TRANSCRIPTION

Company:	**ZipCo Limited**
Date:	**25 February 2025**
Duration:	**62 Minutes**
Reservation Number:	**10044113**

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Operator: Thank you for standing by, and welcome to the ZipCo Limited HY25 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 the Director of Investor Relations and Sustainability, Vivienne Lee. Please go ahead.

Vivienne Lee: Thanks, operator. Good morning and thank you for joining us for Zip's first half FY25 results. To open, 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 our respects to Elders past and present.

This conference call is also being webcast and an archive will be available on Zip's website. I'm joined today by Zip's Group CEO, Cynthia Scott; and Group CFO, Gordon Bell, who will present today's results. We also have US CEO, Joe Heck; and ANZ CEO, Peter Gray, who will join us for Q&A. We will start this call with some prepared remarks and then open up to questions.

With that, I'll now hand over the call to our Group CEO, Cynthia Scott.

Cynthia Scott: Thanks, Vivienne. Good morning, everyone, and welcome to Zip's results presentation for the first half of financial year 2025. I'm very pleased to present an outstanding set of results for the half with record financial performance, a continued focus on exceptional experiences for our customers, and a strengthened balance sheet to support future growth.

Our US business delivered excellent results, and our ANZ business returned to growth. Zip is well positioned to capitalise on the significant growth opportunity in our two core markets as we continue to drive scale and deliver material operating leverage.

Zip continues to be a strong and sustainably profitable business with unique competitive advantages as set out on Slide 4. And I'll touch on each of these in more detail as we go through the presentation. Our key financial highlights are set out on slides 5 and 6.

In the first six months of the year, we delivered 6.2 billion in transaction volume, up 24% year-on-year from over 45 million transactions. This was driven by a particularly strong performance in US volume and increased customer engagement across both markets.

Total income was up nearly 20% to 514 million. Our revenue margin of 8.2% remains within our two-year target range. The year-on-year movement reflects the increased contribution from the US, now representing 70% of TTV.

Active customer numbers were up 1.5% to 6.3 million, with the US recording customer growth in both Q1 and Q2. And we continue to add new merchants, with almost 82,000 now on our platform, reflecting strong demand to have Zip available for their customers.

Turning to Slide 6. Zip continues to demonstrate strong unit economics. Cash growth profit was up 30.1% and credit losses improved 22 basis points to 1.6% of TTV, reflecting strong credit performance in both markets.

Group cash EBTDA of 67 million was up 117% versus the prior corresponding period, reinforcing Zip's ability to deliver significant operating leverage as the business scales.

Turning to Slide 7 and how we've delivered against our FY25 strategy. At the beginning of the financial year, we set out three clear priorities, growth and engagement, product innovation and operational excellence.

Starting on the left, we saw increased customer engagement in both markets, reflecting investment in brand awareness and the rollout of Zip Plus in Australia. This was achieved while maintaining strong credit performance in line with our strategy to deliver sustainable, profitable growth.

We continue to innovate for our customers, including through the rollout of our Pay-in-8 product in the US and the development of a new personal loan product in Australia. In delivering on operational excellence, we took further actions to strengthen and simplify our balance sheet, repaying all corporate debt in July.

To support growth in both markets, we upsized our US receivables financing facility to US$300 million and refinanced 1.1 billion of funding in Australia. The collective impact of these actions can be seen on the next slide with a record first half cash EBTDA result of 67 million. This was driven by outstanding growth in our US business of 80% from the first half of financial year 2024.

Now turning to Slide 9. At our FY24 results, we introduced operating margin to our target ranges. Pleasingly, operating margin increased by 584 basis points to 13%, underpinned by disciplined investment in our cost base to ensure we capitalise on our growth opportunities while delivering improved returns at the cash earnings line.

Turning now to Slide 10. Zip’s business model is built on being a responsible lender and we've delivered solid progress against our focus areas of financial inclusion and wellbeing, employee engagement and environmental sustainability. A key highlight for the half was achieving our carbon neutral status for the fourth consecutive year.

Before I step through the detailed performance of each region, Slide 12 is a reminder of Zip's unique business model. Acquiring both customers and merchants onto our platform is fundamental to our two-sided business model.

For customers, we drive engagement through repeat usage and greater frequency by providing fair, flexible and transparent payment solutions that can be used for both discretionary and everyday spend, online and in-store, which increases customer lifetime value. As our business continues to scale, we unlock efficiencies, generating material operating leverage and driving sustainable, profitable growth.

Slide 13 provides an overview of the unique role both regions play in driving Zip's longer-term opportunity. The US market continues to present significant opportunities with an addressable BNPL market of US$130 billion. Zip is playing a greater role in providing short-term unsecured credit solutions to some of the 100 million everyday Americans underserved by traditional financial services.

Our US business continues to outperform the market, with TTV growth of 40.3% versus the weighted average annualised growth of our peers' comparable products of 30% to 32%. In ANZ, we're leveraging our market-leading capabilities to drive product innovation, including new solutions that broaden our financial services offering, increase engagement with our customers, and drive receivables growth.

On to Slide 14 to go through our US performance in more detail. The 80% growth in cash earnings in our US business was driven by TTV and revenue growth of 40.3% and 42.3%, respectively, underpinned by an exceptional holiday period and deeper customer engagement.

Active customer growth, up 6.2% year-on-year, was supported by our investment in direct-to-consumer marketing and brand awareness initiatives to drive customer acquisition. We continue to add new merchants in targeted verticals, including GameStop, Take5 Oil Change and Major League Baseball ticketing and shops.

