



FY19 Results Presentation

Zip Co Ltd (ASX: Z1P)

August 2019





OUR PURPOSE

**The freedom
to own it.**



OUR MISSION

**To be the first payment
choice everywhere
and every day.**



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01

Vision & Opportunity





A compelling investment case

SIGNIFICANT GROWTH Market leader in dynamic industry, delivering 100%+ YoY revenue growth for the last five years

NETWORK-DRIVEN BUSINESS \$1B+ annual payments, 1.3M customers, 16K retail partners

100% PROPRIETARY PLATFORM Leveraging data to provide sophisticated real-time credit and fraud decisions

BRAND AFFINITY The Zip brand lives where our customers shop each day, always top of mind

TECHNOLOGY-LED Product and engineering at the core, representing 1/3 of workforce¹

ATTRACTIVE UNIT ECONOMICS Cash GP margins above 50%, Cash EBTDA increasing with operating leverage

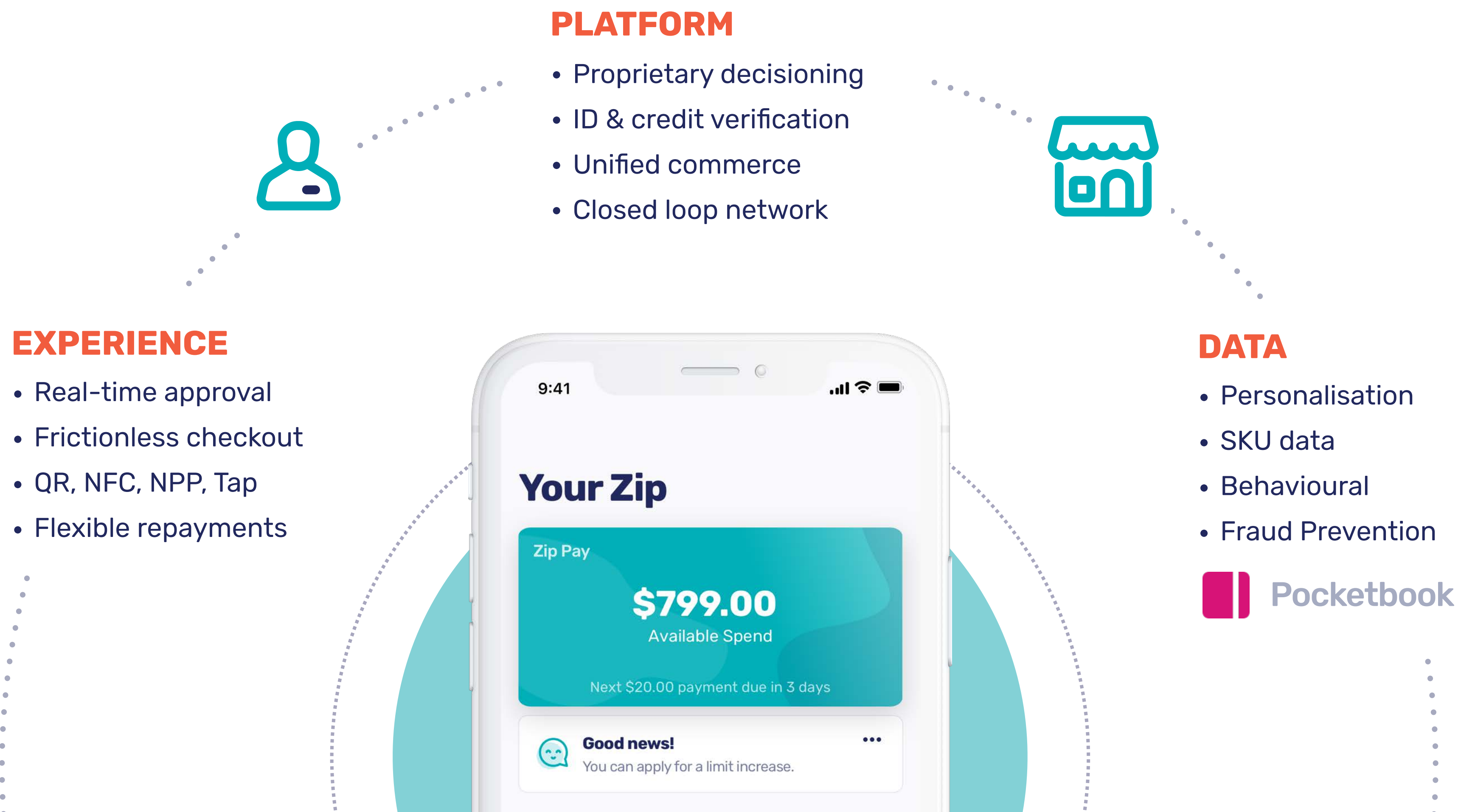
MASSIVE MARKET OPPORTUNITY More than \$1T² addressable payment volume in Australia, then there is global

1. Calculated from internal data, rounded.

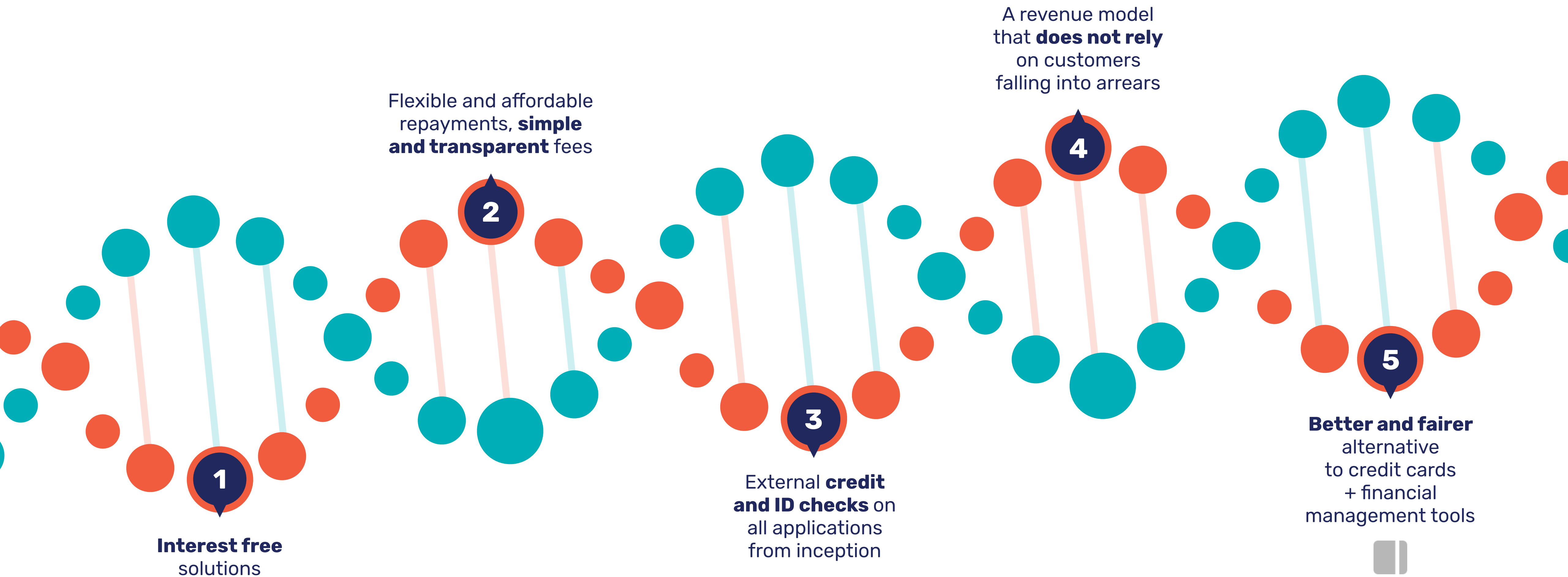
2. Sourced from RBA 2019.

The next digital wallet

Connecting customers and retailers together, through an enriched payments experience



Responsibility is in our DNA



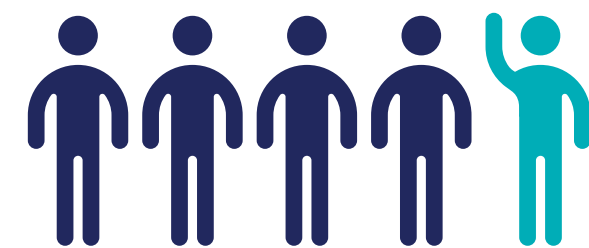
High growth and dynamic sector

BNPL growth is outstripping credit and debit cards online¹



7% BNPL

Debit card **16%**
Credit card **24%**
Paypal **49%**



1 in 5 Gen Xers now use BNPL²

5X

BNPL user growth last 2 years³

Technology is accelerating adoption



Invisible payments
i.e. biometrics



Authentication becomes the payment
i.e. 1-click checkout

Positive regulatory tailwinds

- ✓ Open Banking
- ✓ Comprehensive Credit Reporting
- ✓ Favourable ASIC review

Payments landscape

\$1T

Payments⁴

\$320B

Retail⁵

\$25B

Online⁵

How we will win

Deep focus on the core, whilst expanding into new markets and segments





02

Business Update





FY19 highlights

We exceeded the goals we set for the year



\$1.1B

Annual transaction volume¹

Target \$1.0B



1.3M

Customer accounts²

Target 1M



6x

Consecutive quarters of positive EBTDA³

Target breakeven

1. Aggregate transaction volume for FY19, 2. Customer accounts as at 30 June 2019, 3. Earnings Before Tax Depreciation and Amortisation (EBTDA), 4. iOS App metrics as of 30th June 2019. Source: Zip unaudited financials and internal data for FY2019.



