

29 August 2023

FY23 RESULTS UPDATE

Zip delivers significant improvement in Cash EBTDA; on track to achieve group positive cash EBTDA during 1H24

Zip Co Limited (ASX: ZIP) (“**Zip**”, or the “**Company**”) today announces its full-year results for the period ending 30 June 2023 (“**FY23**”).

KEY HIGHLIGHTS¹

- Record group revenue of \$693.2m (up 16.1% YoY).
- Record transaction volume (TTV) of \$8.9b (up 7.0% YoY).
- Record transaction numbers of 72.7m (up 8.3% YoY).
- Revenue margin of 7.8% (up 60bps YoY), above medium term targets.
- Group net bad debts of 2.0%² of TTV (down from 2.7% in FY22), in line with target range.
- NTM of 2.8% (up from 2.5% in FY22), a strong result in a rising interest rate environment.
- Cash gross profit of \$250.6m (up 20.4% YoY).
- Merchant numbers increased to 72.3k (up 11.2% YoY).
- Active customer numbers for the core business of 6.2m, reflecting the impact of tightened risk settings.
- Core Cash EBTDA³ of (\$48.2m) reflected a 54.8% improvement in 2H23 vs 1H23, above guidance (of up to 50% improvement in 2H23 vs 1H23 of (\$33.2m)). This result was an improvement of \$103.2m from (\$151.4m) in FY22.
- Zip US and NZ exited FY23 cash EBTDA positive on a monthly basis and NZ delivered a positive cash EBTDA result for FY23. Zip’s AU business has been cash EBTDA positive for five years. Zip remains well funded with sufficient available cash and liquidity to support the Company to achieve group cash EBTDA profitability during 1H24.
- Zip completed the strategic review of its rest of world (“RoW”) and non-core operations and took actions to divest, restructure or wind down these businesses. The divestment of Twisto, Payflex and Spotii delivered net cash inflows and neutralised cash burn from these businesses in line with strategy.

¹ All numbers presented comprise Zip’s continuing operations as at Jun-23. Zip’s operations in the UK, Singapore, Mexico, the Middle East, Central and Eastern Europe and South Africa were discontinued or divested during the period.

² Excluding the movement in the provision for expected credit losses.

³ Core Cash EBTDA includes ANZ, Americas, Zip Business and Corporate segments, adjusted for one-off items.

- Zip undertook two significant liability management exercises reducing its Senior Convertible Note⁴ outstanding face value from \$400.0m to \$137.8m⁵ (completed in July 2023). The actions have delivered a material reset of Zip's balance sheet with no cash impact to the Company. Since 30 June 2023, the outstanding face value amount has been further reduced to \$130.5m as bond holders convert.

CEO UPDATE

Zip Group CEO, Cynthia Scott said:

"In the last 12 months, Zip has delivered strongly against our updated strategy. The strength of our FY23 results was driven by record transaction volumes and revenue, and improved credit losses and margins as well as cost reductions and capital management initiatives. Revenue growth was solid at 16.1% year on year and revenue margins expanded by 60 basis points to 7.8%. We took targeted action and brought credit losses within our target range to 2.0% of TTV and delivered NTM expansion to 2.8% of TTV. We achieved this against a backdrop of rising interest rates and inflationary conditions, demonstrating the resilience and increasing relevance of our product offering to our customers and merchants.

We completed our strategic review of RoW and non-core businesses and took actions to close or wind-down these businesses, delivering cash inflows back to Zip and neutralising cash burn. We also proactively undertook two liability management exercises that reduced corporate liabilities by \$312.2 million at a significant discount to face value, providing Zip with a materially strengthened balance sheet.

We achieved an important milestone, exiting FY23 with the US and NZ businesses cash EBTDA positive, along with the Australian business which has been cash EBTDA positive for five years. Cash EBTDA from core businesses improved by 54.8% in the second half versus first half, exceeding our guidance (of a half-on-half improvement of up to 50%) and reflecting a business that is growing sustainably and on track to deliver group positive cash EBTDA during 1H24.

