

TRANSCRIPTION

Company: ZipCo Limited
Date: 27 February 2024
Duration: 44 minutes
Reservation Number: 10034950

[START OF TRANSCRIPT]

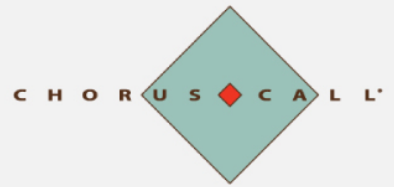
Operator: Thank you for standing by and welcome to the ZipCo Limited half year 2024 results briefing. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question via the phones, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Director of Investor Relations and Sustainability, Vivienne Lee. Please go ahead.

Vivienne Lee: Good morning and thank you for joining Zip's first half 2024 earnings call. To open the call, I'd 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'm joined today by Zip Group CEO, Cynthia Scott, Group CFO, Gordon Bell, and the Group executive team from Zip. We will start this call with some prepared remarks and then open out to questions.

With that, I will now hand over the call to our CEO, Cynthia Scott.

Cynthia Scott: Thanks Vivienne. Good morning, everyone and welcome to Zip's first half 2024 results presentation. At the start of FY24, we said that we would achieve positive cash EBTDA during the first half of 2024. We achieved this important milestone in Q1 and have gone on to report a strong positive EBTDA result for the half of \$30.8 million. This result was driven by successful execution of our strategy in our two core markets, ANZ and the Americas and we're focused on maintaining that discipline and execution for the remainder of FY24.



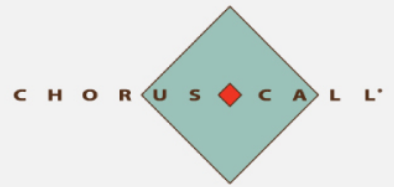
Our key financial highlights are set out on slide 3. As you can see from the chart, the positive Group cash EBTDA of \$30.8 million for the half is a turnaround of \$64 million from the prior corresponding period. Cash net transaction margin expanded 90 basis points to 3.5% and cash gross profit was up 45.9% with credit losses remaining stable at 1.9% of TTV. This performance was achieved despite a challenging external environment and a significant increase in interest rates, reinforcing the continued relevance of our products and the important role they play for our customers and merchants.

Turning now to operating highlights on slide 4, in the first six months of the year, we delivered \$5 billion in transaction volumes from more than 38 million transactions. This was driven by particularly strong performance in US volumes and increase customer engagement. Group revenue was up 28.9% to \$430 million, and our revenue margin increased 130 basis points to 8.5%. Active customer numbers finished the half at 6.3 million, with customer growth impacted by our deliberately conservative risk setting. Merchants on our platforms grew 9.3% to over 76,000, reflecting the strong demand for merchants to have Zip available for their customers.

Turning to slide 5 and our progress against our FY24 strategy. At the beginning of the year, we set out three clear priorities aligned to our regional strategies, capabilities and competitive position. We said that we would focus on driving profitable growth in our two core markets, innovate new products for our customers and merchants and continue to strengthen our balance sheet and deliver operating leverage.

As you can see on the left, the US had a particularly strong seasonal half with record volumes up 33.3% year on year. This was achieved while maintaining strong credit performance in line with our strategy to deliver sustainable, profitable growth. In Australia, we launched a new product in November, Zip Plus, driving the next horizon of growth and designed for an environment where we may see higher for longer interest rates.

In delivering on operational excellence, we took further actions to strengthen and simplify our balance sheet, with a new \$150 million four-year corporate debt facility. We also saw continue deleveraging of the balance sheet, with Zip's convertible notes reducing from a total of \$340.2 million in June, to \$68.8 million at 31 December. Finally, we took action to simplify our shareholder register,



completing a small shareholding sale facility which will deliver administrative cost savings to Zip.

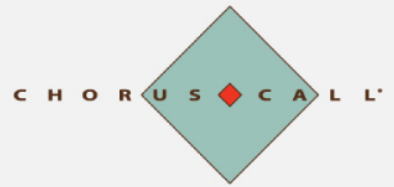
The collective impact of these actions can be seen on the next slide, which captures the significant improvement in our financial performance. Twelve months ago, we reported a loss of \$33 million. Today's result of positive cash EBTDA of \$30.8 million reflects disciplined execution of our simplified strategy and reinforces our position as a self-sustaining business.