\$84M

Revenue



108%

Growth YoY



3.3M

Unique monthly web visits



16,000+

Partners (Kmart, BigW, Bunnings)



37,000

Locations



230+

Staff



4.9

Star app rating⁴



Top 10

App rank



1M

App downloads

FY19 scorecard

FY18

FY19

↑108%

\$84.2M
Revenue

FY18 \$40.4M



↑80%

1.3M
Customers

FY18 0.7M



↑108%



\$1,128.5M
Transaction Volume

FY18 \$542.9M



↑116%



\$682.6M
Receivables

FY18 \$316.7M



↑53%



16.2K
Retail Partners

FY18 10.6K



↓1%



1.63%
Net Bad Debts

FY18 2.61%



Financial dashboard

Cash Earnings Before Tax, Depreciation and Amortisation (Cash EBTDA) as a percentage of average receivables

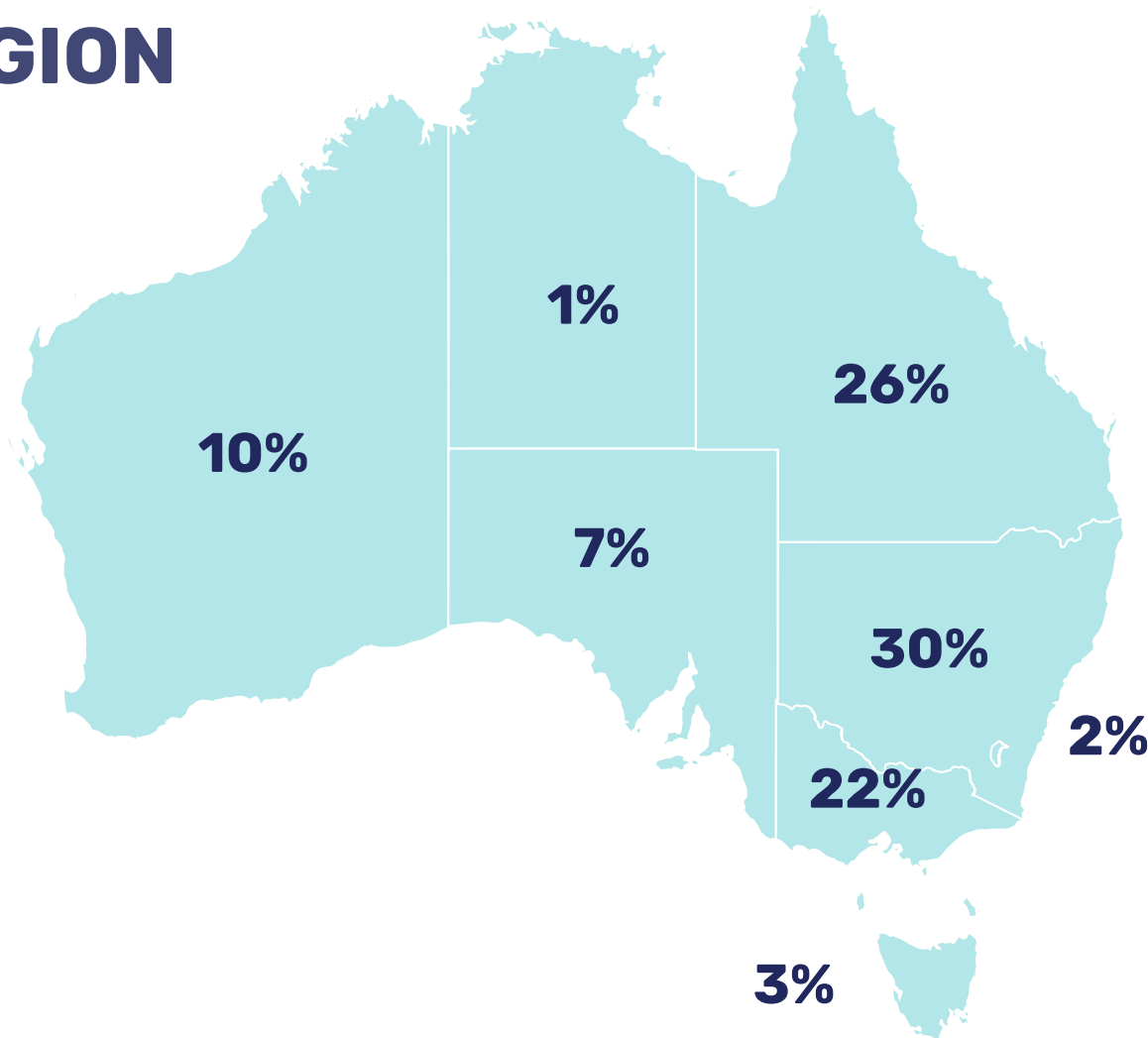
	H1FY18	H2FY18	H1FY19	H2FY19	MEDIUM TERM TARGET
Revenue Yield ¹	17.0%	17.7%	17.6%	17.1%	18%
Cash Cost of Sales ^{1,2}	(13.2)%	(9.7)%	(8.5)%	(8.0)%	(7)%
Cash Operating Costs ^{1,3}	(12.4)%	(9.6)%	(8.2)%	(7.1)%	(4)%
Cash EBTDA ^{1,3}	(8.6)%	(1.6)%	0.9%	2.0%	7%

1. All figures expressed as a percentage of half year average receivables. All figures are on an annualised basis.
2. Cash Cost of Sales includes interest, bank fees, data costs, and bad debt write-offs.
3. Cash Operating Costs exclude funding program establishment costs, depreciation and amortisation.

