TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the Zip Co Limited FY23 Results Briefing. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad.

I would now like to hand the conference over to Vivienne Lee, Director of Investor Relations. Please go ahead.

Vivienne Lee: Good morning and thank you for joining Zip's Full Year 2023 Earnings Call. To open the call, I would like to begin by acknowledging the traditional owners of the land on which we meet today, the Gadigal of the Eora Nation and pay my respects to Elders past and present. This conference call is also being webcast and both the results presentation and call details are available on the ASX.

I am joined today by Zip's Group CEO, Cynthia Scott, co-founder and US CEO, Larry Diamond, co-founder and ANZ CEO, Peter Gray and our CFO, Martin Brooke. We will start this call with some prepared remarks and then open up to questions. With that, I will now hand over our call to CEO Cynthia Scott.

Cynthia Scott: Thanks Vivienne. Good morning and welcome to Zip's FY23 Results Presentation. Zip was founded in 2013 to create a more financially fearless world and our mission remains to be the first payment choice everywhere and every day. Zip's principles of financial empowerment and innovation are what attracted me to the Company two years ago and I am honoured to have recently taken the role of Group CEO.

Zip delivered a strong result in FY23 and as we celebrate our 10^{th} birthday this year, we know that as a responsible lender our products continue to resonate as important budgeting tools for consumers and to deliver significant benefits to our merchant partners. We firmly believe that when you give people knowledge, access and control of their financial lives, you give people the ability to live every day with confidence.

Before we get into the details of the results, I would just like to set the scene and recap the journey that Zip has been on. Just over 12 months ago in response to external market conditions we reset our strategy to focus on sustainable growth in two core markets, ANZ and the Americas and to accelerate our path to profitability. We remain absolutely committed to that strategy and have delivered against each of our strategic priorities. We are now a stronger and simpler company with two core markets and a strong platform for growth in FY24 and beyond.

Building on the progress the business made in FY23, my focus will be on ensuring we continue this momentum. Larry and Peter, as regional CEOs in the US and ANZ, will remain close to the business driving performance in these two markets and I look forward to continuing to work closely with them as we collectively deliver on Zip's next phase of growth.

This morning I will cover the FY23 highlights, then Larry and Peter will go through the business performance, Martin will take us through the financial performance and then I will conclude with remarks regarding our FY24 strategy and outlook. Before I begin, I should say, all the numbers throughout the presentation will be referring to financials and operating metrics on a continuing basis which excludes Zip's UK, Mexico and Singapore businesses, which are now closed and Spotii, Twisto and Payflex, which were divested during FY23. A reconciliation is provided in the appendix.

Our key financial highlights are set out on slide 5. In line with our clear focus on Group profitability, Zip has delivered a very strong financial result. Cash transaction margins expanded 30 basis points to 2.8% and credit losses fell to 2% of TTV, down 70 basis points year on year, both in line with our targets. This performance was achieved despite a significant rise in interest rates reinforcing the continued relevance of our products.

Cash growth profit grew 20.4% over FY23 to $250.6 million and core cash EBTDA improved by $103.2 million to a loss of $48.2 million. Core cash EBTDA includes our operations in Australia, New Zealand and the Americas, plus corporate costs and reflects our simplified Group structure going forward. We remain on track to deliver positive Group cash EBTDA during the first half of FY24.

Now, turning to the operating highlights on slide 6. We are very pleased to have delivered another period of record volumes despite the challenging external environment and the proactive adjustments we made to our risk settings. Across the Group we delivered $8.9 billion in transaction volumes from over 72 million transactions driven by a solid increase in customer engagement across the business.

Active customer numbers finished the period at 6.2 million and were impacted by risk management decisions taken during the year. Merchants on our platform grew more than 11% to over 72,000 reflecting the strong demand we see from merchants to have Zip available for their customers. Revenue grew 16.1% to a record $693.2 million and our revenue margin widened 60 basis points to 7.8%. This strong margin performance is a testament to the benefits of our two-sided business model and the resilience of our products.

Turning now to slide 7 which is a recap of where we started the year. We reset and simplified our strategic pillars for FY23 and shifted our focus to drive growth in core products and core markets to improve unit economics and to reduce our global cost base and we successfully delivered against this strategy as you can see on slide 8. We delivered profitable TTV growth and strong credit outcomes which improved the cash transaction margin by 30 basis points despite the rapid increase in interest rates in FY23.

The US achieved cash EBTDA profitability as we exited the year in line with our guidance joining the ANZ business which is already cash EBTDA profitable. We completed the strategy review of non-core assets and we neutralised the cash burn from these businesses in the second half as planned. Further actions to simplify our core business and reduce corporate costs were taken resulting in cash OpEx falling 15.7% over the year.

Finally, we took actions to manage our corporate liabilities reducing the outstanding face value of convertible notes by over $312 million, materially strengthening the balance sheet. Collectively, these achievements during FY23 have simplified our business, strengthened our foundation and had us on target to achieve positive Group cash EBTDA during the first half of FY24.

The next slide breaks down cash EBTDA over the two halves. Six months ago, we said that we expected the second half to improve by up to 50% on the first half cash EBTDA result. As a result of the changes we made to the business, you can see that we exceeded that guidance with a 55% improvement in cash EBTDA in the second half. A particularly strong result in the current operating environment.