We remain focused on unlocking the significant in-store opportunity in the US, which represents 84% of the total payments market. In the half, we delivered a 64% increase in in-store volumes, which now represent 22% of TTV, up from circa 12% two years ago, benefiting from increased adoption of the physical card by our customers.

The US business continued to optimise and scale its Pay-in-8 instalment solution, which is now available to all eligible customers through the app. Pay-in-8 is the next offering of our broader Pay-in-Z platform, which will provide further flexible and personalised instalment products for our customers.

Turning now to Slide 15. The US continues to present a significant growth opportunity for Zip, based on the sheer size and the early stage of the market maturity, with BNPL representing 5% of e-commerce spend and less than 2% of total payments, well below adoption rates in more established markets.

Slide 16 provides some insights on the Zip US customer and our differentiated capabilities. Our customers are everyday Americans, a group of over 100 million Americans who have difficulty accessing or face higher costs to access traditional credit products. Our customers are more likely to use short-term unsecured credit products such as Zip for flexibility and help them manage their cash flow. Over 90% of our customers either work full-time, part-time or are self-employed and over 98% of all transactions are repaid in full.

We have proven expertise in underwriting with more than seven years of customer and transaction data and the ability to swiftly adjust our risk settings to balance top line growth with lost rates outperforming traditional credit products.

Finally in the US, merchants are increasingly offering multiple flexible payment options at checkout, recognising the incremental benefits different providers offer to different customers.

Slide 17 shows the increased customer engagement we've achieved over time. As demonstrated by the chart, transactions and TTV for active customers are up 44% and 49% respectively over the last 18 months. This growth has largely been driven by existing customers. Our data shows that once a customer joins Zip, they spend more per month over time with our data and underwriting capabilities enabling us to optimise credit lines.

The most recent July 2024 cohort experienced a 26% increase in average spend over the six months to December. We have a clear strategy to drive future growth, supported by an engaged customer base, with monthly transacting users 33% higher than two years ago.

Slide 18 covers US credit performance on a cohort basis. Our cohort performance for July to December was commensurate with the growth in new customers, with the US adding 400,000 active customers.

As you can see on the chart, Zip continues to deliver significant growth, while maintaining loss rates within our target range of 1.5% to 2% of TTV, reinforcing the strength and agility of our credit decisioning platform. Pleasingly, early indicators for January are well within our target range, with expected losses at 1.6% of cohort TTV.

Finally, on Slide 19, you can see that the US has delivered a nearly $100 million turnaround in earnings over the last two years, driven by strong margin expansion, cross-discipline and scale benefits. Turning to the ANZ business now on Slide 20. 18 months ago, management took deliberate actions to change strategic settings to optimise margins in response to the external environment.

After delivering improved margins and positioning the business for a higher for longer interest rate environment, the ANZ business has shifted its focus to initiatives to drive profitable growth, improved customer engagement and new product offerings.

As a result of these activities, in the first half of FY25, we've seen increased customer engagement and positive improvements to margins. The ANZ business is well-placed to accelerate TTV and receivables growth at healthy margins in FY25 and beyond.

Moving to Slide 21. The ANZ business gained momentum through the half, with TTV returning to year-on-year growth in the second quarter, driven by increased transaction frequency. This momentum continued as we exited the half, with Australian TTV for December up 10% year-on-year.

And transactions per MTU are now at the highest rate in the history of the company as more Australians use our products to manage their household finances. Innovation is at the core of Zip's business and we've accelerated the pace of innovation, growing from three to five products in ANZ in the past 18 months.

During the half, we rolled out Zip Plus to new Zip customers and at higher limits for eligible customers of up to $8,000. And we're seeing good momentum, with the monthly acquisition of Zip Plus customers now more than double the acquisitions prior to external launch. And Zip Plus receivables are up 24% over the last three months over the last three months.

In January, we launched our Zip Personal Loan, a next generation lending product that rewards customers for on-time repayments. We'll provide more details on our new personal loan product construct and its performance later in the year.

Turning to Slide 22 for more detail on the performance of the Australian loan book. With our account-based product contract in Australia, yield on the loan book and excess spread is the best way to think about the performance of the business.

Increased yield, strong portfolio management and ongoing initiatives to tighten funding costs delivered a 70 basis point expansion in excess spread from the Australian book. As you can see on the chart, arrears rates and net bad debt continue to improve in response to management actions and risk settings following the seasonal peak.

Turning now to Slide 23. Initiatives focused on yield expansion and margin have increased revenues for active customers. In line with the usual movements from seasonality, revenue from peak volumes in the second quarter will be realised over the second half of the financial year.

With the settings that we have in place and ongoing initiatives to increase growth from new higher margin products, the business is well-placed to drive profitable growth. Turning to Slide 24. This slide is a reminder of the ANZ strategic assets that Zip has established in the region.

These strategic assets provide strong foundations for our strategy to become a next generation financial services provider. With a highly engaged customer base of approximately 10% of the Australian adult population, products in market that are well suited to the current operating environment. And a business that's generating healthy excess spread, the ANZ business is strongly positioned to deliver on its strategy.

Now, as announced with our results this morning, having successfully completed the reset of the ANZ business, ANZ CEO and co-founder Peter Gray will be moving to a newly created leadership role at Zip as Head of Strategic Growth. His role will focus on accelerating Zip's growth agenda across both markets with an initial focus on ANZ.

