



FY20 Half-Year Results Presentation

Zip Co Ltd (ASX: Z1P)

Feb 2020





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Our Purpose

The freedom to own it

Our Mission

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

The credit card model is broken

Debit cards, BNPL and interest free digital wallets enjoy soaring demand

2M

Credit card account closures^{1,2}

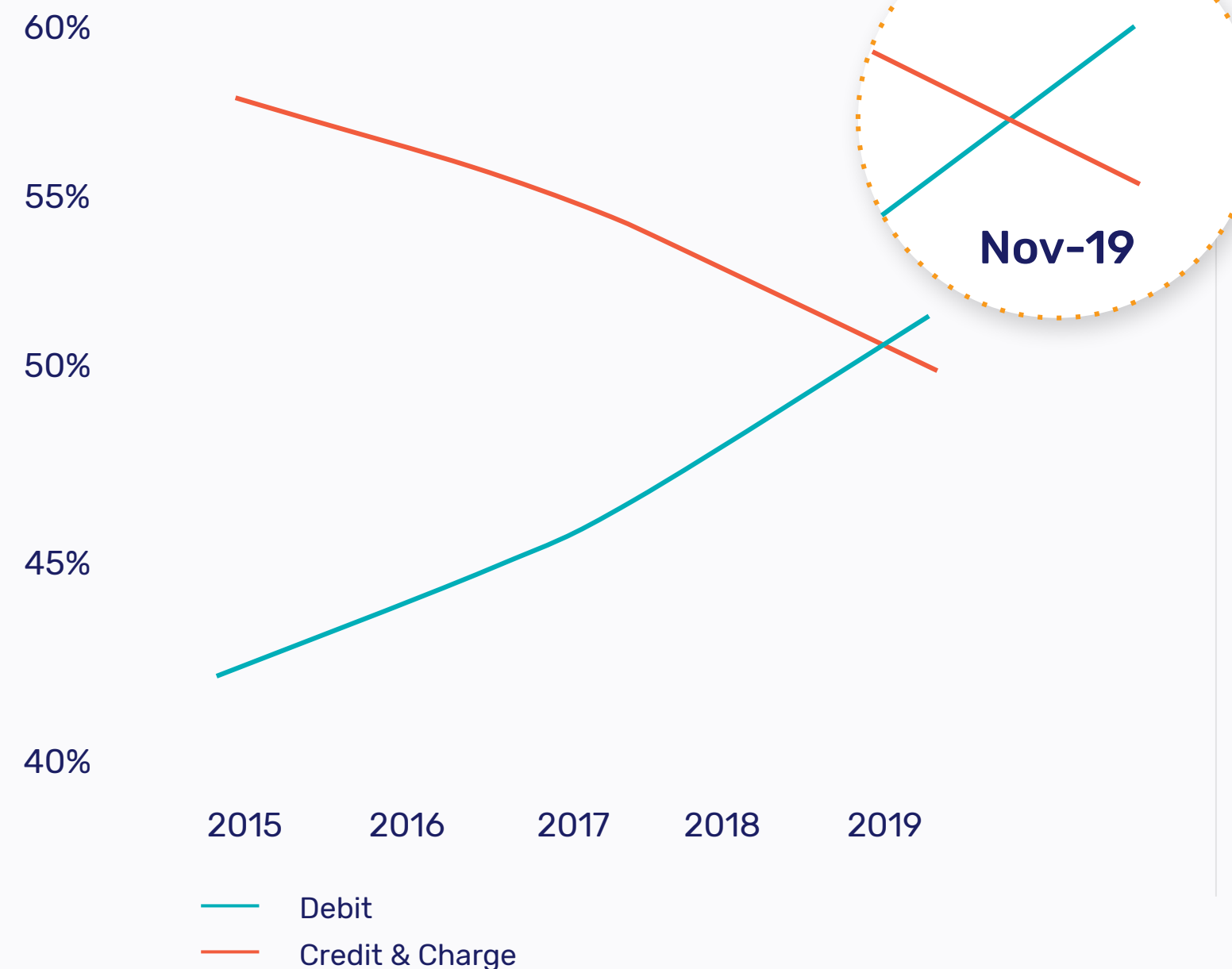
\$2B

Decline in credit balances
to \$50B in 2019²

1 in 2

BNPL customers stopped
using their credit cards³

**Debit card payments overtook credit
cards for the first time in 2019^{2,7}**



6M+ BNPL
AU accounts⁴



1 in 5 Gen Xers use BNPL⁵



1.2T rapidly growing global
instalment segment⁶

1. Over the past 2 years 2. MWE Consulting, *Australian Payment Cards Report* (Dec 2019) 3. Mozo Buy Now Pay Later Report (2019). 4. Consolidated from internal data, ASX reports and market updates from BNPL players.
5. Roy Morgan Single Source (Australia) (February 2018 6. VISA Global Instalments Report (2019). 7. Share of payments by dollar value

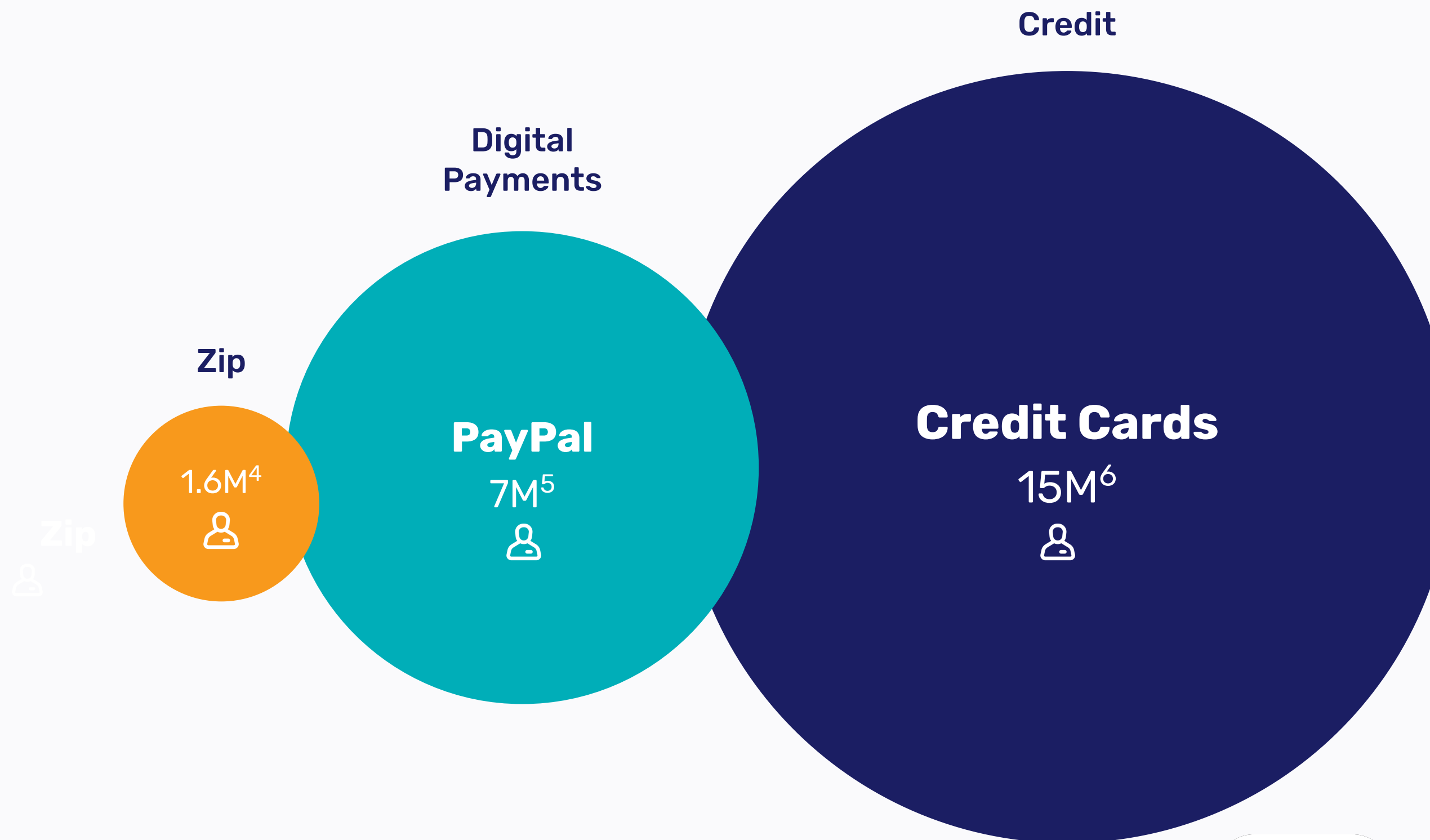
BNPL is a fast growing category with significant headroom for growth both in AU and globally

\$320B¹ Australian market opportunity

- 9.4% of Australians have used a BNPL service²
- Of the most active demographic (25-34) only 17.4% have used a BNPL service¹

\$22T³ Global opportunity

- BNPL is in its infancy in most markets
- Payments increasingly require global utility



1. Total Australian retail sales, NAB Online Retail Sales Index (December 2018) 2. Roy Morgan September 2019 3. eMarketer Worldwide Retail eCommerce Sales 4. Zip Australia Customer Number 5. PayPal Website (Accessed January 2020) 6. Sources from Finder, Australian credit card and debit card statistics 2020.

