TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Zip Co Limited HY23 Results Briefing. All participants are in a listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question via the phones, you will need to press the star key, followed by the number one on your telephone keypad. If you wish to ask a question via webcast, please enter it into the Ask a Question box and click submit. I would now like to hand the conference overt to Vivienne Lee, Director of Investor Relations. Please, go ahead.

Vivienne Lee: Thanks, Operator. Good morning and thank you for joining Zip's first half '23 earnings call. To open the call, I'd like to begin by acknowledging the traditional owners of the land on which we meet today, the Gadigal people of the Eora Nation and pay my respects to Elders, past and present.

This conference call is also being webcast and both the results presentation and call details are available on the ASX. I'm joined today by Zip Co Founder and Global CEO, Larry Diamond; Zip Co Founder and Global COO, Peter Gray; and our CFO, Martin Brooke. We'll 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 once again to Zip Co's half Year FY23 Results Presentation. We founded Zip to create a more financially fearless world and we are just getting started on our mission to be the first payment choice everywhere and every day. To create a world where people can live fearlessly today knowing 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. When users click our button, that's the promise we wish to deliver. We have your back. In particular at a time of heightened inflation and increasing cost of living pressures, BNPL is established as an important budgeting tool for everyday use for consumers and a real necessity for all our merchants.

Zip has delivered a strong result and as we look forward to celebrating our 10th birthday in June this year. Before we get into the details of today's results presentation, I'd like to set the scene and talk about the journey that Zip has been on. Twelve months ago, in response to changes in market conditions, we pivoted the strategy from a focus on top line global growth to one of sustainable growth accelerating our path to profitability.

We said that we would focus on core products and core markets and allocate resources to those geographies that were either profitable or had a near and clear path to profitability. We re-set our strategic pillars and shifted our focus to drive growth in these core markets, improve unit economics and reduce our global cost base. Over the last 12 months, Zip has been executing exactly on this updated strategy and you will see significant progress in the results we are sharing today.

Along with the initiatives that we have delivered over the past 12 months, we've now finalised the strategic review and will be streamlining the business from 14 to four markets. We are now emerging as a stronger and leaner Company that is well funded and our results today demonstrate that we are at or approaching our financial targets.

So just moving on to the table of contents, today I will cover the highlights and US business performance. Pete, our Global Chief Operating Officer will cover the ANZ business performance and our financial performance. This will be followed by Martin, our Chief Financial Officer, who will walk us through the summary financial statements and I'll then conclude with a few remarks regarding our outlook.

Our key operating highlights are set out on slide 5. Before I begin, I should say that all the numbers throughout the presentation will be referring to financial and operating metrics on a continuing basis which excludes Zip's UK, Mexico and Singapore businesses, which are now closed, and a reconciliation is provided in the appendix.

As you can see here, we are very pleased to deliver another period of record volumes. This was despite the challenging external environment and adjustments to our risk settings. We delivered close to $5 billion in transaction volume from over 42 million transactions, driven by a solid increase in customer engagement across the business.

Slide 6, if you just turn over, is a summary of our key financial metrics. In line with our clear focus on profitability, I'm particularly pleased with the team's execution of our revised strategy to focus on core markets and core products. That is clear in these financial results.

Revenue margins lifted by 50 basis points to 7.1%. The cash transaction margin expanded to 2.5% and net bad debts came in at 1.9%, down 50 basis points year-over-year. All in line with our target ranges. This performance was achieved despite a significant rise in interest rates and, I think, clearly shows healthy demand for our products and services.

As a result, half year '23 cash EBTDA for the underlying core business improved by $27 million to a loss of $33 million. Core cash EBTDA, I'd just like to remind everyone, includes EBTDA from our core markets of Australia, New Zealand, the Americas, plus corporate costs and is a better indicator of the go-forward business. This very strong result has us well and truly on the path to positive Group cash EBTDA during the first half of fiscal '24.

Turning to the highlights on slide 7. From a highlights' perspective, the core business is performing well. We were very pleased to see the US and New Zealand businesses both deliver positive cash EBTDA in November and December for the first time in our history with both markets continuing that result in January, joining the already profitable Australian business.

This performance reflected strong seasonal volumes and our progress in improving unit economics coupled with good cost discipline. The incremental value we bring to merchants continues to resonate. We consolidated our leading presence in travel and marketplaces in Australia with the addition of eBay, Qantas, Jetstar and Uber and a very strong pipeline emerging. In the US, we were supposed by the likes of Best Buy, Fanatics and Barnes & Noble while our shop anywhere proposition enabled customers to use Zip at hundreds of thousands of locations.