More customers than ever

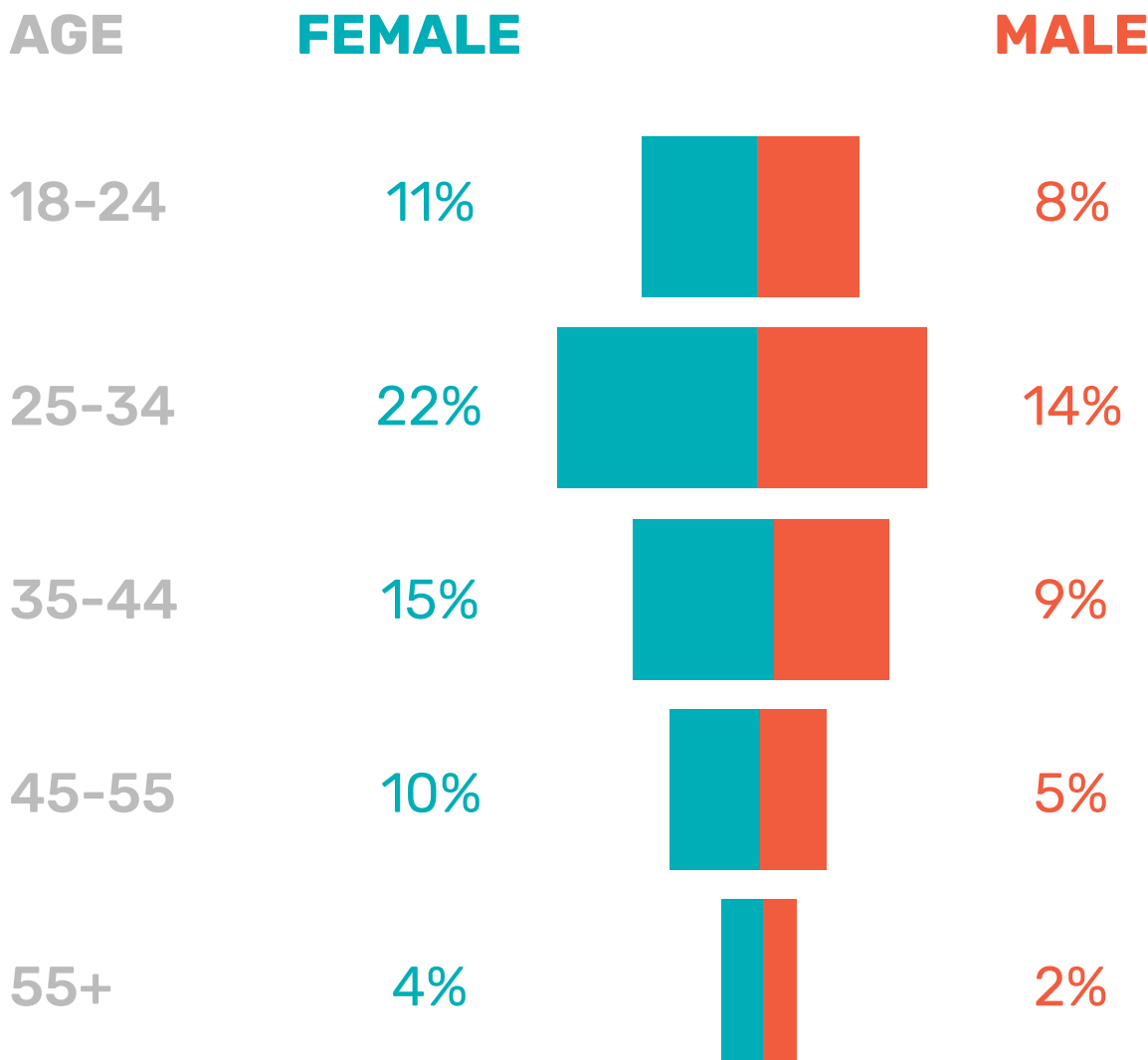


BY REGION



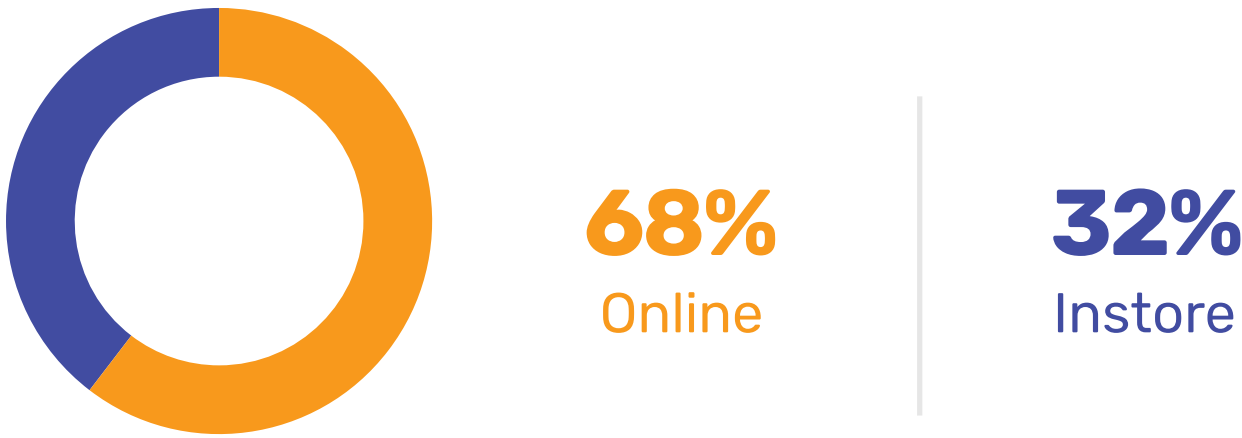
BY AGE

Average age 34



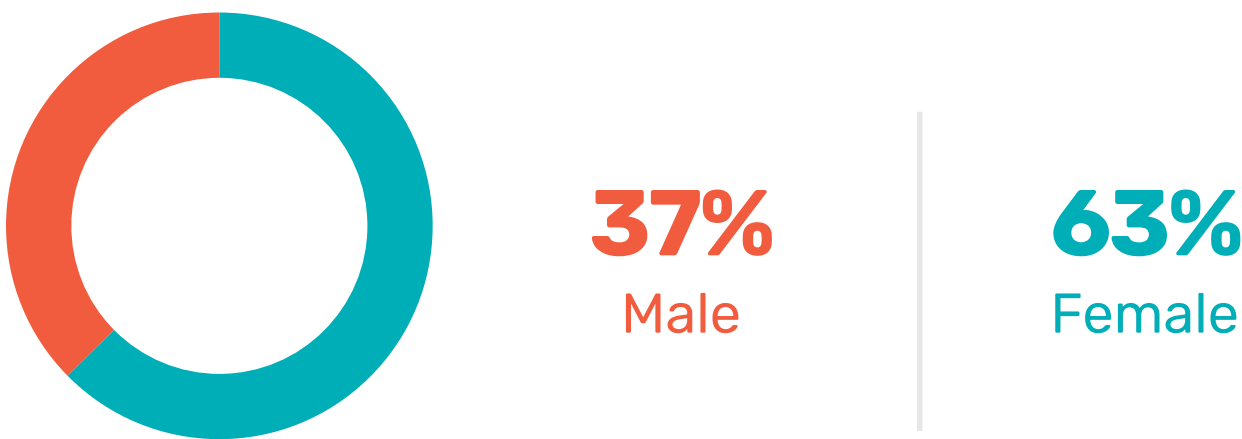
ONLINE VS INSTORE²

Instore is growing



BY GENDER

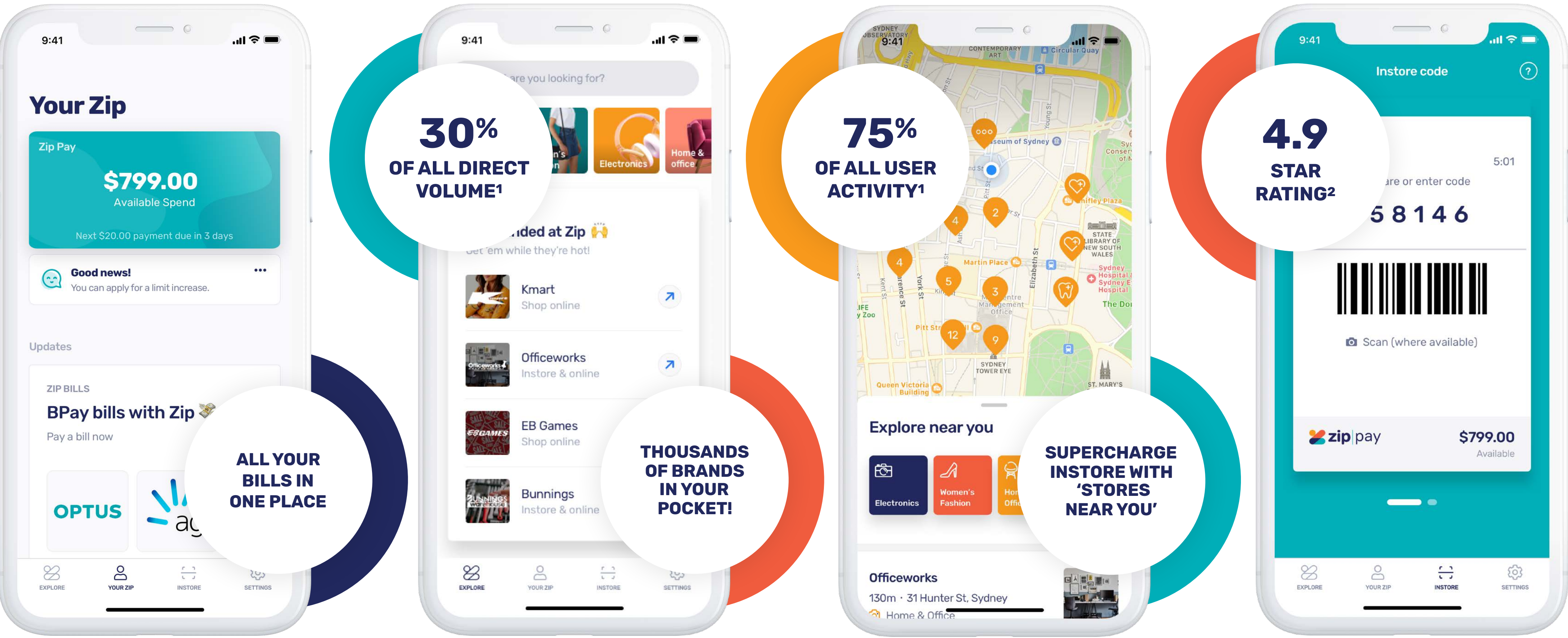
19% growth in males³



1. Retention rate calculated as total account numbers less customer churn for FY19, 2. Based on number of transactions (June 2019), 3. Year-over-year growth.



Market leading app



1. Internal data for FY19.

2. iOS App metrics, as at 30 June 2019.

Don't take our word for it



"..gives the user options to buy now, pay later, pay bills while letting you control how much and how often you want to pay...it's my number one choice when it comes to payment options.."

– Ricah



"Simple application process, very fair terms and an easy, user-friendly app! Couldn't ask for more!"

– Karoline



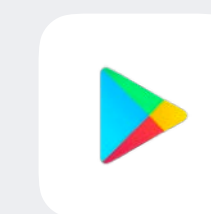
"So glad not to be paying stupid and excessive interest rates. Have paid out and cancelled my credit card... 5 star all the way, love it!"

– Scott

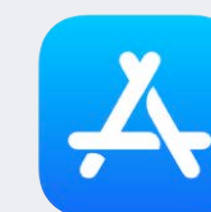


"Great application for mothers who need those little extras for the babies!...Absolutely love it!!"

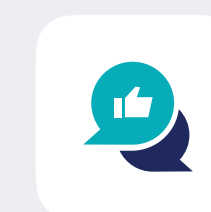
– Julia



4.8
Google Play Rating²



4.9
Apple Store Rating²








80%
CSAT¹

1. CSAT data based on customer feedback; score as at 30 June 2019.

2. App store ratings and reviews as at 30 June 2019.



We connect with customers everywhere, every day

-  37,000 bricks and mortar locations
-  High visibility, high value collaborations
-  3.3M unique monthly web visits
-  Geo-search tools
-  Personalised marketing conversations