Zip provides a better, fairer, digital alternative



Simple, interest free terms
and flexible repayments



Seeking alternatives as trust
in Big 4 banks wanes



Financial management
tools to encourage
responsible spending



Exclusive deals and offers,
with a great shopping
experience



Great mobile experience



Strong brand affinity



HY20 Financial scorecard

Strong year over year growth across all metrics

HY19HY20

↑103%

\$69.6M

Revenue

HY19 \$34.2M



↑95%

\$964.7M

Transaction Volume

HY19 \$495.2M



↑112%

\$1,035.2M

Receivables

HY19 \$489.0M



↑80%

\$1.8M

Customers

HY19 1.0M



↑66%

20.9K

Retail Partners

HY19 12.6K



↓0.13%

1.68%

Net Bad Debts

HY19 1.81%



HY20 Highlights

Continuing to deliver on our strategy and key priorities

- ✓ **SIGNIFICANT GROWTH:** Zip delivers record H1 revenue of \$70M up 103% YoY with transaction volume annualising at \$2.3B at the end Q2.
- ✓ **STRONG CASHFLOW:** The Company continued to deliver a cashflow breakeven result, whilst investing for growth, demonstrating strong unit economics (Cash GP >50%).
- ✓ **LIGHTHOUSE BRANDS:** More than 4,700 merchants added to the Zip payments platform in H1 including lighthouse brands: Amazon, BigW, Optus and Ola - driving increased engagement.
- ✓ **STRATEGIC INVESTMENTS:** BNPL platforms QuadPay (USA) and Payflex (South Africa) demonstrating strong growth and partnering with numerous large and well-known brands.
- ✓ **GLOBAL EXPANSION:** NZ showing good momentum, UK MD hired with team preparing for launch in Q4 - a number of global payment deals in final stages of negotiation.
- ✓ **FUNDING SUCCESS:** Launched world first master trust program of \$500M with strong over-subscriptions. Raised \$62M in equity via a successful institutional placement and SPP.

A focus on 3 growth areas in FY20

1 Building on Core:

- Brand awareness
- Deepen customer engagement
- Widen retailer acceptance
- Attract 'best-in-class' talent
- Robust technology platform

2 Product Innovation:

- Smooth payments experience
- Bill payments
- Facial ID
- Instalments for business

3 Global Expansion:

- NZ & UK update
- BNPL strategic investments



2.1

Focus on Core



Record first half, with strong momentum building

Zip, a top 10 app in Google and Apple stores



4.8
on Google Play¹



4.9
on Apple Store¹



60+
NPS¹



1.3m
Downloads¹

\$2.3B

Annualised TTV

140%

Growth in transactions²

1.8M

Customers

1 in 3

Aussies know Zip³
(prev 1 in 4)

45%

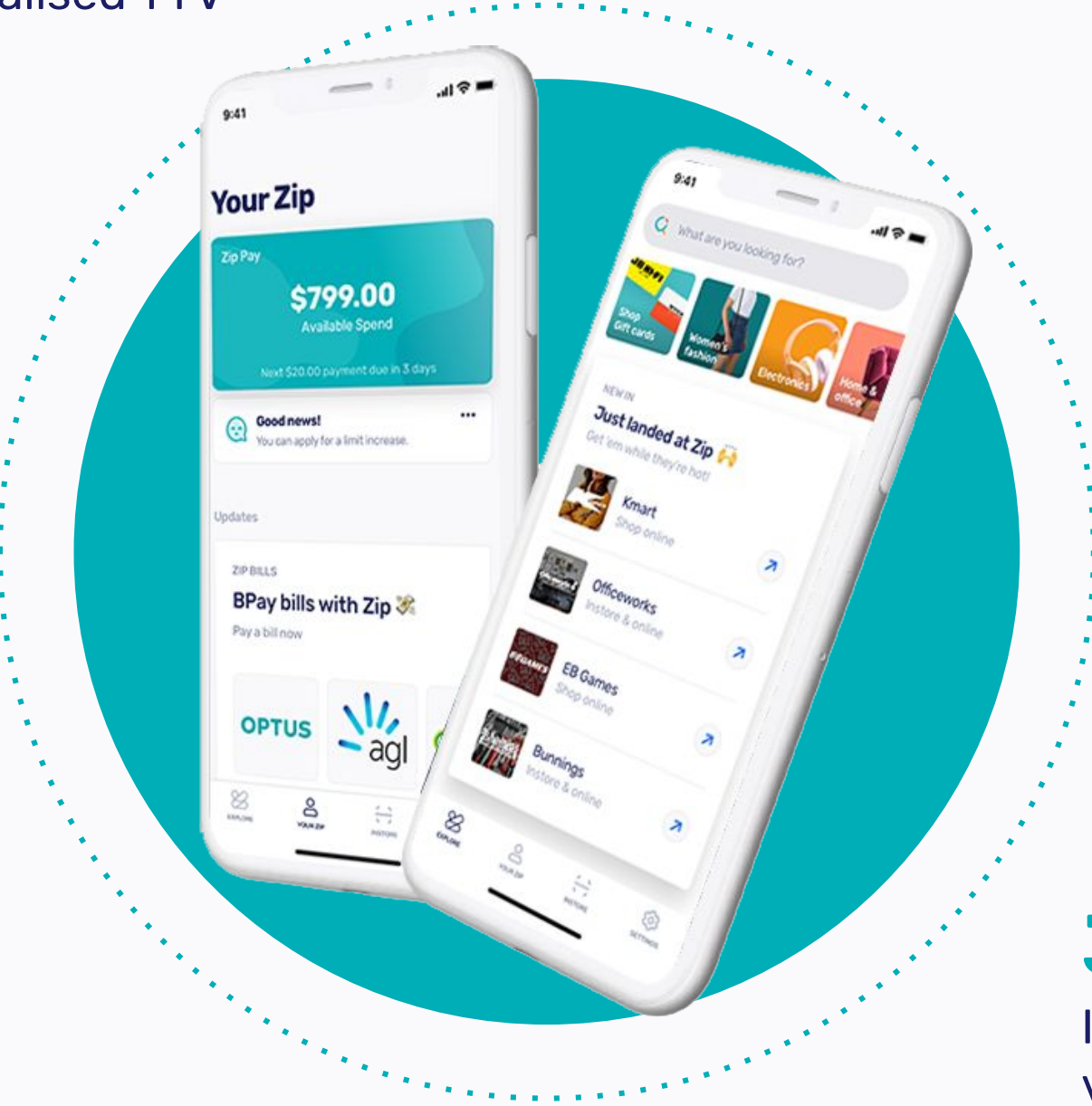
Increase in Monthly Active Users⁴

\$44M

Black Friday / Cyber Monday volume (up 140% YoY)

35%

Instore share of volume¹



1. Figures as at 31st December 2019, 2. H1 growth of transaction number YoY to Dec-19, 3. Roy Morgan Brand Research, 4. Growth of monthly active users from September 2019 to December 2019.

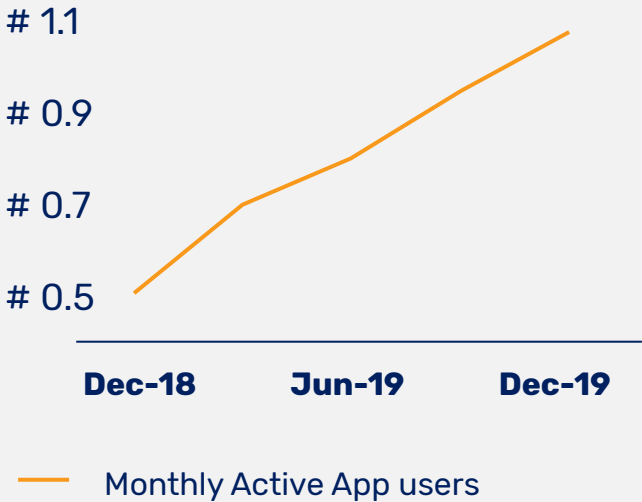


Customer engagement continues to deepen, with new cohorts transacting more often

Growing App User Base

105%
User growth YoY²

App Users¹ (M)



Long-term Engagement

72%
of new users
sign-up to the app
upon joining³...

