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14 October 2020

Q1 FY21 TRADING UPDATE

ZIP BECOMES GLOBAL BNPL PLAYER, DELIVERS RECORD RESULTS

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to provide a trading update for the quarter ended 30 September 2020 (**Q1 FY21**).

GROUP HIGHLIGHTS

* Note: all figures in AUD unless otherwise specified.

- **Record quarterly revenue of $71.7m (up 88% YoY).**
- **Record quarterly transaction volume of $943.1m (up 96% YoY), now annualising at c.$3.8bn. Transaction numbers were up 130% YoY.**
- **Customers increased to 4.5m, up 114% YoY (628k added in quarter).**
- **Zip US (QuadPay) delivered record results across all core metrics – reporting $322.5m in transaction volume, $23.4m in revenue and closing the quarter with 2.2m customers.**
- **Merchants on the platform increased to 34.4k, up 69% YoY.**
- **AU monthly arrears, a forward indicator of future losses, reduced from 1.33% in June to 0.91% in September – an outstanding result in the current climate.**
- **Zip became a principal issuer with Visa and signed a strategic agreement with Marqeta to further innovate around the payments experience.**
- **Completed the acquisition of US BNPL QuadPay, providing immediate access to the $5t US retail market. Issued $100m in Convertible Notes and $100m in Warrants to Susquehanna Investment Group to accelerate global growth.**
- **Zip now well on its way to becoming a true global BNPL leader – operating across 5 markets (AU, NZ, US, UK and SA) with over 4.5m customers, annualised TTV of c.$3.8bn+[1] and annualised revenue of over $280m[1].**

[1] Company results annualised based on Q1 FY21.

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Specifically, Zip delivered strong results across its BNPL operations in Australia, New Zealand and the United States (QuadPay):

Financial and Operational Performance (AUD)[2]	**Results Q1 FY21**	**% increase on Q4 FY20 (Pro Forma)**	**% increase on Q1 FY20 (Pro Forma)**
Revenue	**$69.1m**	**16%↑**	**91%↑**
ANZ	$45.7m	3%↑	45%↑
USA	$23.4m	50%↑	409%↑
Merchants[3]	**34.4k**	**18%↑**	**69%↑**
ANZ	27.6k	12%↑	45%↑
USA	6.8k	51%↑	467%↑
Customers[4]	**4.5m**	**15%↑**	**114%↑**
ANZ	2.3m	10%↑	44%↑
USA	2.2m	22%↑	340%↑
Transaction volume	**$943.1m**	**18%↑**	**96%↑**
ANZ	$620.6m	9%↑	50%↑
USA	$322.5m	42%↑	388%↑
Transactions	**5.3m**	**23%↑**	**130%↑**
ANZ	3.3m	14%↑	74%↑
USA	2.0m	43%↑	400%↑

Managing Director and CEO Larry Diamond said:

> *"We are incredibly proud of the global team with another set of record results across all key geographies - Australia, New Zealand, the United States. In particular, the US demonstrated significant growth with revenue and volumes up 50% and 42% QoQ, respectively, with a number of marquee merchants going live in the quarter. Locally, the product and merchant pipeline are extremely exciting, and we look forward to a number of announcements in the months ahead. The current quarter has begun solidly in all markets, which is seasonally the strongest as we run up to Prime Day, Black Friday, Cyber Monday, Christmas and Boxing Day.*
>
> *Customers are continuing to increase their online spend in response to COVID-19 supported by Zip's products that provide a better and fairer, digital alternative to the credit card. Data from the*

[2] Unaudited management accounts.

[3] Number of accredited merchants.

[4] Number of active customer accounts.

recent quarter continues to show the demise of the credit card model - in Australia, by way of example, credit card balances collapsed 24% YoY, while balances accruing interest fell 28%.[5]

Zip is well on its way to becoming the first payment choice everywhere and every day."

PERFORMANCE - Zip ANZ

All key operating metrics include Zip's operations in Australia and New Zealand.