As highlighted on the slide, in the second half revenue and NTM margins were at or above our medium term targets and the business is exiting FY23 with significant momentum. We reaffirm guidance that Zip remains on track to be cash EBTDA positive during the first half of FY24.

Slide 10 demonstrates the significant improvement in cashflow in the second half as compared with the first. Firstly, as mentioned, core cash EBTDA of negative $33 million in the first half improved by 54.8%. Secondly, following our strategic review, actions to divest and wind down non-core businesses delivered cash inflows during the second half of FY23 while neutralising the cash burn in these markets.

Finally, we experienced a substantial reduction in non-operating and one-off payments which had an outside impact in the first half. With these actions and ongoing improvements in our core business, we finished the year with $57.3 million in available cash. I will move now to cover how we strengthened our balance sheet through liability management on slide 11.

An important focus this year was reducing our convertible note liabilities which we delivered on. Slide 11 shows the impact of the two incentivised conversions in December and June of our senior convertible notes and the $50 million repayment of the CVI convertible notes to reduce Zip's total convertible note liabilities from $500 million at the start of the financial year to $340.2 million in June 2023.

After year-end we completed the consent solicitation process to amend the senior convertible notes reducing the balance further to $137.8 million. Then finally, up until 28 August a further $7.3 million of senior convertible notes were converted into ordinary shares further reducing the outstanding face value to $130.5 million and deleveraging the balance sheet.

Turning now to slide 12. Our business model is built on being a responsible lender and doing what's right by our customers, merchants and other stakeholders. Supporting financial empowerment for our communities is essential to our vision for a financially fearless world. For our customers we remain committed to responsible lending advocating fit for purpose regulation in our core markets with strong consumer safeguards like Zip has and supporting customers to develop financially responsible behaviour.

Zip remains focused on continued improvements to our cyber security resilience and the protection of customer privacy and data. We are committed to driving gender balance and have lifted the percentage of women to 44% of our total workforce and pleasingly our employee engagement levels remain high at 78%. Finally, we continued our commitment to being climate neutral and progressed our work on climate risk management and setting emissions reductions targets.

Slide 13 is a reminder of what we achieved in the last 12 months. In FY23 we took specific action that prioritised profitability and set the foundations for the next horizon of Zip's growth. We are entering FY24 focused on core products in our two core markets, ANZ and the Americas. We have simplified our operating structure and ways of working to focus on our most important initiatives. We have also strengthened our balance sheet and ensured that we have the funding in place to support our product strategy and future growth.

Finally, we determined our medium term strategy in each of our core markets which I will take you through shortly. I will hand now to Larry to cover the performance of the Americas business.

Larry Diamond: Thank you, Cynthia. Onto slide 15 to discuss the performance of the Americas business. Having moved to the US almost one year ago I am extremely pleased with the overall performance of the team. FY23 was a year of significant improvement as the US delivered on its strategic reset, exiting FY23 cash EBTDA positive on a monthly basis, consistent with our market guidance.

We saw healthy top line growth of $4.7 billion in transaction volume and $309 million in revenue, which was moderated by changes to risk settings which we implemented earlier in the fiscal year, however we closed out FY23 with strong positive momentum. Transactions in Q4 were up 13% year on year including transactions per MTU up 9% in June while TTV growth in June increased 20% year on year.

On the commercial front, we were pleased to welcome Andy Stearns to the US leadership team to lead our go to market efforts. Andy comes with significant payments experience from Amex and most recently CapitalOne and the US pipeline continues to expand adding additional brands across ticketing, sports and apparel.

Our product strategy is also progressing very well. We are seeing a growing adoption of our pay anywhere product used at almost 900,000 locations over the course of FY23. The physical card continues to drive incremental volumes across the omnichannel. We also know this is resonating with our customers. NPS for the US business was plus 55, up 10 points in the last 12 months reflecting the work that we have done to improve the user experience and demonstrate more value to our customers. This coupled with high repeat use rates, over 90% of transactions are now coming from repeat users, indicate that our customers are increasingly loving Zip and using it more and more.

We will now turn to slide 16. This slide covers the US credit performance in more detail and shows how we have successfully brought loss rates to within our target range despite what has been a challenging external environment. This is an outstanding result for the business and key to delivering profitable growth in the upcoming FY24 year. Our focus on credit performance delivered an improvement of 150 basis points over the year as we adjust our risk settings and launch new product features to drive responsible repayment behaviour.

Such features included payment date change self-service, flexible instalments and gamified repayments where customers may be eligible for limit increases based on their successful repayment history. Targeted actions included tightened cut off scores, new ML models and increased limit management which were implemented earlier in the year. There was also continued and significant investment in our proprietary decisioning engine and underwriting capabilities.

As we exited FY23, these enhanced capabilities as well as adjustments to risk settings should see losses trend towards the target range of 1.5% to 2% to support profitable growth from both new and existing customers. Our north star remains, our north star for the region, excuse me, remains which is for Zip to be the best in market at providing short term unsecured credit to approximately 35% of the adult American population unfairly assessed by the traditional finance industry. I look forward to FY24 with a revitalised leadership team now in place, a clear strategy and exciting product roadmap in development.

Onto the ANZ business results which Pete will cover.