...and transact
3.4x
more than
non-app users⁴

✓ New customers transacting
25%
more frequently than prior
year cohorts⁵

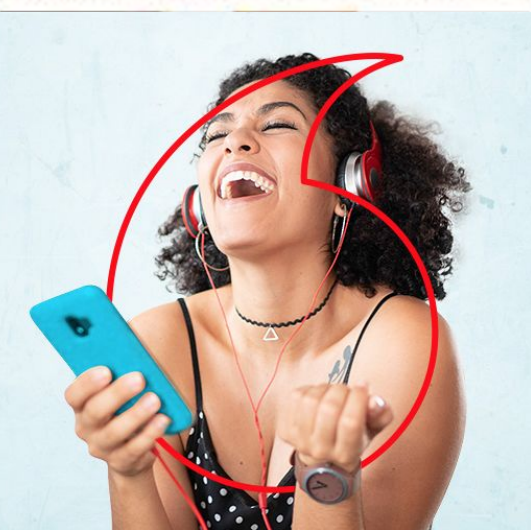
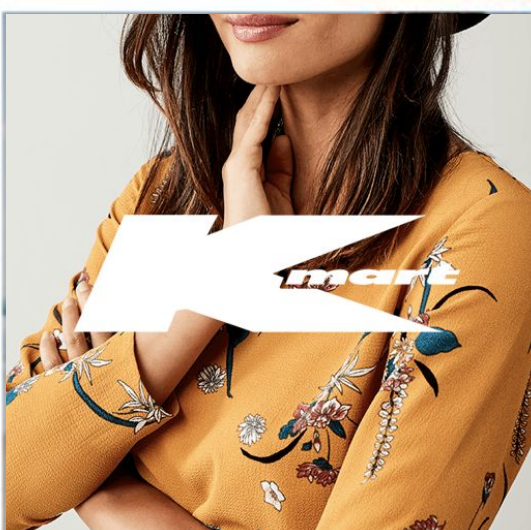
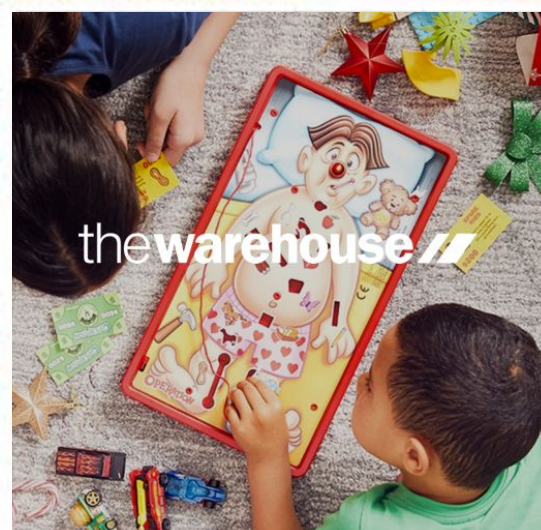
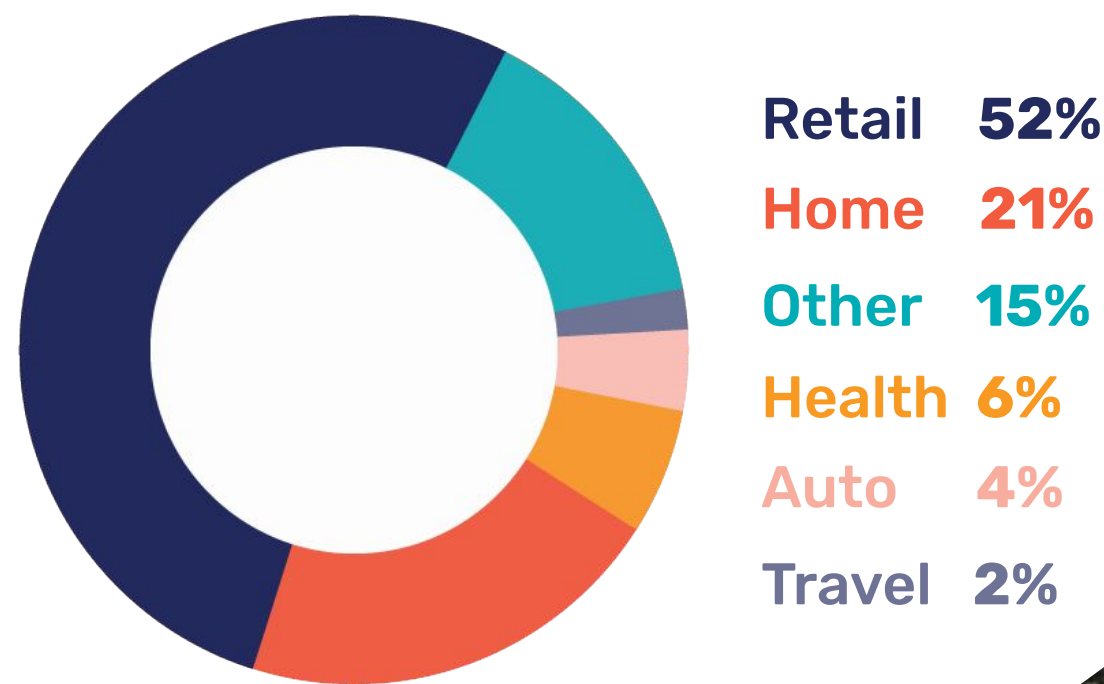
✓ **33%**
increase in TXN per active
customer compared
to early 2019⁶

✓ **93%**
of transactions are from
existing customers⁶

1. Defined as having used the app at least once over the past 12 months 2. Calculated as an annual % increase from December 2018 to December 2019. 3. Based on internal product performance metrics; 4. Since 30 September 2018; 5. Comparing the engaging the Jan 2020 cohort versus the Jan 2019 cohort. 6. Based on an internal cohort analysis in late 2019.

Zip is differentiated as a credit card disruptor

Unlike other BNPL players, Zip is a true credit card disruptor, playing in all categories – retail, auto, travel, everyday, bills and grocery.



Increasing merchant acceptance

4.7K new retailers added in H1

21K

ANZ Retailers

50K+

Points of Presence

\$180

Average Basket Size
vs \$113¹ Credit cards



1. Calculated from RBA Payment Statistics



We've partnered with the best in payments



50K

ANZ businesses

Big 4

Digital footprint



5K

Global brands¹

€159B

Volume processed¹



32K+

Australian retailers

\$17B+

Volume processed²

5th

Largest merchant acquiring bank³

1. Merchant Machine, 2020 Adyen Payments Review, 2. Adyen 2018 Annual Report, 3. Tyro Half Yearly Investor Report, 4. By number of terminals in market.

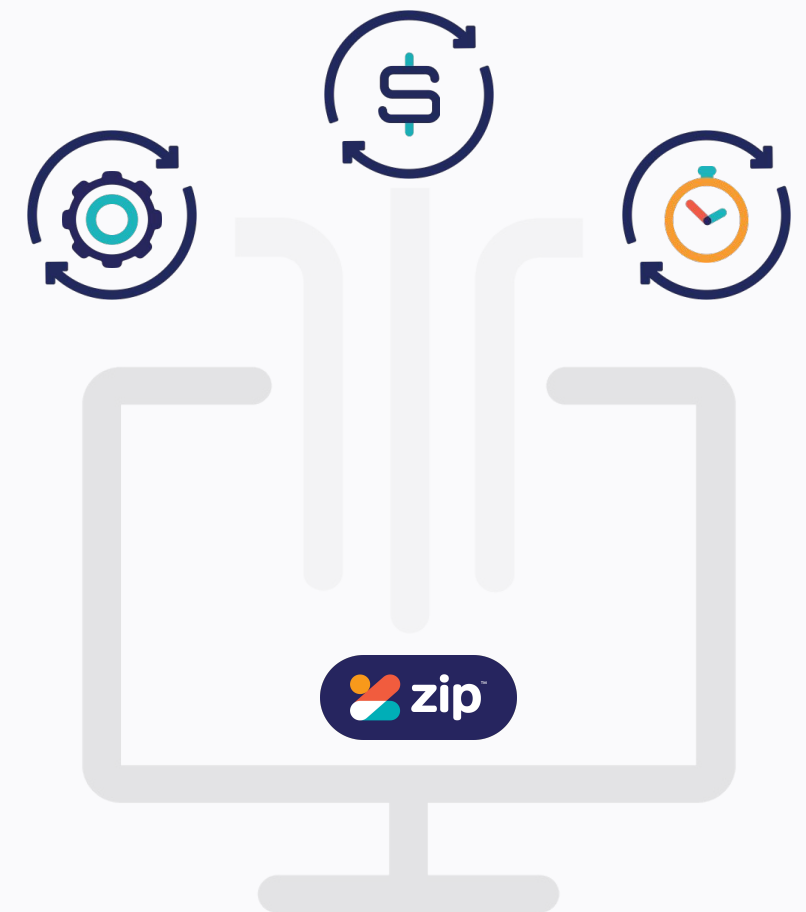


Ongoing investment in technology prepares the platform for future growth

- New architecture delivers step-change to system speed and stability.
- Multi-region deployments for resilience and ease of entry into new markets.
- Significant investment in security.
- New APIs deliver faster checkout experience.
- Increased automation and improved tooling reduces time to production from days to minutes.

10x
Transactional capacity¹

5x
Faster API response times¹



Made possible by our incredible team of Zipsters

350+
Zipsters¹

40%
Product &
Tech split¹

80%
Favourable
engagement
score²

New additions to the executive team

Hamish Moline
Chief Commercial Officer
20+ years of digital brand experience in partnerships and leading global expansion strategy. Formerly at Visa, Paypal and eBay.

Anna Buber - Farovich
Chief People & Culture Officer
15+ years of transformational HR and people development experience. Formerly at Google and Marvell Technology.

Steve Brennen
Chief Customer Officer
20+ years of sales & marketing experience. Awarded Australia's most innovative and effective CMO. Formerly at Uber, Paypal, Virgin and eBay.

Patrick Collins
Chief Product Officer
20+ years of entrepreneurial experience across tech businesses in San Francisco. Founded, scaled and exited multiple ventures including 5th Finger.