Finally, we took actions to manage our balance sheet liabilities, retiring $110 million of convertible notes. We were particularly pleased with the transaction in December where you would have seen us retire $70 million of our zero interest $400 million convertible notes, which were undertaken at an attractive price of $0.23 and a cash neutral outcome to Zip.

While the remaining convertible bond liability has several years until maturity, management remains focussed on opportunities to address this liability and further strengthen the balance sheet as market conditions permit. Now moving on.

Slide 8 shows the movement in Zip's available cash and liquidity position from 30 June to 31 December 2022. As highlighted on the charts, there were a significant number of one-off, non-operating and non-core cash flows that occurred in the first half that we do not expect to occur in the second half of this financial year.

These included payments for past M&A activity, convertible note repayments as well as movements related to Zip's funding programs. These activities totalled more than $140 million in aggregate. You can see in the dark blue on the chart what we define as core operating cash flows and the light purple and light blue for the non-operating items. You can read more detail on this slide and in the half year report.

Next slide, which is arguably more important, demonstrates why we expect a significant improvement in cash flows in the second half as compared with the first. Firstly, core cash EBTDA of negative $33 million is expected to improve further in the second half by up to 50%, driven by continued focus on productivity and efficiency improvements to our fixed costs.

Secondly, we expect a reduction in non-operating and one-off payments, as I mentioned earlier, which had an outside impact in the first half. We also have a number of initiatives underway to release restricted cash from our facilities while funding from peak sales is expected to largely unwind over this quarter.

In addition, Zip's strategic review is now complete as the Company elects to exit its rest of world regions. Actions to divest, restructure or wind down these regions are well progressed and expected to deliver cash inflows during the second half of this financial year while neutralising the cash burn in these markets. Finally, we expect to see further improvements to Group corporate costs as the business simplifies its footprint from 14 down to four markets.

With these actions and ongoing improvements in our core business, we are confident that we have the capital and strategy in place to deliver positive Group cash EBTDA profitability during the first half of fiscal ’24.

Just moving on to slide 10. This shows its continuing cash EBTDA for the Group was negative $43 million. Removing those geographies under review, to be divested, restructured or closed in the second half, core cash EBTDA, as I’ve previously mentioned, was negative $33 million. A significant improvement of $27 million year-over-year.

On the next slide, we break down cash EBTDA over the half. As demonstrated by the charts, performance improved considerably during the period. As you can see, the majority of the losses incurred in the first quarter of FY23 versus the second quarter. The core business delivered a cash EBTDA loss of $32 million in Q1, which improved to a loss of only $1.4 million in Q2. The movement was assisted by peak seasonal volumes, also driven by significant improvements in the underlying business. As we exit H1 ‘23, we expect the second half to show an improvement of up to 50% on the first half cash EBTDA results.

Now let’s turn to slide 12. At the beginning of FY23, we re-set the Zip strategy to deliver sustainable growth and an accelerated path to profitability while executing on the strategic priorities of core products and core markets, strong unit economics and right-sizing our cost base. I believe we have delivered a strong set of outcomes against these three pillars.

In core markets, customer engagement continued to grow. In the US, spend per customer - spend per active customer, grew by 9% year-over-year and in Australia, we focussed on scaling our higher margin Zip Money product which delivered its highest two months of TTV in November and December.

With regard to unit economics, the margins from the continuing business expanded this half, offsetting the impact of interest rate rises and supported by significantly better credit outcomes. Pete will delve into this later.

In addition to the outcomes I just mentioned on our strategic review, we completed the wind down of our non-core businesses in Singapore, the UK, Mexico and Zip Business Trade. In the core business, Zip continues to focus on driving operating efficiencies, portfolio simplification and higher margin revenue growth, all driving towards sustainable profitability.

Now let's move to slide 13 and look at the rest of world. These geographies have been under strategic review as we determined as a Group that we would focus on businesses that were either profitable or had a near and clear path to profitability. I can say that the strategic review is now complete and Zip has made the decision a flagged earlier, to exit its rest of world non-core regions.

Initiatives are well progressed to wind down, restructure or divest these geographies that will result in the removal of any cash burn during H2 FY23. This will have the effect of reducing our global footprint from 14 markets to our four core markets. In addition to the neutralisation of the cash burn from these regions, these actions are also expected to deliver additional cash inflows during the half, which will contribute directly to the Group's availability of cash and liquidity.