His new role reinforces Zip's commitment to our innovation culture and delivering on our significant growth opportunity in both markets. Following a comprehensive search and succession planning process, I'm very pleased to announce Soraya Alali will join Zip as ANZ CEO from the 12th of May this year. Soraya brings over 20 years' experience in the financial services sector, with a focus on driving scalable growth, digital transformation, and enhanced customer experience.

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

Gordon Bell: Thank you, Cynthia. Turning to Slide 26, I'll cover the Group's financial performance. As highlighted earlier, Zip achieved a record Group cash EBTDA of $67 million for the half, up 117.1% year-on-year. Cash gross profit reached $235.5 million, which was up 30.1% year-on-year.

Underpinning these great results was total income of $514 million, up 19.8% from the first half of FY24, driven by an outstanding US business performance, as well as continued portfolio yield, expansion, and improved excess spread in Australia.

I'll cover operating costs in more detail, but at a high level, cash operating costs have increased 10.1% from the first half of FY24, on a like-for-like basis. For the half, Zip delivered a statutory net profit after tax of $23 million. This is lower than the first half of FY24, due to one-off gains in the prior period relating to the convertible bond restructuring.

The appendix shows the breakdown of the corporate one-off adjustments and non-cash items, and the reconciliation from cash EBTDA to statutory accounting profits. The main movements relate to movements in credit provisioning, depreciation, and the early extinguishment of the corporate debt facility in July 2024.

Moving to Slide 27, which covers our unit economics. Cynthia covered TTV and revenue, which were both superb outcomes for the half. Zip remains focused on improving all aspects of our business. For the half, this translated to improved unit economics and greater operating leverage, which has contributed to a 30.1% increase in cash gross profit.

Net bad debts written off as a percentage of TTV of 1.6% is at the lowest level in the last two years, reflecting ongoing discipline with credit settings and portfolio management in both markets. Interest expense as a percentage of TTV was 1.7%, an improvement of 21 basis points year-on-year. Notional interest expense increased as a result of volume growth in US receivables.

However, offsetting this was the rate benefit we achieved from margin reduction on our Australian receivable financing. The performance for all aspects of unit economics contributed to the 18 basis points of strengthening in our net cash transaction margin to 3.8%.

Moving to cash operating expenses on Slide 28. Cost management remains priority across the Group as we continue to make measured investments in existing business activities and attractive growth initiatives. Overall, cash OpEx was up 10.1% year-on-year on a like-for-like basis. This includes adjusting the first half FY24 reported number for the portion of the cash-based short-term employee incentives, which were fully accrued for in the second half of 2024 for that full year. When measured at a percentage of underlying volumes, cash OpEx has decreased 34 basis points year-on-year on a like-for-like basis.

This reflects Zip's ability to balance measured investment spend and deliver consistent profitable growth. Investments made during the half in projects, people and information technology will support the business at scale. Our investment was weighted to the US businesses to take advantage of our significant growth opportunity in that market and to enhance our risk and process capabilities to support sustainable future growth.

Across both core markets, we invested in growth marketing to support brand and product awareness. Zip will continue to exercise strong discipline across the Group in FY25 to deliver optimal operating leverage at the business scale.

Finally, other operating costs decreased mainly due to the early extinguishment of the corporate debt facility. The next few slides, starting with Slide 29, cover the Group's liquidity, funding and capital management framework. Slide 29 provides the breakdown of our cash position along with the year-on-year movement in available cash. In the chart on the left-hand side, you can see the breakdown of Zip's $527 million total cash position.

After allowing for cash held at balance sheet date that was unavailable and including cash that may be withdrawn from our funding vehicles, Zip had $195.5 million in available cash at 31 December 2024. It's important to note that we do see typical seasonal volatility over the calendar year-end period and as a result of the holiday season. We had a January 2025 month-end position of $165.9 million.

On the right-hand side, you'll see the material improvement in our available cash position was driven by both operating and non-operating cash flows. Pleasingly for Zip, operating cash flows comprised cash, EBTDA, capex, working capital and funding requirements which contributed a positive $59 million of cash inflows.

This was driven by the Group's outstanding strong operating result, offset by float's working capital which is required primarily for TTV growth in the US. Non-operating cash inflows of $56.1 million included the $50 million proceeds from Zip's share purchase plan in July 2024.

Collectively, these actions delivered a $115.1 million improvement in our available cash balance since June 30 last year, further strengthening our balance sheet. Moving to slide 30, which outlines the financing facilities in place for Zip's receivables and headroom for future growth.

Zip is committed to preserving balance sheet strength to support our existing business and future opportunities. During the half, we completed six funding arrangements which extended our maturity profile and diversified our investor base and we continue to garner strong support from both existing and new investors.

In October last year, we exercised the option to upsize our US funding facility from $225 million to $300 million which provides capacity and support future growth opportunities in the US. In Australia and New Zealand, during September 2024, we successfully established a new $300 million warehouse facility labelled VFN4 and executed a $350 million rated public issuance labelled Series 2024-2.

Both of these financings were used to repay the $663.5 million facility labelled 2021-2. Additionally, we extended three of our existing facilities during the half. Across Australia and the US, we have sufficient funding headroom to support receivables growth. As of 31 December 2024, Zip continues to operate with no corporate debt. We will continue to review corporate funding options as the business scales and the needs of the Group develop.

Zip will continue to develop its funding programs through considered engagement with existing and expanding investor networks. Refinancing for our two maturing facilities this calendar year is well advanced and I'm confident we will continue to successfully manage our financing arrangements to support receivables growth in the second half and beyond. Moving to Slide 31.