1. As at 31 December 2019, 2. 2019 Zip Employee Engagement Survey.



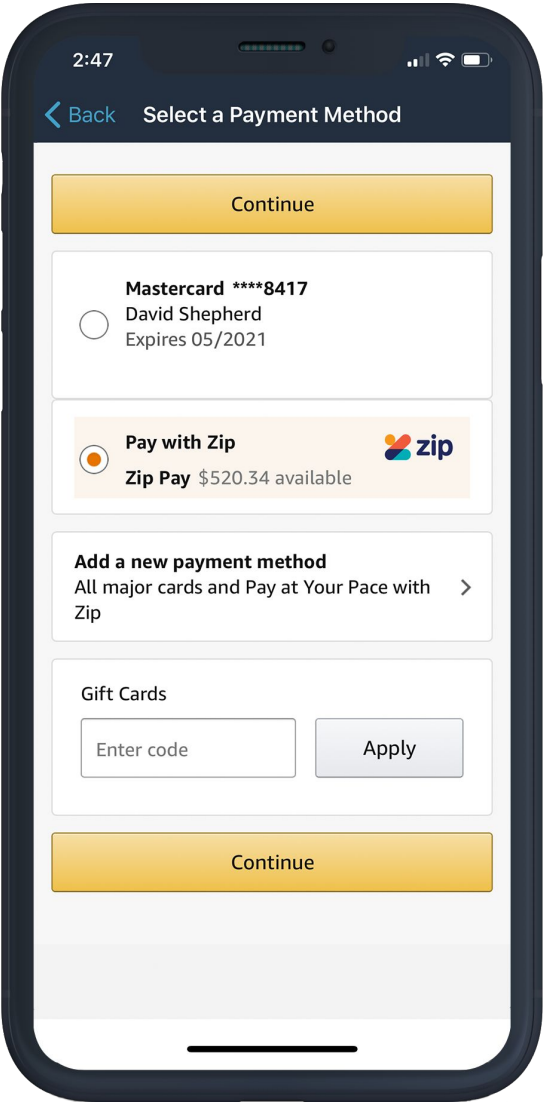


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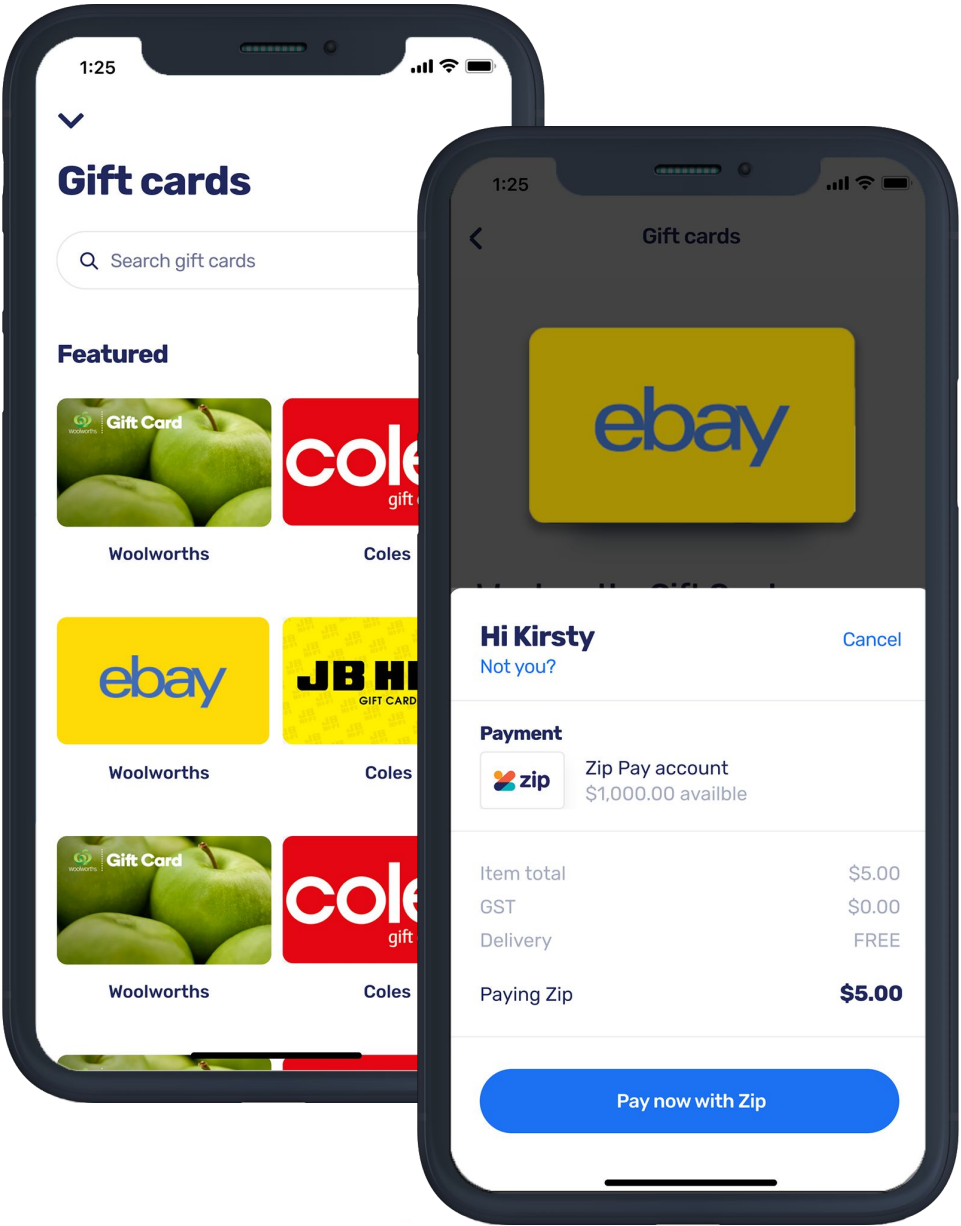
Product Innovation



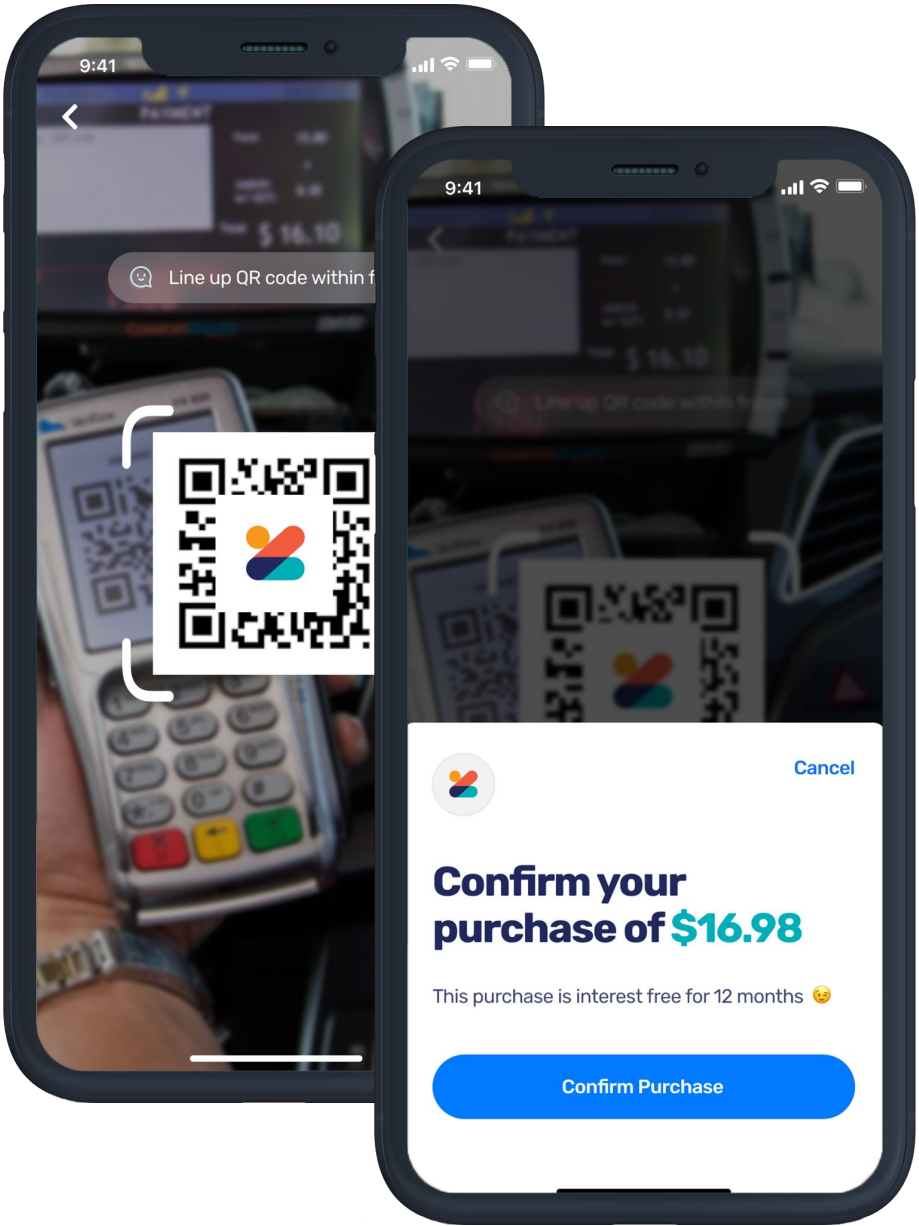
Continuing to improve the payments experience



