

27 February 2024

1H FY24 RESULTS UPDATE

Zip delivers significant improvement in cash EBTDA

Zip Co Limited (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announces its half-year results for the period ending 31 December 2023 (“**1H24**”).

KEY HIGHLIGHTS

- Group cash EBTDA of \$30.8m, driven by a strong seasonal performance in US TTV, improved margins and cost discipline
- Group revenue of \$430.0m (up 28.9% vs 1H23)
- Total Transaction Volume (“**TTV**”) of \$5.0b (up 9.6% vs 1H23)
- Transaction numbers of 38.6m (up 5.0% vs 1H23)
- Revenue margin of 8.5% (up 130bps vs 1H23)
- Group net bad debts of 1.9%¹ of TTV (stable vs 1H23)
- Cash NTM of 3.5% (up 90bps vs 1H23), a strong result in a rising interest rate environment
- Cash gross profit of \$176.2m (up 45.9% vs 1H23)
- Merchant numbers increased to 76.2k (up 9.3% vs 1H23)
- Active customer numbers of 6.3m (up from 6.2m in FY23)
- Zip Americas delivered a record half for TTV (up 33.3% vs 1H23) and revenue (up 40.3% vs 1H23) with a strong seasonal performance and US bad debts continued to perform well with monthly cohort loss rates at or below 1.4% of TTV
- Australia and New Zealand (“**ANZ**”) cash EBTDA was a solid result with revenue growth of 22.7% offsetting a significant increase in interest costs, demonstrating the resilience of the business model
- In Australia, Zip launched a new product to existing customers, Zip Plus, designed for a higher-for-longer interest rate environment and expected to drive TTV and margin growth
- Zip’s balance sheet was further strengthened and simplified with a new \$150.0m corporate debt facility and an incentivised conversion and repayment of the \$40.0m outstanding CVI Convertible Notes
- Continued deleveraging of Zip’s balance sheet with the outstanding face value of Zip’s Senior Convertible Notes reducing to \$68.8m at 31 December 2023 and \$34.6m at 23 February 2024

¹ Excluding the movement in the provision for expected credit losses.

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- Available cash and liquidity position increased to \$81.3m (from \$57.3m on 30 June 2023)

CEO UPDATE

Zip Group CEO and Managing Director, Cynthia Scott said:

“Zip has delivered an outstanding result for the half, demonstrating consistent strong performance and continued successful execution of our strategic priorities. A particular highlight was achieving positive Group cash EBTDA of \$30.8m. This was driven by record transaction volumes and revenue following a particularly strong seasonal performance in US TTV, improved credit losses in both core markets, ongoing margin expansion and continued cost discipline.

Revenue growth was strong at 28.9% compared to 1H23 and revenue margins expanded by 130 basis points to 8.5%. Cash NTM improved 90bps to 3.5% of TTV against a backdrop of rising cost of funds, demonstrating the resilience of our business model and ongoing relevance of our product offering to our customers and merchants.

The Americas business achieved record TTV of \$3.1b, up 33.3% versus 1H23 and cash EBTDA of \$38.0m. Much of this growth was driven by increased engagement with existing customers while maintaining strong credit performance, with US loss rates at or below 1.4% of cohort TTV. During the half, Zip US also continued to scale its physical card program with TTV +311.4% YoY and driving more than 30% of in-store volume.

The ANZ business again delivered margin expansion with revenue margins up 320bps to 11.0%. Cash EBTDA improved with revenue growth of 22.7%, offsetting a significant increase in interest costs and further demonstrating the resilience of Zip’s business model. In response to customer demand, we successfully launched a new product in the Australian market, Zip Plus, providing customers with greater choice and flexibility. Zip Plus is compliant with the requirements of the National Consumer Credit Protection Act (“NCCPA”), designed for a higher-for-longer interest rate environment and is expected to be yield accretive.

