Zip Co Ltd.
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Corporate Speakers

- Vivienne Lee; Zip Co Limited; Director of I.R.
- Larry Diamond; Zip Co Limited; Co-Founder & CEO
- Peter Gray; Zip Co Limited; E.D. & COO
- Martin Brooke; Zip Co Limited; CFO

Participants

- Tom Beadle; UBS; Telco and Media Analyst
- Elise Kennedy; Jarden Australia; VP, Equity Research

PRESENTATION

Operator: Welcome to the Zip Co Full Year 2022 Financial Results Call and Webcast. Today's call is being recorded. At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions following the prepared remarks. (Operator Instructions).

It is now my pleasure to turn the floor over to Vivienne Lee, Director of Investor Relations at Zip. You may begin, ma'am.

Vivienne Lee: Good morning and thank you for joining the FY22 earnings call. To open the call, I would like to acknowledge the traditional owners of the land, the Gadigal of the Eora Nation, and pay my respects to the elders, both past, present, and emerging.

By now, you would have seen the release of the FY22 results across the ASX and have a copy of the Investor Presentation. I'm joined today by Zip Co Founder and Global CEO Larry Diamond; Zip Co Founder and Global COO Peter Gray; and CFO Martin Brooke.

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 Larry.

Larry Diamond: Thanks, Vivienne. Good morning and welcome to Zip Co's FY22 results presentation. We founded Zip nine years ago to create a more financially fearless world and we are just getting started. We've been on a mission to be the first payment choice everywhere and every day and to create a world where people can live fearlessly today, knowing that they're in control of tomorrow.

We continue to believe that when you give people knowledge, access, and the ability to control their financial lives, you give people the ability to live every day with confidence. So, in short, when users click our button at checkout, they know we have their backs.

And at a time of heightened inflation and increasing cost of living pressures, BNPL becomes an even more important budgeting tool for everyday use and a real necessity for all merchants. While FY22 has been a year of change and consolidation, we remained committed to this responsibility with a sharpened focus in FY23.

For today's call, I will speak to the highlights and the business performance. Pete will speak to our financial performance and unit economic analysis. Martin will step through a quick review of our financial statements. And I'll summarize our priorities and outlook at the end before opening up for questions.

Our key operating metrics are set out on Slide 5 and confirm another year of strong performance. We delivered $8.7 billion in transaction volume, up over 50% year-over-year. This was derived from our valued merchants and customers, which at June 30, stood at 11.4 million customers and over 90,000 integrated merchants globally.

And if we look beyond our integrated merchants, our customers shop at hundreds of thousands of more outlets. Pleasingly, the number of Zip transactions was up 80% to over 74 million, demonstrating a healthy increase in customer engagement.

Slide 6 is a summary of our key financial metrics. As you can see here, revenue growth was strong, up 57%, $620 million, while revenue margins lifted to 7.1% driven by a differentiated and robust revenue model.

While delivering impressive top-line growth, we have clear focus on our path to group profitability. The cash transaction margin, while still very solid at 2.3%, was down from last year and we have taken actions to improve our gross profit in both Australia and the U.S.

Cash EBTDA was a loss of $207 million for the year, which was in line with expectations. And we recognize that in the shifting external environment, there is still work to do here. We have the plan, and we'll talk about this in more detail throughout the presentation. And finally, our cash position remains strong with $279 million of available cash and liquidity, which we are confident will see us through to group positive cash EBTDA in FY24.

Turning to Slide 7. From a highlights perspective, firstly, some of the operating metrics I just spoke to continue to demonstrate strong top-line growth that the business continues to deliver with both TTV revenue customers and merchants all up more than 50%, again, demonstrating the healthy continued demand for BNPL out there.

The incremental value we bring to merchants continues to resonate. We signed with a number of marquee brands, including Best Buy, Bed Bath & Beyond in the U.S. And in Australia, we entered new verticals, including making our plane travel with Qantas and Virgin.

In FY22, we added 4.1 million new customers to the Zip platform. And as we bring customers to more merchants and verticals, we can see that our proposition continues to drive deep engagement. Transactions per active customer in core markets increased 45% in the year.

One number that we really wanted to highlight was the cash EBTDA of the Australian business at $28 million. This clearly demonstrates the operating leverage of the business model and proof of its potential to deliver strong EBTDA growth at scale.

And finally, I'd like to thank all of our dear shareholders who have supported us over the years and in particular the capital raising earlier this year.

We started the year executing on our global strategy at a - at a rapid pace, opening up many Zip markets and taking advantage of the early BNPL adoption curve. But as we spoke about a few months ago, the world changed drastically and we had to respond.

We proactively refined our strategy to focus on sustainable growth, strong unit economics and cost management. And I'm pleased to say, there are a number of initiatives we have delivered on helping to accelerate our path to profitability.

Providing value to our customers is part of our DNA. We launched new products and services with Zip installments in Australia and physical cards in the U.S. tackling the in-store opportunity.

Product innovation and evolution of experience is a common theme as we strive to meet our customers where they are. This year, we also enhanced our rewards program with a key partnership with Qantas. We also added install rewards to the Zip app.

With regards to unit economics, there are a number of actions we've taken to maintain and increase margins, including repricing initiatives as well as the considerable response underway to manage credit losses, which Pete will take you through later in the presentation.