Peter Gray: Thanks Larry. Just talking to slide 17. The ANZ business continues to deliver very strong results. Revenue was up 24% year on year with revenue margins expanding by 140 basis points to 8.8%, really reinforcing the resilience of the business and the benefits of our two-sided revenue model. Very pleasingly the New Zealand business delivered a positive cash EBTDA result for the year for the first time, which was a great result again reinforcing the underlying strength of the business model.

We consolidated our leading position in travel launching with Jetstar, Webjet and Uber who joined Virgin and Qantas on our platform. Our differentiated Zip money product really continues to play a key role in our strategy to own this vertical. Our merchant pipeline remains very healthy across a range of industries and verticals and in the second half Zip signed and launched with Peloton, HP, ASICS and Hoyts, providing an example of the opportunity market consolidation and a differentiated regulatory position is presenting for Zip.

Transaction volume and customer growth rates were moderated and reflected changes to internal risk settings in response to the external environment. Notably, transactions per customer increased by 7.3% year on year really reflecting the increasing relevance of our product to customers in a rising cost environment.

Finally, in May we welcomed the announcement from Treasury to further strengthen the BNPL regulatory framework by endorsing option 2 which was the option Zip had supported and advocated for. The regulatory framework announced will provide certainty and clarity and is effectively business as usual for Zip. Our business practices are already aligned with the proposed regulatory framework.

We have 10 years' experience offering fully regulated credit under our Australian Credit Licence and the National Credit Code and already conduct full ID, credit and affordability checks on our customers. A low reliance on late fees and a mature hardship assistance program are already part of our Australian business which has been cash EBTDA profitable for five years. We believe this regulatory readiness is a point of differentiation to others in our market.

Just moving to slide 18 for more detail on the performance of the Australian loan book. With our account-based product construct in Australia and well over $2 billion in receivables, returns in metrics on the loan book is the best way to think about the performance of the business and the significant future upside. The chart on the left-hand side shows the return on the loan book, similar to a net interest margin for a bank. This shows the resilience of the business as we have increased yield in part offsetting the rapid increase in interest costs.

Future innovation and new product launches in FY24 will deliver significantly increased yields which will flow straight to the bottom line. The right-hand side provides further detail on our credit performance. This chart largely reflects seasonality with an increase in arrears over the last few months, but also reflecting a slight softening in the broader consumer credit and the impact of a one-off third-party processing issue which has now been resolved.

As we have consistently proven we have a core competency at managing credit through both different external cycles and internal strategy settings. Our product construct and capital recycling profile provide a unique advantage with the ability to change risk settings and rapidly influence credit performance. In response to the current operating environment, we have already and again adjusted to risk settings to improve our credit performance.

Actions such as tightened lending criteria, increased bank linking and reduced exposure to high-risk cohorts have been implemented to improve the credit quality and future loss performance. These actions are already delivering results with early-stage arrears trending down to the lowest levels since 2021 and we expect net bad debts to follow this trend during FY24.

Just passing over to Martin now for the financials.

Martin Brooke: Thanks Pete. Slide 20 brings all the components of our unit economics together. The 60 basis point increase in revenue margins and 70 basis point reduction in net bad debts have more than offset the 90 basis point increase in interest expense. The resulting 30 basis point increase in our cash transaction margin is a great result in the current environment.

Turning to slide 21 for a few brief comments on the segments. ANZ continued to deliver positive EBTDA, although performance was impacted by the speed and quantum of base rate increases which offset strong revenue margin expansion. The Americas delivered improved credit losses and reduced operating costs which drove benefits to cash EBTDA. Zip Business is in the process of being wound down. Corporate cash costs have reduced by 15% as we have simplified the business, restructured the corporate function to support core markets. Group cash EBTDA reported by the core markets has improved by over $100 million year-on-year and as we have seen, by 54.8% half-on-half.

Moving to the income statement on slide 22. As we have covered the key moving parts of the gross profit line, I'll focus my comments on the remaining items on the slide. On cash operating costs, salaries and employment related costs has fallen as a percentage of underlying volume from 2% in FY22 down to 1.9% reflecting pro-active changes we have made to reduce our fee book costs, remove duplication and simplify the business.

Excluding the one-off rebranding costs in FY22, marketing costs have more than halved to $41.9 million. During the year, we re-assessed the likely conversion of both convertible notes resulting in an accelerated effective interest charge of $49 million which is a non-cash expense. Following the conclusion of the consent solicitation process in July, the conversion assumptions and effective interest charge will be re-assessed and the result of the re-assessment reported in our half year result to December '23. Finally, the provision for expected credit losses has fallen to 5.5% compared to 6% last year as a result of the significantly improved performance of our receivables portfolio.

Moving to the next slide. Looking at the corporate items and one-off adjustments, we settled the agreed termination fees assessable at $16.3 million in July 2022. The $29.9 million incentive payments relates to the two incentivised conversions of the senior convertible notes. The fair value loss of $61.1 million includes the fair value loss of $8.3 million on the embedded derivative contained within the convertible notes and warrants compared to a fair value gain of $119 million in the previous financial year reflecting the movements in Zip's share price.

There was also a $52.8 million fair value loss reported on the Group's investment in ZestMoney. Impairment losses relate to the wind down of the business, a reduction in value of the Group's investment in Tendo and the impairment of a number of Zip's non-core software development's initiative. Adjusting for some of these items on slide 24, brings us to an adjusted loss of $204.7 million.