Now moving to slide 14. As a global organisation, we remain committed to operating responsibly and in a way that positively impacts all stakeholders. I'm very proud of the progress we have made in the last six months. Supporting financial empowerment for our communities is central to our vision for a financially fearless world. Our partnership with Young Change Agents is a clear example of this as we've continued to support their financial literacy and entrepreneurial engagement education programs.

For our customers, we remain committed to responsible lending and driving smart money management with the recent addition of bank linking in the Australian app, leveraging the IP and smarts inherited from those who remember our dear Pocketbook app.

We are committed to driving gender balance and have lifted the percentage of women to 44% of our global workforce. Importantly, this included a lift in female representation across all management levels below the Board.

At Zip, we pride ourselves on being a Company that really cares for its people and providing a workplace where they can thrive. We are pleased with our latest survey results with employee engagement levels remaining high at 78% despite, as we see around us, elevated levels of attrition across the industry.

Finally, we have continued our commitment to be a global climate neutral organisation. We work with a solutions provider South Pole to achieve this in FY22 and continue to work towards setting emissions reduction targets. That's the end of the first section and we'll just now move on to the business performance.

On slide 16, we look at the US. We always believed the US was a significant opportunity for Zip but we understood there was a limited window of opportunity to establish our footprint, given the rapid market forces catching on to the global BNPL trend. After carefully considering our options to buy versus build, you will recall that we chose to enter the US via the acquisition of Quadpay in 2020.

At the time, the business was doing $75 million in monthly TTV. So as we fast forward today, we have a large operation with over 250 staff on ground processing annualised volumes of $4.6 billion, up around five times since we acquired the business. An experienced leadership group and some great household names such as Best Buy, Fanatics and Barnes & Noble.

We also have a great and differentiated product in market where you can literally pay in-store anyway. Hopefully you can understand why I'm extremely excited for our future here, notwithstanding the competitive landscape and even moved the family over here late last year.

So onto the results. The US delivered positive cash EBTDA in the months of November and December for the first time. This was driven by significant improvements in credit performance coupled with disciplined cost management. We note here the top line growth was impacted as we - as expected, should I say, by the changes we made to risk settings. Though customer engagement with our existing base improved meaningfully with transactions for active customer up 23% year-over-year.

Our in-store strategy also continued to take shape. We are seeing incremental volumes coming through the physical card program with over 300,000 cards now in market and significant pent-up demand from the existing back book.

On slide 17, every year since its launch in 2019, we have seen customer engagement steadily increase in the Zip app and the proposition is resonating with our US customers. So we have a very strong customer NPS of 49 as at December. As mentioned earlier, spend per active customer continues to grow and importantly, on the right-hand side of this page, you can see though the steepening of the charts that revenue per customer has increased over time, demonstrating our customer's long-term engagement with Zip and continued investment in the app.

We are annualising at around $780 in annual spend and around $50 in annual revenue. We also have recently seen brand awareness rise to 20% in the US for under-45s on a four-week rolling basis. Although some of this came from some seasonal activity, it shows a healthy step up for the business from 2022.

Just on the next slide, it's important to remember how early we are on the BNPL journey. I just came back last week from San Antonio where there was a huge payments conference. Many of the US - the top US retailers were there and it confirmed to me that consumer finance in general is a huge part of their business models, with a large range of private label credit card programs on offer.

Interestingly, we have been able to demonstrate to merchants that BNPL is indeed incremental to their current programs. It doesn't appear to meaningfully cannibalise their private label volumes and when we run data washes, we actually see very little customer overlap. BNPL customers tend to skew younger and with a much more diverse FICO range. This really validates the role of BNPL in the consumer financial toolkit for retailers across America.

With total addressable market estimated to be over $10 trillion and BNPL still only around 2%, you can see the sheer size of the opportunity before us. Over 40% of millennials in the US have adopted BNPL and they keep on signing up. Worldpay in fact projects volumes to triple by 2025 from '21 levels. We do believe that the US is on a similar trajectory to Australia where a third of adults now have an account. I'll now pass on to Pete who will walk us through the ANZ business.

Peter Gray: Thanks, Larry. The ANZ business continued to deliver very, very strong results. Revenue was up 23% year-on-year which is a very strong number with revenue margins also expanding to 7.8%, which is very healthy. Transaction volume and customer growth rates were pretty moderate and reflected changes to internal risk settings compared to the prior period.

New Zealand business delivered positive cash EBTDA in November and December which included record volumes in December. We consolidated our leading position in the travel vertical, launching with Jetstar and Uber, who join Virgin and Qantas on our platform.

Our differentiated Zip Money product offering will play a key role in our strategy to own this vertical. We've also launched with eBay and initial customer feedback has been very positive post the introduction with an NPS of +71 from those customers. Again Zip Money instalments will provide a great point of difference and will drive strong growth once it has been fully implemented.