Slide 31 provides an overview of our capital management framework. Our framework aligns with our corporate strategy and focusses on maximising shareholder return. Guided by the principles of this framework, decisions will be thoughtfully considered to accomplish the balance of building long-term value and delivering maximum shareholder return whilst preserving a resilient balance sheet.

Attractive growth opportunities that enhance our competitive position are explored through a lens on risk, expected returns and strategic alignment with regular evaluation to ensure they're delivering the appropriate returns. Consistent with our strategy for FY25, Zip has prioritised the investment of capital in our existing businesses through the half and maximising returns from attractive organic growth opportunities, especially in our US business. We'll continue to evaluate opportunities and deploy capital to drive long-term shareholder value.

I'll now hand back to Cynthia to cover the Group's outlook and strategy.

Cynthia Scott: Thanks, Gordon. Moving to Slide 33. During the half, we refreshed our purpose to unlocking financial potential together to better reflect strategic priorities and our growth opportunities.

Our team is committed to delivering on our purpose and is aligned on our updated mission to bring exceptional experiences, innovation and partnership to every financial journey.

Turning to Slide 34. Our FY25 strategic priorities remain the same. In the second half, we will scale Zip Plus and personal loans in Australia and continue to develop our Pay-in-Z platform in the US and expand our merchant and strategic partnerships.

We remain focused on product innovation with initiatives to accelerate this further in both regions and will maintain a disciplined approach to investment in our cost base to capitalise on future growth opportunities and drive operating leverage as the business scales further.

Moving to outlook on Slide 35. The two-year targets we presented at our FY24 results remain unchanged. Importantly, we're on track for our FY25 results to be within target ranges across all metrics on this page following the strong performance in the first half.

For FY25, revenue margin will reflect an increasing weight of the portfolio from the US as well as initiatives to maintain a strong Australian portfolio yield and exit spread.

US TTV growth and momentum has continued in January 2025. Cash NTM will reflect a balance of strong top-line growth at acceptable credit outcomes to deliver to sustainable profitable margins. On cash OpEx, we expect FY25 to be circa 10% higher than FY24 cash OpEx of $306.9 million and we'll continue to exercise a disciplined approach as we scale.

On cash FTDA as a percentage of TPB, we now expect FY25 to be at least in line with our first half performance of 1.1%. And finally, we expect to deliver FY25 cash EBTDA of at least 147 million. In closing, we're excited by the momentum in the business and the significant growth opportunities in both markets. We remain focused on delivering exceptional experiences for our customers and driving scale and operating leverage.

On behalf of the executive team, I'd like to thank our incredible team of VISTAs for everything they've accomplished in the first half and our shareholders for their ongoing support. That concludes our formal presentation and we'll now open the call for Q&A.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you're using a speakerphone, please pick up the handset to ask your question. We ask that questions be limited to two per person. Please rejoin the queue for any follow-up questions.

The first question today comes from Phillip Chippindale from Ord Minnett. Please go ahead.

Phillip Chippindale: Hi, Cynthia and Gordon. Thanks for your time. Firstly, just circling back to Cynthia, you made a comment about performance in the US business since 1 January. I think your phrase was that the US continues to see growth in the US business. I just wonder if we can just focus in on that. Obviously, your business has been growing really well, like 39% growth in TTV, in Aussie dollar terms in the December quarter. Is it growing at a similar level thus far in the current quarter?

Cynthia Scott: Yes, thanks, Phil, for the question. So, what I said, so the two indications that we gave you for January performance, the first one, as you've noted, was in relation to US growth. And what I said was that momentum has continued into January. So, we continue to see the momentum in the US business from a TTV perspective in January that we saw in the first half.

So, what that means is that, as we've indicated, we see comparable product growth in the US of between 30% and 32%. Our business, as you've noted, is growing closer to 40%. And we continue to expect that in the second half, we will outperform the market growth levels of 30% to 32%.

The other metric that we gave you an update on was the January performance of losses in the US. So, we've indicated that that's 1.6% of cohort TTV, well within our target range.

Phillip Chippindale: Okay, thank you. One second question. I just wanted to touch on the Australian business. In terms of the outlook, you've mentioned, the piloting of capital light solutions. Perhaps you could give us a sense of when you'd be looking to go to market and start to pilot those programs and when we can maybe hear more about it?

Cynthia Scott: Yes, absolutely. So, I might ask Pete to make some comments on this as well. But, so, the five products that we've got in market in Australia and New Zealand at the moment, including the two that we've recently launched, so being Zip Plus now being scaled and Zip Plus alone just being launched, they are all products that are on our balance sheet.

But as we said, when we outlined the FY25 to '27 strategy, we are going to move the Australian business into capital light solutions because with the average age of a Zip customer being 39 now in ANZ, and obviously they're highly engaged and it's nearly 10% of the adult Australian population, we do see really good opportunities for Zip to offer additional financial services products to that engaged customer base.

And going forward, they will largely be capital light. So, I might hand to Pete just to give some comments on some of the work that we've been doing around opportunities and the pilots that we've got underway for FY26.

Peter Gray: Yes, hi Phil. So, yes, Cynthia touched on, obviously we have a very large strategic asset now, in the Australian community in terms of our customer base. So, some of these capital light opportunities will possibly be part of my newer remit and how to test and learn with some of those exciting opportunities to identify additional growth other than those that Cynthia just touched on.

So, just in terms of timeframe, I think you would expect to see some of those this half and we'll probably have more to say, on the exact approach and go to market sort of confirming some of the outcomes of those tests and testing and the way we're going to accelerate that opportunity as a full year result for sure. But you'll probably, if you're following, closely like some of you do, you'll probably notice some things out in the wild.