1-Click



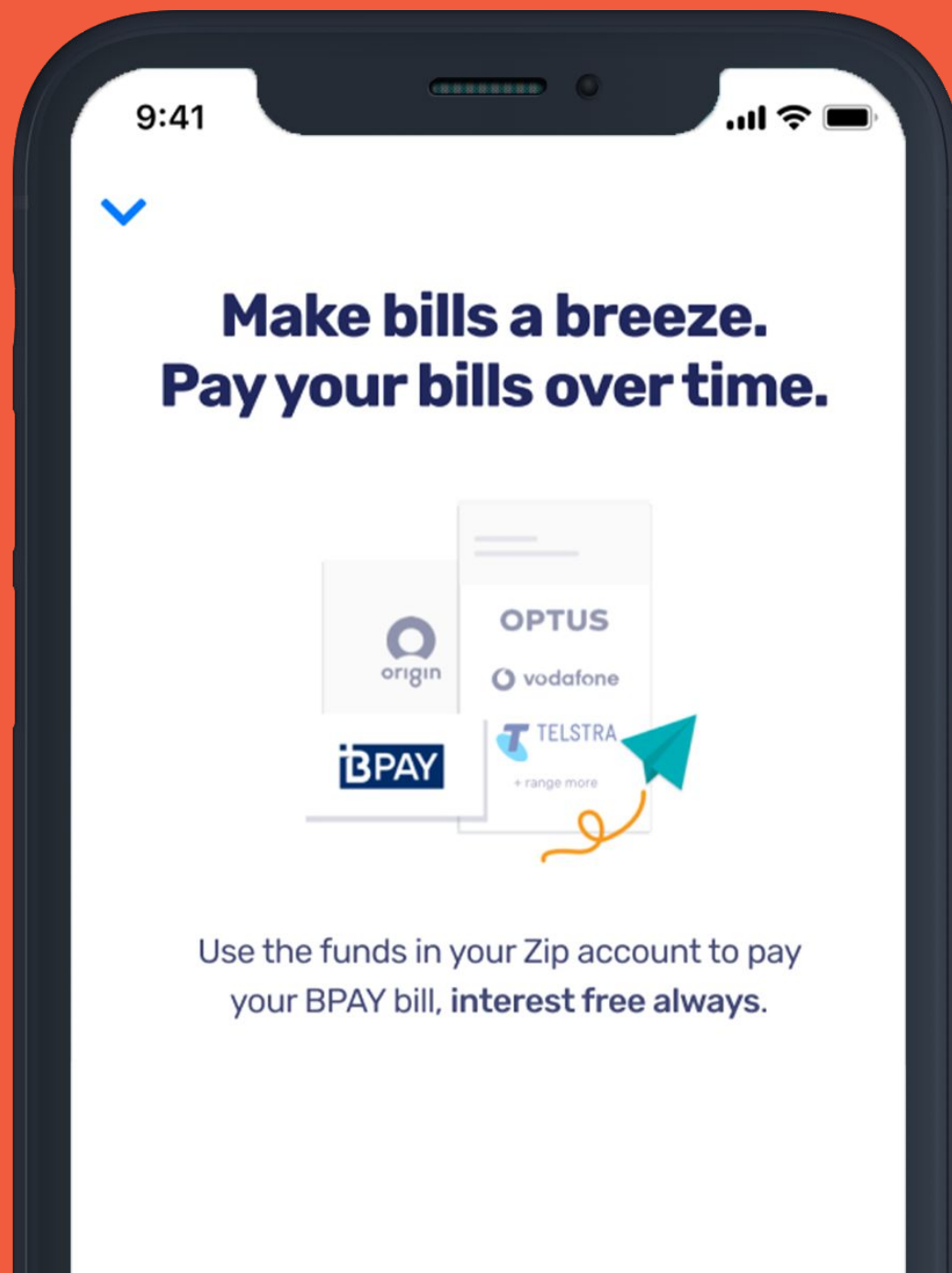
Mobile SDK



QR code

Paying bills is a real customer pain point

A popular feature in the Zip App



\$185

Average
Bill Paid¹

1.4

Monthly Average
of Bills Paid¹

Large Addressable Market:

- **\$450B+** processed annually²
- **45,000+** businesses accept BPAY²
- **5+ bills** paid on average per month²

Why Zip:

- Bill shock is a real customer problem and bill smoothing a real need
- Aligns with Zip's strategy to expand into new verticals and be part of our customers' everyday lives

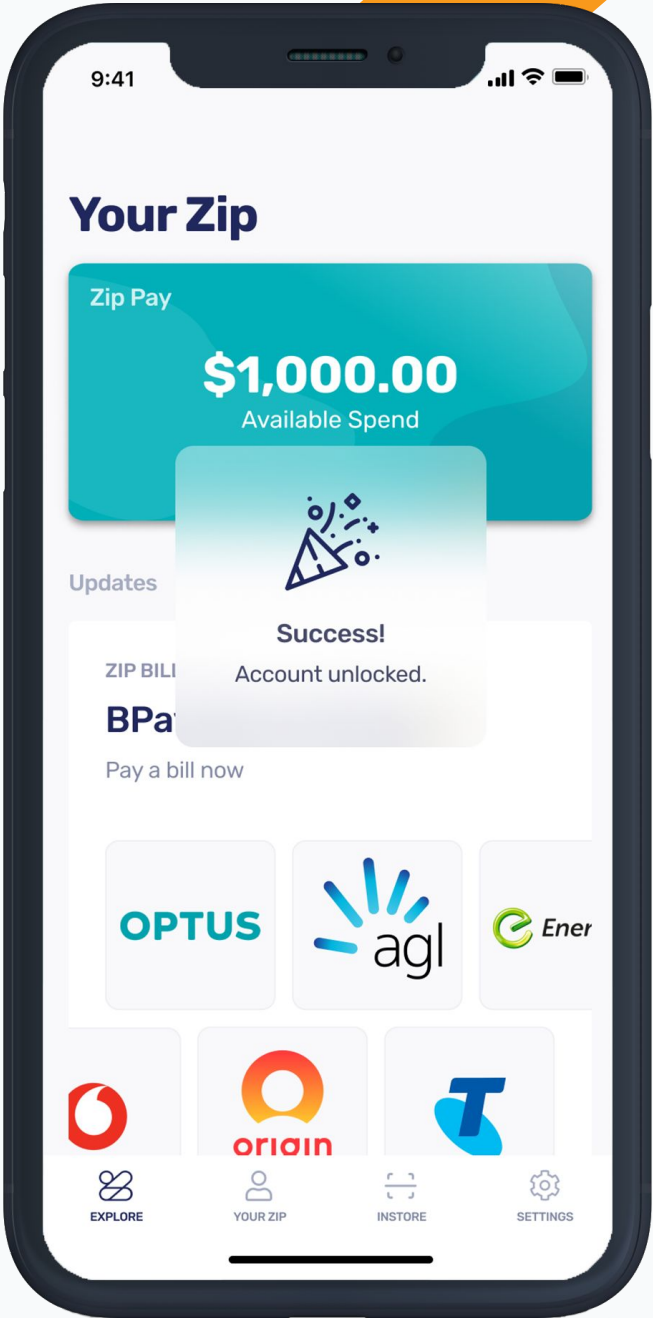
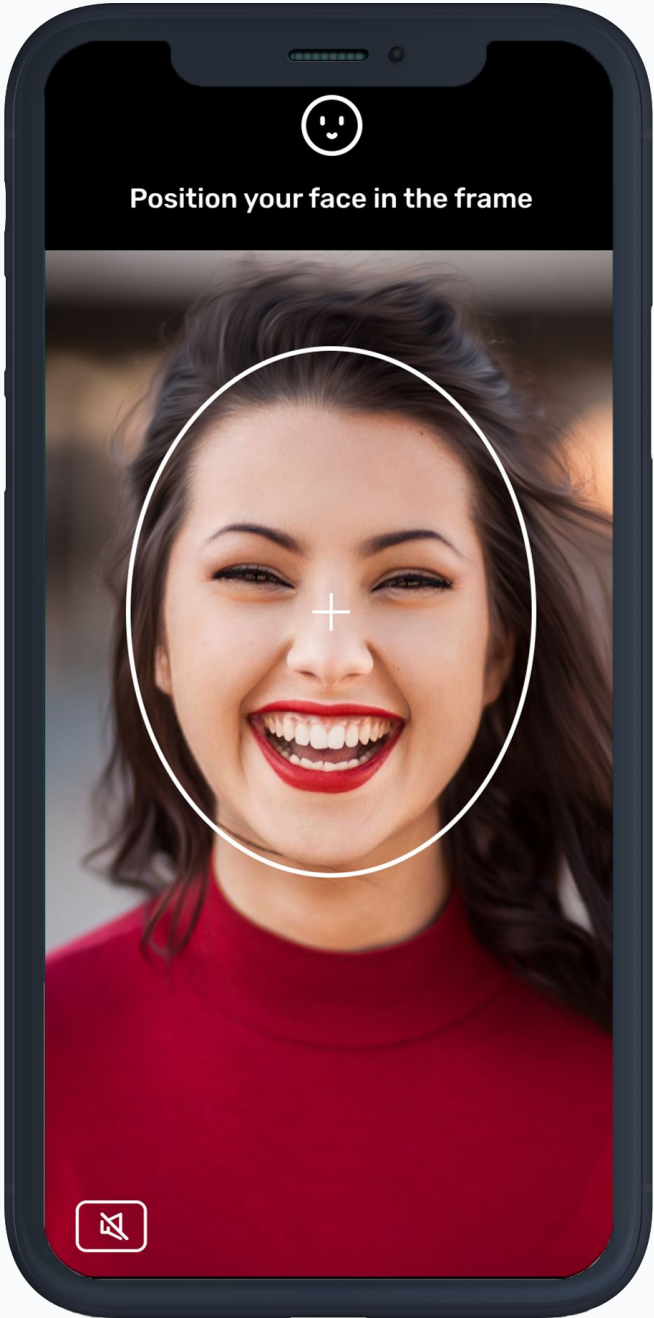
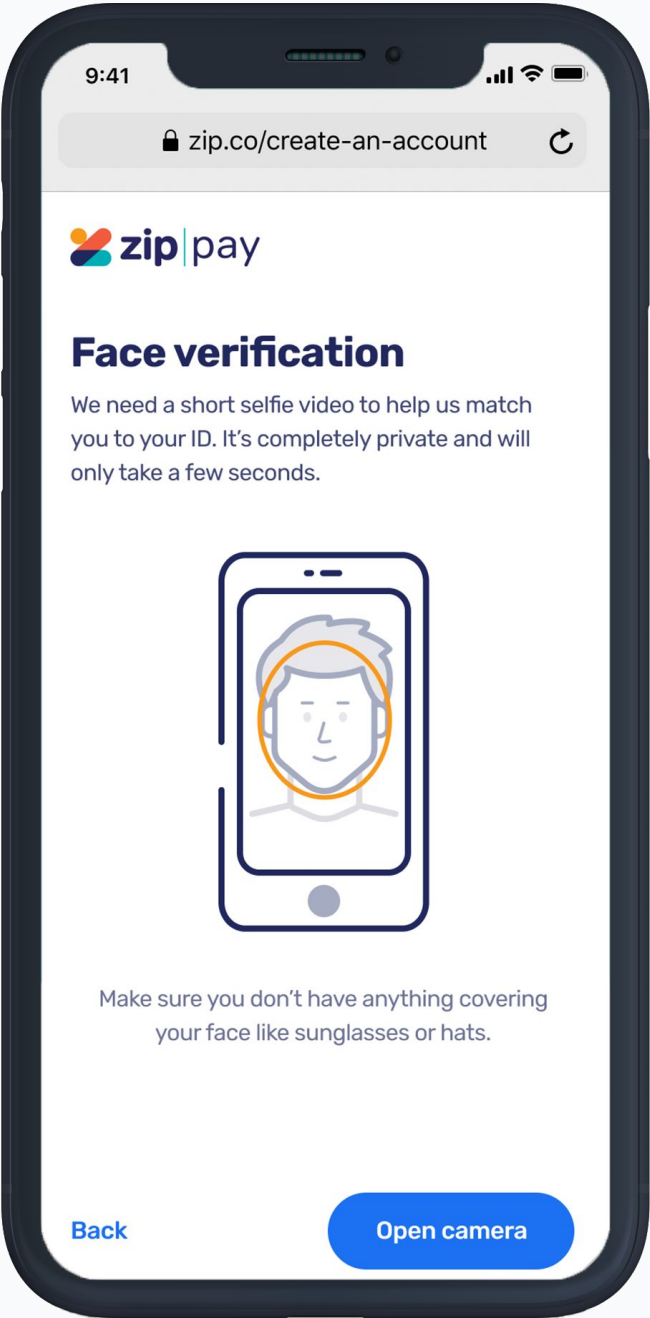
1. Internal product metric across bill paying customers only .2. RBA, *Trends in payments clearing and settlement systems*