We continued to strengthen and simplify our balance sheet, completing a new \$150.0m corporate facility, providing Zip with funding certainty for the next four years. The outstanding \$40.0m CVI Notes were extinguished and the outstanding face value of the Senior Convertibles Notes further reduced to \$34.6m (as at 23 February 2024). Pleasingly, our available cash and liquidity position improved to \$81.3m from \$57.3m six months ago.

Looking ahead, we remain firmly focused on our three strategic pillars for FY24 - driving sustainable profitable growth, product innovation and operational excellence. Zip is very well-positioned to capitalise on the near and medium term opportunities in our core markets of ANZ and the Americas and deliver greater value for our customers and merchants.”

STRATEGIC PRIORITIES

With a focus on driving profitable sustainable growth, Zip delivered Cash EBTDA of \$30.8m for 1H24, an improvement of \$64.0m vs 1H23. The result was driven by successful execution of Zip's strategic priorities:

1. Growth and Profitability

Americas

Zip Americas delivered a record half with \$3.1bn in TTV (+33.3% vs 1H23) and \$214.7m in revenue (+40.3% vs 1H23) respectively, driven by strong seasonal volumes and profitable growth from existing customers. Transactions per active customer and TTV per active customer increased 30.0% and 36.2% respectively in 1H24, underpinned by increased customer engagement in higher margin channels such as the app and physical card.

Zip US continued to deliver strong credit metrics with cohort losses at or below 1.4% of TTV (below the target range of 1.5% - 2.0%), as a result of continued discipline across the credit lifecycle delivering accelerated, profitable growth.

ANZ

Zip's unique two-sided revenue model delivered higher revenue margins of 11.0%, up 320 basis points vs 1H23 and strong revenue growth, up 22.7% vs 1H23 to \$210.8m. There was a strong rollout of new enterprise merchants across a variety of strategic verticals such as ticketing, telecommunications and healthcare. TTV and customer growth was tempered by adjustments to credit risk settings in response to the external environment and in line with strategic focus.

The Australian business increased portfolio yield by 338bps vs 1H23 to 17.5% and excess spread also improved by 106bps to 6.2% (in December 2023), a strong result in a rising interest rate environment. Actions taken to improve credit performance, including tightened lending criteria and portfolio management are delivering improved arrears and net bad debt performance which is expected to continue in 2H24.

2. Product innovation

Americas

Zip's physical card continues to deliver strong customer engagement with TTV +311.4% vs 1H23 and contributing more than 30.0% of in-store volumes. Zip's app is driving particularly strong engagement through enhanced product features such as gamified repayment experiences and variable first instalments.

Zip US continues to invest in its core payments architecture to provide greater payment flexibility to customers. During the period, Zip tested a 'Pay-in-8' instalment solution, allowing customers to pay over three months, supporting higher average order values and healthier serviceability. The Company plans to progressively roll this product out over the coming quarters.

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ANZ

On its journey to becoming a next generation financial services provider, Zip launched a new product in Australia, Zip Plus, to a targeted cohort of existing customers, providing access to greater spending power and flexibility to manage their finances. Zip Plus is fully compliant with the regulatory requirements of the NCCPA. The product has been designed for a higher-for-longer interest rate environment and is expected to drive TTV and margin growth.

3. Operational excellence

Balance sheet strength

In July 2023, Zip completed a consent solicitation process at 47.5 cents in the dollar to amend the terms and conditions of Zip's Senior Convertible Notes, reducing the outstanding face value to \$137.8m. As at 23 February 2024, as a result of noteholder conversions, the outstanding face value has been further reduced to \$34.6m.

During the period, Zip's balance sheet was further strengthened and simplified with a new \$150.0m corporate debt facility and an incentivised conversion and repayment of the \$40.0m outstanding CVI Convertible Notes. The new facility was used to repay in full Zip's maturing \$90.0m corporate debt facility, fund the cash component of the incentivised conversion of the outstanding CVI Convertible Notes and provide additional liquidity to support growth.

Receivables financing

Zip successfully refinanced receivables funding facilities in both the US and Australia. As at 31 December 2023, the business had US\$78.0m and \$236.9m undrawn and available to fund receivables growth in the US and Australia respectively. Zip is well-progressed on its refinancing activities for 2H24.