On the right, we talked about reducing cash burn, with reductions in people cost base and our global footprint. This is in line with our aim to allocate capital with a focus on markets that are profitable or have a near and clear path to profitability.

As such, we made a number of decisions to pause or wind down non-core products and non-core markets. We announced the decision to close the Singapore business in Q4 and we are announcing today the decision to close the U.K. business, reducing the group cash burn further. We also want to thank our dedicated teams in those regions for their efforts over the years.

In [tandem], we have also been undertaking a strategic review of our rest of world footprint to determine how we can best allocate capital to generate long-term shareholder value, and we'll come back to you with more details on the outcome of this review.

In line with this, the ANZ business also made a number of proactive changes to its product set in FY22, allowing us to focus all our resources on core products and setting up the business to further expect margin expansion and EBTDA grow.

Now, let's move to Slide 9. As a global organization, we remain committed to operating responsibly and in a way that positively impacts all of our stakeholders. Supporting financial empowerment to our community is central to our vision for a financially fearless world. And in FY22, we're proud to launch a partnership with Young Change Agents, which is a not-for-profit supporting financial literacy and entrepreneurial skills for youths across Australia.

For our customers, we remain committed to responsible lending and driving smart money management. We look forward to bringing more features into the Z0ip app in FY23. As our business matures, so have our practices to support environmental sustainability. We have continued our commitment operating as a climate-neutral organization.

Next, diversity, equity, inclusion are key to our employees, feeling like they can bring their whole selves to work. And we revised our measurable objectives for gender balance this year, as you can see, which we are committing to at 40-40-20 across all levels by FY26.

And finally, we also continued our commitment to inclusion in our communities through partnering with Women Who Code and The Pinnacle Foundation.

And the last point on this slide, at Zip, our employees' health and wellbeing is a top priority, particularly in a world with COVID and some of these changing conditions. This focus encompasses all colleagues of all genders, ethnicities and orientations in all the countries we operate in. And one of the key changes we made to our bereavement leave policy that took effect in June this year was to enable U.S. employee to safely access abortion treatment.

We'll now move on to Slide 11, as we discussed, some of the more regional performance. So, first on the U.S., as you can see here, we saw strong transaction volume growth over the year, up 67%.

The app, which is a key measure of engagement, so volume up over 80% year-over-year, and the number of unique transacting customers in the app increased by 38%. As mentioned earlier, we're also excited to launch with great merchants like Best Buy and Bed Bath & Beyond, which continue to increase our customer acquisition funnel.

It's early days in the Best Buy relationship, but through initial customer engagement, we see it's quite pleasing with NPS at 84 in July, evidencing that the offering is extremely productive for their customers.

The U.S. market remains a sizeable opportunity, with only 14 of the top 40 U.S. retailers currently offering a BNPL product. And so, we continue to innovate for our customers and merchants. We recently launched a physical card pilot in June of this year.

And post-pilot, we are aiming to scale this card in FY23 where in-store is a huge untapped opportunity, particularly as customers are returning in-store post-pandemic and shifting spend from online into in-store.

And moving forward to FY23, our focus here is going to be on accelerating the past EBTDA profitability and focusing on those initiatives that deliver increased revenue and optimized costs.

If we just look on the next slide, Slide 12, as you can see here, engagement continues to increase in the American market with both overall app and spend per active customer continuing to grow. As you can see on the chart on the left, in FY22, this is annual spend per customer with $725, which grew 30% year-over-year.

And if you look at the chart on the right, through the steepening of the curve, you can see that revenue per customer continues to increase over time, demonstrating our customers' long-term engagement with Zip and the continued investments we make to product and engineering in the Zip app.

Now, let's move on to ANZ. ANZ revenue grew at 40% year-over-year, which was, as we know it, at a faster clip than the transaction volume growth. This was led by increasing customer purchase frequency and lifetime value.

In fact, dual uses of both Zip Pay and Zip Money that we know are materially more profitable, lifted by 30% year-over-year. Another initiative that we rolled out was - were installments on the Zip Money product. And this gives customers the ability to pay installments at any online checkout, unlocking a much broader range of retailers.

In FY23, we are going to be focused on driving growth from this profitable and big ticket financing product, which we see even more important with a higher inflationary environment. As mentioned earlier, we were also incredibly pleased to announce both Virgin and Qantas, which joined our payment platform, and we signed eBay earlier this year.

So, finally, with close to 60% brand awareness for under 45 in Australia, a strengthened leadership team led by our ANZ Managing Director Cynthia Scott and the actions we took to focus the business on core products in FY22, we believe we have a team and plan to deliver even more in FY23 from our really strong and profitable business.

On Slide 14, here again, you can see our engagement metrics on a customer basis. Customers are increasingly adopting BNPL products as their preferred payment option versus traditional consumer credit products.

With recent industry data pointing to 6 million active BNPL accounts in Australia, with almost half of them not using a credit card. Leveraging our differentiated account based product in this market, customer transaction frequency is on the rise. And you can see in FY21 cohorts transacted at over 70 times a year. And as we - as we finished FY22, that number was 63, and the cohorts haven't yet fully seasoned, so very, very encouraging statistics.

And, again, on the right, similar to the U.S., we're seeing a steepening of the curve as customers that join the platform are driving more lifetime revenue. And the team is very focused on this across product engineering and data analytics.