Financial and Operational Performance (AUD)[6]	**Results Q1 FY21**	**% increase on Q4 FY20**	**% increase on Q1 FY20**
Revenue	$45.7m	3%↑	45%↑
Merchants	27.6k	12%↑	45%↑
Customers	2.3m	10%↑	44%↑
Receivables[7]	$1,139.7m	3%↑	51%↑
Transaction volume	$620.6m	9%↑	50%↑
Transactions	3.3m	14%↑	74%↑
Arrears[8]	0.91%	1.33%	1.75%
Net Bad Debts[8]	2.43%	2.24%	1.68%

Regional update

- Customers increased to 2.3m, with 198k added in the quarter.
- The Zip app continued to enjoy market leading engagement – top 10 app in the Apple and Google app stores with ratings of 4.9 and 4.8, respectively. App downloads increased 100% YoY to 2.3m downloads, whilst transactions by users increased by 100% driven by increased merchant acceptance, brand awareness and improved mobile UX.
- The strong investment in retail partnerships and continued adoption of the Zip app has seen Zip become a household name as brand awareness soars to 10 million+ Australians[9].
- Zip ran a number of successful campaigns in the quarter including: Zip's 7th birthday, Father's Day, Zip Frenzy and a number of merchants funded offers – all helping to drive monthly transacting users.
- Zip enjoyed strong transaction volume in the quarter, led by online at 71% of total volumes compared to 62% in the same quarter in FY20. In Victoria, where lockdown conditions were far stricter, Zip transactions online represented 84% of total volumes. Zip's barcode technology has proven to be a great way for customers to pay in-store contactless during COVID-19.

[5] Source: Australian payments card data 2020.

[6] Unaudited management accounts.

[7] Amounts due from customers.

[8] Australian figures only. 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.

[9] Based on brand awareness of 50% amongst the population 18+ in Aug 20, equating to approximately 10.1 million Australians.

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- A new investor website (zip.co/investors) launched in the quarter, including the ability for users to subscribe for ongoing ASX updates.
- Zip is on track to launch in the UK this half, with a strong merchant, channel and partner pipeline being developed, supported by a newly formed team of 20 on the ground.

Strategic partnerships with Visa and Marqeta

- Zip has entered into strategic partnerships with Visa, the world's leading digital payments technology company, and Marqeta, the world's first open-API modern card issuing platform, to continue to develop innovative payment products and services that are transparent, fair and flexible.
- Zip has been granted a Principal Issuer license with Visa that enables users to create Zip-branded virtual cards in real-time. The most recent project allows users the ability to generate one-time virtual cards to shop at any online retailer where Visa is accepted.
- Following a successful pilot of *Shop Everywhere* during COVID-19, Zip moved to permanently offer this feature to Zip app users and went live with Marqeta in September 2020.

Merchant and partner wins

- Zip finished the quarter with 27.6k merchants on the platform, up 45% YoY with 2.9k added in the most recent quarter. There are now more than 63k points of presence across Australia and New Zealand, where Zip is accepted as a payment method for everyday spend.
- Brands that signed or joined the platform in the quarter included:
    - AU: Pizza Hut, Priceline, Living Edge Furniture, Winning Appliances, Fila, Aquila, Bugaboo and Primary Dental.
    - NZ: Chemist Warehouse, Cotton On Group, NZSale, Secretlab, Playtech, The Toolshed, Bivouac, Shine On, Postie, Smiths City, Northbeach, Storm, Augustine and Macpac.
- In a first for the BNPL market, Zip commenced providing instalment payments for Auckland Transport to facilitate the payment of traffic infringements by customers. This important evolution allows partners to utilise Zip's instalment platform, whilst electing to retain funding and credit risk on their balance sheet.
- Zip expanded its channel and platform partnerships into New Zealand, including: Adyen, Quest, Magenta Retail, Ontempo, Solutionists, Blackpepper, Web Ninja and Infusion.