Turning now to slide 7, Zip is committed to delivering sustainable outcomes for all its stakeholders. For our customers, we remain committed to responsible lending, advocating fit for purpose regulation with strong consumer safeguards like Zip has in place and supporting customers to develop financially responsible behaviour, such as through our work with debt relief charity, Way Forward, or our financial education modules we provide US customers through our app.

Zip remains focused on continuous improvements to our cybersecurity resilience and the protection of customer privacy and data. During the half, we uplifted our policies and controls to align with the latest international information security standards. We're committed to driving gender balance at all levels of the Company. Female representation is currently 43% of our total workforce, with 60% female representation on our Board. Finally, we continued our commitment to being climate neutral and progressed our work on climate-related disclosures. We measured and disclosed our Scope 1, 2 and 3 greenhouse gas emissions and invested in carbon offsetting initiatives to neutralise our emissions as we've done for the past three years.

Before I step into the detailed performance of each region, slide 9 is a reminder of the important and unique role each of our core markets hold in the longer-term opportunities of Zip. As we continue our focus on driving sustainable profitability, in ANZ we will leverage our position as a profitable at-scale business, with significant market share in unsecured consumer finance solutions.

We're continuing to focus on product innovation that will drive the next phase of growth in Australia. This will include new capital light products that broaden our financial services offering, increase our engagement with customers and deliver new revenue streams. In the US, having reached cash EBTDA profitability,



we're well positioned to drive incremental profitable growth and scale while we continue to innovate for our customers and merchants.

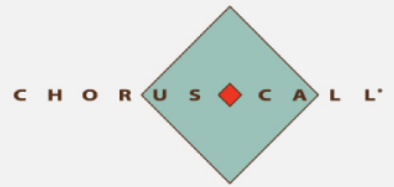
On to slide 10 to discuss the performance of the Americas business, having spent time earlier this month in the US, I was reminded of the sheer size of the \$11 trillion payments opportunities and how early the point of sale credit journey is in the US, which is still below 2% of total payments and which Zip is well positioned to capture. There's a tremendous growth opportunity across both online and in store with this product. With more Americans wanting to budget in a way that is inclusive and flexible, Zip is playing a greater role in providing short term, unsecured credit to the over 100 million adult Americans underserved by the traditional finance industry.

With a firm focus on strategy execution, the Americas business generated strong positive cash EBTDA in the first six months of FY24, demonstrating the potential of this market. Record top line growth was \$3.1 billion in transaction volumes and \$214.7 million in revenue was generated during a particularly strong seasonal uplift during the half. This was driven by increased customer engagement through higher margin channels such as the app and in store.

As reflected in the charts, TTV and transactions per active customer were up 36.2% and 30% respectively, well ahead of FY23 levels on an annualised basis. While customer numbers declined slightly versus the first half of 2023, we've seen good momentum in the customer base with MTUs up 10% on average versus the prior corresponding period.

Our product strategy is progressing very well with high engagement through our app. We're demonstrating product market fit with our physical card, which is continuing to drive incremental volume and engagement. We've continued to add cardholders who are now generating over 30% of in store volumes, up 311% year on year. We've outperformed relative to the macroenvironment, with Zip's volume growth at 33%, highlighting the strength of our product offering.

Turning now to slide 11, this slide covers US credit performance in more detail and shows that as volume growth has accelerated, we've successfully maintained bad debt performance below our target levels. This reinforces the capabilities of our sophisticated credit decisioning platform that enables us to provide appropriate credit to America's underserved customers and respond quickly to changing market conditions throughout the credit cycle.



Our focus on credit performance saw Zip maintain loss levels at or below 1.4% of cohort TTV and we've scaled new product features to drive responsible repayment behaviour. These included features such as enabling self-service for payment date changes, flexible instalments, and gamified repayments. We've continued to strengthen our proprietary credit decisioning capabilities with cash flow underwriting and new machine learning models for returning customers, which will provide ongoing support to the business as we scale further.

Turning now to ANZ on slide 12, the ANZ business continues to deliver very strong results. Revenue was up 23% year on year, with revenue margins expanding 320 basis points to 11%, reinforcing the strength and benefits of our two-sided business model. While TTV and customer growth were tempered by deliberate adjustments to our credit risk settings, we deliver a solid cash EBTDA result as revenue growth more than offset the significant increase in funding costs over the period.

With 2.3 million active customers and over 10 years of operating data, we have a deep understanding of our customer needs. In November we launched a new product in Australia, Zip Plus, to an existing group of Zip customers, providing access to greater spending power and financial flexibility. Zip Plus has been designed for an environment where we may see higher for longer interest rates and is expected to drive TTV and margin growth over time. While it's early days, customer engagement has been strong, with 93% of customers liking or loving the new product and recent transactions for MTU have been double that for Zip Pay customers.