Phillip Chippindale: Okay, thanks Pete. Thanks Cynthia. I'll jump back into the queue.

Operator: Thank you. The next question comes from Tim Piper from UBS. Please go ahead.

Tim Piper: Hi, good morning team. Thanks for taking the questions. Just first one on the cash EBTDA outlook of 147 million for FY25. Just thinking about the moving parts, you've kind of given us OpEx growth, just back solving it based on your top line momentum. Would it be fair to say that you've kind of assumed a higher net transaction margin in the second half than the first half, i.e. higher than 3.8% in the second half? It would sort of imply that in the guidance?

Cynthia Scott: Well, Tim, I might, I'll ask Gordon to just give a bit more of a detailed comment, but I will say, we give, I think pretty good guidance on four metrics plus the cash EBTDA. So, Gordon, do you want to give some comments in relation to cash NPM?

Gordon Bell: Yes, look, the way we do give updates in terms of where we're sitting at the first half on the outlook ranges, the outlook ranges are, as the name implies, they're outlook ranges for two years and we're comfortable to reaffirm those today. We're not going to give outlook numbers for all of them. The primary measure that we gave today unknown: being the outlook of no less than 147 million for cash EBTDA would be the number that I would primarily focus on.

Tim Piper: TTV, I mean, the Aussie business should uplift in the second half alone, right? Just because of that seasonality in revenue to TTV margin percentage?

Gordon Bell: Yeah, so you're right. And that's how the Australian business performs. We see revenue coming through in Q3 and Q4 off the back of the peak volumes in Q2, so you're spot on there. And we have positioned the Australian business for growth, and we've seen some pleasing signals in December, as Cynthia outlined.

Tim Piper: Great, thanks. And just a second one on net bad debts in the ANZ business. You kind of gave us a January update for the US business. Can you give us a bit of a sense on the January trajectory of net bad debts in AU? Is it still seeing that downward trajectory that it's kind of been on over the last six to eight months or so in January?

Gordon Bell: Oh, look, without giving anything in the materials, what I'd say is there's nothing notable to call out. We're very comfortable with our performance in Australia.

Tim Piper: Excellent, thanks.

Cynthia Scott: Thank you.

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

John Marrin: Hey, guys. Thank you for taking my questions. I guess my first one, just hope maybe we could just go back through the product announcements in Australia, the product roadmap, and maybe just hoping to get a refresher on what your longer term thoughts are in this market, just working on that consumer and merchant value proposition, especially now the business is on clearly good footing, and you're thinking about -- are you thinking about customer growth, stuff like that?

Cynthia Scott: Yes, thanks, John. Again, I'll ask Pete to make some comments on this, but you're absolutely right. The attraction of Zip's product for our customers is the ubiquity that they can be used everywhere in as many settings for as many financial needs as possible.

And so, our customers are using our product for everyday spend and also for more considered spend. And so, the rollout of Zip Plus and now the launch of personal loans is an extension of that.

But before I hand it to Pete, the one final comment I'll make is that you're right, John. The business has now been reset for growth and looking at new customer acquisition, as well as increased customer engagement given our suite of products is certainly something that the business is focused on. But Pete, do you want to talk about the product roadmap specifically?

Peter Gray: Yes. Hey, John. Yes, as we touched on, we have launched two new products in the last 15 months, which has been a pretty significant sort of achievement for the business, if you consider. Historically, we've largely had two products in the previous 10 years. So, they're very immature in terms of exercising that opportunity. And we remain very heavily focused on continuing to deliver growth, both new and existing customers from those two products.

I think if you sort of caught the commentary in the presentation that once we've gone above the line or to new customers to Zip Plus we have started to deliver a significantly stronger sort of growth. So, we believe with an expanding product that not only do we have the opportunity to provide further benefit to our existing customers, but also some level of appeal to customers who might not have necessarily felt the utility of a $1,000 Zip Pay account.

So, we're pretty bullish about those two products in the early stages of their maturity and how we use marketing to drive some of that growth and invest wisely in channels that can drive customer acquisition for those new products is firmly on the roadmap.

So, I think in terms of the broader product roadmap, we will continue to focus very significantly on the four products that we have currently in market. And I think part of the exciting opportunity for me and the business possibly with the newer function is to explore other things that might be bolted onto that, that sit outside the plan on a page that we're currently operating with regards to those products.

So, ways that we might be able to step change or accelerate that platform that is already delivering very strong EBTDA, but now in a growth setting.

John Marrin: Any hints on what that might look like over the longer term? I mean, are we talking about...

Peter Gray: I think people are going to market them. I don't know if it'd be to the analyst community, but...

Cynthia Scott: I think, yes. Probably what we'll do is when we get to the full year, we'll definitely be able to give you more details. We've only just launched personal loans in January. So, it's a bit too early to be talking about the product construct and way too early to be talking about the performance.

But when we get to the full year, absolutely, we'll give you a bit more colour on the existing products we've got in market, but also will be able to give a bit more colour in relation to his new role and some of the priorities going as we head into FY26.

John Marrin: Okay, that's fair. Maybe just one quick one then like the US, it's all BNPL, expanding that BNPL product. At what point do you think you export some new consumer product to that market?

Cynthia Scott: Yes, it's a great question, John. And I will hand to Joe just to give his perspectives as well. I guess my overarching observation would be, as we said in the prepared remarks, the BNPL product penetration in the US is still less than 2% of total payments and 5% of e-commerce, so very nascent relative to more mature markets.