Operating costs

Zip continued to focus on streamlining its cost base and driving operating leverage. Total cash operating costs were down 4.4% to \$149.3m. During the period, Zip successfully completed the Company's Small Shareholding Sale Facility, delivering cost savings from administering a large shareholder register.

Sustainability

Zip remains committed to operating responsibly and delivering long-term value to its customers, merchants, shareholders and other stakeholders. Achievements during the half included:

- **Responsible lending:** Zip continued its partnership with Young Change Agents to deliver a "Future of Finance" youth incubator, supporting students to bring their solutions to financial issues to life with the help of Zip mentors, and sponsorship of debt relief charity Way Forward.
- **DEI and Employee Wellbeing:** Zip continued to progress its measurable objectives for gender diversity, with women representing 43% of the total workforce and an increase in representation of non-binary employees. Female representation on Zip's Board is now at 60%.

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- Environmental Sustainability:** Zip partnered with NetNada to calculate and publish the Company's Greenhouse gas emissions across Scopes 1, 2 and 3 and invest in carbon offsetting initiatives to neutralise FY23 emissions. The Company also furthered its commitment to transparency, participating in the Carbon Disclosure Project and Corporate Sustainability Assessment.

BUSINESS PERFORMANCE

Zip delivered strong results across its consumer business in its two core markets; ANZ and the Americas. Figures based on Zip's unaudited financials as of 31 December 2023.

Zip Business contributed revenue of \$4.5m in the six months to 31 December 2023 and is in wind-down.

Financial performance ² (AUD)	1H24	YoY
Revenue	\$425.5m	31.0% ↑
Americas	\$214.7m	40.3% ↑
ANZ	\$210.8m	22.7% ↑
Transaction volume	\$5,042.9m	11.0% ↑
Americas	\$3,130.6m	33.3% ↑
ANZ	\$1,912.3m	12.9% ↓
Transactions	38.6m	5.0% ↑
Americas	16.3m	27.2% ↑
ANZ	22.3m	6.8% ↓

Operational performance ⁴	1H24	YoY
Active customers³	6.3m	2.5% ↓
Americas	4.0m	2.2% ↓
ANZ	2.3m	3.1% ↓

Operational performance ⁴	1H24	YoY
Merchants	76.2k	9.3%↑
Americas	24.1k	1.0% ↑
ANZ	52.1k	13.7% ↑

² Unaudited management accounts. All financial figures are translated into AUD using the average yearly foreign exchange rates for the respective year.

³ Active customers defined as customer accounts that have had transaction activity in the 12 months to 31 December 2023.

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PRESENTATION, WEBCAST AND CONFERENCE CALL

Zip will hold a webcast and conference call to discuss the 1H24 result at 10:30 AM AEDT today, Tuesday, 27 February 2024.

Participants can register for the conference call by navigating to either of the links below. Registered participants will receive their dial in details upon registration.

Webcast & slide presentation registration link: <https://ccmediaframe.com/?id=3fHNyxVN>

Conference call registration link: <https://s1.c-conf.com/diamondpass/10034950-b7d3lt.html>

Note: Q&A functionality is only available through the conference call line.

Release approved by the CEO 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 digital financial services company, offering innovative, people-centred products that bring customers and merchants together. Operating in two core markets - Australia and New Zealand (ANZ) and the Americas, Zip offers point-of-sale credit and digital payment services, connecting millions of customers with its global network of tens of thousands of merchants.

Founded in Australia in 2013, Zip provides fair, flexible and transparent payment options, helping customers to take control of their financial future and helping merchants to grow their businesses. Zip is also a licensed and regulated credit provider and is committed to responsible lending.

For more information, visit: www.zip.co.

For any shareholding and registry service enquiries, please contact Computershare. Phone: 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia). Shareholders who would like to receive email communications from Computershare for all future correspondence, visit <http://www.computershare.com.au/easyupdate/ZIP>.

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