Turning to the balance sheet on slide 25 and noting that the FY22 comparatives includes the full Group numbers but are not re-stated. I will cover our cash position in a couple of slides. The growth in receivables which is reporting net of unearned income and allowance of our debts is supported by the increase in borrowings. Zip had an additional $80 million invested in its funding vehicle at June '22 compared to June '23 which is the main reason why the increase in borrowings exceeds the increase in receivables.

The movement in good will and intangibles reflect the sale of Zip's non-core assets and the normal $40 million amortisation charge for the year. The increase in trade and other payables is driven by an increase in merchant payables due to higher transaction volumes and the increased pre-funding by our partners in the US to cover increased volumes and weekend trading as 30 June was a Friday. The pre-funding sits in restricted cash at 30 June and is required to settle open loop transaction volumes as they arrive. This line also includes the outstanding incentivised conversion payments of $17 million.

The convertible notes and options are reported as a debt and embedded derivative. The movement reflects the revaluation of the embedded derivatives, the liability reduction arising from the incentivised conversions and repayments during the year, together with both accelerated and standard effective interest charged in the year. The liability reduction from the consent solicitation process will be shown in the half year report to December '23 as it was completed in July.

Turning to the cash flow on slide 26. After allowing for the additional amount we had invested in our funding vehicles at 30 June '22, the movement in receivables is largely supported by the net movement in borrowings, Australian financing activities. In line with the terms agreed with CVI investments, we paid $54 million to reduce the number of convertible notes outstanding. This included the three six-monthly payments of $10.8 million each which had been deferred from previous years. We paid $12.5 million in relation to the incentivised conversion in December with a further $17.4 million paid post year-end for the June incentivised conversion. These payments were fully funded by capital raise of $36.6 million net of costs.

Slide 27 walks from our reported to our available cash position. At 30 June we reported a cash balance of $275.9 million. After allowing for cash held at balance date that was then available to us and including cash that can be withdrawn from our funding vehicle, we have $57.3 million available cash and liquidity to fund operations. As set out earlier in the presentation, the movement in available cash over the year included both cash requirements for the core business of approximately $70.7 million and non-core, non-operating and one-off payments of $150.6 million.

Net cash outflows reduce significantly in the second half supported by our Group cash EBTDA performance and a reduction in non-core and non-operating outflow. In addition to the $57.3 million Zip has $28.4 million invested into debt funding programs that will flow back to the Group in the first quarter of FY25. We continue to progress discussions with third-party investors which would allow us to release this cash earlier.

Looking at slide 28 for a funding update, we are well placed to support our strategic initiatives. We completed two rated note issuances during the year and we paid the facility that matured in October. We extended variable funding note 2 for a further 12 months and extended the 2017-1 Trust. In both cases it revised with a move to better reflect the forecast usage of the facility. We also re-negotiated our facility in the US to better align with expected usage.

Our weighted average cost of funds on drawn balances across the Group has increased to 7.36% due to a 310-basis point increase in floating rates and a 63-basis point increase in weighted average margins. I'll now pass over to Cynthia to make some comments on our strategy, FY24 priorities and outlook.

Cynthia Scott: Thanks, Martin. Turning now to slide 30. Folling a year of delivering consolidation, simplification and strengthening the foundations for Zip, we've developed a medium-term strategy that leverages the strategic assets of each regional business. Across the Group, we will continue our focus on driving sustainable cash EBTDA profitability using product innovation to deliver growth and maintaining operational excellence.

In ANZ we'll leverage our position as a mature, cash EBTDA positive business with significant market share. We're continuing to focus on product innovation that will drive the next phase of growth in Australia. This will include new products that broaden our financial services offering, increase our market share and personal lending and deliver new revenue streams. In the US, now that the business is cash EBTDA positive we're in a position to drive incremental profitable growth and scale as well as continue to innovate for our customers and merchants in store and online.

Moving now to slide 31. In ANZ we have strong foundations to deliver further growth and share of the broader consumer credit market in FY24 including our distribution networks, product expertise and regulatory readiness. We have a 2.3 million active customers and a market-leading digital distribution network with 56% brand recognition.

Our products provide flexibility for every day and discretionary purchases and are customer-centric with an NPS of plus-60, well above other more established financial services businesses. We've built a wealth of data insights from 10 years of proprietary data and credit decisioning capabilities and we currently underwrite $2.4 billion of consumer receivables. We've operated in Australia as a cash EBTDA profitable business for five years and achieved revenue margins of over 10%, demonstrating the success of our business model through the cycle.

We're regulation ready, having offered a regulated product since inception, holding an Australian credit licence and embedding responsible lending practices across all of our businesses and products. Finally, we have plans in place to implement a new product that's well suited to the current operating environment and will be revenue-yield accretive, supporting our ability to self-fund incremental future earnings growth.

Turning now to the next slide. It's important to remember just how early the BNPL journey is in the US and slide 32 sets out the incredible market opportunity that exists. With the total addressable market estimated to be over US$11 trillion and BNPL penetration still under 2% of total payments, both online and in-store, this demonstrates the sheer size of the opportunities that we're positioned to capture in the US. After entering the market in FY21, we now have a business that has grown TTV at a CAGR of 25% to US$3.1 billion and revenue at a CAGR of 23% to US$2.8 million, achieving a positive cash EBTDA. Now onto slide 33.