And our customer base in the US is 4.5 million is really just the start of the potentially more than 100 million customers. So, we've got a lot of organic growth in the product that we've got in market today. That being said, Joe and the team see great opportunities for us to expand that product set. So, Joe, did you want to make some comments in relation to that?

Joe Heck: Sure. John, thank you for the question. We're really excited about where the US stands today. As Cynthia previously mentioned, we've added over 400,000 new customers and we're finding high, high engagement with that customer base. Transactions in total spend rising 33% and 30% respectively. So, we see significant attractive growth ahead with our core product and we'll continue to really listen to our customers and what's going to drive ongoing engagement and we'll continue to explore as opportunities arise.

John Marrin: All right. Thanks, guys. Appreciate the time.

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

Siraj Ahmed: Morning. Since just on the US January momentum, can you just clarify whether that includes any benefit from Pay-in-8 or is that to come through the course of the half? And any comments on new customers as well in the January number?

Cynthia Scott: Yes. Thanks, Siraj. I won't go into great specifics breaking down the January number, but what I will say is that in the half, we expanded Pay-in-8 to all eligible customers in the app, and that happens through the course of the half. So, you'll start to see that the impact of that momentum as we go into the second half, some of which will be in January.

But really, what we're seeing from our customer base, as Joe just highlighted in the US, is high levels of engagement and strong demand from new customers to join, to have access to Zip's product. Siraj, I might just throw to Joe and see whether there's anything else you wanted to add in relation to the customer base, maybe, Joe?

Joe Heck: Yes, great question. I think previously mentioned, we've had really significant consumer growth, but I think the engagement piece, Pay-in-8 plays a critical role in that. And we continue to listen to the customer and we anticipate we'll continue to launch ways in which we'll drive better engagement, which ultimately drives better TTV and results for the US.

Cynthia Scott: And Siraj that's what when we refer our ANZ platform, the full ANZ platform will be launched and live in FY26. So, Pay-in-8 is just the first iteration or the next iteration after our Pay-in-4. But the ANZ platform gives us that flexibility that Joe's referring to.

So, we can listen to what our customers want and need and we can create and ensure we've got giving them access to flexible payment solutions.

Siraj Ahmed: Got it. Second one, on Australia, I mean, it's interesting that December TTV was up 10%. I know there's a bit of lag in the Australian business given the book. Can you just help us as to how to think about TTV to receivables and revenue?

Because I'm just trying to understand, given there's a skew to the second half on revenue, should we be thinking that revenue would be more than 10% given the momentum, it would be helpful?

Cynthia Scott: You just probably noted Siraj. So, I think what you're asking is if TTV was up 10% in December, what's the impact on revenue and business performance in the second half? Absolutely, you're right. So, the TTV growth that we saw in Q2, the revenue in Australia from that growth will flow in Q3 and Q4.

Peter Gray: And beyond, I think, Siraj, I think there's definitely seasonality, particularly if you're measuring things to volume. I think the way to possibly consider is part of the thinking is obviously we have a broader portfolio of products now and income or revenue is effectively a function of receivables. So that revenue margin on receivables and the excess spread, obviously driving some of those metrics and under the previous focus on margin setting receivables, it was managed as part of that exercise, which effectively led that to shrink.

So now as that grows with the growth setting, revenue will continue to supply from that. But, in terms of the original question here, the second half in terms of the seasonality of that revenue and those margins is healthy.

Siraj Ahmed: Great. Can I ask also just a quick clarification? You haven't given an excess spread for February in Australia. I mean, that should have expanded because of the rate cut, isn't it?

Gordon Bell: Yes, Siraj, it's Gordon. We haven't given an excess spread for February. I think you may have been referring to January. No, we haven't given that information. I would say we've been open before in terms of the impact of a rate cut. 25 basis points in Australia is about $5 million annualised, just purely off a $2 billion financing book. So, to the extent that there are rate cuts, that's the numbers of modelling.

Siraj Ahmed: All right, thank you. I'll join back in queue. Thanks.

Operator: Thank you. The next question comes from Roger Samuel from Jefferies. Please go ahead.

Roger Samuel: Hi, Morning all. Two questions for me. First one, you mentioned that you remain there disciplined with cost. So, what metrics do you look at to make sure that you are getting the return on investments, whether it's TTV growth or customer growth, and also how easily can you run in your costs when things do not turn out as well as you expect?

Gordon Bell: Yes, Roger, it's Gordon. I'll take that one. Look, the short answer is we do have discretion and the ability to move our cost base and hence why we're very comfortable in the statements around discipline investment and making sure we've got investment in attractive opportunities. That's probably the opening statement.

The second thing I would say is that we've been spending money in areas that really drive outcomes, and you'll see that coming through, throughout the whole income statement. So, the operating leverage remains in that statement, and where we've been investing in people, processes, brand marketing, etcetera.

We're really seeing that driven by the TTV growth and then the cash gross profit growth and the cash EBTDA growth. So, we see it throughout. On the philosophy, look, we will invest where we see the best return for shareholders. And right now, you've seen the outcome of that in the first half with some of the investments in the attractive opportunities in the US.

Roger Samuel: Sure. My second question is just on the bad debts. Obviously, you guys have performed really well. But do you think that the bad debts as a percentage of TTV would increase as you pursue growth in both regions? And I'm also conscious that you have a few new products as well?

So personal loans, Z plus, paying A, paying Z. Is there any risk that the bad debts may increase or perhaps you can mitigate that by launching all these new products, which has got higher revenue margin?

