

23 February 2023

HY23 RESULTS UPDATE

Zip continues to execute delivering 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 2022 (“**HY23**”).

KEY HIGHLIGHTS¹

- Record group revenue of \$351.0m (up 19% YoY).
- Record transaction volume (TTV) of \$4.9b (up 10% YoY).
- Record transaction numbers of 42.2m (up 17% YoY).
- Active customer numbers increased to 7.3m (up 4% YoY).
- Merchant numbers increased to 97.5k (up 20% YoY).
- Cash gross profit of \$121.7m (up 20% YoY).
- Core Cash EBTDA² of (\$33.2m), an improvement of \$27.3m from (\$60.5m) in HY22.
- Revenue Margin of 7.1% (up 50bps YoY).
- Group credit losses of 1.9%³ of TTV (down from 2.4% in HY22 and now inside target range).
- NTM of 2.5% (up from 2.3% in HY22) a great result in a rising cost environment.
- Zip US and NZ delivered positive cash EBTDA in November and December. Zip US and NZ remain on track to exit FY23 with positive cash EBTDA on a sustainable basis, along with Zip’s AU business which has been cash flow positive for four years.
- Zip remains well funded with sufficient available cash and liquidity to deliver on positive group cash EBTDA during HY24.
- Zip has now completed the strategic review of its rest of world and non-core operations. The Company will take actions to divest, restructure or wind down these businesses, which is expected to neutralise cash burn and deliver additional cash inflows during 2H23, contributing directly to the group’s available cash and liquidity.
- Zip supports fit-for-purpose regulation in AU and with 10 years experience of offering regulated credit under its credit licence, Zip’s existing process and capability of conducting full ID, credit and affordability checks has the Company ready for potential changes to the regulatory framework.

¹ All numbers presented comprise Zip’s continuing operations as at Dec-22. Zip’s operations in the UK, Singapore and Mexico were discontinued during the period.

² Core Cash EBTDA includes ANZ, Americas, Zip Business and Corporate segments, adjusted for one-off items.

³ Excluding the movement in the provision for expected credit losses.

CEO UPDATE

Zip Co-Founder and Global CEO, Larry Diamond said:

“We are pleased to deliver another strong set of results driven by record transaction volumes and revenue, and improved credit losses and margins. Zip continues to accelerate its path to profitability as we execute on our strategic priorities of sustainable growth, a focus on our core markets and right-sizing our cost base.

Although topline growth has been tempered by deliberate adjustments to risk settings, our strong net margin performance is a very clear proof point of the successful execution of our strategy to increase revenue margins and reduce credit losses. We continue to streamline our business, with Cash EBTDA used in core markets and corporate costs improving by \$27.3m to (\$33.2m) for the half. We expect this to improve further again in the second half of FY23 and this very strong result has us well and truly on the path to positive group cash EBTDA during HY24.

We have made a number of decisions to finalise the outcomes of our strategic review. This includes actions to divest, restructure or wind down our Rest of World and non-core businesses, which we expect to deliver cash inflows during the second half of FY23 and neutralise the cash burn in these markets. With these proceeds and the improvements we are seeing in the core business, we have sufficient cash and liquidity to deliver on our target of group positive cash EBTDA during HY24.

In an environment of rising interest rates and high inflation our results demonstrate the increasing relevance of our products to customers and merchants. In Australia, the strength of our brand and product offering continues to resonate and is attracting new merchants such as eBay AU, Qantas, Jetstar and Uber which all launched during the period. The expected consolidation of our sector has begun and there are significant opportunities for Zip as this dynamic continues to play out. We have already experienced an increase in inbound merchant inquiries following recent developments in the market.

Zip continues to support fit-for-purpose regulation. Our current capabilities, including our existing credit and affordability checking processes for new customers, and our track record of offering regulated credit under our credit licence through our Zip Money product, see us well-placed for BAU no matter the outcome of the Australian Treasury review process.

In the US, Zip delivered positive cash EBTDA in November and December with a very strong seasonal performance and remains on track to exit FY23 with positive cash EBTDA on a sustainable basis, joining the Australian business which has already been profitable for four years. The US opportunity remains in its early stages with the total addressable market estimated to be almost US\$10 trillion and BNPL penetration still under 2% of total payments, demonstrating the sheer size of the opportunity that we are positioned to capture. We are also pleased to see our ‘shop anywhere’ proposition is increasingly resonating with customers who shopped at over 500k locations in the half.

Despite the shifting external environment, Zip remains well positioned with opportunities to grow our core businesses in ANZ and the US. As the company approaches its 10th birthday, we remain committed more than ever to our mission to be the first payment choice everywhere and every day, offering our simple, fair and easy to use products to consumers.”

STRATEGIC PRIORITIES

Zip continues to focus on delivering sustainable growth in core markets, improvement in unit economics and optimising its global cost base, accelerating the path to positive cash EBTDA during HY24.

Delivering on the strategy included the following achievements in the first half of the fiscal year:

- **Growth in core markets:**
 - **US:** Deeper customer engagement drove a 9% increase YoY in spend per active customer in the US. Zip's physical card program has scaled to over 300k cards and drove increased engagement and volumes, contributing 28% of instore volume (in December).
 - **ANZ:** Delivered strong revenue growth, up 23% YoY, with revenue margins increasing to 7.8%. Strong rollout of enterprise merchants, included eBay AU, Qantas, Jetstar and Uber. Continued uplift in demand for Zip's higher margin regulated product, Zip Money, delivered its two highest TTV months ever in November and December. The AU business is now in a strong position to benefit from recent changes in the competitive landscape and well-placed for regulatory change as proposed by the Treasury.
 - Zip's unique value proposition and product construct, supporting both everyday and discretionary spend, sees the Company well-positioned to become even more meaningful to our merchants and customers in a challenging external environment.