In the US, we also have the platforms in place to support accelerated growth in FY24. We have a customer-centric approach and we're committed to innovation and delivering for our customers. We were the first in the US with pay anywhere and innovated with physical Pay-in-4 cards which has now scaled to approximately 30% of in-store volumes. We've invested in adaptable decisioning platforms that allow us to provide credit to America's under-serviced customers, maintaining strong approval rates and rapidly respond to changing market conditions throughout the credit cycle.

Our book recycles every six weeks on average so we have a very high yield and a minimal exposure to interest rate movements. With every 25-basis point movement in interest rates impacting our cost of funds by around two basis points per transaction. We've demonstrated the resilience of our two-sided business model and how we can leverage that to create multiple pathways for growth. Finally, our expanded relationship with web bank strengthens our Zip US offerings and we're well positioned for regulatory change.

Slide 34 sets out our clear and simplified FY24 priorities in line with our regional strategies, capabilities and competitive position. Firstly, we'll maintain our focus on driving profitable growth in our existing product and we'll maintain our relentless focus on credit performance and deliver on initiatives to further reduce our cost of sales.

Secondly, we'll unlock new customer and market segments with product innovation, new merchant verticals and by providing customers with new ways to pay and budget responsibly. Finally, we'll continue to invest in our processes, platforms and systems to support further scale and deliver operating leverage as we grow.

Now turning to the outlook on slide 35. Our outlook has been updated to reflect Zip's achievements in FY23, our streamline operations in core markets and the external market conditions. It reflects our strategy and our aims to deliver the best outcomes for our customers and merchants as well as driving long-term shareholder value creation. We have clear medium-term targets that we're driving the business towards as we scale. Over the medium term, revenue as a percentage of TTV is targeted between 8% and 9% as we grow higher margin products and drive customer lifetime value.

Cost of sales as a percentage of TTV is targeted between 5% and 6% as we manage credit losses to optimise transaction margins and movements in interest costs reflect the increase in our base rates. On OpEx, we expect to benefit from the reductions we made to our labour costs in Q4, FY23 and we'll continue to exercise a disciplined approach to our cost base as we scale.

While we're targeting OpEx spend to be no greater than FY23 levels next year, in the medium term, the change in target reflects an increase in corporate funding costs from base rate and the amendment to the senior convertible notes to include coupon payments as well as the controlled TTV growth in ANZ in FY24. On cash EBTDA we expect to deliver 1% to 2% of TTV in the medium term which is unchanged from our prior guidance. Finally, in FY24, we remain on-track to deliver positive Group cash EBTDA during the first half of '24 and we also expect to deliver a positive Group cash EBTDA result for the second half of '24.

Now, onto the final slide where I'd like to make some closing remarks about how Zip is positioned and our strategic plans for FY24 and beyond. As we look forward to our next phase of growth we have strong foundations in place to scale and succeed in our core market. The addressable opportunity remains significant, particularly in the US with digital consumer finance offerings still maturing in these markets.

The ANZ business is well positioned to benefit from regulatory clarity and further market consolidation and we'll pursue innovation that helps drive our next phase of growth. Our solid momentum coming out of FY23 has continued into July with US TTV growth accelerating. US credit losses for July remain on target, trending at 1.5% of TTV on a cohort basis. Low early arrears levels in the Australian business also show a very promising trend. We've seen further reductions in our convertible note liabilities and are well progressed on our new product innovation.

Following the strong delivery against our targets in FY23, we begin FY24 with clear and simplified goals, strong operating momentum and the balance sheet and platforms to enable accelerated and profitable growth. I'm confident we're well-positioned to deliver on our strategy and drive long-term value for our stakeholders.

On behalf of the Executive Team, I'd like to thank the entire Zip team for everything that they've delivered in FY23 and to our shareholders for their ongoing support. So that ends the formal part of the presentation and we'll now open the call for Q&A.

Operator: Thank you. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. In the interests of time, we ask that participants limit themselves to asking two questions. To ask further questions, please rejoin the queue. Your first question comes from Siraj Ahmed with Citigroup. Please, go ahead.

Question: (Siraj Ahmed, Citigroup) Hi, can you hear me okay?

Martin Brooke: Yes. Yes, we can.

Question: (Siraj Ahmed, Citigroup) Yes, hi, everyone. Just the first one. I guess it's a question that everyone is asking is regarding the balance sheet. I mean you have $57 million of cash but I'm guessing – I mean, if you can give us an idea of how much cash burn you're expecting in FY24? I know you've given cash EBTDA targets but there's also CapEx in there but yes, just in terms of cash burn and then how you think whether that's enough for funding future growth? That's the first question.

Cynthia Scott: Yes, so Siraj, maybe I'll start and I might ask Martin to add but I mean we've re-affirmed our absolute focus on reducing our cash burn and that we will be cash EBTDA positive during the first half and we'll maintain that cash EBTDA positive position in the second half. So that remains absolutely a focus because we really are, as a business, on the cusp of being self-sustaining and self-funded so that's a priority for us. I might ask Martin just to add any comments in relation to the specifics around CapEx.

Martin Brooke: Yes, just in terms of CapEx with exits, slightly below this year's levels if you're looking at it from a core perspective which is about $18 million, $19 million. So a little bit less than that. Then as we reiterated, we don't – we expect to have enough cash to get to cash EBTDA profitability and don't expect to be coming to market any time soon.

