



21 January 2021

Q2 FY21 TRADING UPDATE

ZIP CEMENTS ITSELF AS A TRUE GLOBAL BNPL LEADER

Zip Co Limited (ASX: Z1P) (**Zip** or the **Company**) is pleased to provide a trading update for the quarter ended 31 December 2020 (**Q2 FY21**).

Zip cements its position as one of the fastest growing BNPL players in the US, and as a true global BNPL leader, with over 5.7m customers, annualised TTV of c.\$7.5bn¹ and annualised revenue of c\$480m¹.

GROUP HIGHLIGHTS

* Note: all figures in AUD unless otherwise specified.

- **Record group quarterly revenue of \$102.0m (up 88% YoY).**
- **BNPL December revenue \$40.2m (up 94% YoY).**
- **Record quarterly transaction volume of \$1.6b (up 103% YoY).**
- **December transaction volume of \$628.4m (up 104% YoY).**
- **Transaction numbers for the quarter of 10.7m (up 149% YoY).**
- **Customer numbers increased to 5.7m, up 97% YoY.**
- **Merchants on the platform increased to 38.5k (up 73% YoY).**
- **Zip US (QuadPay) delivered record results in Q2 across all core metrics - \$673.1m in transaction volume, \$47.6m in revenue and 915k new customers.**
- **The Company raised \$176.7m in equity, with the majority of funds allocated to fuel the significant US growth opportunity.**

Managing Director and CEO Larry Diamond said:

"We are extremely pleased to deliver another exceptional set of numbers with the quarter really delivering a significant step change for the Company, confirming our position as one of the fastest growing players in the sector. A number of strategic initiatives were delivered during the quarter, in line with our mission to become the first payment choice everywhere, every day, and we are extremely well placed to continue this momentum into 2021 as the global shift away from the broken credit card model continues. Particularly exciting were the results achieved in the US with Quadpay rapidly accelerating in the largest addressable market for BNPL."

¹ Based on BNPL Dec 2020 results annualised.

BUSINESS PERFORMANCE

Zip delivered strong Q2 results across its BNPL operations in Australia, New Zealand and the United States (Quadpay). (UK results will be included from Q3):

Financial Performance (AUD)²	Q2 FY21	QoQ	YoY
Revenue	\$99.8m	48% ↑	92% ↑
USA	\$47.6m	119% ↑	207% ↑
ANZ	\$52.2m	14% ↑	43% ↑
Transaction Volume	\$1.6 bn	72% ↑	103% ↑
USA	\$673.1m	125% ↑	217% ↑
ANZ	\$908.7m	46% ↑	60% ↑
Transactions	10.7m	102% ↑	149% ↑
USA	4.2m	109% ↑	207% ↑
ANZ	6.5m	97% ↑	124% ↑

Operational Performance²	As at 31 Dec 2020	QoQ	YoY
Customers³	5.7m	30% ↑	97% ↑
USA	3.2m	41% ↑	180% ↑
ANZ	2.5m	14% ↑	39% ↑
Merchants⁴	38.5k	18% ↑	73% ↑
USA	8.4k	68% ↑	655% ↑
ANZ	30.1k	9% ↑	43% ↑

² Unaudited management accounts. All financial numbers are using foreign exchange rates at 31 Dec 2020 for current quarter and for comparatives when translated into AUD.

³ Number of active customer accounts.

⁴ Number of accredited merchants.

REGIONAL PERFORMANCE

Zip US (Quadpay)

Financial Performance ²	Q2 FY21 (USD)	Q2 FY21 (AUD)	QoQ	YoY
Revenue	\$36.6m	\$47.6m	119% ↑	208% ↑
Transaction volume	\$518.4m	\$673.1m	125% ↑	217% ↑
Transactions	4.2m	4.2m	109% ↑	207% ↑

Operational Performance ²	As at 31 Dec 2020	QoQ	YoY
Customers ³	3.2m	41% ↑	180% ↑
Merchants ⁴	8.4k	68% ↑	655% ↑

Quadpay was a standout performer in the quarter achieving record transaction volume, revenue and customer growth, with these key metrics all increasing by c.200% YoY.

- Transaction volume for Q2 FY21 increased 217% YoY to US\$518.4m (AUD\$673.1m).
- December transaction volumes exceeded November by 7.5%, even with the sales lift from Black Friday and Cyber Monday in November.
- Annualised transaction volume of USD\$2.5bn (AUD\$3.3bn)¹.
- Revenue as a percentage of transaction volume remains extremely healthy at over 7%.
- 915k customers joined the platform in the quarter, with the app downloaded 1.8m times.
- The app ranked in the top 20 of the shopping category in the US iOS app store for the majority of the holiday period, and was the 2nd most downloaded alternative credit app over the holiday period⁵.
- Net transaction margin⁶ continues to remain stable, well in excess of 2%, demonstrating very strong unit economics.
- In November the Quadpay Chrome Extension was launched, an industry first enabling customers to pay on any website. The extension has been installed over 25k times and has a rating of 4.9 stars in the app store.
- New merchant additions include Newegg, Modell's Sports, Sunglass Hut, PGA Golf Superstore with a strong pipeline entering 2021.

Quadpay co-CEO Brad Lindenberg said:

"Quadpay has accelerated in Q2 as a result of our differentiated approach within the BNPL market. Our direct to customer and merchant partnership models are working together to produce industry leading growth rates (c.200% YoY for all key metrics) and

⁵ PYMNTS.com Alternative Credit App Provider ranks Alternative Credit Apps using a proprietary combination of publicly available information and app usage data. (<https://www.pymnts.com/mobile-applications/2020/alt-credit-app-horserace-is-on-for-the-holidays>).