During the half, we also launched with a number of new merchants in targeted verticals, including telcos with Amaysim and bolstering our presence in healthcare with HBF dental, verticals where we continue to see ongoing consumer spending, despite a softer retail environment. Our strong market position in the travel vertical is performing well and our differentiated Zip Money product positions us strongly in this vertical.

Moving to slide 13 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 and metrics on the loan book is the best way to think about performance of the business and the significant future upside. The chart on the left-hand side shows the return on the loan book, or excess



spread, similar to a net interest margin measure. Highlights from the Australian portfolio were the improvement in yield to 17.5%, up 338 basis points over the last 12 months and the increase in excess spread.

Excess spread was up 106 basis points to 6.2%, despite a \$27 million increase in funding costs versus the first half 2023, demonstrating the resilience of Zip's business model in a rising interest rate environment. The right-hand side provides further detail on our credit performance. The chart shows an improvement in the inflated arrears that we saw in the second half of 2023 as a result of the softening in the broader consumer credit market.

As we've consistently demonstrated, we have a proven ability to manage credit outcomes through different external cycles. Our product constructs and capital recycling provides Zip with a unique advantage and the ability to respond quickly and adjust risk settings as needed. Actions such as tightened lending criteria and reduced exposure to higher risk customer cohorts have driven an improvement in credit quality loss performance, which you can see particularly as we exited the first half of 2024 and we expect net bad debts to continue to trend down during the second half.

I'll hand over now to Gordon to cover Zip's financial performance.

Gordon Bell:

Thanks Cynthia. Moving to the income statement on slide 15, as highlighted earlier in the presentation, Zip achieved an outstanding positive cash EBTDA result of \$30.8 million. I'll focus my comments on the overall P&L and provide detail on specific line items shortly. For the half, Zip delivered a statutory net profit after tax of \$73 million. The main movements on the rest of the P&L include movements on non-cash items. Firstly, a decrease in effective interest on convertible notes due to the reduction in face value outstanding as Zip undertook liability management activities and following note holder conversions during the period.

Secondly, the provision for expected credit losses has fallen to 4.9% on receivables compared to 5.5% at the end of last year, primarily as a result of the improved performance of our Australian receivables portfolio, offset by an increased macro overlay. Finally, the corporate and one-off adjustments line includes the impact of a \$139.7 million gain on Zip's senior convertible notes post the consent solicitation process which, although announced in June 2023, was completed in July 2023.

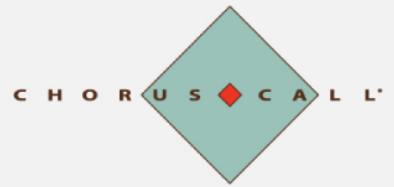
Slide 16 covers unit economics, showing strong results across the board and slide 17 provides a chart illustrating the key movements in cash NTM. Turning to slide 17, this shows the very strong improvement we delivered in margins, despite the rising interest rate environment. The 130 basis point improvement in revenue margin was the main contributor to NTM expansion, driven by the benefit of Zip's two-sided revenue model and growth in higher margin products. This increase more than offset the 50 basis point increase in interest expense.

Net bad debts remain stable at 1.9% of TTV, reflecting ongoing discipline with credit settings and portfolio management in both core markets. The resulting 90 basis point increase in our cash transaction margin is a very strong result in the current environment.

On to slide 18 for cash OpEx, overall cash OpEx was down 4.4% on the first half 2023 levels, reflecting continued discipline to manage costs across the Group and delivering operating leverage as the business scales. Salaries and employment related costs declined to 12.9% reflecting actions taken in FY23 to streamline our operations and cost base. Marketing costs also declined 18% year on year due to lower merchant commitments, particularly in the US. The movement in IT costs reflect proactive actions taken to review and rationalise our supplier costs and finally, other operating costs increased due to higher professional service fees and costs relating to corporate debt facilities when compared to prior periods.

Turning to slide 19 and the balance sheet, I'll cover our cash position in a little more detail on the following slide. Starting with receivables on slide 19, the growth, which is reported net unearned income and allowance for bad debts, reflects revenue growth primarily in the Americas business. The increase in trade and other payables was driven by an increase in merchant payables as a result of higher transaction volumes, particularly in the US and the increased pre-funding by our partners to cover trading days prior to 31 December.

