RoW footprint by the end of this financial year.

From Q1 FY24, Zip's Canadian business will be reported in the Americas segment with the US business.

ZIP BUSINESS (SMEs)

Financial Performance[2]	Q4 FY23 (AUD)
Revenue	$3.5m
Originations	$4.1m

Operational Performance	As at 30 Jun 23
Customers	1.2k

In line with ongoing efforts to simplify the business (to focus on core consumer lending products and core markets) and Zip's strategy to drive cash EBTDA profitability, during the quarter Zip commenced the wind down of Zip Business Capital in ANZ. Zip expects the wind down to deliver net cash inflows as capital from debt funding facilities for Zip Business loans is released back to Zip.

FUNDING FACILITIES

	Facility Vehicle	Facility Limit	Drawn at Jun-23	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
	*2023-1	$190.0m	$190.0m	May-26
	- Variable Funding Note	$535.4m	$460.7m	Mar-24
	- Variable Funding Note 2	$136.2m	$118.5m	Jan-24
	2017-1 Trust	$126.5m	$85.4m	Jul-24
	2017-2 Trust	$90.0m	$90.0m	Dec-23[9]
	Total	**A$2,455.6m**	**A$2,322.1m**	
US	AR2LLC	US$225.0m	US$131.4m	May-24
NZ	Zip NZ Trust 2021-1	NZ$20.0m	NZ$11.0m	Sep-23
SME	Zip Business			
	- Capital Australia	$35.0m	$27.1m	Mar-24
	- Capital New Zealand	NZ$26.9m	NZ$26.9m	Nov-23
	Total	**A$59.8m**	**A$51.9m**	

Key highlights included:

- Zip successfully completed a $200m rated note issuance within the Master Trust (2023-1) with the senior notes being AAA rated.
- 2017-1 was refinanced and extended until Jul-24 and in line with ongoing initiatives to optimise Zip's debt funding program the limit was revised to $126.5m.
- As at 30 June, Zip AU had $133.5m undrawn and available to fund receivables.
- Zip continues to progress upcoming refinances and new transactions as part of BAU.

[9] Zip holds an option to extend for three months to March 2024.

- As part of its ongoing capital management program, Zip US negotiated a reduction in facility limit (from US$300m to US$225m) to align with expected usage, while ensuring it retains ample headroom to fund transaction and receivables growth in FY24.
- As at 30 June, Zip US had US$93.6m undrawn and available to fund receivables.
- As Zip Business winds down in both Australia and New Zealand it will progressively repay drawn facilities in accordance with the terms of the respective funding arrangements. Zip has agreed a reduction in facility limits in both Australia and New Zealand to align with the progressive repayments.
- 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.

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

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