⁶ Net Transaction Margin calculated as Revenue less cost of goods sold, divided by transaction volume.

superior unit economics. In Q2 we achieved record app downloads (1.8m), with volumes compounding off the back of smart product decisions and investments made in prior years, particularly the ability to use Quadpay anywhere, driving customer preference. We are excited by this trajectory given the sheer size of the US market, and we look forward to continued and accelerated growth as the market matures in 2021 and beyond”.

Zip ANZ

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

Financial Performance (AUD)²	Q2 FY21	QoQ	YoY
Revenue	\$52.2m	14% ↑	43% ↑
Transaction volume	\$908.7m	46% ↑	60% ↑
Transactions	6.5m	97% ↑	124% ↑

Operational Performance²	As at 31 Dec 2020	QoQ	YoY
Merchants ⁴	30.1k	9% ↑	43% ↑
Customers ³	2.5m	14% ↑	39% ↑
Receivables ⁵	\$1.5bn	24% ↑	46% ↑

Financial Performance²	As at 31 Dec 2020	As at 30 Sep 2020	As at 31 Dec 2019
Arrears ⁷	0.95%	0.91%	1.58%
Net Bad Debts ⁸	1.93%	2.43%	1.68%

- Zip ANZ delivered record results across all metrics
- Record quarterly revenue of \$52.2m for the region, up 43% YoY.

Zip AU

- Processed over \$330m in transaction volume in December, a new record.
- Was the most downloaded BNPL app in Australia in December with 200k downloads (up 21% QoQ) for a total of 2.4m downloads.
- Delivered record customer sign ups with over 232k new accounts opened in the quarter.

⁷ Australian figures only. Arrears defined as those accounts greater than 60 days delinquent.

⁸ Bad debts defined as those accounts greater than 180 days delinquent. All figures are on an annualised basis.

- Net bad debts decreased to 1.93% (down from 2.43% at the end of Q1) in line with management expectations and outstanding proof of the power of Zip's market leading credit decision technology capability.
- Monthly arrears, a forward indicator of future losses, were steady at 0.95%, an outstanding result in the current environment.
- The Australian receivables are now recycling close to 2x per year.
- Harvey Norman and Facebook joined the Zip platform.

Zip UK

Zip officially launched its UK business in December. The UK remains a key strategic focus for the group and will be a strong driver of growth throughout 2021. The quarter saw the team grow to 25, with more than 150 merchants already live and transacting, and numerous enterprise partners including boohoo, JD Sports and Fanatics in the process of going live or completing integration.

The UK will be able to leverage Zip's global channel partnerships including Adyen, Big Commerce, Stripe and Shopify to help it scale in 2021.

A key pillar in the strategy for Zip UK will be the utilisation of virtual card technology allowing Zip customers to transact anywhere, online or instore.

UK results to be included from Q3 FY21.

ZIP BUSINESS (AU)

Zip Business remains a key strategic growth initiative for the Company. The quarter saw the continued roll out of the Zip Business suite of products in Australia with the launch of Zip Trade in December.

Zip Trade is a B2B BNPL offering up to \$3k for small businesses. This will be closely followed by Zip Trade+, an interest free account up to \$150k, which is expected to be launched in Q3 FY21.

Zip Trade has seen very strong early adoption and engagement, with customers using the product on average more than 3 times in the first month of release.

Other highlights for the quarter included the launch of a partnership with Facebook, enabling Australian SMBs to use Zip Business to purchase ads on the social platform, as well as Zip Business gaining approval for the Australian Government SME Guarantee.

CAPITAL RAISE

The quarter saw the Company raise a total of \$176.7m in equity, with the majority of funds raised allocated to fuel the significant US growth opportunity.

The raise was anchored by an oversubscribed \$120.0m placement (before costs) to new and existing institutional, sophisticated and professional investors.

In addition, Zip has now completed a Share Purchase Plan, oversubscribed, raising an additional \$56.7m. The board was very pleased with this outcome and rewarded Zip's loyal retail shareholder base by accepting all subscriptions.

CAPITAL MANAGEMENT

	Facility Vehicle	Facility Limit	Drawn at 31 Dec 20	Maturity
AU	Zip Master Trust - Rated Note Series *2019-1 *2020-1 - Variable Funding Note	\$475.0m \$285.0m \$513.7m	\$475.0m \$285.0m \$209.5m	Aug-21 Oct-22 Feb-22
	2017-1 Trust	\$360.0m	\$323.0m	May-21
	2017-2 Trust	\$70.0m	\$47.0m	Dec-22
	Total	\$1,703.7m	\$1,339.5m	
US	AR2LLC	US\$200.0m	US\$121.9m	Dec-21
SME	Zip Business - Capital - Trade/Trade+	A\$47.9m A\$100.0m	A\$33.3m A\$1.0m	Jan-22 Feb-22
	Total	\$147.9m	\$34.3m	

Zip AU currently has external facilities totalling \$1,703.7m, comprising rated and unrated note series, to fund its Australian consumer receivables, of which \$1,339.5m was drawn at 31 December 2020, with \$364.2m undrawn.

Zip completed the second rated note issuance in the Zip Master Trust in October 2021, raising \$285m from external investors, bringing total external funding provided through rated note issuances to \$760 million

For its US operations, the Company has an off-balance sheet funding facility (with Goldman Sachs as the senior lender) totalling US\$200m, of which US\$121.9m was drawn at 31 December 2020.

Zip Business has facilities totalling \$47.9m (\$33.3m drawn) across Australian and New Zealand with a new \$100m facility procured from Victory Park Capital (\$1m drawn) to support the growth of the new SME BNPL lending products.

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

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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