As we move on to the next slide and cover the rest of world, here, this largely covers our high-growth emerging markets portfolio. Now, these businesses continue to live a strong growth. And while we confirmed, we are undertaking a strategic review, we remain of the view that there is significant unmet opportunity in these markets.

So, a few quick highlights here. If we look at Central and Eastern Europe, our Twisto business, they delivered TTV and revenue growth of 64% and 82% year-over-year, respectively. And considering the challenges in the region, this was a reasonable result.

Spotii, which is based in the Middle East, is a top three player in the region and had a good year with downloads growing nicely and signed brands like Pan Emirates and Virgin mobile. Mexico and Canada continue to scale with a strong pipeline emerging in Mexico, and Canada is now fully integrated into the U.S. operating model.

And finally, in South Africa, our brand Payflex, which is number one player over there, continues to sign up the top merchants and intake a lot recently and is on a clear path to profitability.

And just the last slide of the section, on Slide 16, we discussed active customers. Now, this is a measure that, of course, we monitor internally across our RFM customer models, which looks at recency, frequency, and monetary, and we will now be reporting on the 12-month active customer to more closely align with our peers. These are customers that have engaged any transaction activity in the last 12 months.

With that in mind, in FY22, we report 7.5 million active customers. And pleasingly, we saw this segment actually increased the average spend by just under 30% year-over-year, and transactions by 45% year-over-year across our core markets. With our differentiated proposition, we believe we can continue to drive higher spend and our revenue is very strong when you compare it to our peers.

I will now hand over to Pete to take us through the financial performance.

Peter Gray: Thanks, Larry. Just moving to Slide 18. So, here, we are providing a more detailed breakdown of our unit economics as we continue to focus on driving the businesses to targeted ranges and sustainable financial outcomes.

Revenue was up 57% year-on-year to $620 million, as Larry touched on, a pleasing outcome to see revenue growing faster than TTV. Revenue margins actually improved by 30 basis points on FY21 levels and transaction volume increased by 50%.

So, it really is validating our differentiated revenue model which continues to perform strong relative to our peers. Cash cost of sales increased year-on-year, largely as a result of bad debts. Cash transaction margin, while down, is still a solid result at 2.3%.

Just turning to the next page, which shows these results against our targeted range, so unit economics are a critical piece of our path to profitability, and we're taking very specific actions to improve our cash transaction margin, and we expect this to quickly improve towards our targeted range of 2.5% to 3%.

Interest expense as a percentage of TTV decreased by 20 basis points over the financial year. This is reflecting low weighted average margins and a change in business mix with the group now turning over capital more rapidly on a blended basis.

As we've previously guided, credit losses remained elevated in the second half of the year, and at 2.6% of TTV for the year, we're outside our targeted range. This was the biggest impact for the cash transaction margin decrease.

We've implemented a range of measures across all our markets to manage credit outcomes, and these actions are already delivering their desired effect with a clear path to our target of 2% and lower, and we'll go into those very shortly.

Bank fees and data costs increased slightly year-on-year to 1.3%, reflecting the ongoing volume mixed shift towards the U.S. Our targets reflect our current strategy and risk settings and also the current operating environment.

Just moving to Slide 20, as Larry touched on, we're really highlighting the Australian business. It demonstrates how our business model and our unit economics scale and the benefits when applying operating leverage.

Off the back of four consecutive years of profitability, the Australian business delivered a record cash EBTDA profit of $28 million, and this will continue to increase. During FY22, we took a series of actions, simplified our product range, and reprioritized our resources, focusing on our core and higher-margin products. We're also streamlining our cost base.

So, we expect to see the Australian business flow - the (inaudible) actions flow through in FY23 where we expect to deliver an even better result again. We're very excited about the future potential of the Australian business, and it is an important element in accelerating group profitability in FY24. We see a similar opportunity and trajectory in the U.S. and fast-tracking at similar outcome is also a key driver to group profitability in FY24.

Just moving to Slide 21 and 22 and an update on credit performance, as mentioned, credit losses are a key component and driver of strong unit economics and cash transaction management. Thanks to our unique product construct and capital recycling profile, we can respond and take actions to rapidly improve credit performance.

Actions taken in the second half of FY22 are already driving outcomes towards our targeted range of 2% and below. For new customers, we have adjusted risk settings, which has meant the top-line growth has been managed to deliver controlled and profitable outcomes.

We've also taken a more disciplined approach to portfolio management, tightening credit limits were required for existing customers. Additionally, new repayment initiatives and additional collections resources are seeing an uplift in repayments and recoveries, and as a result, contributing to better loss outcomes.

Taking a closer look at the changes we've made in the Australian market, actions include reducing cutoff scores, increasing use of banking transactional data, assessing affordability, and retirements and collection optimization initiatives.

Over the second half of the year, 650,000 Australian customers moved to a custom repayment schedule, driving a higher repayment success rate. These actions have seen a reduction in the number of customers entering arrears, improving roll rates, which then reduces write-offs. Losses have now peaked and will trend down over the course of FY23.

Slide 22 focuses on the U.S. performance. And this slide is tracking losses on a cohort basis, which is the most accurate way to measure the pain for losses. Actions include tightening cutoff scores, increased focus on limit and exposure management, and repayment and collections optimization initiatives.