Facial ID Verification

Zip launched a new ID verification method pioneering OCR technology to make ID and fraud checks a quick and frictionless experience. Results have been extremely promising.

3x
Faster to unlock¹

100%
Automation



1. Results are from testing the feature with locked account users



BNPL and instalments for business

- Zip Biz offers SMEs a digital, interest-free wallet with up to \$25,000 credit.
- Pilot is indicating healthy demand with full release planned for Q4
 - Initial metrics validate strong value prop
 - On average Zip Biz customers transact 3x per month¹
- Spotcap ANZ is now integrated into Zip, with its real-time decision engine now utilised by Zip Biz
 - In Q2, there were \$19.9M in drawdowns across 1.4K loans. Receivables at Dec-19 of \$36.9M
 - Gross bad debts written off were 2.5%² for the 12 months to 31 December 2019

2.5%
Loss rate²

\$36.9M
Receivables



1. Based on internal product performance metrics 2. Bad debts defined as those accounts greater than 180 days delinquent.



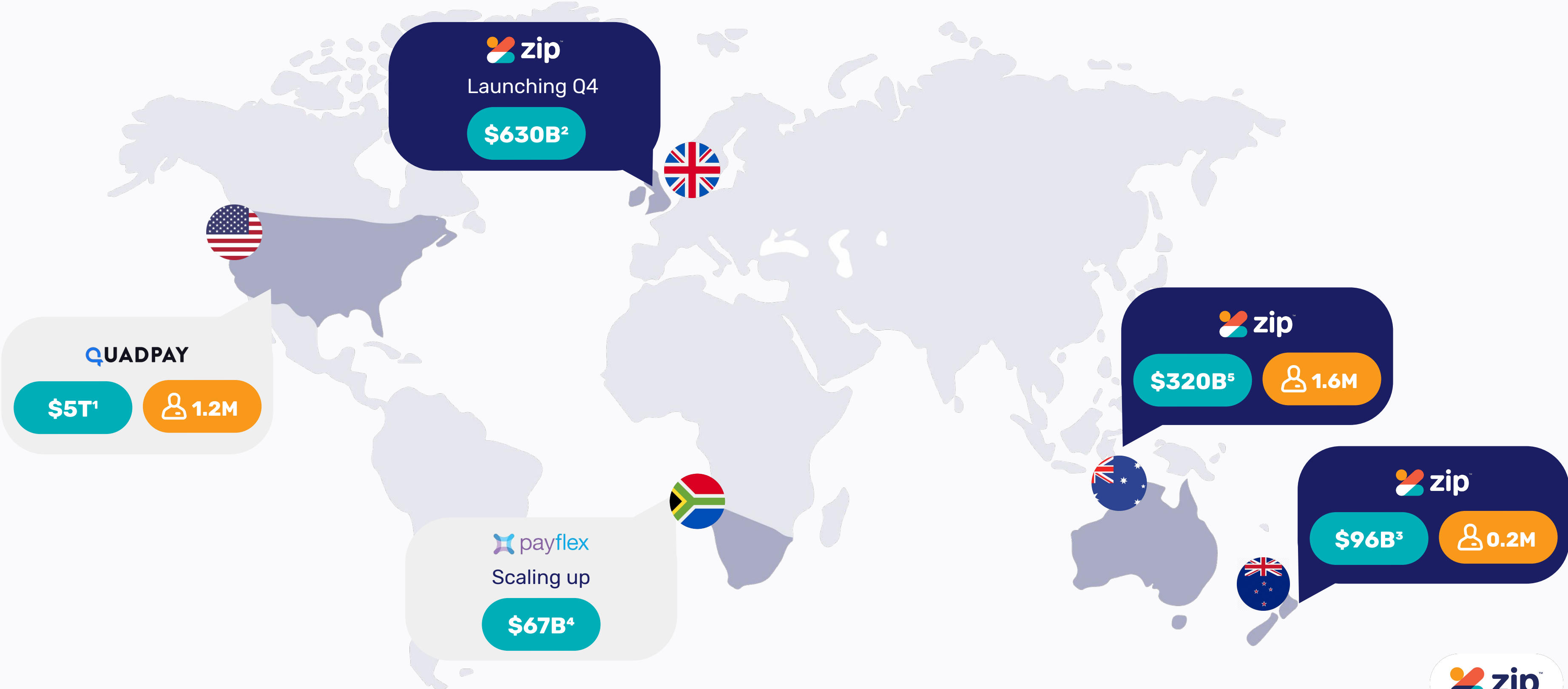
2.3

Global Expansion



Executing on a global BNPL opportunity

Zip is at the early stages of expansion



1. US Census 2019 (US), 2. Retail Economics UK (2018) 3. Nielsen Insights 2018 (NZ) 4. Dept of Statistics South Africa (2019) 5. NAB Online Retail Sales Index (Dec 2018).



Zip is live and operational in NZ, and preparing for an imminent launch in the UK this year

NZ



- NZ rebanded to Zip and functionally integrated
- Success in onboarding AU clients into NZ
- Customer numbers grew 81% in H1
- Net transaction margin over 2%¹ and transaction losses stable at 1.0%²
- Over 1,200 retail partners including: The Market, The Warehouse Group and Bunnings
- Regional partnerships (e.g. Mighty Ape in ANZ)
- Key hires in Engineering & Sales

BUNNINGS
warehouse

THE MARKET

UK



- UK MD - Anthony Drury appointed, building out sales and marketing team
- Investing in the platform in preparation for launch in Q4 FY20
- \$630B opportunity online and instore
- Strong pipeline with a number of global payments deals close to signing across multiple markets

1. ZipNZ income less losses (being arrears 60 days and over) less payment processing costs and cost of finance, expressed as % of total transaction volumes 2. Arrears over 60 days over TTV (excluding TTV in last 60 days).

Strategic investments in BNPL players, QuadPay and Payflex, paying off



First BNPL instalment provider in a \$67B¹ market

Recently launched with Superbalist, a leading SA online fashion retailer owned by the Naspers Group



A leading US players and growing quickly. Partnerships with numerous large and well-known brands.