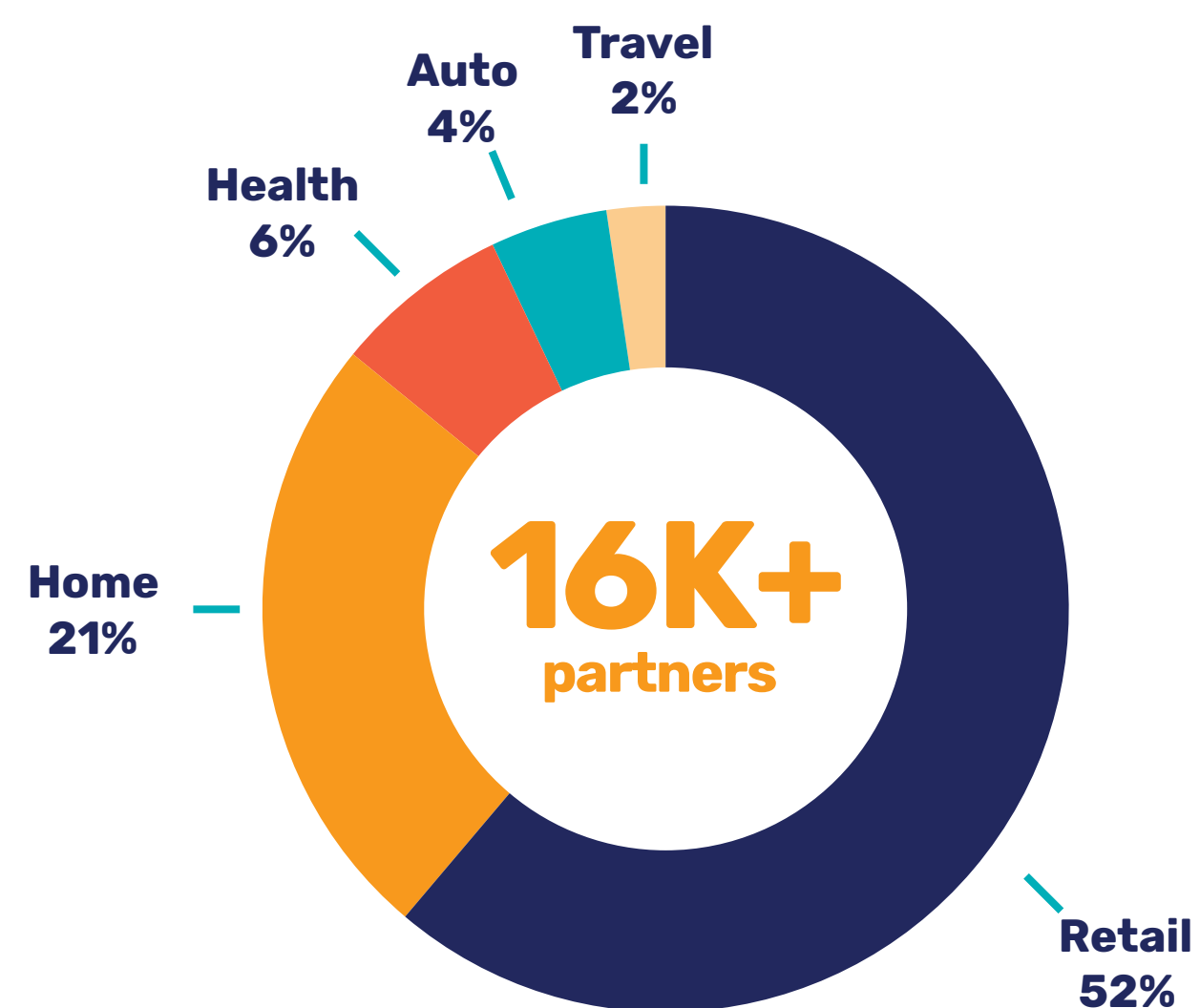


We put more brands in more hands

53% growth in partners¹

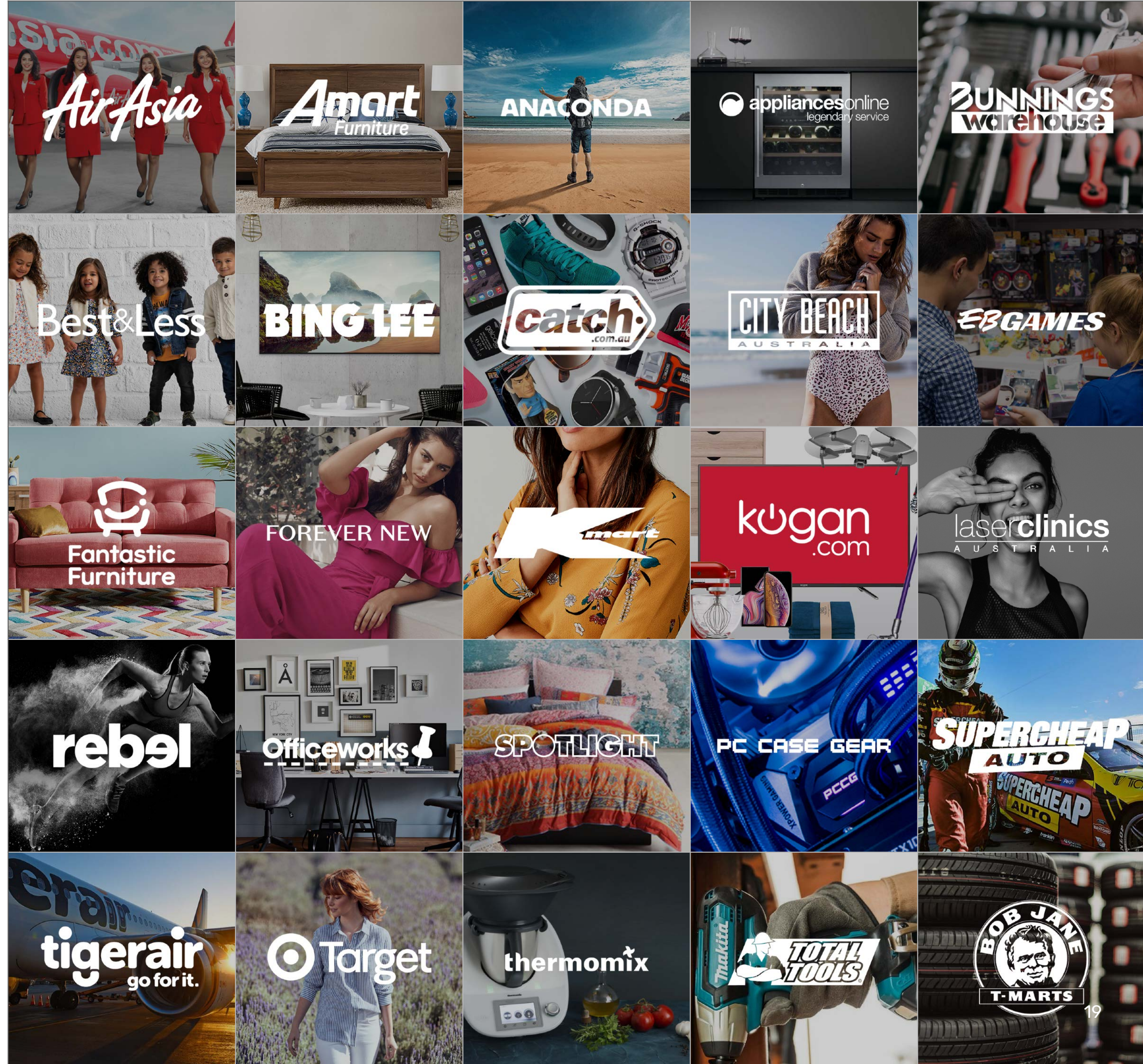
\$217 average order value²

compared to \$95 for credit cards³

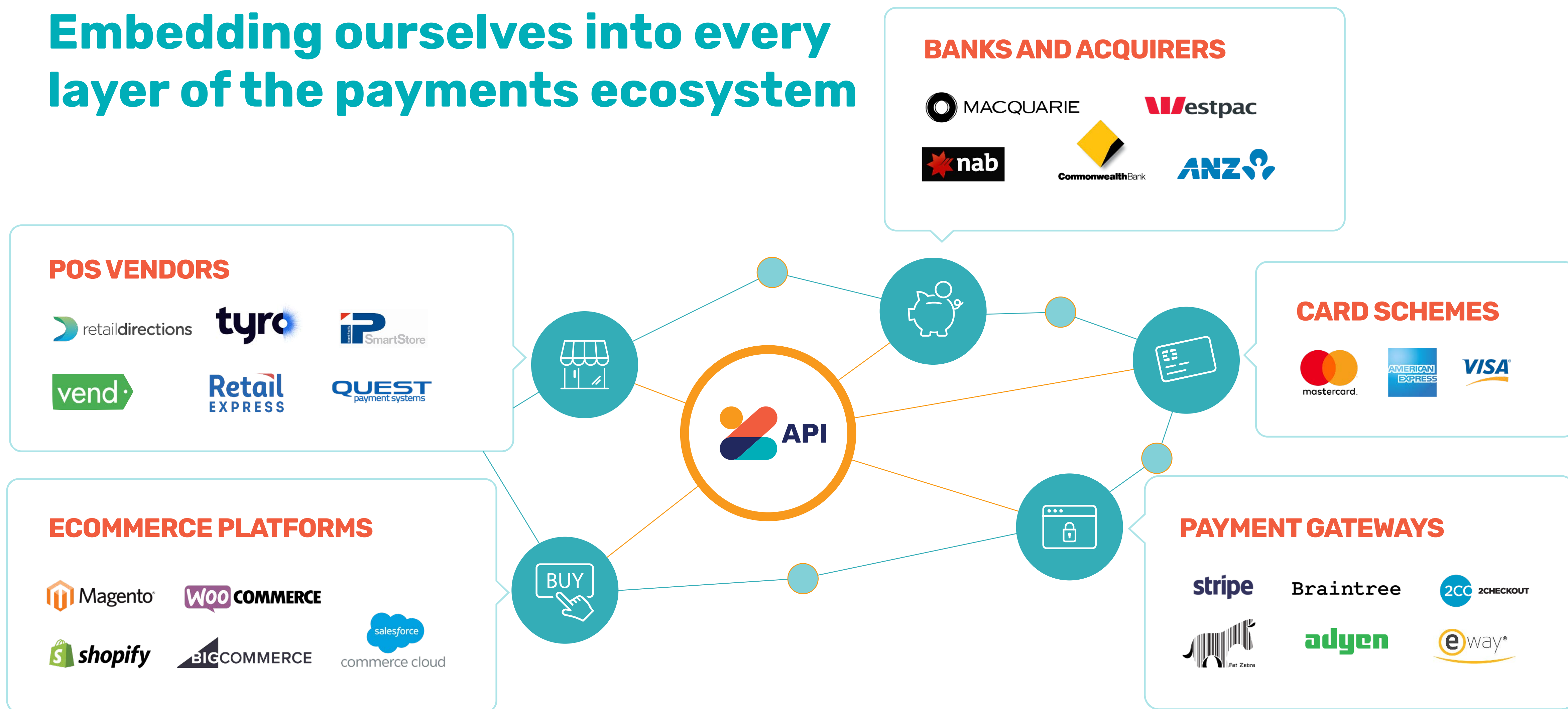


1. Partner growth in numbers year on year, 2. Average order value calculated in June 2019.

3. Average credit card order value calculated from RBA personal credit card data for FY19. Numbers have been rounded.



Embedding ourselves into every layer of the payments ecosystem



The SME market is large and underserved by the banks

SMEs are the backbone of the economy

- 2.3M SMEs in Australia, represent 99% of all businesses¹
- Segment contributes 57% to Australia's GDP²
- 77% of SMEs service the B2B market²
- Sector creates ~7M jobs²