Moving to the next slide, increased engagement is driving much higher spend and revenue per customer in Australia. We know that customers who take up our dual product offering are more engaged and substantially more profitable than single product holders. So cost selling initiatives are a focus area to drive future growth.

It's pleasing that this focus is driving strong results with the percentage of our Zip Pay customers who then go on to take up Zip Money within the first six months of joining increasing to 25% of all new customers.

Transaction frequency is also increasing and in the half our top 20% of customers have transacted over 60 times on average. A really strong proof point that our product is becoming increasingly relevant to customers in this rising cost environment.

As called out on both this and the previous slide, our differentiated and refreshed Zip Money instalments product is a key driver of future growth.

Moving to the next slide, with close to 60% brand awareness now in the Australian market for Australians under 45, Zip is both well established and well placed to strengthen our position in the Australian market.

As expected, we are now seeing consolidation in the Australian market from the smaller players. As we've experienced in New Zealand, with the withdrawal of Humm, this provides opportunity for Zip to increase our market share. Our brand, market position and differentiated product offering continues to attract new merchants and customers to our platform.

Following recent developments in the Australian market, we are already seeing a significant lift in inbound merchant enquiries, creating significant opportunity for Zip to increase its market share. We expect this consolidation to continue.

Imminent changes to the regulatory framework also have us well placed to increase our market share. We have a demonstrated and proven capability to operate in a fully regulated environment, with core competencies in underwriting and affordability assessments.

We are seeing increases in average monthly transacting customers and favourably our active customer spend continues to grow. In a world of rising interest rates and inflation, our differentiated product construct and shop anywhere feature, provides even more benefit to our millions of customers.

During the half, Australians paid with Zip at over 450,000 locations both online and in store with our broad range of categories, encompassing both everyday and discretionary spend. We are well positioned to continue to thrive despite any economic uncertainty.

Moving on to slide 22 and a little bit more detail on the regulatory landscape in Australia. We have been driving and very supportive of appropriate regulation for our sector since 2019.

With over 6 million Australians now embracing BNPL, it is entirely appropriate that fit for purpose regulation is put in place to ensure the industry meets community expectations and provides protections for consumers, whilst still promoting and supporting innovation and competition.

We have been engaged with Treasury as part of their review process and have made a submission based on the options put forward as part of this process. We believe that the guardrails and requirements from Option 2 of Treasury's proposals would be an appropriate regulatory framework for our industry.

This option would amend the Credit Act to require BNPL providers to hold an Australian credit licence, along with obligations around scaling, affordability and responsible lending checks. It would ensure consumers were appropriately protected from any potential harms, as well as striking the very appropriate balance of building confidence in the sector while encouraging and supporting innovation and competition.

We have long been operating ahead of any proposed regulatory changes. ID, credit and affordability checks and providing credit responsibly are part of our DNA.

Simple interest free terms, tools to help our customers repay on time, a low reliance on late fees and a mature and developed hardship assistance program are already part of our profitable Australian business and we believe a great point of differentiation to others in market.

To be clear, we have been offering a fully regulated credit product under the Credit Legislation Australia for 10 years. No matter what the outcome of the Treasury process, Zip has the existing processes, practices and demonstrated capability to continue with business as usual. In fact, regulation would likely provide further competitive advantage.

Moving on to some financial performance on slide 24, transaction volume grew by a solid 10% versus the previous corresponding period. This was impacted by adjustments to our risk settings, which have clearly delivered very strong outcomes.

Importantly, revenue delivered almost twice that growth, up to $351 million for the period, an increase of 19%. Really demonstrating the benefits of our two-sided revenue model.

Bad debts reduced by 90 basis points year on year, on peak volumes and are now in line with Zip's target loss range, a great outcome.

Portfolio management through the credit cycle remains a key and ongoing area of focus and we are continuing to monitor leading indicators such as early arrears in high-risk cohorts as the macroeconomic environment evolves. We have many levers at our disposal to deploy to control outcomes as we have demonstrated over the previous nine months should the external environment deteriorate.

The uptick in the interest expense line largely reflects the impacts of base rate rises, particularly for the Australian business. The US pay in four product is more resilient to a rising rate environment where any 25 basis point rise only impacts cost of funds by around two basis points.

Finally and very importantly, despite this rising rate environment, higher revenue margins and improved credit losses with over a 20 basis point lift in net transaction margin of 2.5%, now in line with our target range and an absolutely great result in this environment.