- **Improved unit economics:**
 - **Drive down credit losses:** Targeted actions are driving credit losses to the group's target range. In the US, bad debts were 1.6% for the half on seasonal volumes, and on a cohort basis improved 150 basis points YoY, with the December cohort currently expected to deliver net bad debts of 1.6%. In AU, net bad debts as a % of TTV were 2.2% in HY23 (vs 2.5% in 2H22). Zip continues to monitor the external environment and proactively adjust risk settings across its portfolio, and group credit losses are now in line with medium term targets of <2.0% of TTV.
 - **Revenue margins:** Zip's unique two-sided revenue model delivered higher revenue margins of 7.1%, up 50 basis points YoY.

- **Optimise global cost base:**
 - **Rest of World ('RoW') strategic review:** Zip completed the planned wind down of its operations in the UK, Singapore and Mexico, removing the cash burn from these businesses. Zip has also commenced the wind down of Spotii, its Middle Eastern business unit.

- **Operating costs:** Zip continues to focus on streamlining its organisational structure and driving efficiencies in its core markets. The core business is improving its Cash EBTDA performance with the benefits of the ongoing simplification of the business and focus on core markets and core products.
- **Accelerating path to profitability and Balance sheet strength**
 - Core Cash EBTDA was (\$33m) in the half and is expected to improve by up to 50% again in 2H23 vs 1H23, with continued benefits from actions to simplify and streamline the core business.
 - Zip has now completed the strategic review of its RoW and non-core operations. The Company will take actions to divest, restructure or wind down these businesses, which is expected to neutralise cash burn and deliver additional cash inflows during 2H23, contributing directly to the group's available cash and liquidity.
 - As a result of the collective outcomes above, Zip remains confident that it has the strategy and funding runway to deliver group positive cash flow during HY24.
- **Sustainability:** Zip remains committed to operating responsibly and in a way that positively impacts all stakeholders. Zip progressed against its measurable objectives for gender diversity, increasing the percentage of women to 44% of the global workforce, including a lift in female representation across all management levels below the Board (stable at 40%). Zip also renewed its climate neutral company certification with South Pole, which verifies Zip's commitment to measure and reduce its emissions. Zip is committed to financial empowerment and continues to advocate for fit-for-purpose regulation and consumer protections in the AU BNPL sector.

BUSINESS PERFORMANCE

The Group provides products to both consumers and small and medium-sized merchants (SMEs).

CONSUMER

Zip continues to deliver with strong H1 results across its consumer business in the United States, Australia, New Zealand and Rest of World (RoW)⁴:

Figures based on Zip's unaudited financials as of 31 December 2022.

Financial performance ⁵ (AUD)	HY23	YoY
Revenue	\$342.3m	19% ↑
USA	\$152.5m	6% ↑
ANZ	\$171.8m	23% ↑
RoW	\$18.0m	374% ↑
Transaction volume	\$4,855.3m	11% ↑
USA	\$2,330.1m	10% ↑
ANZ	\$2,194.3m	0%
RoW	\$330.9m	288% ↑
Transactions	42.2m	17% ↑
USA	12.8m	8% ↑
ANZ	23.9m	5% ↑
RoW	5.5m	267% ↑

Operational performance ⁴	HY23	YoY
Active customers⁶	7.3m	4% ↑
USA	4.0m	7% ↓
ANZ	2.3m	5% ↑
RoW	1.0m	100% ↑
Merchants⁷	97.5k	20% ↑
USA	23.8k	29% ↑
ANZ	45.9k	14% ↑
RoW	27.8k	23% ↑

⁴ RoW operations include Payflex (SA), Twisto (CZ & PL) and Spotii (UAE, SA).

⁵ Unaudited management accounts. All financial figures are translated into AUD using the average half yearly foreign exchange rates for the respective half year.

⁶ Active customers defined as customer accounts that have had transaction activity in the 12 months to 31 December 2022.

⁷ Number of accredited merchants.

ZIP BUSINESS (SMEs)

Financial performance⁴ (AUD)	HY22	YoY
Revenue	\$8.7 m	9% ↑
Transaction volume	57.0m	20% ↓

Operational performance⁴	As at 31 Dec 2022	YoY
Customers	1.4k	36% ↑

HY23 RESULTS CONFERENCE CALL DETAILS

Shareholders and investors are encouraged to participate in a Conference Call to discuss the results on **Thursday, 23rd February 2023 at 11:00 AM AEDT**.

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=5gpQ8uyL>

Conference call registration link: <https://s1.c-conf.com/diamondpass/10027783-nypghf.html>

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

Release approved by the CEO on behalf of the Board.

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About Zip

ASX-listed Zip Co Limited (ASX: ZIP) is a leading global financial services company, offering innovative, people-centred products that bring customers and merchants together. On a mission to be the first payment choice everywhere and every day, Zip offers point-of-sale credit and digital payment services around the world, including through strategic investments, connecting millions of customers with its global network of tens of thousands of merchants.

Zip provides fair, flexible and transparent payment options to individual consumers, helping them to take control of their financial future and helping merchants to grow their businesses. Zip is committed to responsible lending and is managed by a team with over 100 years' experience in retail finance and payments. Zip is also a licensed and regulated credit provider and was founded in Australia in 2013.

For more information, visit: www.zip.co

Shareholders who would like to receive email communications from Computershare for all future correspondence, visit <http://www.computershare.com.au/easyupdate/ZIP>.