Zip wants to help SMEs:

- Grow and scale
- Level the playing field
- Manage cashflows
- Play a bigger role in the community

1. ABS 2019

2. NAB More Than Money Business Whitepaper 2017

2.3M
SMEs

77%
have a B2B
offering

57%
of GDP



We're launching an instalment product for small business

Welcome to Zip Biz!

- A fair, transparent and flexible instalment product
- Interest-free digital wallet up to \$25k
- Real-time decisioning

Why Zip?

- Leaders in real-time micro-credit decisioning
- Current Zip SMEs have expressed demand
- Our 16K+ business partners service many SME customers
- We are accepted at 37K places where businesses shop e.g. Officeworks, Bunnings

Product to be in market before the end of the year with a number of launch partners





Pocketbook update

Free, personal financial management app that lets users track, budget and save

510M
transactions

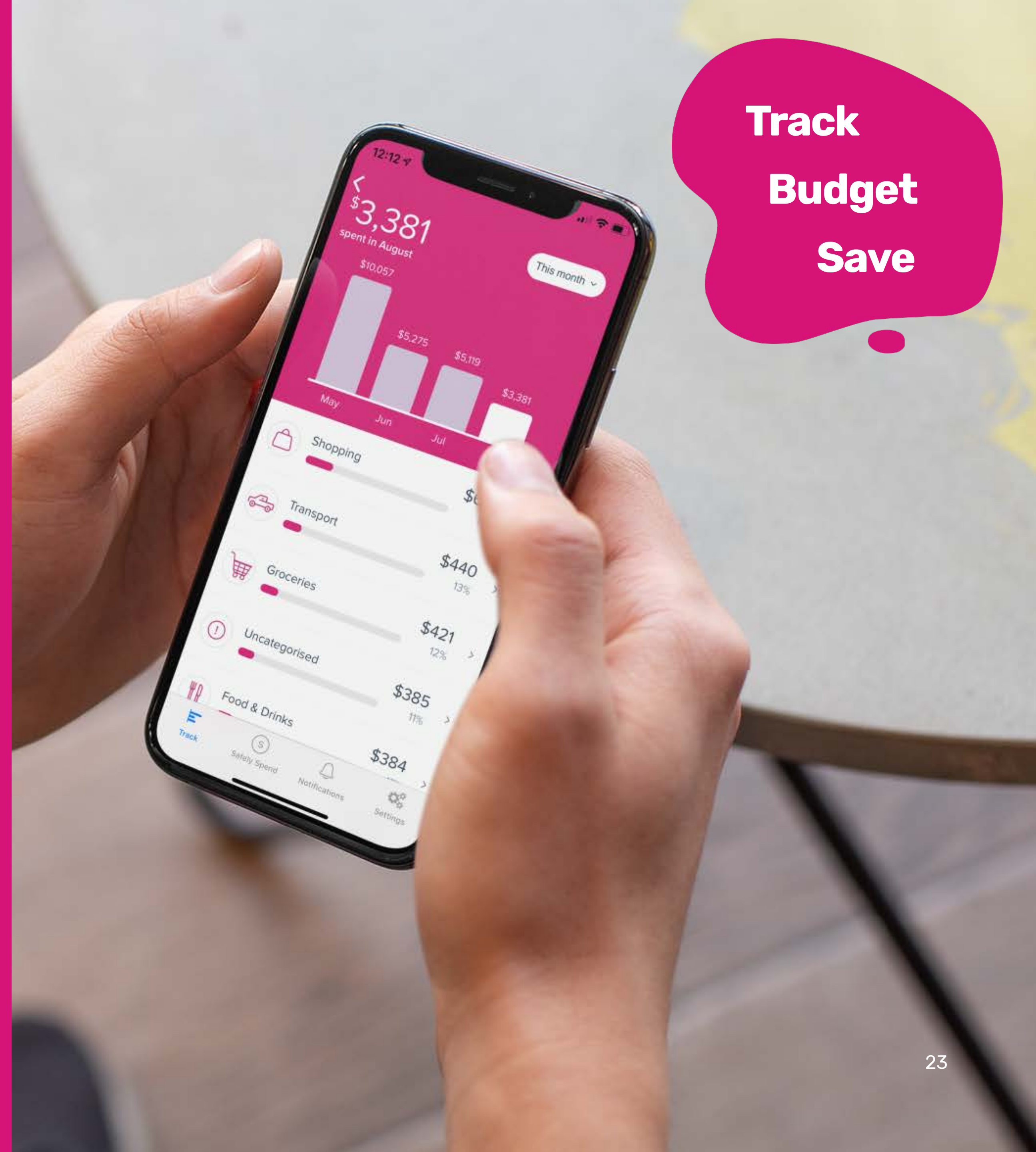
700K
users

Australia's first
open banking
integration with
Macquarie Bank

30
institutions

Source: Internal data as at 30 June 2019

**Track
Budget
Save**



Investing in the brilliant basics



TECHNOLOGY-LED

- Invested in platform performance to support scale
- Micro services and new APIs to improve partner integrations
- Enhanced cyber security and fraud detection
- Investment in data science and machine learning
- Significant investment in people, product and engineering



DISCIPLINED RISK MANAGEMENT

- Market leading credit management
- Robust credit, fraud and ID verification
- Responsible lending results in <1% revenue from late fees



WELL CAPITALISED

- \$1B+ market capitalisation
- \$57M in equity raised in FY2019
- Credit facilities totalling \$730M with \$400m ABS program underway



FOCUS ON PEOPLE

- Strong employee engagement across our 230+ staff
- Launched company wide employee incentives program
- New purpose, new mission and Zipster values embedded