These actions have seen losses on a cohort basis fall from 3% in December 2021 to 2.1% in late June, despite a continued deterioration in the external environment. So, looking forward for the U.S., we expect further actions will continue to drive further improvement and we anticipate these losses continuing to trend to deliver outcomes at our target range or below in half one FY23.

Moving to Slide 23, interest rates, the reality is that we're experiencing a rising interest rate environment globally though our business model remains very well-placed to navigate this scenario.

Our loan book is currently recycling every 3.8 months, which compares to 4.1 months in prior periods. This change reflects both the shift in business mix in the U.S. and a strong focus on repayments as part of the customer experience and lifecycle management in ANZ.

During the period, (inaudible) its first issuance under the Master Trust with a AAA rating, delivering a lower weighted average margin. As we called out earlier, our cost of interest for the year actually fell, which was a great result, so by 20 basis points to 0.9%.

A differentiated business model, also possesses multiple levers to maintain or grow top-line margins, which offsets or mitigates any further interest rate rises. As was demonstrated on the previous slide, some of these initiatives have already driven a higher top-line gross revenue margin.

U.S. business in particular remains well-placed to maintain margins in a rising rate environment with only 25 basis point rise, only increasing U.S. funding costs by two basis points per transaction.

Slide 24 highlights our healthy cash and funding position. We have strengthened our balance sheet with a $173 million capital raised via institutional placement and share purchase plan. And currently, we have $279 million available in cash and liquidity. We’re very confident we have enough capital to execute on our strategy and that is delivering great profitability.

Operationally, we’ve taken steps to reduce cash burn across all of the business. These include a reduction in global people costs and the decisions we’ve made to close the Singapore and U.K. businesses (inaudible) and the Zip Trade and Zip Plus product range. We expect those decisions and actions to deliver a $50 million benefit to our cost base on an annualized basis. A range of other initiatives to reduce additional costs are being explored and enabled.

In line with our strategic allocation of capital to core markets to fast track profitability, we are undertaking a strategic review of our rest of world businesses with a likely further reduction to our cost base, with the aim being to neutralize cash burn from rest of world businesses during the second half of FY23.

And finally, across our core markets, Australia and the U.S., we have debt funding facilities of $397 million and U.S. $183 million available respectively, which is more than sufficient capacity to support strong transaction volume growth.

I’ll now hand over to Martin to step through the detailed financial statements.

Martin Brooke: Thanks, Pete. Now, turning to Slide 26 for a few brief comments on the segments. As you’ve heard, APAC continues to deliver strong growth and EBTDA expansion. The Americas, which is largely the U.S. focused on improving credit losses and driving benefits to our cash EBTDA.

And the loss in EMEA increased with the inclusion of the Spotii and Twisto acquisitions and we are focused on utilizing the cash burn from this region in the second half of next year with actions from our strategic review.

Jumping to the income statements on Slide 27, as Pete has called out, the key moving - the key moving parts of the gross profit line, I'll focus my comments on the remaining items on the slide.

On cash operating costs, we grew headcount during the early part of the year both organically and by acquisition. We ended the year with just under 1,500 full time equivalents following the headcount reduction announced in April.

As a percentage of transaction volume, salaries and employee benefits and expenses risen to 2.1%. And as discussed earlier, we are closing Singapore and the U.K., are completing a strategic review of our non-core geographies, and are looking at our organizational structure to realize efficiencies and create a more lean structure.

Marketing costs have increased to 1.4% of transaction volume from 1.3% in the prior year. This includes one-off re-branding cost of $20.3 million. If you exclude these one-off costs, our marketing cost will be 1.1% of transaction volume.

I.T. and other costs are broadly in line with the prior year as a percentage of transaction volume, and include the cost of establishing new geographies in the first half. The provision for expected credit losses have increased to 6% compared to 5.1% last year as a result of the move of the roll rates across our receivables portfolio and adjustments to the economic overlay.

Looking at the corporate items and one-off adjustments in the next slide, and then, again, just looking at the material items, acquisition costs reflect cost incurred in acquisitions in the period, majority being costs associated with the Sezzle transaction.

The costs do not include the agreed termination fee of $11 million U.S., which was paid in July. Share-based payments have dropped $97.3 million in relation to retention and performance shares issued to the QuadPay and approved by shareholders on the acquisition of Quad. The 10-year conditions have been met and the first and second transaction hurdles that we achieved. A third hurdle has not been achieved.

A fair value gain of $119 million was recorded on the embedded derivative contained within the convertible notes and warrants compared to a fair value loss in the previous financial year, which is a reflection of the movement of Zip's share price year-on-year.

As discussed previously, the group's strategy has moved to focus on core markets and we've reviewed the allocation and availability of capital to the markets in which we operate. We have also reviewed growth rates and discount rates in our models, and as a result of fully impaired goodwill and intangibles attributable to the U.K., Spotii and Twisto cash-generating units, and partially impaired goodwill attributable to U.S. cash generating.

Moving on to the balance sheet, I'll talk a little about - a little bit about our cash position a couple of slides later. The increase in other receivables reflects an increase in accrued transaction income and a change in timing under the receipt of payments from our processing partners.

The growth in receivables report is - which is reported net of unearned income debt is supported by the increase in borrowings and the use of surplus funds, funds receivables, and deferred borrowings until such time as you need the funds for operational purposes.