The movement in borrowing includes an increase in the corporate loan balance from the new \$150 million corporate debt facility we executed and put in place in December 2023. This was offset by a reduction in convertible notes which is shown in the other liabilities line and the outstanding face value of these convertible notes reduced from \$340.2 million at 30 June 2023 to \$68.8 million at 31 December 2023.



If I move to slide 20, it shows the walk from our reported to available cash position. You can see on the lefthand side on 31 December, Zip had \$303.8 million of cash. After allowing for cash held at balance date that was unavailable including cash that may be withdrawn from our funding vehicles, Zip had what we deem \$81.3 million in available cash and liquidity as at 31 December 2023.

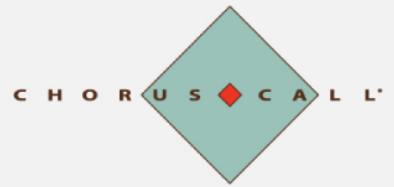
On the righthand side chart you can see the improvement in our available cash position, and this is driven by both operating and non-operating cashflows. Pleasingly, operating cashflows comprising cash EBTDA, CapEx, working capital and funding requirements contributed a positive \$4 million of inflows. This was driven by the Group's stronger operating result, offsetting a substantially higher funding requirement at this time of year for seasonal peak volumes.

Non-operating movements included additional cash and liquidity from Zip's corporate facility, the release of restricted cash from funding facilities, and the repayment of \$10.8 million in principal and interest for the CVI convertible note. Collectively these actions delivered a \$24 million improvement in our available cash balance since June, further strengthening our balance sheet as at 31 December 2023.

If I move to Funding Update now on slide 21. In line with our focus on operational excellence, we made great progress on our funding facilities during the period. These funding facilities are made up of two distinct components. The first are the asset backed components which fund consumer receivables in warehouse facilities and in public term deals. The second component is a corporate debt component which supports working capital, and this is made up of our corporate debt facility and our convertible notes.

In December, as Cynthia highlighted, we strengthened and simplified our balance sheet with a new \$150 million corporate debt facility and this was used to repay our maturing facility, fund the cash component of the incentivised conversion of the remaining \$40 million CVI notes, and to provide additional liquidity for growth.

On receivables funding we are well placed to support our strategic growth initiatives. In Australia during the period, we completed a \$300 million rated note issuance with the senior tranche rated AAA, and we also refinanced one of



Zip's receivable warehouses. We refinanced our US\$225 million facility in December with a three-year term to December 2026.

Across Australia and the US, we had ample funding headroom to support receivables growth currently standing at AUD \$237 million headroom in Australia, and USD \$78 million headroom in the US. Finally, and pleasingly, our [unclear] progress is evidence of the strong support we are seeing from existing and new investors, and we well progressed on upcoming refinancing and new funding transactions. I'm confident we have the sufficient capacity and available to fund receivables growth in the second half and beyond.

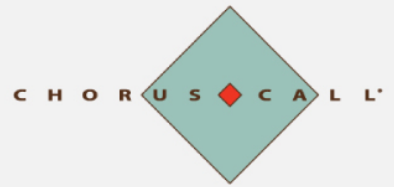
If I move to slide 22, as Cynthia mentioned, we have delivered a significant reduction in Zip's convertible note funding as a result of actions taken to deleverage our balance sheet. The combined impact of the consent solicitation process and the subsequent conversion of Zip's senior convertible notes, as well as the incentivised conversion of the CVI convertible notes, collectively reduced Zip's convertible notes outstanding face value from \$340.2 million to \$68.8 million during the first half.

In addition to this, since the end of the first half, we have seen a further conversion reducing the balance again to \$34.6 million as of last Friday 23 February and this delivers approximately \$5 million of interest cost savings to us on an annualised basis. Now, I will hand back to Cynthia to make some comments on our strategy, full year 24 priorities, and our outlook.

Cynthia Scott:

Thanks, Gordon. Moving to slide 24, which is a reminder of our FY24 strategic priorities that we set out at the beginning of the financial year. They align with our regional capabilities and competitive position and remain committed to these priorities in the second half of FY24. Firstly, we will maintain our focus on driving profitable growth in our two core markets through customer engagement initiatives, further penetration of targeted verticals, and strong credit performance outcome.

Secondly, we will continue to unlock new customer and market segments, as we scale the Zip Plus offering in Australia. In the US we will scale initiatives such as cash flow underwriting and progress testing of pay-in-8 providing customers with new ways to pay and budget responsibly. Finally, we will



continue to investment in our processes, platforms and systems to support further scale and deliver operating leverage as we continue to grow.