In Australia, we launched new merchant relationships with marque merchants including eBay AU, Webjet, Jetstar, Peloton and Uber. The expected consolidation in digital financial services is playing out and there are significant opportunities for Zip as this dynamic continues. Being cash EBDTA positive and with business practices aligned to the Government's proposed BNPL regulatory framework - including having held an Australian Credit Licence for 10 years and conducting full ID, credit and affordability checks on our customers, makes Zip uniquely placed in the market.

In the US, Zip delivered on its reset of the business and exited FY23 with positive cash EBTDA on a sustainable basis. The improvement in bad debt performance was a particular highlight and supported by a reduction in costs, provides a strong platform for profitable growth. The US opportunity remains in its early stages with the total addressable market

⁴ Senior Convertible Notes refers to Zip's \$400.0m convertible notes issued on 23 April 2021 which are listed on the Singapore Securities Trading Exchange.

⁵ Outstanding face value is defined as outstanding convertible notes on issue multiplied by the face value per convertible note.

estimated to be over US\$11 trillion and BNPL penetration still under 2% of total payments, demonstrating the sheer size of the opportunity that we are positioned to capture.

Looking ahead, we are focusing on maintaining the momentum, driving sustainable growth and product innovation in our core markets of ANZ and the US as we deliver on our mission to be the first payment choice, everywhere and every day.”

STRATEGIC PRIORITIES

With a focus on accelerating the path to positive cash EBTDA during 1H24, we delivered the following against our strategic priorities:

- **Growth in core markets:**
 - **Americas:** TTV and customer growth rates remained tempered as Zip focused on actively managing its risk settings in a challenging external environment and the business focused on its strategic reset and accelerating profitability. Transactions per active customer increased 15.7% in FY23, underpinned by customer engagement in the higher margin channels such as the app and physical card. The US exited FY23 cash EBTDA positive on a monthly basis, with June showing strong TTV growth of 20.1% YoY and 60bps reduced losses YoY. Along with fixed cost reductions delivered during the year, this positions the business for profitable growth in FY24.
 - **ANZ:** The business delivered strong revenue growth, up 23.7% YoY, with revenue margins increasing to 8.8%. There was a strong rollout of enterprise merchants, including eBay AU, Webjet, Jetstar, Uber, Peloton, HP and Hoyts. During the year Zip AU also successfully completed two new funding exercises - an upsized \$300.0m rated note issuance in October and a \$200.0m rated note issuance in June - to fund its Australian receivables, with the senior notes being AAA rated.
- **Improved unit economics:**
 - **Higher revenue margins:** Zip's unique two-sided revenue model delivered higher revenue margins of 7.8%, up 60 basis points YoY and above medium term targets. This included particularly strong revenue margins in ANZ of 8.8% as the Company optimised product structure and mix to reflect the higher cost operating environment.
 - **Successfully driving down credit losses:** Targeted actions drove credit losses to within the group's target range. In the US, cohort bad debts improved by over 150 basis points. The US business now has a strong platform for accelerated and profitable growth in FY24, with risk settings now adjusted with net bad debts expected to trend towards normalised and targeted rates of 1.5% - 2.0% of TTV. In 2H23 Zip AU experienced increasing softness in the external environment impacting consumer credit more broadly, and the impacts of some one-off issues with third party payment processing. Zip AU has again adjusted settings and implemented initiatives in response to current market conditions. These initiatives are already delivering results with early arrears trending down to their lowest levels since 2021.