03

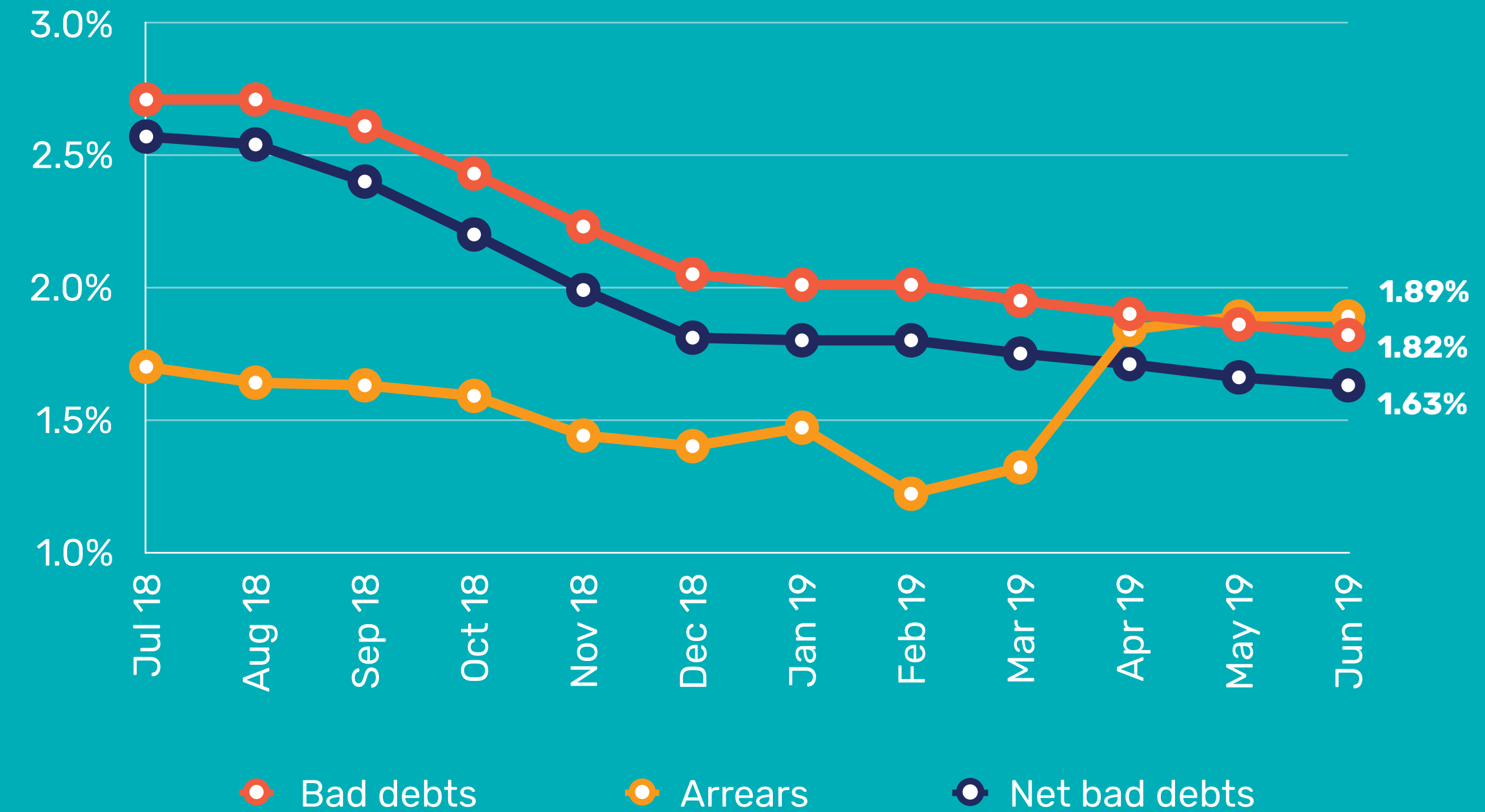
Financial Results



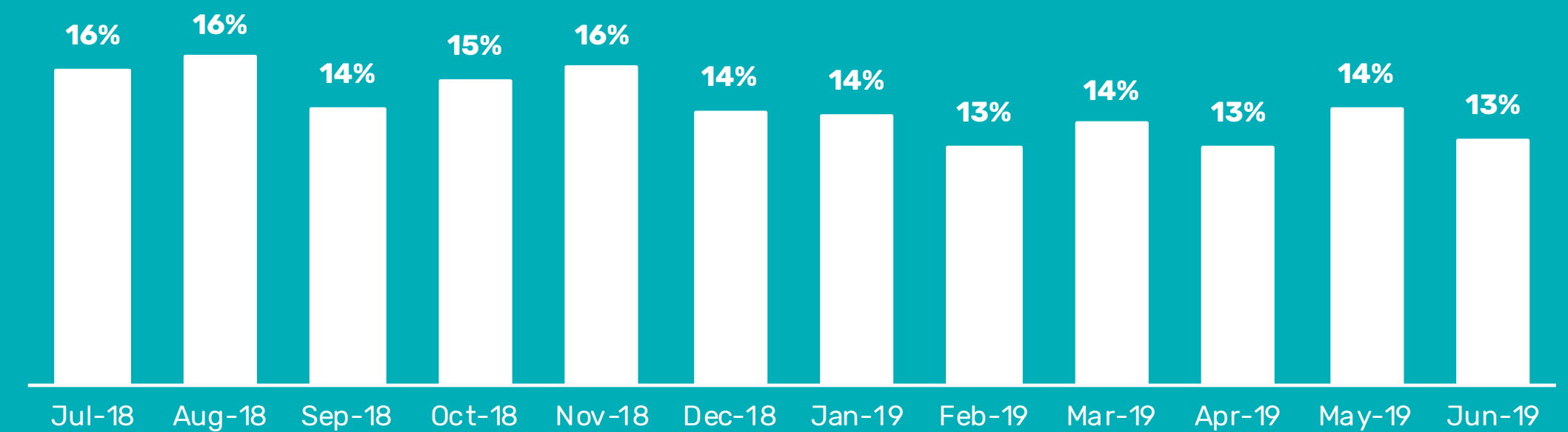
Credit performance

- Net bad debts of 1.63% down from 2.61% at June 2018.
- Arrears at 1.89% compared to 1.87% at June 2018.
- Credit performance significantly better than industry benchmarks, and ahead of management's guidance.
- Repayment profile remains healthy at 13%-14%, with the book recycling approximately every 7-8 months.

CREDIT PERFORMANCE¹



REPAYMENT RATE²



1. Arrears defined as those accounts greater than 60 days delinquent. Bad debts defined as those accounts greater than 180 days delinquent. All figures are on an annualised basis.

2. Repayment expressed as a percentage of receivables at the beginning of the month.

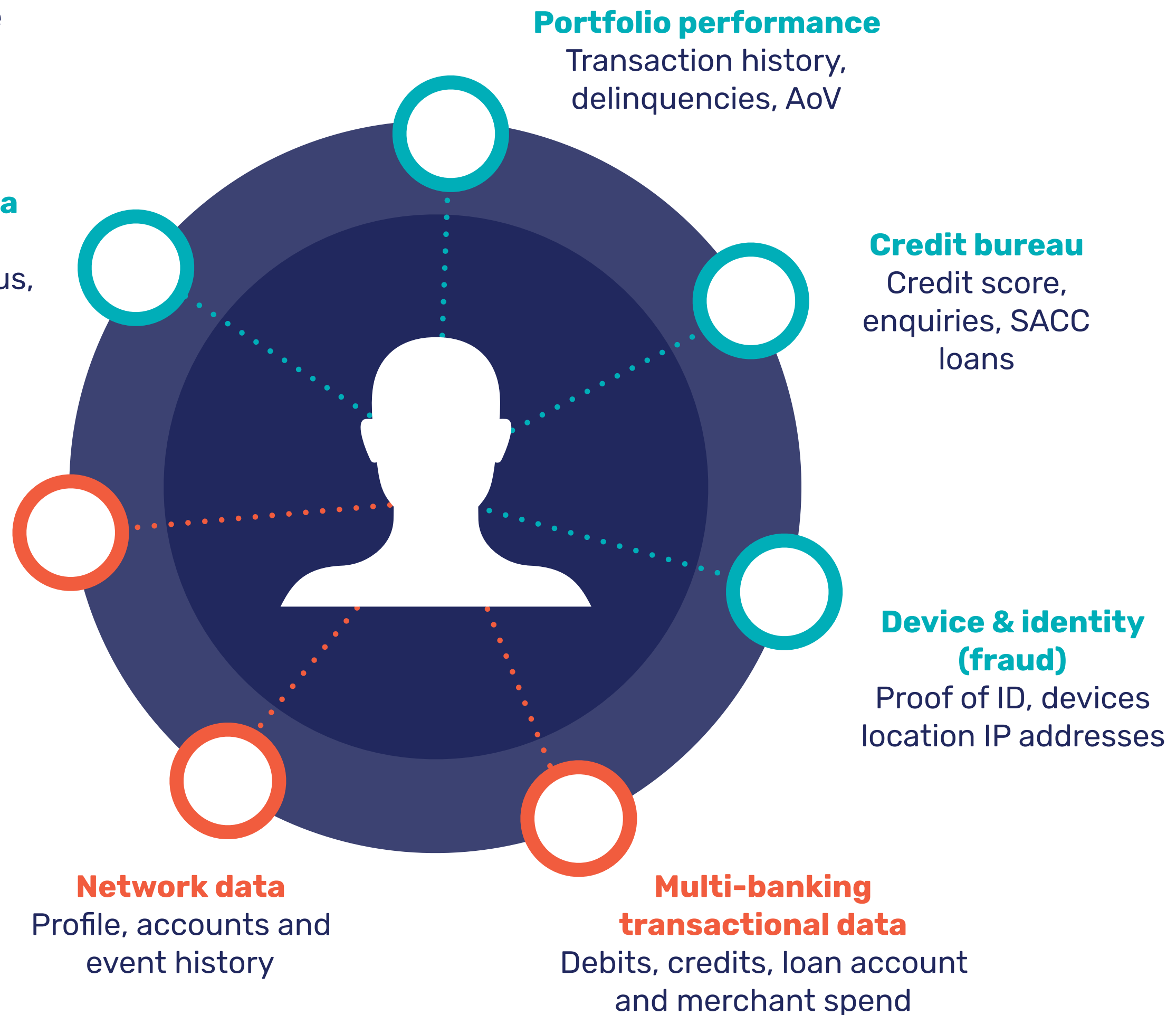
Credit underwriting

We blend an array of traditional and differentiated data sources, and half a billion transactions to derive consumer insights and proactively manage risk



Application data
Residential & employment status, dependencies

Merchants & shopping cart
Location, industry, classification, online vs offline, basket