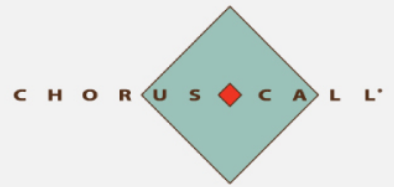
Turning now to the outlook on slide 25. The medium-term targets we presented at the FY23 result remain unchanged. You will see that in the middle column we have updated our comments for expected FY24 outcomes reflecting year to date achievements, our expectations for the second half, and external market conditions. Over the medium term, revenue as a percent of TTV was targeted between 8% and 9% as we grow higher margin products and drive customer lifetime values.

For FY24, we expect our result to be at the upper end of this target range. We continue to target cost of sales as a percentage of TTV of between 5% and 6% and cash NTM for FY24 is expected to be around the midpoint of our target range of 3% to 4%. On OpEx, we expect to benefit from the actions we took in FY23 and will continue to exercise a disciplined approach as we scale. We remain on target for the dollar value of cash OpEx to be no greater than FY23.

On cash EBTDA we expect to deliver 1% to 2% of TTV in the medium term which is unchanged from prior guidance. As we approach this range in FY24, our earnings over the full year will be weighted towards our first half result of \$30.8 million which includes the very strong seasonal performance delivered by US business in the second quarter.

Turning now to the final slide where I'd like to make some closing remarks about how Zip is positioned for the second half of FY24 and beyond. Zip has absolutely delivered on becoming a stronger simplified and profitable digital consumer finance Company, and we remain committed to the three strategic pillars we have prioritised for FY24, profitable growth, product innovation, and operational excellence.

Zip is very well positioned to capitalise on the near and medium opportunities we see in our core markets of ANZ and the Americas. Our strong momentum has continued into the second half, and we have the right settings, platforms and business models to drive continued profitable growth and long-term value for our stakeholders. On behalf of the Group executive team, I would like to thank the entire Zip team for their focus and execution in the first half of FY24, and to our customers, merchants, partners and shareholders for their ongoing



support. That ends the formal part of the presentation, and we will now open the call for Q&A.

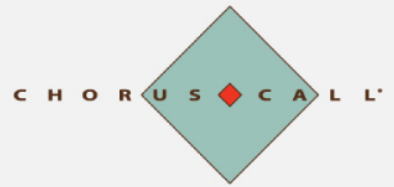
Operator: Thank you. If you wish to ask a question by the phone, you will need to press the star key followed by the number 1 on your telephone keypad. In the interests of time, we ask that participants limit themselves to asking two questions at a time. To ask further questions, please rejoin the queue. Your first question comes from John Marrin with CLSA. Please, go ahead.

Question: (John Marrin, CLSA) Hi Cynthia, Gordon. Great job on delivering everything you said that you would. Peter, I think we can take that back as far as 24 months ago, so back when things were looking pretty tough, but some kudos from me for righting the ship, guys.

I'd just like to hear some more about the opportunity in the US. It's pretty clear that you've now earned the right to grow a stronger access to funding, and just hoping you could discuss what you're looking at in terms of the composition of that growth in the US, and understanding that it's about MTU growth and engagement, but maybe if you could just highlight the levers that you're pulling on to drive each and then maybe also discuss any updates you have on the merchant acquisition strategy and shifting dynamics there on pricing?

Cynthia Scott: Yes, absolutely, will do, thanks John. So, I will just make some comments and then I might pass to Larry, who is also on the call just to give some added perspectives as well. So, just in terms of the composition of US growth, you are right, the bulk of the growth that we have seen in the first half has been from existing customers and we do expect that that will continue. So, existing customers are performing well, and we're seeing those customers transacting more often in our higher margin channels as we discussed in the comments. But we are also seeing a higher level of engagement from those existing customers and higher average order values.

So, that's all very positive and we anticipate that that will continue. That being said, we are also anticipating that customer growth will reestablish in the US market, so you know through FY23 we really did throttle growth in customer number in the US, and we are starting to see that open up again.



I did say, John, a big part of that is going to be driven by merchant growth, and we do have a focus, and Larry, in particular, is very focused on bringing new merchants onto the platform in the US, and given the earlier stage of the US market, that customer will be driven by those new merchants coming onto the platform, and we will be looking forward to announcing some brand new merchant names over the second half to you.