Question: (Siraj Ahmed, Citigroup) Okay, so you think around $30 million, $35 million of cash is plenty. Okay, got it. Second thing, maybe Cynthia, in terms of a medium-term target, I mean you're already at some of those targets right now but just in terms of shape that you're expecting as you unwind or as you focus on growth, right? That'd be quite helpful in terms of both revenue yield and also OpEx. How you think the shape of that comes through in the next couple of years.

Cynthia Scott: Yes, so thanks, Siraj. Well just in relation to the revenue margins, no, you're right. Absolutely. So the reason that we were comfortable increasing our medium terms targets from our previous target of 7% to 7.5% is because we beat that this year at 7.8%. Also, just because of the momentum that we see in our business from a revenue perspective and the new products that we'll be bringing to our existing customer base. Particularly in Australia, they will be revenue margin accretive. So on that basis, we're comfortable increasing our medium-term target on the revenue side to between 8% and 9%.

I think your other question, Siraj, was relating to our OpEx target ranges in terms of the increase – why we've increased the range. Just a couple of comments I'd make in relation to our OpEx ranges. Firstly, that's OpEx as a measure of TTV and that original range was put in place when we had a business that was operating in considerably more markets and we had a larger TTV space to measure that against.

We remain very committed to bringing down our absolute level of cash OpEx so we do expect the absolute level of cash OpEx for FY24 to be lower than '23 but when you look at it as a percentage of TTV, we have to take into consideration the higher interest base rate and the fact that our convertible bond now has a coupon so it's going to impact that cost base. Then secondly, just that moderation in TTV growth that we've referred to. So we really are focussed on profitable growth, not just top line TTV growth.

Question: (Siraj Ahmed, Citigroup) Thank you.

Operator: Thank you. Your next question comes from Roger Samuel with Jefferies Australia. Please, go ahead.

Question: (Roger Samuel, Jefferies Australia) Hi. Morning, everyone. First question is with regard to the disposal of your rest-of-the-world businesses. Have you received all the proceeds? I can see $5.8 million in the FY23 accounts. Any more to come in terms of that [inaudible] itself?

Martin Brooke: So all of the sale transactions have completed. There is a deferred consideration on the Twisto transaction of about $1 million that will have been received in two instalments over the next 12 months.

Question: (Roger Samuel, Jefferies Australia) Okay, got it. Second question is in terms of funding. It looks like there's more appetite now for consumer receivables but yet the margin has gone up. Yes, can you just tell us maybe what's the appetite from the lenders? Are they more cautious with regard to BNPL?

Cynthia Scott: Well there's a couple of comments maybe that I'll make, Roger, in relation to funding and the balance sheet. Firstly as we outlined in our prepared remarks, we have already re-financed and extended a number of our facilities and we undertook two ABS transactions this year that recycled our capital and released headroom. So we will continue to access the capital markets to recycle our warehouses and to release headroom for funding.

In terms of appetite for exposure to Zip, we've got a number of conversations with the diversified group of funders and we're seeing still very strong support for lending for Zip. I will note though that the comments that we made in relation to a new product, we will be initially distributing that product to existing customer and so we will fund that within our existing funding envelope.

Question: (Roger Samuel, Jefferies Australia) Okay, got it. Thanks.

Operator: Thank you. Once again, if you wish to ask a question, please press star one. Your next question comes from Lucy Huang with UBS. Please, go ahead.

Question: (Lucy Huang, UBS) Good morning, team. Thanks for taking questions. So I've got two. Just on the revenue margin side as well, I think you talked about the new product that is likely to be accretive coming into next year. But are there any other initiatives that could drive revenue margins higher such as high account fees?

Can you push pricing up on that? Or higher I guess take rates – merchant take rates?

Cynthia Scott: Yes, I might – well, I'll ask Pete to comment on that. I mean part of the dynamics that we'll see in FY24 is we did take a number of actions in FY23 in relation to the sort of things that you're referring to, Lucy. Whether that's repricing, higher interest rates, higher merchant service fees. And we'll see the full year benefit of that.

But Pete, was there anything else?

Peter Gray: Yes. So just reiterating what Cynthia said, some of the actions we've already taken, we will receive the full benefit this year. There's no initiatives on the road map to further increase fees. As we touched on, we are very excited to be launching revenue margin accretive products.

And also, we look to optimise business mix. So our Zip Money product has a slightly higher yield for example, than Zip Pay and how we cross sell some of those products – customers to higher margin products.

Question: (Lucy Huang, UBS) Yes, no, that's very useful. And then just secondly with the US, I think given that we are below the target range for bad debts, how should we be thinking about the growth in TTV moving forward?

Is it going to be from more new customers or will you be looking to drive more penetration from existing customers? Just wondering what that mix could look like in the next few…

Cynthia Scott: Thanks, Lucy. Well, as we highlighted in the notes, we're already seeing really strong momentum in the US coming into FY24. Both in terms of TTV growth and the losses performance. But I might ask Larry to add some comments specifically in relation to the US.

Larry Diamond: Yes, I think just building on that, you know, FY23 was obviously cycling a lot of work that we'd done to drive growth. More profitable customers, that's both new and existing. And obviously delivered on that, particularly towards the second half of the fiscal year.