Gordon Bell: Yes, thanks, Roger. I'll start, and then I'll ask Joe to make a comment on the management in the US as well. First thing I'll say is, as if -- we're always very cautious and prudent in the way we roll out new products. So, we generally go through, one or two or even three pilot stages to get that right calibration of growth and adoption for bad debts and arrears.

So, we'll be very judicious in the way that we allow new products to grow to make sure that we're not doing that at the expense of bad debts or rising numbers. So that's our philosophy, and that'll be the same philosophy for any new products. Joe, I might just ask you to give any comments on how the rollout with the Pay-in-8, which has been along that pilot phase.

Joe Heck: Yes, I'll continue to echo what Gordon just mentioned. I think we take a really responsible approach to manage the upside opportunity with the risk that we take. We continue to anchor to a very strong underwriting experience and position. And we see the upside within the US opportunity, one in which we'll continue to lean into responsibly and stay within our target range.

Roger Samuel: Okay, great. Thank you.

Operator: Thank you. Once again, to ask a question, please press star one on your telephone. The next question comes from Julian Mulcahy from E&P. Please go ahead.

Julian Mulcahy: Question for Cynthia. Just in relation to your confidence in the sort of medium term outlook, given there's a lot of noise in the US economy at the moment. You know, Walmart saying consumers are tapped out and Domino's saying consume under pressure and then you've got whatever comes to them some sort of day-to-day and then you've got Afterpay being launched on the Cash App. Do you see any of those things having an impact on the business or are you kind of in your own little sphere now where you're in this really strong growth trajectory?

Cynthia Scott: Thanks. Look, what I would say, we are in a really strong growth trajectory, but we've also got access to a customer base who, and we are in the early stages still of accessing that customer base, who really need our products and want our products for flexibility and to manage their cash flows.

So, whether different retailers see the retail environment differently from their perspective, the advantage of our product is what we see is our customers just use our product in whatever retail setting they want, whether that is in-store or online and whether that's for everyday spend or larger, more considered purchases.

But I might ask Joe just to make some comment on the resilience of the US consumer because we are certainly still seeing our consumers being very resilient in this environment.

Joe Heck: Yes, no, it's a great question. And we, as Cynthia mentioned, we are anchored in a consumer base that has shown incredible resiliency and a need for our products in this particular stage. I think the US is going through maybe a reduction in the regulatory pressure, which has made things a little bit simpler to operate within. And we continue to see just the availability of our credit vehicle being an attractive option in this environment, which I think is powering some of the tailwinds on the growth that we're seeing.

Julian Mulcahy: So, just on that regulatory thing, I mean, there have been major changes since Trump came in. Does that potentially increase competition or just remove any breaks that may have been put on by the previous administration?

Cynthia Scott: Yes, so just on the regulatory landscape, we still have the same stance, and that is that we support fits-and-purpose regulation, and anything that supports the consumer from a regulatory perspective but still enables innovation and growth, we are supportive of.

Just on the competition point, the US market, we've talked about this before, the US market is interesting because it is at such an early stage of penetration of the product and growth in the customer and merchant franchise. There's actually a lot of room for everyone to grow.

And I think probably the biggest change that I've observed over the last six months, and this is a credit to Joe and the work that his team have been doing is a real recognition of how unique our customer base is. And from a merchant's perspective, the value that we add being at checkout in terms of bringing an incremental customer to a merchant and also then enabling that customer to have a higher average order value.

So increasingly what we're seeing is merchants are very comfortable having Zip at checkout, say, alongside an Affirm or a Klarna because we do not have an overlap in terms of our customer base. So, the competitive dynamic is actually very constructive.

Julian Mulcahy: Cool. Thanks, Cynthia.

Operator: Thank you. The next question comes from Jack Lynch from RBC Capital Markets. Please go ahead.

Jack Lynch: Hi, Cynthia, Gordon. What a result. Just the first question on the outlook for revenue margins in the ANZ business. Obviously, we've got the credit controls there and the plus looks like it's performing well. Just thinking how we balance those things for the second half, are we expecting margin expansion in that business? And the second one, just on the outlook for the merchant pipeline, previously flagged there's been some merchants coming through maybe to the US. Has there been any changes to that business?

Cynthia Scott: Yes, I might ask or make a comment in relation to Zip Plus and the ANZ margins, and then, Joe, I'll ask you to make a comment in relation to the merchant pipeline.

Joe Heck: Yes, I think I just reiterate, I think you're thinking about the right way and how we describe it in the fact that we see the revenue from our Q2, you know, peaks, if you like, coming through in the second half. You know, the average tenure of our Australian, our current Australian products is that sort of seven to nine months. So that's why we talk about the second half of seeing that revenue. So that will impact the margin. And I think second question.

Cynthia Scott: So, I think, Joe, my second question was in relation to the merchant pipeline. And, Joe, I might ask you to make some comments in relation to what you're seeing on the merchant side in the US.

Joe Heck: Yes, on the merchant side, we're extremely excited about where we're sitting. I think the pipeline's strong. In particular, we worked on a refreshed value prop and go-to-market that I think is yielding some early momentum across the board. The merchant channel in general, I think, has moved to a place of looking to optimise their checkout and one in which Zip plays a really, really significant role within.

And then we're in the early days of activating our channel distribution partnerships with the likes of Stripe and Adyen and others. And so when we look at upside within the calendar year, we're extremely excited about where the pipeline is.

Cynthia Scott: And sorry, Jack, you did ask a question in relation to yield and effort spread. So, I'll just ask, thanks, Joe, for that comment. I will ask Gordon just to address your question in relation to yield.