As part of that we will be seeing expansion into new verticals in the US, so a lot of the merchants that are on our platform at the moment in the US are more typically from fashion retail market places, et cetera, but as we have seen Best Buy come onto the platform who are exclusive with - we are moving into electronics, white goods, you will start to see us moving into some of those other verticals where the products can be used and where the average order value is typically a bit higher.

So, I might throw to Larry, though, if you're on the line Larry? If you want to make any additional comments? If we can unmute Larry, maybe, or perhaps not? So, John, I'm not sure, we don't seem to be able to have Larry able to be unmuted but hopefully that gives you a sufficient answer on merchants and US growth.

Operator: Thank you. Your next question comes from Siraj Ahmed with Citigroup. Please, go ahead.

Question: (Siraj Ahmed, Citigroup) Thanks, I will ask two questions. Just to clarify, in terms of the US momentum, clearly in the chart it's showing that it's actuating in December, should we think it's still picking up on that line chart going up? Can you just clarify on that?

Cynthia Scott: Yes, thanks Siraj. No, remember December, that quarter is absolutely our seasonal peak, so we have been indicating that we have 20% to 25% growth in the US and that's how you should think about the US growth over the medium term.

Question: (Siraj Ahmed, Citigroup) Yes, sorry, just to clarify so 20% to 25% in the second half, are you saying a pretty meaningful de-acceleration or are you saying it's possible to...

- Cynthia Scott: No, no, it's not a de-acceleration, we are just saying that the strongest period growth is typically that October, November, December period in the US.
- Question: (Siraj Ahmed, Citigroup) Okay, got it, got it, okay. But you had it also at the start of the second half?
- Cynthia Scott: Sorry?
- Question: (Siraj Ahmed, Citigroup) Just clarifying that you had a good start to the second half in the US rate with things improving?
- Cynthia Scott: As we have indicated across the portfolio, the strong momentum that we saw in the first half is continuing in the second half, yes, but we note that obviously we have our seasonal peak in that Q2.
- Question: (Siraj Ahmed, Citigroup) Got it. In terms of the excess spread in ANZ, how should we think about that in the second half FY24, because I notice a few moving parts here. I think revenue you'll be expecting to go up, but you have some funding renewal, so can you just talk us through how you think that excess spread?
- Cynthia Scott: Yes, absolutely, so in terms of the two components, yes, as we've indicated, revenue margins should continue to increase in ANZ and that's particularly as a result of the actions we took in FY23, that are now flowing through for the full year in the portfolio, but also as Zip Plus continues to come online that is providing that revenue margin accretion that was indicated. So, we are starting to see the early signs of that, which is very encouraging.
- On the funding side, there's two components to it, obviously, there's the absolute level of interest rates, and while interest rates have obviously gone up over the last 12 to 24 months, that means as we roll off old note issuance and old refinancing, or old financing, that that absolute level of interest rates is likely to be higher now than it was when we put those old, older facilities in place.
- But then the other dynamic is the credit spread, and pleasingly we are beginning to see the credit market responding to the transformation of Zip's financial performance and we are beginning to see improved

interest in investing in Zip's credit and that's then resulting in greater price tension in those spreads coming down.

Gordon Bell: The other inputs, Siraj, will be continued improvement in credit performance, obviously we declared that our losses were peaking in early Q2 and early stage these were trending down, and losses will continue to follow that trend.

Question: (Siraj Ahmed, Citigroup) So, all that particular, can I just confirm that you would expect a better excess spread in the second half then, is that what you're saying?

Gordon Bell: That's the objective.

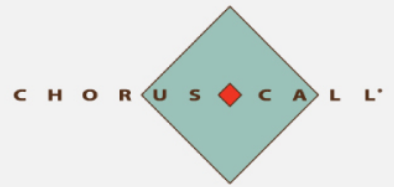
Question: (Siraj Ahmed, Citigroup) All right, thanks.

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

Question: (John Marrin, CLSA) Hey, guys, sorry, I didn't realise I would be so quick in this queue again. Just on the pay-in-8 product, can you just discuss the motivation there, what you are thinking about this product, how it might be rolled out to the customer base, and what the key KPRs are relative to the pay-in-4?

Cynthia Scott: Yes, sure, and John, I think we have got Larry on the line now and so maybe Larry can give a bit more a granular answer, but the strategic rationale behind the pay-in-8 is that it gives our customers the ability to make larger scale purchases with a higher average order value that they can then obviously spread over a longer period of time and our customers are responding very well to that ability to spread their expenses and to budget responsibly over a longer period of time. It also enabled us to unlock different verticals, as I referred to earlier. So, that's the strategic rationale to give that payment flexibility and control of budgeting, put it back in the hands of our consumers, but Larry are you unmuted now? No, all right, we thought you were unmuted, but perhaps not.