Twisto, which was previously shown as an investment now consolidated into the group, and we report our ownership interest in (inaudible) Buy Now, Pay Later operated as money as an investment.

The movement in intangible assets and goodwill reflects the acquisition of Twisto, Spotii, and Payflex in the early part of the year net of the impairment charge that we booked to the end of the year.

Deferred consideration of $19.3 million has been held back to settle any claims against Twisto arising from the period prior to acquisition and no claims have arisen to-date. There was also deferred considerable consideration based on - based on Payflex hitting certain transaction volume hurdles.

The convertible notes and options are reported as a debt and embedded derivative. As noted previously, the revaluation of the embedded derivative at 30 June resulted in a gain of $190 million being recorded. The remaining movement reflects the effective interest charged in the year and added to the reported liability.

Turning to the cash flow, the net increase in receivables and borrowing transaction costs are now shown in the cash flow, cash flow to operations where previously they were shown in investing and financing activities, respectively.

The net increase in receivables and borrowing transaction costs are now shown in the cash flow. Cash flow's operations where previously were shown in investing and financing activities, respectively. The movement in receivables is largely supported by the net movement in borrowing shown in financing activities, noting that we refinanced our inaugural (inaudible) during the year. We capitalized $25 million on the development of our technology platform and invested $72 million for an 11% shareholding in ZestMoney. In March, we raised $173 million in carrying cost of $3.4 million.

Moving to the available cash slide. We used capital raise to fund receivables in our funding vehicles prior to being used for operational purposes. As funds are required, we drew funds from the vehicles with corresponding increases in borrowing.

At 30 June, we have $226 million in available cash to fund investment and operations after allowing the cash held at balance date was unavailable to us and after including cash that can be withdrawn from our funding vehicle, and including the undrawn corporate debt, we had cash and liquidity of approximately $279 million at 30 June.

Moving on to the debt funding side, we are well-placed to support our strategic initiative. The combination of our Australian consumer receivable facility provides the variable funding facility of $1 billion. This enables us to generate new receivables from new and existing customers, build up receivables, turn them to the rated markets, we pay the variable funding providers and start again.

As a result of the performance of our receivables portfolio, our senior notes in the last rated period achieved AAA status. Consequently, the weighted average margin on the 2021-2 rated noted issued price at a weighted average of 1.5% to 1.8% below inaugural (inaudible) refinanced. We also established a consumer facility in New Zealand during the year by extending the Zip covenant facilities across Australia and New Zealand. Our weighted average cost of funds and drawn balances across the group has remained constant at 3.7%.

I'll now hand back to Larry to make some comments on our business model, FY23 priorities, and outlook.

Larry Diamond: Thank you, Martin. And now to Slide 34, a slide that hopefully many of you are familiar with and important to reiterate as we look at the flywheel, the customers are required at checkout, moving to the app, shop everywhere driving frequency and engagement, and then equally customers that sign up in the app, referring those back to our merchants.

In light of the current macroeconomic environment in which inflation, rising interest rates, and supply chain issues are all top of mind, we believe our product and flexible model uniquely positions us to provide increased value to both of these stakeholders. For merchants, it's about driving incremental top line sales growth in a world where stimulus is no longer a tailwind. This includes driving new customer referrals through the app, to e-commerce sites and physical stores, improving conversion at checkout through payment flexibility, increasing average order value, and providing valuable customer and transactional insights.

For our consumers, our products provide a fair and simple payment solution to cater for both every day and discretionary spend. And this helps them budget, also managing their cost of living in order to maintain their current lifestyle. All of these factors are even more important in the current climate.

As we move on to Slide 35, I want to talk to some of the factors driving current market conditions, the impacts on our business, and while we are confident we have the right business model and the leaders that will prove resilience.

Firstly, the prevalence of rising interest rate is reality of the current environment and was particularly evident in the second half of the year. We are also seeing this in the forward yield curves. We have strongly focused on how we maintain margins in this environment. Our product construct and repayment velocity, as Pete touched on, means

U.S. business, in particular, is well-placed to mitigate interest rate rises. And we continue to implement initiatives to drive improvements in repayment such as the customized payment schedules and collection strategies that Pete spoke to earlier. Our portfolio, in general, recycles capital significantly faster than the average credit card, and this provides an advantage.

In addition, our two-sided revenue model permits us to pass on some of the pricing increases to customers and merchants, helping to protect margin and yields. We know that inflation has lifted substantially and is changing consumer spending profiles, putting pressure on merchants.

Our product construct continues to be just as relevant, if not more important to customers while looking to manage their cash flow needs. For example, a recent (inaudible) report showed that over 50% of consumers said that BNPL helped them manage their cash flow in FY21 and the same percentage also said that using BNPL allowed them to avoid interest charges compared to traditional credit card, another great way we are supporting our customers.

For merchants, we know the top three benefits our products provide include new and repeat customers and increased order values. Sixty percent of Australian merchants who accepted BNPL in FY21 believe their revenue would fall if they did not provide it as a payment option.

Finally, we are well-positioned to any potential change to the regulatory aspect. Zip has supported and always has been a simple fit-for-purpose regulation, and our first product we have launched, Zip Money, is already regulated under the NCCPA. And as you know, we conduct identity credit and affordability checks on customers.