Early adopter of virtual card technology, both online and instore



eBags®

DECKERS
— BRANDS —
UGG sanuk TEVA HOKA

FASHIONNOVA

1. Dept of Statistics South Africa (2019)



03

Financial Results



Financial dashboard

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

	H2FY18	H1FY19	H2FY19	H1FY20	MEDIUM TERM TARGET
Revenue Yield ¹	17.7%	17.6%	17.1%	16.4%	18%
Cash Cost of Sales ^{1,2}	(9.7)%	(8.5)%	(8.0)%	(8.0)%	(7)%
Cash Operating Costs ^{1,3}	(9.6)%	(8.2)%	(7.1)%	(8.2)%	(4)%
Cash EBTDA ^{1,3}	(1.6)%	0.9%	2.0%	0.2%	7%

- A strong focus on investing for growth, whilst remaining Cash EBTDA breakeven, in line with guidance.
- Increased operating costs led by brand campaigns, and investments in product and engineering.
- Expect further reductions in debt funding following Zip’s industry-first BNPL securitisation issuance.
- Targets reflect a 2-3 year timeframe.

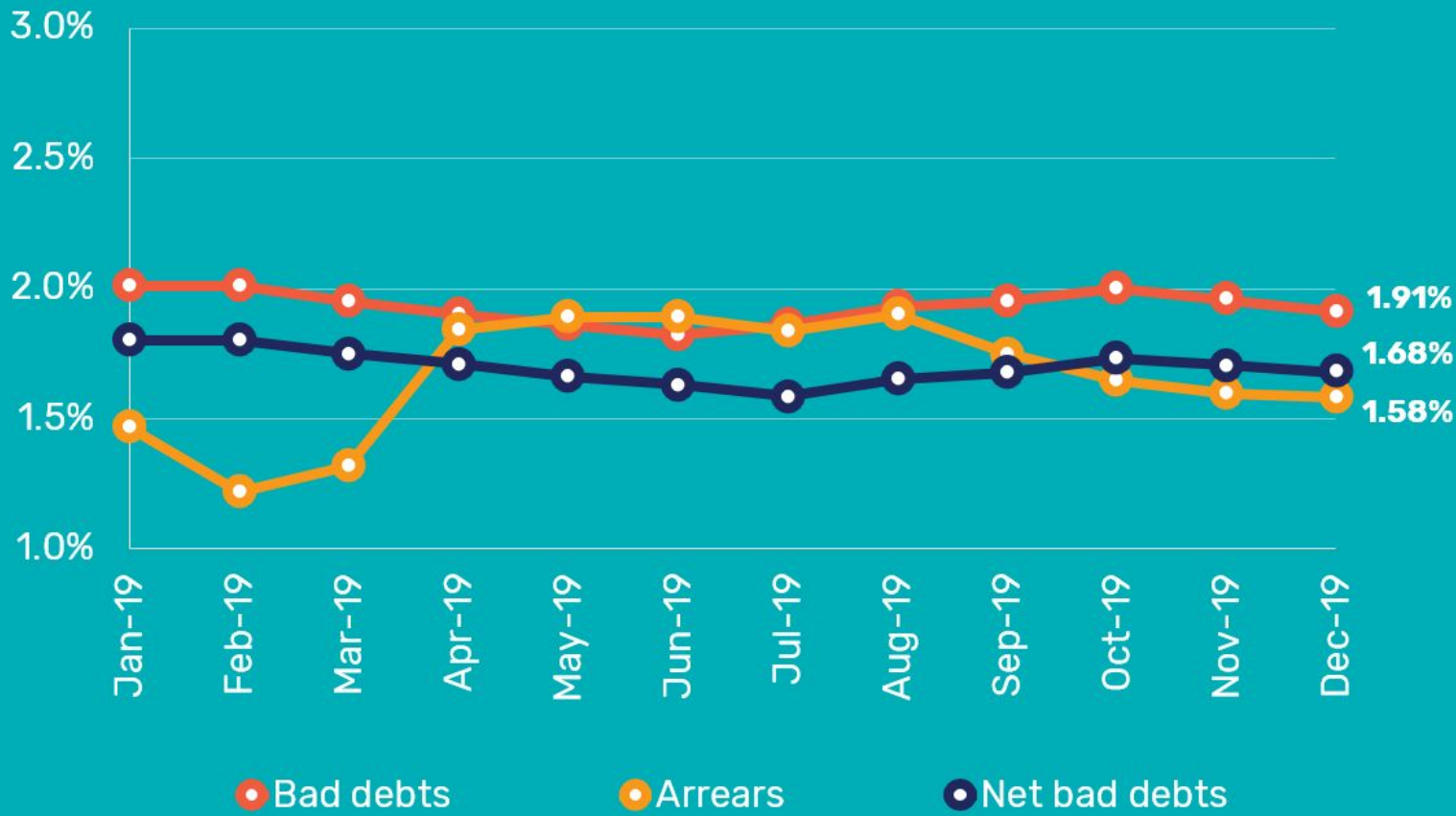
1. All figures expressed as a percentage of half year average receivables. All figures are on an annualised basis.
2. Cash Cost of Sales includes interest, bank fees, data costs, and receivables written off.
3. Cash Operating Costs exclude depreciation and amortisation and acquisition costs.



Credit performance

- Credit performance remains significantly better than industry benchmarks and in line with management's guidance.
- As at 31 December 2019:
 - gross bad debts 1.91%
 - net bad debts 1.68%
 - arrears 1.58%
- Repayment profile remains healthy at 13%-14%, with the book recycling approximately every 7-8 months.
- We continue to invest in and enhance our proprietary decision technology.
- The repayment profile of the book places Zip in a very strong position to adjust its scorecard and quickly respond to any changes to risk appetite or economic conditions.

PORTFOLIO 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.

Funding update

- Zip was pleased to launch the world’s first BNPL Master Trust program in 2019.
- This was identified as the best structure to support Zip’s long term growth ambitions.
- This program allows Zip to issue new note series as/when required, and should provide significant cost benefits over time (c 1% - 1.5%).
- We are likely to issue the next planned series of notes in Q4.
- Weighted average interest rate on loans outstanding at 31 December 2019 of 4.3% compared to 4.7% at 30 June 2019.
- Zip currently has \$1,184.4M in total funding of which approximately \$259.3M remains available.
- \$139.5M has been added since 31 December via the Variable Funding Note (VFN).

	Dec 2019 \$M	Jun 2019 \$M
Facility Facilities		
- Customer Receivables	1,009.9	631.5
- SMB Receivables	21.0	-
Total Available	1,030.9	631.5
Facilities Utilised		
Securitisation Warehouses	925.1	587.5
Working Capital	-	-
Total Utilised	925.1	587.5
Cost of Funds¹	4.3%	4.7%

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



Income Statement

- Portfolio Income hit record levels, growing 104% over FY19.
- Cash Gross Profit was a record \$35.3M, 103% increase on FY18. Cash GP% remains constant at c.51%.
- Positive Cash EBTDA of \$1.5M in H1FY20, down from \$2.4M in H1FY19, as the Group invested for growth.
- Provision for expected credit losses increased in line with the receivables balance.
- Share-Based Payments increased due to the issue of Amazon warrants (\$6.6M) and an increase in STI and LTI accruals.
- One-off costs were incurred on the acquisition of PartPay and Spotcap.
- Depreciation and Amortisation increased as a result of:
 - \$2.3M on acquired intangibles, including \$1.9M relating to PartPay brand name.
 - \$0.4M on IT development and software.
 - \$1.0M relating to Right of Use asset.

	H1FY20 \$M	H1FY19 \$M	Change %
Portfolio Income	68.8	33.7	104%
Cash Cost Of Sales ²	(33.5)	(16.3)	106%
Cash Gross Profit	35.3	17.4	
Other Income	0.8	0.6	33%
Cash Operating Costs ²	(34.6)	(15.6)	122%
Cash EBTDA¹	1.5	2.4	
Movement in Provision for Expected Credit Loss	(12.0)	(4.9)	145%
Amortised Finance Costs	(0.8)	(0.6)	33%
Share-Based Payments	(10.4)	(1.5)	593%
Acquisition costs	(2.3)	-	NA
EBTDA	(24.0)	(4.6)	
Depreciation and Amortisation	(6.3)	(2.2)	186%
Earnings Before Tax	(30.3)	(6.8)	

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.

Adjusted Loss before Tax

- Reported loss before tax adjusted for the following one-off expense items:
 - Acquisition costs in relation to Spotcap and PartPay.
 - 100% amortisation of the PartPay brand on rebranding to Zip.
 - Warrants vesting to Amazon Australia on signing the Amazon agreement. The remaining warrants to vest over 7 years from award date, based on the achievement of performance hurdles.

	H1FY20 \$M
Reported Loss before Tax	(30.3)
Add back:	
Acquisition Costs	2.3
Amortisation of Intangibles	1.9
Share-Based Payments	6.0
Adjusted Loss before Tax	(20.1)

Cost Base

- Cash Cost of Sales reducing as a percentage of Average Receivables.
- Interest cost reduced as a percentage, as funds from the capital raise were used to fund receivables and the interest rate on average loan balance reduced from 4.9% to 4.7%.
- Unit cost of Bank Fees and Data Costs continue to reduce as the business scales.
- Bad Debts Written-Off in line with management expectations, remain below industry benchmarks.
- Pleasingly, Bad Debt Recoveries were 7% of written-off amounts.
- Permanent headcount increased to 354 at 31 December 2019, including 50 employed by acquired entities, compared to 237 at 30 June 2019, and 204 at 31 December 2018.
- Marketing Costs include a brand campaign, the re-branding of PartPay to Zip and promotional spend in the seasonally strongest quarter.
- The increase in Other Operating Costs reflects increases in IT and other costs as headcount increases and the Group scales for growth.