But John, hopefully that gives you enough of an indication in relation to the rationale, and I will say that the US team have done a great job



building out the technology to enable pay-in-8 which is an early pilot. We've actually built the flexibility to offer pay-in-Z, so we can - over time we can look at further product refinements in the US.

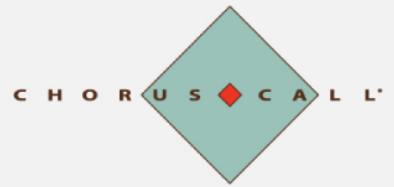
Gordon Bell: It's a good point of differentiation and also it opens up additional verticals that we might be able to target strategically, John, and obviously we have developed a core competency for credit, so we are certainly well placed to support larger ticket purchases.

Question: (John Marrin, CLSA) Okay, great and just I know when people here about underserved populations, I mean, that's a mistake that's pretty common about undeserved being also undeserving. I mean, can you just clarify some of that for us, and who are these people? Why are they undeserved, and how are you targeting them, et cetera?

Cynthia Scott: Yes, no, look, it's a really good point, and look, this is one thing that really hit home to me when I spent time with the team in the US earlier this month, there's 100 million adult Americans who are undeserved by traditional financial services providers, and so that to your point, that doesn't mean that they are all lower socioeconomic or that they are all lower FICO Scores.

Certainly, we are talking about customers who typically have a FICO Score of less than 700, however, it's also customers who have a thin file or no file. It's also customers who might have just relocated to the US, or emigrated to the US and don't have a credit history, and so these customers absolutely have an ability to pay, they just don't have access to traditional credit product with traditional financial services in the US.

So, John, just on that in relation to our strategy, as you've seen we've talked about some of the financial inclusion of financial education work that we've been doing in the US, we've also talked about the gamification of repayments, so our strategy is really to look for those customers where through our credit positioning, we can identify them. We bring them onto the platform, and we have what we refer to as a low and grow strategy. We bring them on, we help them responsibly budget and repay, and then on the back of that, a proven credit history, we will then look at given them moderate credit increases.



Question: (John Marrin, CLSA) Okay, that's great. Thanks. Thanks, guys.

Operator: Your next question comes from Jonathon Higgins with Unified Capital Partners. Please, go ahead.

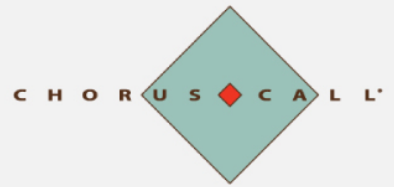
Question: (Jonathon Higgins, Unified Capital Partners) Hey, team, great set of results, appreciate you taking the time to answer some questions today. My first one just more broadly, just asking a question following from Siraj with regards to the international environment. We have seen some of the com cos, the larger com cos that you have doing a number of different things on product construct fees, subscription, and we're seeing rising margins sector wise, can you talk more broadly as to where this sector currently sits in regards to that, and how you see that playing out with your product in the US?

Cynthia Scott: Yes, sure, thanks, Jonathon, so you're talking particularly about the US market and the competitive landscape?

Question: (Jonathon Higgins, Unified Capital Partners) Yes, I think so, I think it's probably best to focus on that one just because I think that's where most of the international guys have got a lot of their buy-ins, thank you.

Cynthia Scott: Yes, so just a couple of comments. We've got a very rational competitive environment in the US, so given the scale of the opportunity for the industry and the sector to grow, we still are seeing very rational behaviour. Some of the things that you've highlighted so Jono, are the fact that our constructs of our products in the US and in ANZ is that we do have the unique two-sided revenue model and so we have instalment fees and we have merchant service fees, and so yes, we have seen others start to replicate a similar sort of structure to end up also with a two-sided revenue model.

But it's interesting and others are innovating in and around the products. Obviously, we're doing the same and we've had very good success from the product innovation that we have undertaken in the US in terms of physical card and in terms of [unclear] repayments, variable first instalments, et cetera. So, I think it's just an indication that there is room for everyone to grow in the US market because there's really strong



demand from customers and from merchants to have these flexible consumer finance solutions enabled at check out.

Question:

(Jonathon Higgins, Unified Capital Partners) Appreciate the context. Just a couple more from me. When a business is undergoing a turnaround, sometimes hard to use seasonality, particularly when you're putting through changes in yields on the product and throttling TTV in one market and releasing it in another market.