And as the chart showed earlier in the deck, we are cycling now 20% growth TTV north of that. And that's being driven both by the app, which is a reasonable chunk of the business, and that's existing customer penetration, you know, being involved with more of their short term liquidity needs.

And then of course, on the go to market side, we're pretty excited to have Andy in train, which is all about new merchant acquisition and that will drive new customer acquisition as well which is a big focus of the Group in FY24.

Question:	(Lucy Huang, UBS) Wonderful, thanks guys.
Operator:	Thank you. Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.
Question:	(Wei-Weng Chen, RBC Capital Markets) Hi there, guys. Just a question from me on TTN – TTV and revenue composition. Just wondering if there were differences in your TTV and revenue composition based on kind of the verticals you operate in? So specifically, I guess you've seen a bit of growth in Australia at least with the travel vertical. Is this lower TTV margin?
Peter Gray:	No, no, it's not. It would be in the medium range of the merchant services fee and obviously we have customer revenue with the dual sided revenue model as well. So given that some of our strategy to penetrate that vertical is money related, that's very healthy merchant services fees.
Question:	(Wei-Weng Chen, RBC Capital Markets) Yes, okay. Then I guess in context of your growth, I guess the broader market experiencing a bit of a retail recession, can you maybe give some colour on I guess which verticals are outperforming for you guys and which ones are underperforming?
Cynthia Scott:	Yes, sure. I mean I think what really differentiates Zip when you think about the retail environment is that our products span discretionary and nondiscretionary and online and offline. So we see everything from everyday spends through to life's bigger purchases. You're right. There's definitely some softness out there and we have seen some softness particularly in discretionary. What's interesting though is the slight change we're seeing in the composition of discretionary. So slightly less spend on things like furniture and homewares. And as you flagged, you know, we're seeing much stronger spend on sport, fitness, and in particular travel. An interesting anecdote that we've seen in our numbers, in light of the higher utility costs at the moment. Obviously, inflation is having a real impact on people's cost of energy and electricity. We've seen a really significant increase in solar.

And so our customers are using their Zip accounts to invest in solar. And I think that's a really good example of our savvy customers are really budget conscious. And in this environment, some of our largest merchants who provide solar to Australian homes, are seeing double digit growth in the pipeline of inquiries around solar.

Question: (Wei-Weng Chen, RBC Capital Markets) Okay, great. Thanks. That's all from me.

Operator: Thank you. Your next question comes from Brendan Carrig with Macquarie. Please go ahead.

Question: (Brendan Carrig, Macquarie) Good morning, everyone. Just one from me, maybe for you, Martin. Just on the payables, there's a big uptick in the amounts due to merchants and other parties and there is a footnote there. But I just wanted you – can you maybe explain that a bit clearer, as to what has driven that sort of bigger uptake in the trade and other payables?

Because the cashflow doesn't seem to have gotten – yeah, the cashflow seems to have gone down so it feels like there's sort of something at play there. I just wanted to better understand what the driver of that is.

Martin Brooke: Sure. That's largely driven by the US. So as we pointed out, in the US, WebBank is our partner. And as part of that arrangement, they essentially prefund transactions on the open loop network. So they're putting cash into our restricted cash account and the other side of that is the trade payable account.

So when we have a 30 June is a Friday, we have extra money in there to fund those transactions over the weekend which is why the trade payables number pops up at 30 June, and also the restricted cash has also popped up.

Question: (Brendan Carrig, Macquarie) So it's a three day balance. If 30 June is on a Friday as opposed to a usual one day one.

Martin Brooke: Correct.

Question: (Brendan Carrig, Macquarie) Okay. And then yes, just on sort of the top line side of things. Obviously, the expectation that it slows a little given – sort of as you were explaining earlier. But I guess I'm just trying to better understand how we should be thinking about it given the tighter risk settings, the less marketing spend and, ultimately, how you're thinking about overall top line growth in both

Australia and the US on the back of those drivers. Given that whilst costs remain flat you still would want to continue to deliver that operating leverage in a competitive environment?

Cynthia Scott: Yeah, very much so. What we're really focusing on is driving profitable growth. So, you're right, we have moderated our risk settings and that has, particularly in FY23, had an impact on our TTV and our customer growth. Particularly in the US, given that we're seeing now a strong improvement in TTV numbers, we are seeing a marginal change to our credit loss numbers. I don't know if, Peter or Larry, you guys want to add any specific.

Larry Diamond: I would say, though that there's definitely, yes, it's strong focus on growth but profitable growth. I think each market, we can probably add a couple of comments. For the US, you can just look at the TTV growth year-on-year, but then also compare that to June and then post-June, then into July. So, you can see once we've done that work, we're now actually cycling pretty healthy year-over-year TTV comps.

I think also there's been a bit more moderating happening in the marketing side. Co-marketing checks that we use to sign merchants have become a bit more modest and a bit more fair given some of the consolidation out of the market. So, we feel very confident in our ability to continue to drive that growth in in the market and the demand continues. Consumers need the intel to help budget and spend, and the merchants are still looking for those options at checkout.

Question: Would your peers have been doing that as well, Larry, just in terms of pulling back that co-marketing spend? I think they would have, but is that something you're seeing as well?