Similarly, in the U.S., our partnership with WebBank sees us well-placed to adapt to any future needs. And we are actively engaged with regulators in both of our core markets as innovation meets regulation and regulation meets innovation.

Turning to Slide 36, again another slide that we've shared before, but a very important one and demonstrate how Zip differentiate in markets. Our unique advantages span four key areas. Firstly, we offer both short and long duration installments in a single checkout experience. And Zip's aim is to be able to offer the right level of payment flexibility and serviceability to any consumer purchase, big or small.

Next, we operate both an open and an integrated payment network. This allows us to accelerate our flywheel and enable customers to use BNPL everywhere while referring customers back to our integrated merchant network. This ultimately drives both preference and frequency.

Third is our two-sided business model where we derive revenue both from customers, fair and transparency, and revenue from our merchants. This enables us to support transactions of any size in any vertical while maintaining healthy unit economics and revenue margins. Essentially, we can play where others can't.

And finally, our risk management, as Pete touched on earlier, is a key tenet of our proposition, leveraging our proprietary decision tech to optimize checkout conversions for our merchants while delivering probable outcomes. And we've made further enhancements to this capability in the current year and ongoing, of course. And we have now underwritten over $18.5 billion installment from 2013, which is no small feat.

Moving on to Slide 37. This demonstrates the significant opportunity of BNPL and just how early we are into our journey. You can see the multitrillion dollar addressable payments opportunity in our core markets (inaudible) 00:59:13 and the U.S., which (inaudible) expects to see more than double by 2025.

Clearly, we're still early on in the BNPL lifecycle and penetration of BNPL payment at checkout in our core markets, this is at less than 2%. The U.S. continues to present a sizable market opportunity based on [share side] early-stage market maturity and the low penetration levels with BNPL at just 4% of e-commerce and 1% of install spend.

If we flip to the ANZ, which is a more mature market, we've estimated that just over 10% of e-commerce goes through BNPL, but it still lags other installment markets such as Sweden and Germany where penetration levels are at least double where Australia is today.

Moving on to Slide 38, so yes, Slide 38. FY23 will be a year of continued growth as we execute on our strategic pillars, focusing on the things we can control. We have three clear company goals that we are working towards, and I'll step through these.

Firstly, as a group, capital allocation resources will be focused on areas of business that demonstrate the right characteristics to accelerate our path to profitability. Specifically, our clear and simple focus is to deliver sustainable growth in the core markets of ANZ and the U.S. We are already generating a profit or have a clear and neat path to profitability.

Merchants are significant driver of growth in customer engagement. And in FY23 we'll continue to pursue new profitable merchant relationships, which will fuel customer acquisition and TTV growth while delivering continued benefit and new Zip services to the space. We will continue to embed and scale recent enterprise merchant wins such as Best Buy, Bed Bath and Beyond, eBay and Qantas. And with the lens on profitability, we are also reviewing all merchant agreements repricing where appropriate, but also, if necessary, exiting unprofitable agreements that do not align with this portfolio approach.

Customers, which form the other part of our flywheel, here we are investing heavily to enhance core product experiences from our millions of customers, driving adoption of high-margin features, and increasing LTV. We are also adjusting and optimizing risk pools and delivering on portfolio management and collection to manage credit losses to approach our target range of below 2%. And we are also undertaking actions to reduce our global cost base.

In Australia, we have retaken a number of actions to discontinue lower margin and non-core product lines, which we expect to deliver further operating efficiencies. In FY23, we will complete the wind down of Singapore and U.K., and we are working through and we'll finalize actions related to our remaining non-core global businesses with the aim of reducing cash burns.

Together with a range of other in-market initiatives we expect these actions to see the U.S. exiting FY23 cash EBITDA positive and to neutralize, as Martin touched on, the cash burn from the rest of the world in the second half of this fiscal year. And finally, with incremental EBITDA expansion from our already profitable Australian business, we expect to be delivering on our goal of getting to group EBITDA positivity.

Onto the outlook slide, Slide 39, and building on the analysis that Pete shared earlier in the presentation. Our targets reflect our current strategy focused on sustainable growth. To provide some color, in the medium-term, we expected to deliver a cash transaction margin of 2.5% to 3% and achieve group cash EBITDA profitability during the first half of FY24.

Revenue as a percentage of TTV is targeted at 7% to 7.5% as we grow the adoption of high-margin products. TTV growth, as a result, is expected to be tempered in the near-term in line with adjustments to our risk setting. Next, cost of sales as a percentage of TTV, here we're targeting 4% to 4.5% over the medium-term. This reflects the outcomes of actions to drive beyond credit losses and our expectations of arising interest rate environment.

On OpEx, we have the benefits of reductions we have made to people cost in April and the closure of our Singapore and U.K. business, as well as the non-recurrence of the one-off rebrand cost in FY22. A disciplined approach to our cost base in line with our recent Australian success will be key to delivering significant operating leverage over the next couple of years, and our goal of generating positive cash EBITDA in FY24. As we scale OpEx as a percent of TTV is expected to decrease to below FY22 level, and you can see here that's about 1.5% to 2.5% over the medium-term.

And so finally, when you run the above math, you can see a business once scaled generating cash EBITDA of about 1% to 2% of TTV or around 20% to 25% of revenue.