Funding Update

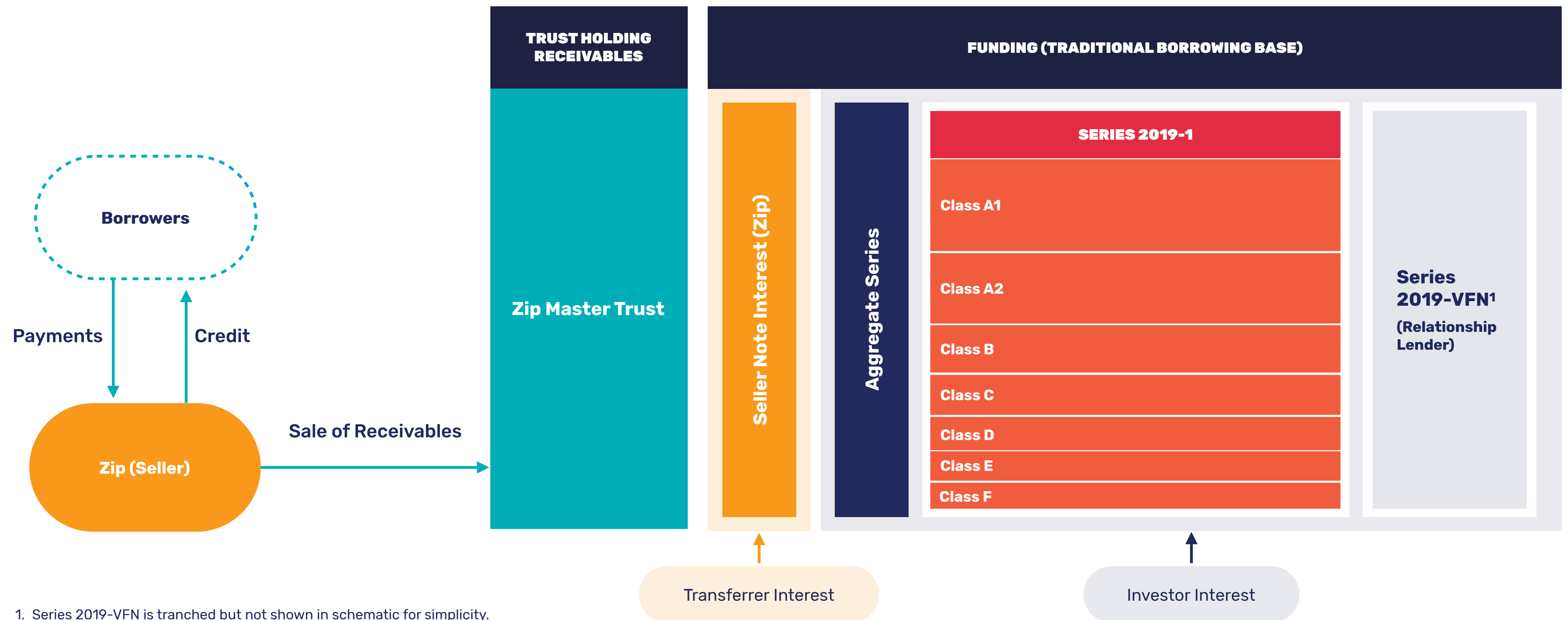
- Completed the refinancing of all receivables out of expensive legacy funding programs during H1FY18.
- Total facility size increased to \$731.5M in July 2019, following an increase provided by NAB in the zipMoney Trust 2017-1. Unused facilities of \$144M at 31 July 2019.
- NAB mandated to arrange \$400M (subject to potential upsizing) in rated debt funding as initial issuance in Zip Master Trust.
- Zip Master Trust will be live in September 2019.
- Following the implementation of the Zip Master Trust, committed facilities available will increase to \$931.5M.
- Zip maintains an equity position of \$72.5M in its various trusts, including amounts invested from the capital raising.

	FY19 \$M	FY18 \$M
Facility Size (Class A and B)		
2017-1 Trust	560.0	360.0
2017-2 Trust	71.5	20.0
Total Available	631.5	380.0
Facilities Utilised		
Securitisation Warehouses	587.5	290.0
Working Capital	-	-
Total Utilised	587.5	290.0
Cost of Funds¹	4.65%	5.19%

1. Cost of funds reflects weighted average interest rate on loans outstanding at the end of the financial year.

Overview: Zip Master Trust

First note issuance September 2019



Income Statement

- Portfolio Income hit record levels, 111% increase on FY18.
- Cash Gross Profit a record \$43.7M, 208% increase on FY18.
- Positive Cash EBTDA¹ reported of \$9.2M in FY19, compared to (\$8.8m) in FY18. \$6.8M reported in H2FY19.
- Demonstrable operating leverage in the cost base year on year.
- Provision for expected credit loss increasing with the receivables balance and impact of AASB 9.
- Fall in Share-Based Payments due to a number of one-off awards in FY18.
- Depreciation and Amortisation up:
 - \$0.8M on IT development and software.
 - \$0.2M on leasehold improvements and equipment.
- Taxable Profit generated, offset by prior year tax losses not previously brought to account

1. Cash Earnings Before Tax, Depreciation and Amortisation.

2. Cash Cost of Sales and Cash Operating Costs comprise those expenses that have an Operating Cash Outflow.

	FY19 \$M	FY18 \$M	Change %
Portfolio Income	82.9	39.3	111%
Cash Cost Of Sales ²	(39.2)	(25.1)	56%
Cash Gross Profit	43.7	14.2	
Other Income	1.3	1.1	18%
Cash Operating Costs ²	(35.8)	(24.1)	49%
Cash EBTDA¹	9.2	-8.8	
Movement in Provision for Expected Credit Loss	(11.1)	(5.0)	122%
Amortised Finance Costs	(1.4)	(1.5)	(7%)
Shared-Based Payments	(3.2)	(3.6)	(11%)
EBTDA	(6.5)	(18.9)	
Depreciation and Amortisation	(4.6)	(3.6)	28%
Earnings Before Tax	(11.1)	(22.5)	

Cost Base

- Interest Costs reduction reflects the exiting of expensive legacy funding facilities in November 2017 and funds from the capital raise used to fund receivables.
- Bank Fees and Data Costs reducing per unit costs as business scales.
- Net Bad Debts Written-Off of 1.63% (of the closing receivables balance) remains below industry benchmarks.
- Bad Debt Recoveries were 12% of written-off amounts.
- Permanent headcount increased over the year to 185 at 30 Jun 2019, compared to 138 at 30 Jun 2018 and 155 at 31 December 2018.
- Marketing Costs increased as the Group increased its spending on direct marketing, events, promotions and integrations.
- Increase in Other Operating Costs includes additional IT costs to support growth, further development of systems and process and increased occupancy costs due to the office move in January 2018.

	FY19 \$M	FY18 \$M
Cash Cost of Sales	39.2	25.1
% of Average Receivables	8.2%	11.1%
Interest Costs	22.9	13.0
% of Average Receivables	4.8%	5.7%
Bank Fees and Data Costs	5.5	3.9
% of Average Receivables	1.1%	1.7%
Bad Debts Written-Off	12.3	8.5
Bad Debt Recoveries	(1.5)	(0.3)
Cash Operating Costs	35.8	24.1
% of Average Receivables	7.5%	10.6%
Salaries and Employment Related Costs	20.4	15.6
Marketing Costs	3.4	1.7
Other Operating Costs	12.0	6.8

Balance Sheet

- Cash includes Restricted Cash of \$6.4M at 30 June 2019 (\$8.7m at 30 Jun 2018). Unrestricted balance includes amounts remitted to Trusts the following business day.
- Timing differences at 30 June 2018 compared to 30 June 2019 resulted in an increase in the level of Other Receivables (\$4.9M in customer repayments) and Other Payables (\$8.8M in merchant payments).
- Growth in Gross Customer Receivables to \$682.6M at 30 June 2019 from \$316.7M supported by an increase in borrowings.
- Other Intangible Assets comprise IT development and software costs and acquired intangibles from the Pocketbook acquisition.
- Pocketbook hit all milestones set at the time of acquisition, consequently contingent consideration has been settled in shares.
- Increase in Net Assets reflects impact of capital raise in H2FY19 net of losses incurred for the year.

	FY19 \$M	FY18 \$M
Cash and Cash Equivalents	12.6	12.7
Other Receivables	11.0	5.1
Term Deposit	1.2	1.2
Customer Receivables	647.5	300.6
Property, Plant and Equipment	2.5	3.2
Goodwill	4.5	4.5
Other Intangible Assets	5.8	5.8
Total Assets	685.1	333.1
Trade and Other Payables	19.6	8.1
Employee Provisions	1.4	0.8
Deferred R&D Tax Incentives	0.4	0.8
Deferred Contingent Consideration	-	0.3
Borrowings	587.4	289.7
Total Liabilities	608.8	299.7
Net Assets	76.3	33.4

Cash Flows

- Generated positive Operating Cashflow of \$22.6M in FY19 compared to \$1.4M in FY18. \$15.1M generated in H2FY19.
- The establishment and relocation of the Group's new Sydney office included in payment for plant and equipment in FY18.
- \$3.6m was invested in the Group's software systems, up from \$2.5M in FY18.
- An additional \$297.5M was drawn from the Group's funding program and used to finance receivables.
- Raised \$56.8m in equity capital in H2FY19 and \$1.0M through the conversion of options. Proceeds of the equity raise currently used to fund receivables
- Costs associated with the equity raise totalled \$2.3M and the Group incurred costs of \$1.6M refinancing the zipMoney Trust 2017-1 for a further two years.

	FY19 \$M	FY18 \$M
Receipts from Customers	83.7	39.6
Payments to Suppliers and Employees	(39)	(26.5)
R&D Tax Incentives	-	1.2
Interest Received	0.2	0.3
Interest Paid	(22.3)	(13.2)
Net Cash Flow from Operating Activities	22.6	1.4
Payments for Plant and Equipment	(0.3)	(3.5)
Payments for Software Development	(3.6)	(2.5)
Net Movement in Receivables	(370.2)	(170.9)
Net Cash Flow to Investing Activities	(374.1)	(176.9)
Proceeds from Issues of Shares	57.8	41.0
Costs of Share Issues	(2.3)	(0.3)
Borrowing Transaction Costs	(1.6)	(0.4)
Proceeds from Borrowings	297.5	204.0
Repayment of Borrowings	-	(75.4)
Net Cash Flow from Financing Activities	351.4	168.9
Net Decrease in Cash & Cash Equivalents	(0.1)	(6.6)

Provision for Expected Credit Loss

- AASB 9 is applicable for the first time in FY19 and requires a provision for expected credit loss to be recognised on an expected, not incurred basis.
- Calculation takes account of undrawn credit limits of performing facilities as well as macro-economic factors and modelling risk.
- Opening balances were adjusted on initial adoption on 1 July 2018, increasing the provision to 4.57% of customer receivables.
- Improved roll-rates at 30 June 2019 resulted in the provision reducing to 3.75%.
- The application of AASB 9 has no cash impact.