Larry Diamond: Yeah. Without knowing exactly the inside P&L, it's definitely the sense that we're getting from talking to merchants and just some of the deals that we're now able to strike with merchants. There are definitely a lot more conservative than they were a few years ago.

Question: Okay, that's clear. Thanks very much.

Operator: Thank you. Your next question is a follow up from Siraj Ahmed with Citigroup. Please go ahead.

Question: (Siraj Ahmed, Citigroup) Just two questions. Following up from the US discussion, how are you seeing the Australian business trend? I know you said there's a few offsetting factors, but how is that trending into this year?

Cynthia Scott: Just from a growth perspective, Siraj, are you saying, or a loss…

Question: (Siraj Ahmed, Citigroup) That’s right, yeah. With the growth perspective on the top line?

Larry Diamond: Yeah. So, Siraj, obviously there's two aspects to the response here. We have tempered growth off the back of some risk settings that we undertake, and understanding some of the headwinds consumer is staring into in the rising cost environment and the general softening of consumer credit more broadly.

I think secondary to that is, we really are looking to transition to a next generation financial services company in building out and delivering new and innovative products that will certainly provide significant medium-term growth. We are using the opportunity of these more tempered risk settings to build out the capability to continue to launch new products to our existing customers as we transition to that next gen financial services. They will deliver significantly higher revenue margins in the short-term and very strong TTV growth in the medium-term.

Question: (Siraj Ahmed, Citigroup) Just confirming, does that imply right now it's down year-on-year – just clarifying that, the TTV?

Larry Diamond: Looking at the forecast for 2024?

Question: (Siraj Ahmed, Citigroup) Yeah. Right now, year-to-date, is that trending down?

Larry Diamond: Yeah, it'd be very, very stable TTV growth given the external and that strategy.

Question: (Siraj Ahmed, Citigroup) Just to follow up on that, in terms of new products, is this like a pay [inaudible] in Australia that you're thinking? I guess, higher yield implies higher bad debts as well? I’m just keen to understand how you expect to manage that.

Larry Diamond: Look, it's definitely not a pay enforced. I think higher margin doesn't necessarily mean higher losses, although it can tolerate higher losses. I think, as Cynthia touched on, and particularly with phase one of the launch of the new products, they actually will be to our existing customer base. We have the opportunity to segment based on credit quality and also demand that we are receiving from our millions of customers.

So, in terms of in the initial stages, the way to think about it, it will be significantly revenue accretive, it will be TTV accretive, but loss levels should remain reasonably in line with current levels or marginally better, given that we should be growing receivables from our better customers.

Question: (Siraj Ahmed, Citigroup) Got it. That's helpful. Thanks.

Operator: Thank you. Your next question comes from Elise Kennedy with Jarden. Please go ahead.

Question: (Elise Kennedy, Jarden) Hi, Larry. I've just got two quick questions. First one, on the increased medium targets, the percentage of TTV, in that are you more reliant than you previously were on the assumptions around delivery from Australia than the US in that? Then the second question was the assumptions into going into the group TTV, there was a bit of a question around the US, but is there more reliance there or what's the mix between the active customer growth versus the transaction frequency? I think you mentioned about the credit product in Australia. Just wanting to understand, at group level, the mix between those and some of the initiatives being made.

Larry Diamond: I think to the first part of the question, Elise, most of the revenue margin increase will be delivered by Australia. I think if you looked, we are in the process of delivering new products in a more mature market that will be revenue margin accretive. Where the US, effectively, will continue to grow largely off the back of products in the market. There are some enhancements that will be added to that, but their opportunity is to grow as the market expands and grows in the early stages of market maturity. So, quite different sorts of growth strategies, I think, in the short term for both markets but most of the margin improvement would be ANZ.

Operator: Thank you. Your next question comes from John Marrin with CLSA. Please go ahead.

Question: (John Marrin, CLSA) Hi, guys. Welcome, Cynthia. The question I have here is if you could just focus a little bit more in the discussion around merchant sales, leadership, I guess the change with Andy Stearns, and what we should see on that front in terms of getting new merchants on board in the US?

Cynthia Scott: Over to you, Larry.

Larry Diamond: As I touched on, yeah, really excited to welcome Andy to the team. Andy's most recent engagement was leading Capital One's commercial card business as part of the founding team – a multi-million, billion dollar business. He's joined, he’s been with us now for a few months.

Step one was rebuilding the sales leadership team as well as taking point on a number of large commercial enterprise and platform deals. I've been really impressed with Andy's, I guess, ramp up. We've also hired some additional product leadership as well into the commercial side of the business to really partner with him and VP of Engineering there as well. I feel like we've got a really good combination between those three individuals to really drive product innovation at check out, close some of the exciting partnerships in the pipeline, and forge really into new territory where we think Zip actually has an edge, an edge around our product, our customer segmentation, FICO banding and dual sided revenue model.

Question: (John Marrin, CLSA) Thanks, Larry.

Operator: Thank you. There are no further questions at this time. I'll hand the conference back to Ms Scott for closing remarks.

Cynthia Scott. Thanks very much. That just leaves me to reiterate that we begin FY24 with clear and simplified goals, strong operating momentum, and the balance sheet and platform to enable accelerated and profitable growth. So thanks very much, everyone, for joining us today and for your ongoing support of Zip. If you've got any further questions, we'll follow up directly or please contact Vivienne. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]