	H1FY20 \$M	H1FY19 \$M
Cash Cost of Sales	33.5	16.3
% of Average Receivables	8.0%	8.5%
Interest Costs	17.9	9.3
% of Average Receivables	4.3%	4.7%
Bank Fees and Data Costs	4.4	2.4
% of Average Receivables	1.1%	1.3%
Bad Debts Written-Off	12.1	5.3
Bad Debt Recoveries	(0.9)	(0.7)
Cash Operating Costs	34.6	15.6
% of Average Receivables	8.2%	8.2%
Salaries and Employment Related Costs	18.2	9.5
Marketing Costs	5.8	1.3
Other Operating Costs	10.6	4.8

Balance Sheet

- Cash includes Restricted Cash of \$20.2M at 31 December 2019 (\$6.4M at 30 Jun 2018). Unrestricted balance includes amounts subsequently remitted to Trusts.
- Timing differences at 31 December 2019 were significantly lower than at 30 June 2019 resulting in a reduction in the level of Other Receivables (\$0.8M v \$4.9M in customer repayments) and Other Payables (\$4.3M v \$8.8M in merchant payments).
- Growth in Gross Customer Receivables to \$1,035.2M at 31 December 2019 from \$682.6M supported by an increase in borrowings.
- Goodwill has increased due to the acquisition of Spotcap (\$4.8M) and PartPay (\$42.2M).
- Intangibles include \$6.6M invested in the Groups payment platform, and \$12.5M in acquired intangibles provisionally valued on the acquisition of Spotcap (\$1.9M) and PartPay (\$10.6M), net of amortisation of \$4.7M.
- Right-of-use Assets and the Leasing Liability reflect leases accounted for under AASB 16 Leases.
- The Group’s 15% ownership in Quadpay is shown in Investments, and the 24.7% interest in Payflex in Investments in Associates.
- Deferred Contingent Consideration is payable in shares to the vendors of PartPay on the achievement of certain transaction volume targets.

	Dec 19 \$M	Jun 19 \$M
Cash and Cash Equivalents	39.1	12.6
Other Receivables	3.1	11.0
Term Deposit	1.5	1.2
Customer Receivables	984.1	647.5
Property, Plant and Equipment	4.7	2.5
Right-of-Use Assets	9.6	-
Intangible Assets	20.2	5.8
Investments	35.4	-
Investments in Associates	1.3	-
Goodwill	51.5	4.5
Total Assets	1,150.5	685.1
Trade and Other Payables	14.8	19.6
Employee Provisions	2.0	1.4
Deferred R&D Tax Incentives	0.2	0.4
Deferred Contingent Consideration	14.0	-
Leasing Liability	9.7	-
Borrowings	924.7	587.4
Total Liabilities	965.4	608.8
Net Assets	185.1	76.3

Cash Flows

- Generated positive Operating Cash flow of \$6.7M in H1FY20.
- The Group leased additional space in Sydney and the fit out cost is shown in payments for plant and equipment in H1FY19.
- \$5.1M was paid to further invest in the Group’s software systems, up from \$1.6M in H1FY19.
- The acquisitions of Spotcap and PartPay added \$2.7M (net) to the Group.
- \$16.6M was paid to increase the Group’s investment in QuadPay, taking the interest to 15%.
- Costs totalling \$2.3M were incurred in acquiring Spotcap and PartPay.
- Raised \$61.9M in equity capital in H1FY20 and \$0.2M through the conversion of options.
- Costs associated with the equity raise totalled \$2.1M.
- The Group incurred costs of \$2.4M in establishing the Zip Master Trust and arranging the first rated issuance.

	H1FY20 \$M	H1FY19 \$M
Portfolio Income from Customers	69.3	34.0
Payments to Suppliers and Employees	(46.0)	(17.8)
Interest Received	0.1	0.1
Interest Paid	(16.7)	(8.8)
Net Cash Flow from Operating Activities	6.7	7.5
Payments for Plant and Equipment	(2.8)	-
Payments for Software Development	(5.1)	(1.6)
Payment for Business, Net of Cash Acquired	2.7	-
Net Increase in Receivables	(328.7)	(172.3)
Payment for Investments	(16.6)	-
Acquisition Costs	(2.3)	-
Net Cash Flow to Investing Activities	(352.8)	(173.9)
Proceeds from Issues of Shares	62.1	1.0
Costs of Share Issues	(2.1)	-
Borrowing Transaction Costs	(2.4)	-
Proceeds from Borrowings	316.0	172
Repayment lease liabilities	(1.0)	-
Net Cash Flow from Financing Activities	372.6	173.0
Net Increase in Cash & Cash Equivalents	26.5	6.6



04

2020 Outlook



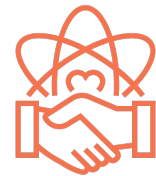
Regulatory Update

Zip is taking a leadership position and engaging actively with regulators, industry groups and parliamentarians to help shape the sector's regulatory environment.



ASIC Report 600 #2

Zip engaging actively with ASIC on this report and more generally.



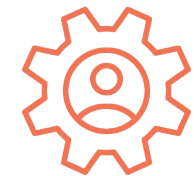
BNPL Code of Conduct

Code a strong starting point. But Zip will continue to implement its own more robust standards.



RBA Payments Review

Zip adds significant value and gives merchants data insights, lead generation, security and fraud benefits and should not be viewed as a payments scheme.



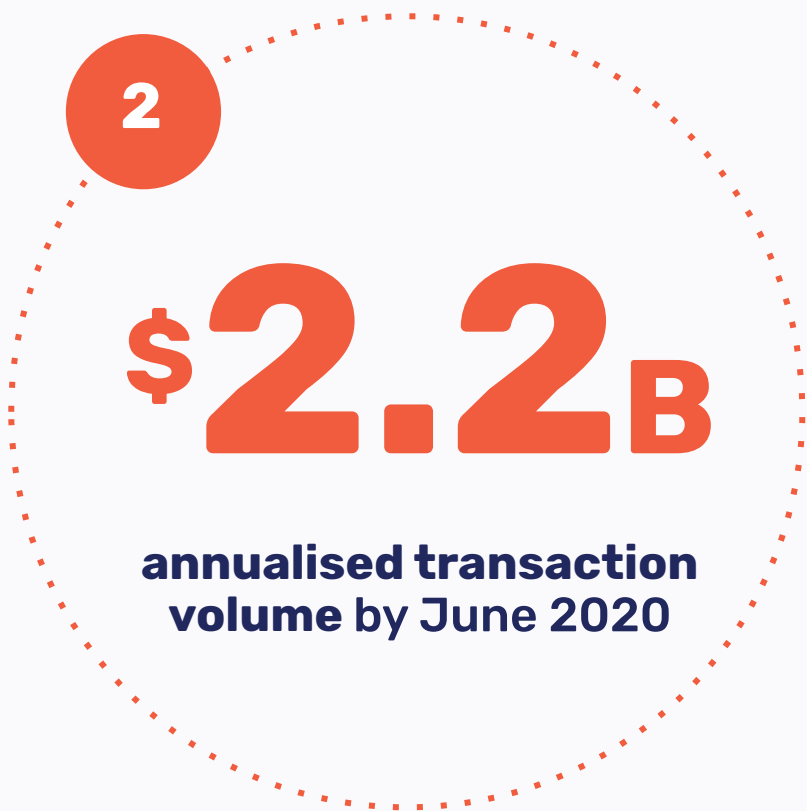
Senate Fintech Inquiry

Zip made the case for greater coordination and an outcomes-based approach to regulation.

Overall, given Zip's robust business model and processes, Zip remains well placed in the current regulatory environment.

FY20 Financial targets

We are focused on driving growth locally, via customer acquisition / retention, onboarding lighthouse brands, as well as, expand globally via a deliberate lift, shift & scale strategy.



NB: These are only targets and do not represent a forecast. There are a large number of factors and risk, some of which are out of our control, that may affect the companies ability to meet these targets.



Compelling investment case



MASSIVE MARKET OPPORTUNITY

Market leader in a fast growing \$1.2T¹ global instalment segment. Immediate access to ANZ, UK, SA and US exposure.



NETWORK-DRIVEN BUSINESS

\$2.3B² annualised volume, 1.8M customers, 21K³ retail partners and over 50K points of acceptance.



100% PROPRIETARY PLATFORM

Highly scalable and portable platform that leverages microservices, machine learning and data analytics.



BRAND AFFINITY

The Zip brand lives where our customers shop each day. 1 in 3 Australians now recognises the Zip brand⁴.



ATTRACTIVE UNIT ECONOMICS

Cash GP margins above 50%. Focused and disciplined investment into new markets to drive growth and long-term shareholder value.



FINANCIALLY RESPONSIBLE

Strong focus on responsible lending with interest free, simple and transparent products.

1. Visa instalment Report (2019) 2. Annualised based on Q2 FY20 results (includes PartPay) 3. As at Dec-19 (includes PartPay) 4. Roy Morgan Brand Research



Thank you