My back of the envelope, normally the US is almost like a 50/50 market when you've got growth coming through in that market and usually there's a bit of a slower second half in the second half in ANZ. Can you just remind us just is that the expectation you think is playing out, noting there was an exit in the US that was pretty strong, and it's been going through the half?

Cynthia Scott:

Yes, I mean you are right Jon. There has been a transformation in the business across both the ANZ and the US, but it is typically the case that we do have a stronger first half than second half and that was the case in '23. So that's certainly our expectation for '24.

There is momentum in the business, absolutely but it is typical that our peak seasonal period is in the first half, not in the second half. So, we expect the same for the '24.

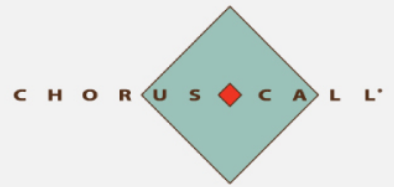
Question:

(Jonathon Higgins, Unified Capital Partners) I appreciate that. Last one from me, just on the seasonality approach with the margins, when I was looking at your Australian/New Zealand performance, you can see the excess spread opened up in December. Understanding that you did make some product changes I think in November/December. Usually there's some seasonality to customer fees in both ANZ and also to a lesser extent into the USA.

Could you comment on what sort of seasonality you'd expect in terms of revenue margins in Q3?

Gordon Bell:

Yes, I think the revenue margin is probably less based on seasonality, Jono. It's more a combination of initiatives that we've undertaken candidly over the previous 12 months. Obviously, a huge contributor to the improvement in December was the improvement to credit losses as we had indicated they were likely to peak in October and November and it is running according to management expectations, and they'll continue to improve as well.



So, there's marginal uptick through seasonality I guess with regards to increased transaction volume, but obviously there's a percentage of receivables, margin improvements don't shift significantly due to seasonality.

Question: (Jonathon Higgins, Unified Capital Partners) Appreciate the context. Cracking result guys. Thank you.

Cynthia Scott: Thanks Jono.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Siraj Ahmed with Citigroup. Please go ahead.

Question: (Siraj Ahmed, Citigroup) Just a quick follow up. In terms of the funding facilities, I think you have one coming up in April. Anything you share on how you're tracking on that and also the margin that you discussed. I think Cynthia mentioned it's a bit better, but if there's any clarity on that that would be helpful. Thank you.

Gordon Bell: Yes, Raj, Gordon. We're well advanced on the refinancing for VFN1, which has a rollover date of 10 March, and we expect to be disclosing that in the very near future.

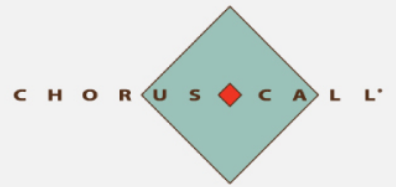
In terms of terms of margins pleasingly we've seen a significant improvement to what we saw in the second half of calendar year '23 and that's through to both existing and new investors looking to be a part of that trade. So we'll have more details on that shortly, but very well advanced.

Question: (Siraj Ahmed, Citigroup) Thanks.

Operator: The next question comes from Roger Samuel with Jefferies Australia. Please go ahead.

Question: (Roger Samuel, Jefferies) Good morning, guys, very good result. Just one question in that, I appreciate that your revenue margin should improve in the second half but what about the TTV? Do you expect the TTV to grow over second half '23 or continue to decline in the second half?

Peter Gray: Yes, hey Roger it's Pete. So, I think for the remainder of FY24, we do expect TTV to be tempered. We have obviously adjusted some portfolio settings over the previous six months, which has delivered a significant improvement to



performance and the reset of margins and setting the business for higher for longer interest rates.

That's where we expect TTV to significantly start to grow again in FY25 off the back of that reset and further penetration of new products like Zip Plus. So reasonably tempered for the remainder of this financial year but accelerating again quite strongly in FY25. Not dissimilar to how the US has reset their business probably on a profile six to 12 months ahead of ANZ.

Question: (Roger Samuel, Jefferies) Okay, got it. Thank you.

Operator: There are no further questions at this time. I will now hand the conference back to Ms Scott for closing remarks.

Cynthia Scott: Thanks very much and I'll just finish by saying thanks very much everyone for joining us today. We look forward to catching up with many of you over the next couple of weeks as we head out on the road. If you have any further questions, then probably in the first instance it's best to send them through to Vivienne but thanks again for joining us.

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

[END OF TRANSCRIPT]