And just finally on Slide 40, I'd like to make some closing remarks. Firstly, the addressable opportunity remains significant, particularly in the U.S. with BNPL still maturing in our core markets. Our differentiated business model should prove resilient in the current operating environment when coupled together with our innovated products. And this positions us to capture significant market share.

Third, we are well-funded with approximately $280 million dollars in liquidity and have a good balance sheet to fund the group to profitability. And finally, we have the team, the product economics, and the strategic plan to deliver on our EBITDA goals in the first half of FY24.

Finally, on behalf of Pete and I, together with the board, we would like to thank the entire Zip team, our dear Zip [students] for everything they have passionately delivered this year, and our shareholders for their ongoing support. We look forward to FY23.

That ends the formal part of the presentation, and we'll now open for any Q&A. Thank you.

+++qanda

Operator: Thank you. The floor is now open for questions. (Operator Instructions)

Our first question will come from Tom Beadle with UBS. Your line is open.

Tom Beadle: Hi, guys. Thanks for the opportunity to ask questions. I'll just ask two questions just around the customer numbers. The first question is just how you're going to define a customer going forward. Will the numbers be subject to periodic revisions like they work today? And are you trading the definition of a customer consistently between ANZ and the U.S. now because the fact that you've restated in the U.S., but not ANZ suggests that that definition might have either been inconsistent previously or is inconsistent now? So that's the first question.

The second question is just if I take your U.S. stated active customer base of 4.6 million and divide it by TTV by that customer base, I get about AUD639 of TTV per customer. In the presentation, I think it's on Slide 12 that you stated, it was $725 per active customer, so that's obviously over AUD1,000. So effectively, is there difference there in active customers? And if so, why won't those customers remove from your base? And by this logic, if I use that AUD1,040 and divide that by your TTV, it implies that you have less than four million active customers, about 3.8 million if my assumptions are correct versus the 6.4 million that you've reported. Is that fair?

Peter Gray: Thanks, Tom. Yes, so we kind of stepped through everything. First of all, of course, we track all customers. And so in the past, say in Australia, for example, customers might have signed up an account and transacted a year ago. Of course, all customer (inaudible) 01:08:11 have decaying customers from year one, year two, and year three. We are reporting now on the 12-month active, which is making a transaction, a customer campus that's making a transaction.

In the quarterly you would've seen that we said seven million customers for America, and that included 500,000 to 600,000 of customers that have signed up with an account but had not transacted. So we just clarified that here and that's how you've seen the 12 million number come down to 11.4 million. So we obviously have significantly more customers that we actively target as part of our marketing and product initiatives. We might sign up and not transact, and we might not catch them in three months or six months, maybe a year later, so I think that's first of all. And going forward, we are now going to be sharing the last 12 months reported active customer.

And so then as you move on to Slide 12, which I think you were talking about the maps, and Martin just cross-checking it now, that division is actually based on the active customer count of 4.1 for the U.S. versus the 6.4. So if we take the TTV off of the transactions, which we've quoted throughout the presentation, that is on the active customer number, which is how we get to the $725.

Martin Brooke: And going forward, we'll be reporting on the active customer (inaudible) on Slide 16.

Peter Gray: Yes, yes. And I think the other point we just called out is the active customers engagement metrics grew quite nicely year-over-year based on spend, that's about 30% where the average customer spends at 5.50 and now it's about 7.20, and same as the increasing in the number of transactions. But again, and our whole business still targets customers that might be dormant, and that's our same model that we spoke about earlier.

Tom Beadle: Okay, great. Now, thanks for the clarification there. And I guess, sort of what's that active customer number then in Australia and New Zealand.

Martin Brooke: They're on Slide 16, Tom. For ANZ $2.3 million, U.S. $4.1 million, and the rest of the world $1.1 million given the total (inaudible).

Tom Beadle: Apologies, I actually missed that slide, sorry. Thanks for the clarification.

Operator: Thank you. Our next question will come from Elise Kennedy with Jarden.

Elise Kennedy: Hi, Larry, Pete and Martin, my two questions. My first is just on the M&A rest of world strategic review. You've highlighted a few of those strategic assets being looked at again. I'm wondering if you're seeing any other type from others willing to purchase these assets or is there another way to find and contain cost without closing the businesses.

And then my second question is just around increasing emphasis. It looks like on that Zip Money product in Australia, which is longer duration, I'm just wondering how we could think about that flowing through interest if you would like (inaudible) payment.

Larry Diamond: Thanks, thanks for the question. So I think look, yes, as we touched on in the presentation, we are still big believers in BNPL in those rest of world markets, but obviously, as we fast-track profitability, we need to look at reducing the burn. As part of the strategic review, we are looking at a range of things such as investment, divestment all indeed wind down as we're seeing some of those decisions coming out for the U.K. and Singapore. So that's really all we can share at this stage.

Then the other guidance we gave is then ten second half of this year the goal is to remove the cash burn, which can be delivered through any of those three measures, and that's currently under review.

Peter Gray: I think that to the second question, Elise, Zip Money is a massive opportunity for us to go both TTV and revenue margin is definitely a higher margin product, and the products (inaudible) is challenged. We've significantly upgraded the capabilities. We've had that installment product is actually offered to consumers, and they now have the ability to set an installment at any online checkout regardless of whether or not they need (inaudible) Zip partner. So we have significantly opened the addressable opportunity, and we can certainly transact in verticals and categories with our integration, penetration not as broad.