Credit performance

Zip continues to demonstrate resilience by delivering superior receivables performance through its market-leading credit-decisioning and risk management technology:

- The monthly repayment rate averaged 16.5% for the quarter (calculated as % of the opening receivables balance) and equates to the book recycling every ~6 months.
- Net bad debts continue to outperform the market at 2.43%, in line with management expectations.
- Monthly arrears reduced significantly from 1.33% in June to 0.91% in September, an outstanding result led by engaged app-customers, strong receivables management and the resilience of the Zip model.

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PERFORMANCE – Zip US (QuadPay)

All key operating metrics include Zip's operations in the US for its BNPL instalment product.

Financial and Operational Performance[10]	**Results Q1 FY21 (USD)**	**Results Q1 FY21 (AUD)**	**% increase on Q4 FY20**	**% increase on Q1 FY20**
Revenue	$16.7m	$23.4m	50%↑	409%↑
Merchants	6.8k	6.8k	51%↑	467%↑
Customers	2.2m	2.2m	22%↑	340%↑
Receivables	$73.7m	$103.6m	36%↑	323%↑
Transaction volume	$230.7m	$322.5m	42%↑	388%↑
Transactions	2.0m	2.0m	43%↑	400%↑

Regional update

Following a robust June quarter at the onset of COVID-19, QuadPay delivered a record set of results across all its key operating metrics in the September quarter:

- Transaction volume increased to US$230.7M (A$322.5M, +42% QoQ), with September volume annualising at more than US$1bn.
- Net transaction margin continues to remain stable and in excess of 2%, demonstrating strong unit economics.
- There were 2.2M customers at the end of September, with 429k added in the quarter, an increase of 31% on the number added in Q4 FY20. The current quarter has started strongly with more than 7,000 customers added on average each day.
- The App continues to be a standout with an App Store rating of 4.8 and currently number 23 position in the Shopping category. The quarter saw more than 600,000 downloads, a 42% increase QoQ, with total downloads now at 2.3m.
- Web traffic continued to increase led by growing brand awareness, new marquee merchants and customer referrals - unique visitors grew 42% QoQ.
- Well positioned for Q2 FY21 - expecting significant growth in the seasonally strongest quarter, with a healthy pipeline, and Prime Day, Black Friday, Cyber Monday, Christmas and Boxing Day all in the quarter.
- Transaction volume grew in the current quarter whilst experiencing no material degradation in credit quality, a testament to Zip's market-leading credit decision technology. At the onset of COVID-19 risk measures were adjusted to handle the uncertain environment and credit performance has remained at healthy levels despite the cessation of stimulus benefits in July 2020.
- The US team continues to focus on improving the in-store payments experience for customers and merchants in the BNPL space. The recent quarter saw the roll out of Google Pay to Android users in the US, which means customers can now tap and pay in-store anywhere Visa is accepted using either Google Pay or Apple Pay.

[10] Unaudited management accounts.

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Merchant and partner wins

- Over 6,800 merchants are now live or signed, accelerated by a newly launched self-service sign-up module enabling merchants to create an account, integrate and go-live independently. This sets the foundation for the merchant base to scale quickly and efficiently from here.
- Following a number of successful pilots, QuadPay secured partnerships with multiple Internet Retail 100 merchants generating a combined US$4bn in online sales volumes, including:
    - GameStop (NYSE: GME), the world's largest video game retailer went live in Q1, both online and in-store, across 3,300 retail locations.
    - Fanatics (#14 on IR100), the global leader in licensed sports merchandise, selected QuadPay/Fiserv to power its BNPL instalment payments. The multi-year, exclusive global deal will see QuadPay activated across Fanatics' owned roster of online stores, including Fanatics.com, FansEdge.com, SportsMemorabilia.com and international properties.
    - Mercari (TYO:4385) and Calares Group (NYSE: CAL) are due to go live in the current quarter.
- QuadPay partnered with Mastercard Vyze, the leading alternative financing platform, to provide businesses and customers with a seamless instalment payment shopping experience. The team is currently integrating with a go-live scheduled for Q3 FY21.