	Customer Receivables \$M	Provision for ECL \$M	%
30-Jun-18	316.7	9.5	3.00%
AASB 9 Adjustment		5.0	
1-Jul-18	316.7	14.5	4.57%
Provision Recognised in the Income Statement		21.9	
Bad Debts Written Off		(12.3)	
Bad Debt Recoveries		1.5	
30-Jun-19	682.6	25.5	3.75%



04

Growth & Outlook





We have multiple levers for accelerating growth

FOCUS ON CORE



PRODUCT EXPANSION








GLOBAL EXPANSION



Strong growth drivers within the core business

With only 0.2%¹ of the Australian retail market, we remain laser focused the Australian opportunity

-  **INCREASED ACCEPTANCE**
Continue to grow the closed loop network online and instore
-  **DEEPEN CUSTOMER ENGAGEMENT**
Drive monthly transacting users via native app, personalisation & more
-  **ZIPSTER EVANGELISTS**
Growth mindset culture, customer-obsessed, passion for the product
-  **EXPAND VERTICALS**
Travel, medical, utilities, telco to prove true credit card disruption
-  **LAUNCH NEW PRODUCTS**
Launch Zip Biz and offer instalments to small business
Release the next version of Pocketbook with a focus on savings



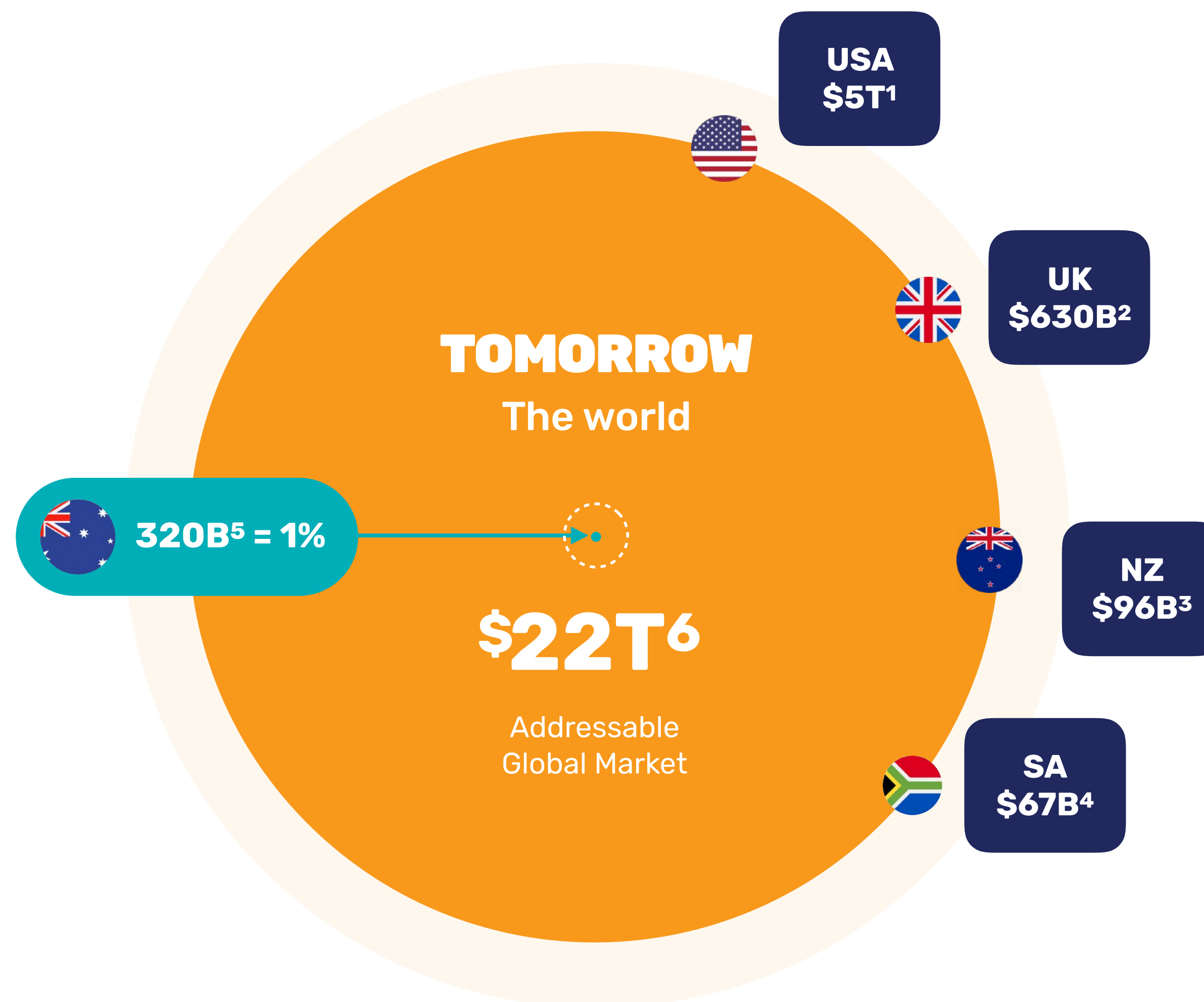
1. Zip TTV for FY19 as a % of total Australian retail sales of \$320B.

2. Total Australian sales, NAB Online Retail Sales Index (December 2018).

We are just getting started

While focused on Australia, the global opportunity dwarfs the local region

- BNPL in its infancy in most markets
- Total BNPL market share in the US and UK estimated at less than 1%
- Payments increasingly require global utility



Retail markets used as proxy for addressable market.

1. US Census 2019 (US), 2. Retail Economics UK (2018) 3. Nielsen Insights 2018 (NZ) 4. Dept of Statistics South Africa (2019) 5. Calculated using Zip TTV for FY19 6. eMarketer Worldwide Retail eCommerce Sales

Source data from: NAB Online Retail Sales Index (December 2018)

Global is now a key part of our future growth story

The recently announced PartPay acquisition provides the technology platform to accelerate growth in a number of global markets while concurrently focusing on Australia and New Zealand



PartPay acquisition rationale

PartPay was acquired for NZ\$50.8M¹, providing entry into four new markets (NZ, UK, US & SA), and we increased our shareholding in US-based, QuadPay to 15%²

1

Activate global growth potential

- Accelerate and de-risk Zip's global expansion strategy with existing presence in NZ, UK, US and SA markets.
- Proven platform portability enables localisation and easy entry to new markets.

2

Grow NZ market share

- Access to one of NZ's leading BNPL players with key brands including The Warehouse Group and Spark.
- Ability to leverage Zip's Trans-Tasman relationships to drive growth and enable cross-border commerce.

3

Fast track entry to global markets

- Fast track our entry into the UK, a significant market opportunity (5x Australia³).
- Exposure to the large US retail market (via QuadPay⁴) and emerging South African market (via PayFlex⁴).

4

Global BNPL sought after

- Zip's strategic partners have global presence and desire a global solution.
- Increased cross-border retail favours platforms that support multiple jurisdictions.

5

Capable team with cultural fit

- Strong and capable management team with proven experience standing up offerings in new markets.
- Cultural alignment and shared philosophy on responsibility (Credit, ID checks and responsible spending speed bumps built into offering).

1. Acquisition of 100% of PartPay for NZ\$50.8M in scrip plus a maximum earn-out consideration of NZ\$15.0M, 2. Zip is investing a further c.US\$11.4M into QuadPay, which, when combined with PartPay's existing investment, will result in Zip maintaining a 15% fully diluted shareholding in QuadPay, 3. Global Ecommerce UK 2019 (eMarketer) and NAB Online Retail Sales Index (December 18), 4. QuadPay (www.quadpay.com), Payflex (www.payflex.com).

Next steps on going global

Working towards an expeditious closing late October, subject to shareholder approval and other conditions precedent

PartPay integration will occur over the coming months; inclusive of branding, product, technology and talent

Expansion and consolidation of our Australian retailers into the NZ region first

Intention to scale in the UK over the next 12 months, with updated plan to be shared at the Zip AGM in November 2019

As a strategic investor and board member of QuadPay, share learnings and continue to explore further opportunities in North America

Monitor markets of interest, strategic opportunities and partnerships to further expand Zip abroad

Market conditions

Many factors to consider when planning the year ahead

Strong demand from retailers for alternative payments and BNPL at checkout

Increasing awareness and a general decline of credit cards, driving BNPL consumer adoption

Overseas demand is starting to accelerate, time to get in early

Merchants upgrading legacy POS technologies, pushing unified commerce, enabling easier integration

Heightened competition in the local market resulting in 'pay to play', margin compression, marketing spend

Falling interest rates improving servicing costs whilst creating buoyant debt markets given the chase for yield

FY20 Outlook Statement

We are confident in our ability to drive growth, achieve our targets, and expand globally with a deliberate lift, shift & scale strategy

1

FINANCIAL TARGETS

- 2.5M customers
- \$2.2B in annualised transaction volume



2

LOCAL EXPANSION

- Launch instalments for business
- Deals with banks, partners to accelerate acceptance
- Enter everyday
- Revamp Pocketbook

3

TECHNOLOGY & MARKETING

- Invest in brand awareness, customer acquisition and partner marketing
- Invest in platform to deliver best in class availability, performance, connectivity



4

INTERNATIONAL EXPANSION

- Integrate PartPay, grow NZ market share and launch in UK
- Explore new market opportunities



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**Thank You
& Questions**