Gordon Bell: Yes, Jack, you asked about revenue margin. We've had a couple of questions on an AU, and it's certainly something we talk to the way that we actually monitor the portfolio. And the way that we look to drive performance on the Australian product set is around the overall portfolio yield and then the excess spread on that portfolio.

With a slightly longer duration products, we see that as the better way to manage the moving parts there versus the shorter duration products. It also takes out the TTV variation month-to-month, quarter-to-quarter, etcetera. So Page 22 of the investor deck is probably where I would focus and just talk to that excess spread number, which 6.9% for December.

Yes, we're really pleased with. And as Cynthia mentioned, that's about 70 basis points higher than one year ago, which points to a number of the moving parts in the Australian business, which Pete has been managing really well top line yield, managing credit and managing interest costs. So just to round that one out for you.

Joe Heck: Okay. Thank you.

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

Siraj Ahmed: Just two questions. Just first one, Cynthia and Joe, just on the merchant pipeline, right? I mean, you've been talking about potentially strong enterprise merchant adds for maybe a year. Just wondering what's -- given your comments about merchants being happy having more than one player checkout, what's delaying that? And yes, just keen to understand, should we be seeing some strong merchant -- big merchant adds pick up in the course of this half?

Cynthia Scott: Thanks, Siraj. Well, I'll make a comment, and I'll ask Joe to give his perspective as well. The thing with enterprise merchants, the sales lead time to actually sign the merchant, but then importantly, actually to do the tech integration can be 12 to 18 months. So, when Joe talks about the fact that we've got a really strong pipeline of merchants, we do, but it actually just takes time to complete the sales process and then do the tech integration before we go live.

And so, we wouldn't announce a merchant. And obviously, we need their approval before we can announce them. We wouldn't announce the merchant until we actually go live with them. So hence, you can get that delay. But I will say that we do have really strong -- a really strong pipeline of enterprise merchants that Joe and the team are working with.

And we're also leveraging, as Joe said earlier, we're leveraging our channel partnerships with Stripe and Adyen and others to bring more merchants in targeted verticals where the average order value or the target spend is higher. So, whether that's travel, automotive and ticketing in particular. But Joe, do you want to make some additional comments or add some colour?

Joe Heck: Yes. Yes, really good commentary there as well. I think the timing is significant, but also refreshing the go-to-market and really focusing on what makes Zip different with our merchants. And how we can bring incremental value to the merchants and our consumer base. I think the other area is on the channel distribution partnerships with the Stripe and Adyen, those take a while to put in place, and they take a while to get alignment on sales acumen and target customers. And we continue to stay focused on building that pipeline out with these partners and aligning the value prop with their BD folks. So I think net-net, we feel good about where we're and we think there's significant growth ahead throughout the next calendar year.

Siraj Ahmed: Got it. And one quick technical question for Gordon maybe. Just looking at provisions in Australia, I saw that actually increased to end the half. I must say a bit surprised because I thought the book is in a better shape. Just can you just talk to, is it just a macro overlay that you've taken in terms of the provisions?

Gordon Bell: Yes. In simple terms, Siraj, accounting provisions increased in the half. It was a very even split between the US and Australia. US is predominantly volume related. We've seen huge growth there, which is commensurate with everything in the US. And in Australia, it's just a mix of modelled outcome and overlay. So, we're very comfortable with where we're sitting.

Siraj Ahmed: Thanks.

Operator: The next question is a follow-up from John Marrin from CLSA. Please go ahead.

John Marrin: Hi, thanks for the follow-up. Just a quick congrats to Sarah for joining the team there. Pete, I do -- I want to put you on the spot here a little bit. I think we've heard bits and bobs about what your new role might entail. But just hoping to get a summary from you on what your new remit is. Is it product focused, partnership focused?

What is head of growth, strategic growth mean? And I guess it sounds to me like Zip is elevating its ambitions here longer term versus putting an old co-founder to pasture, if you will. So just hoping to get some clarity there?

Cynthia Scott: John, I know we are not putting [crosstalk]

Peter Gray: The grass is very green over here, John. So, I can tell you the belly is pretty happy. No, look, it's really exciting for me personally to sort of [inaudible] the business as well. But effectively very comfortable with the trajectory of the growth of the Australian business. But Cynthia and I are very aligned on we want to be looking to medium term and how we can actually accelerate or step change some of the numbers and the outcomes that we're delivering.

So, it is a pretty broad remit with regards to your question. So, it very much would be product related. It would also be strategic partnership related. There might be bolt-on opportunities or new technical capabilities that we can actually test and learn without disrupting the core before getting traction and then implementing in the core.

So, it really is an opportunity to explore a broad range of opportunities that might deliver benefits to our customers or the core business. So very sort of excited, small team, very growth focused and obviously, a narrower remit than what I've sort of been undertaking for the previous couple of years. So no past just sadly. And to tell you the Gold Coast haven't had a run for a number of years, and they're not likely to in the short term.

John Marrin: All right. Thanks to you. Thanks for going overtime for me.

Cynthia Scott: Thanks, John. I think that brings us to -- I know I'm conscious we're at time. But I just want to thank everyone for joining us today, and thanks for the engagement and all of the great questions. We really appreciate your support. I suspect there might be a few more questions, and we are catching up with a number of you on the call today.

In the interim, you've got other questions, please do send them through to Vivienne and Dylan, and we look forward to catching up again soon. Thanks for joining.

[END OF TRANSCRIPT]