ZIP BUSINESS

- In Q1 FY21 the Company officially launched Zip Business, partnering with eBay Australia, offering its 40,000 Australian small and medium-sized businesses the opportunity to access working capital via the eBay marketplace.
- The new division, Zip Business includes BNPL for business (previously Zip Biz) as well as Spotcap Australia and New Zealand (working capital finance), which was recently rebranded to take advantage of Zip's brand presence and partnership opportunities in both markets. There is a strong pipeline of merchants and vendors soon to be joining the platform.
- Delivered Q1 FY21 revenue of $2.6m, up 13% QoQ on receivables of $37.2m. SME volumes showed an improvement on Q4 FY20 but continue to be impacted by COVID-19 in both Australia and New Zealand. Q1 FY21 saw a recovery in enquiries with originations up 66% QoQ, of which 38% was underwritten by the Australian Government SME Government Guarantee[11].
- There have been no new client requests for additional hardship support since July 2020, with net bad debts of 3.9% at the end of Q1 FY21.

POCKETBOOK

- Launched Pocketbook 2.0 in August 2020 to its 800k+ users with a brand new look and feel, including a series of user experience improvements.
- For Pocketbook 2.0, the iOS and Android apps were designed and developed from the ground up paving the way for upcoming features, designed to help Pocketbook users save money by not just spending less, but also by spending smarter.
- Pocketbook will shortly support more than 120 new banking institutions empowering many more everyday Australians to take control of their finances.

[11] Australian Government Coronavirus SME Guarantee Scheme.

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CAPITAL MANAGEMENT

At the end of the quarter, Zip had the following funding warehouses in place to support its customer receivables portfolio:

	Facility Vehicle	Facility Limit	Drawn at 30 Sep 20	Maturity
AU	Zip Master Trust - Rated Note Series - Variable Funding Note	 $475.0m $209.3m	 $475.0m $74.5m	 Aug 2021 Feb 2022
	2017-1 Trust	$460.0m	$435.0m	May 2021
	2017-2 Trust	$70.0m	$66.2m	Dec 2020
	Total	**$1,214.3m**	**$1,050.7m**	
US	**AR2LLC**	**US$200m**	**US$38.9m**	Dec 21
SME	Funding Box AU Funding Box NZ	$35.0m $11.1m	$24.8m $7.4m	Jan 2022 Feb 2022
	Total	**$46.1m**	**$32.2m**	

- Undrawn facilities to fund Australian consumer receivables portfolio totalled $163.6m at the end of September.
- NAB recently mandated to raise an additional $300m through the issuance of a new rated note series within the Zip Master Trust. The transaction launched on Tuesday 13th October, is expected to price no later than Thursday 15th and settle on Thursday 22nd. This increases undrawn facilities to fund Australian consumer receivables to $463.6m.
- Secured a revolving line of credit up to US$200 million from Goldman Sachs, Oaktree Capital to fund growth in the US (AR2LLC).
- Currently finalising a new $100m debt facility from Victory Park Capital Advisors to fund growth in Zip Business (SME receivables).

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

– ENDS –

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About Zip

ASX-listed Zip Co Limited (Z1P: ASX) is a leading player in the digital retail finance and payments industry. The company offers point-of-sale credit and digital payment services to the retail, home, health, automotive and travel industries. Zip has operations across Australia, New Zealand, South Africa, the United Kingdom and the USA. Zip also owns Pocketbook, a leading personal financial management tool. The company is focused on offering transparent, responsible and fairly priced consumer and SME products. Zip's platform is entirely digital and leverages big data in its proprietary fraud and credit-decisioning technology to deliver real-time responses. Zip is managed by a team with over 100 years' experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zip.co

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