- **Cost base optimisation:**
 - **RoW and non-core strategic review completed:** Zip finalised the strategic review of its RoW and non-core operations and took actions to divest, restructure or wind down these businesses. Zip completed the planned wind down of its operations in the UK, Singapore and Mexico and the divestment of Twisto, Payflex and Spotii, removing the cash burn from these businesses and delivering net cash inflows. In line with ongoing efforts to simplify and focus on the core business, Zip also commenced the wind down of Zip Business Capital ANZ which is expected to deliver net cash inflows as capital from debt funding facilities for Zip Business loans is released back to Zip.
 - **Operating costs:** Zip continued to focus on streamlining its cost base and organisational structure. The core business is improving its cash EBTDA performance with the benefits of the ongoing simplification of the business and focus on core products. Zip also made proactive changes to further optimise its operating structure and reduce its cost base during the fourth quarter. The process involved a reduction of approximately \$16.1m annualised base salary costs across the US, ANZ and corporate divisions.
- **Materially strengthened balance sheet:** Actions taken to strengthen the balance sheet comprised an incentivised conversion in December 2022 at 23 cents in the dollar and both an incentivised conversion and a consent solicitation process at 47.5 cents in the dollar in June 2023 to amend the terms and conditions of Zip's Senior Convertible Notes. The consent solicitation was completed in July. As at 28 August, the outstanding face value amount has been further reduced to \$130.5m with approximately \$7.3m of Zip's Senior Convertible Notes converted into ordinary shares.
- **Sustainability:** Zip remains committed to operating responsibly and delivering long-term value to its customers, merchants, shareholders and other stakeholders.
 - **Responsible lending:** In Australia, Zip welcomed the announcement from the Federal Government in May 2023 to further strengthen the BNPL regulatory framework (Option 2 in Treasury's Options Paper). This was the option Zip supported in its submission to the review. Zip has 10 years' experience offering fully regulated credit under its credit licence and the NCCPA. Zip already complies with the obligations under Option 2 of the proposed framework given the Company's existing responsible lending practices and full ID, credit and affordability checks on its customers. Zip continues to actively engage with Treasury in their consultation process to finalise the details of this framework.
 - **DEI and Employee Wellbeing:** 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 achieved a strong company wide employee engagement score of 78%.
 - **Environmental Sustainability:** Zip renewed its climate neutral company certification with South Pole, which verifies Zip's commitment to measure and

reduce its emissions and made progress towards aligning our governance and risk management to align to TCFD recommendations.

BUSINESS PERFORMANCE

During FY23, Zip provided products to both consumers and small and medium-sized merchants (SMEs).

CONSUMER

Zip delivered strong results across its consumer business in its two core markets; Australia, New Zealand (ANZ) and the Americas:

Figures based on Zip's unaudited financials as of 30 June 2023.

Financial performance ⁶ (AUD)	FY23	YoY
Revenue	\$677.2m	16.8% ↑
USA	\$309.4m	9.5% ↑
ANZ	\$367.8m	23.7% ↑
Transaction volume	\$8,815.9m	8.1% ↑
USA	\$4,657.1m	13.1% ↑
ANZ	\$4,158.8m	2.9% ↑
Transactions	72.7m	8.3% ↑
USA	25.3m	8.9% ↑
ANZ	47.4m	8.0% ↑

Operational performance ⁴	FY23	YoY
Active customers⁷	6.2m	3.5% ↓
USA	3.9m	5.9% ↓
ANZ	2.3m	0.7%↑

Operational performance ⁴	FY23	YoY
Merchants	72.3k	11.2%↑
USA	24.0k	9.7% ↑
ANZ	48.3k	11.9% ↑

⁶ Unaudited management accounts. All financial figures are translated into AUD using the average yearly foreign exchange rates for the respective year.

⁷ Active customers defined as customer accounts that have had transaction activity in the 12 months to 30 June 2023.

ZIP BUSINESS (SMEs)

During the year, Zip ceased offering its Zip Business Trade and Trade Plus products to SMEs and commenced the wind down of Zip Business Capital.

Financial performance ⁴ (AUD)	FY23	YoY
Revenue	\$16.0m	5.2% ↓
Transaction volume	74.2m	51.3% ↓

Operational performance ⁴	As at 30 Jun 2023	YoY
Customers	2.9k	77.3% ↓

FY24 REPORTING

In FY24, reflecting the Company's lifecycle and maturity, Zip will report quarterly results for the first and third quarters of the financial year. Second and fourth quarter results will be reflected in Zip's half and full year reporting.

FY23 RESULTS CONFERENCE CALL DETAILS

Shareholders and investors are encouraged to participate in a Conference Call to discuss the results on **Tuesday, 29th August 2023 at 11:00 AM AEST**.

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=K0ZVbf6T>

Conference call registration link: <https://s1.c-conf.com/diamondpass/10029767-wibnld.html>

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

Release approved by the CEO on behalf of the Board.

- ENDS -

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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>.