I think with regards to the repayment and optimizing the velocity of the recycling, that is largely related to Zip Pay. Clearly, that is a significant chance of both the business and the receivables and the initiatives in setting up that customer experience in the way that we have increased velocity is largely a Zip Pay initiative, clearly, Zip Money is more a fixed installment.

Elise Kennedy: So thanks, Larry and Peter.

Operator: Thank you. I would now like to turn it back to Vivienne Lee for any additional questions.

Vivienne Lee: Thanks, operator. We've got some questions from [John Maren] from (inaudible). So firstly, can you please remind us where you are on the mix of receivables in Australia across BNPL and longer-term products? And then maybe discuss the longer-term plans on this front in North America over time. That's the first question.

Peter Gray: Yes, so I don't have the specifics in front of me, [John], with regards to the Australian receivables. I believe it's about 55% Zip Pay, so that has over time been a strong growth product for the business. That really is the faster capital recycling product, so we received the natural benefits that that delivers with regards to the cost of funds. But as I just touched on, we do have strong ambitions for core Zip Money to deliver high-margin growth. So the high-margin growth, obviously, will offset to some degree the faster revolving Zip Pay product receivables.

Vivienne Lee: And the second part of the question is from [John], can you also speak to the performance of your credit metrics across the spectrum in Australia?

Peter Gray: There's also an (inaudible).

Martin Brooke: (Inaudible) in the U.S.

Vivienne Lee: Sorry? The first question was please discuss the longer-term plan from this fund in North America over time.

Peter Gray: Thanks for that. I sort of touched on about four key pillars being able to allow customer to make a purchase and pay that as an appropriate serviceability period. Whether it's six weeks or six months is a core tenet of the Zip business. And (inaudible) that we are looking at in in FY23 from American business, it's likely to be through partnership initially, which obviously means in a much more effective use of capital and allowing us to grow in sort of the current environment. And that's currently underway. We are in late-stage review of a number of strategic partners over there.

Vivienne Lee: And the second part of [John's] questions, can you also fix the performance of your credit metrics across each sector in Australia?

Peter Gray: So generally speaking, the longer duration product performs better with regards to (inaudible) and losses. Then Zip Pay, I think to be clear, it's more continued purchase marginally high credit quality or low the average credit scores to both products are relatively similar, but it would typically perform marginally better than the Buy Now Pay Later Zip Pay product.

Vivienne Lee: Thanks. The next question is from [Brandon Carrick]. This question is from Brandon is while [IPAC] is profitable in FY22 at the EBITDA line, what impacts for high-funding cost have on distribution specifically in FY23 given it has a circa $2 billion funding base, so every 100 basis points increased reduces EBITDA for $20 million.

Peter Gray: Yes, so clearly we are in the (inaudible) rate rising environment. As we touched on throughout the presentation, we've got a number of (inaudible) at our disposal. We can firstly increase margin, and we deployed a few of those significantly, well, not significantly necessarily, but we'll increase the overall gross revenue margin.

Australia is very healthy. It's north of 80% at the top line. And we have initiatives in place with regards to refinancing facility then also to be touching on this increasing velocity of consumer repayment. So the success we've had so far is decreasing that the recycle weight across the book actually mitigates to some degree the rising rate and clearly decreasing losses by greater percentage points than the businesses experience on the interest rate rise side. That mitigates get quite nicely as well.

So we believe the business is very well-placed to continue. Our models and our target ranges that we provided today are in line with how we see our risk setting from the CapEx (inaudible) environment, so we are taking into consideration the bold curves for those outcomes. And we're very confident that Australia will deliver a much better result again in FY23.

Vivienne Lee: Thank you. The second question from [Brandon Carrick] is of the $64 million of corporate costs, $20 for rebranding and fee non-recurring. What about the other $44 million?

Martin Brooke: Yes, we meant in the $44 million there is an element, professional fee that won't recur because we haven't gone from a very complex organization. It's a lot simpler organization to (inaudible) strategic review.

There is some (inaudible) sort of sitting there, as well as the 2 million. And then we have a common structure as we simplify the organization, and we expect that to reduce from both headcount and the cost (inaudible).

Vivienne Lee: Thanks, Martin. And the final question from [Brandon] was on Slide 21, which is the credit loss side. What is driving the uptick in expected losses as we progress through first quarter '23?

Peter Gray: So effectively we've made very conservative forecast here, and we've achieved exceptional results over the last two months. So we actually that is a conservative forecast, so the back of the range of changes that we've made in the first half out of this calendar year have (inaudible) deliver significant outcomes, but we can take a rather conservative forecast, and that's effectively what we see on the screen. The likely outcome is continuing to (inaudible) with asset [bumps] towards the right-hand side of the graph.

Vivienne Lee: Thanks, Pete. No further questions through email. Back to Larry for some closing comments.

Larry Diamond: So I think that's everything else. So look, I want to thank everyone for their time today. After listening in the questions, as always, feel free to reach out to I.R. line as well if you have any other questions. And thanks for your support. We look forward to executing on our strategy in FY23. Cheers.

Operator: Ladies and gentlemen, this does conclude today's conference call and webcast. A webcast archive of this call can be found at zip.co/investors. Please disconnect your line at this time and have a wonderful day.