Slide 25 and credit losses for the Australian business and a more detailed update on our performance. Thanks to our unique product construct and capital recycling profile, we can respond and take actions to rapidly improve credit performance and have seen a continuation of the improvement on the outcomes delivered at the end of FY22.

In Australia, we proactively manage credit limits with a disciplined approach to approvals and cut off scores through the peak retail season, leveraging bank transactional data, and ongoing account management and collection optimisation initiatives.

These actions have driven a reduction in the number of customers entering arrears and losses are trending very strongly towards 2% of TTV, which is our current target.

Slide 26, targeted actions in the US including tighten cut off scores, increased focus on limit and exposure management and repayment and collections initiatives have delivered an improvement in bad debts by around 150 basis points year on year, an absolutely outstanding result.

Despite continued deterioration in the external environment, the most recent monthly cohorts are trending at around 1.5% loss rates of monthly TTV, well inside our targeted range.

Looking forward, we anticipate loss rates to stabilise broadly around current levels to deliver outcomes at a Group level in line with our targets of below 2% in FY23.

This performance really does give us a strong platform to adjust our risk settings either for growth or should there be a further deterioration in the external environment. Over to Martin now for some financial statements

Martin Brooke: Thanks, Pete. Turning to slide 28 for a few brief comments on the segments. As Peter has covered off, APAC continued to deliver strong growth and grew cash. EBTDA despite interest rate pressures.

The Americas, which is largely the US, has delivered on improved credit losses and reduced its marketing costs, driving benefits to cash EBTDA. EMEA includes the full period impact of acquisitions made in the first half of FY22, and as Larry spoke to earlier, we have actions underway to utilise the cash burn from this region.

Now jumping to the income statement on slide 29. Pete's covered off the key moving parts on the gross profit line, so I'll focus my comments on the remaining items on the slide.

On cash operating costs, salaries and employment related costs have increased compared to the six months to December 2022 to $91 million, reflecting the full period impact of Spotti, Twisto and PayFlex.

Pleasingly, as a percentage of underlying volumes salaries and employment related costs have fallen from 2.4% in the second half of FY22 down to 1.9% in the current. This fall reflects proactive changes we made last year to reduce our people costs, remove duplication, and simplify the business.

Marketing costs have been another key area of focus, and excluding the one-off rebranding costs in HY22, marketing costs have halved to $27.4 million or to 0.6% of underlying volumes in the last six months.

Information technology costs are broadly in line with the prior year as a percentage of transaction volume, and we have activities entrained to rationalise suppliers and optimise unit costs.

After allowing for the termination payment paid to Sezzle, other costs sit at 0.5% of underlying volumes, a similar level to the prior year.

We've reassessed the likely conversion of both the Zero Coupon notes and CBI notes. Based on this assessment we expect the Zero Coupon notes to be redeemed in April '25 and the next two CBI payments to be settled in cash rather than be converted.

As a result, effective interest on the convertible notes of $62.6 million include an accelerated effective interest charge of $47.7 million being reported. Obviously, this is a non-cash item.

Finally, the provision for expected credit losses has fallen to 4.9% compared to 6% last year as a result of the significantly improved performance of our receivables portfolio.

Looking at the corporate items and one-off adjustments on slide 30, as Larry mentioned, there were a number of one-off items in the half. We settled the agreed termination fee to Sezzle for $16.3 million in July.

We paid $12.5 million incentive payment in relation to the conversion of $70 million as Zero Coupon convertible bonds in December, which taken with the shares issued on conversion amounted to a payment of approximately $0.23 cents in the dollar per note redeemed.

The fair value loss of $30.3 million includes a fair value loss of $10.6 million on the embedded derivative contained within the convertible notes and warrants compared to a fair value gain of $70 million the previous year. This directly reflects the movement in Zip’s share price.

In addition, there was a $19.7 million loss reported on the Group’s investment in ZestMoney. Impairment losses were recorded on the goodwill intangible distributed towards PayFlex and on the Group's investment in Tendo.

On slide 31, adjusted loss, you'll see that adjusting for some of these items on this slide brings us to an adjusted loss of $113.5 million.

Now looking to the balance sheet on slide 32, I'll cover our cash position in a couple of slides. The growth in receivables, which is reported net of unearned increment allowance of bad debts is supported by the increase in borrowings.

ZestMoney previously reported as an associate and is now reported at fair value following Zip forgoing its conditional right to increase its shareholding in the business.

Deferred consideration of $19.3 million was held back to settle any claims against Twisto and has been settled as no claims have been made - against Twisto shareholders, sorry.

The increase in trade net of payable includes the pre-funding of transaction volumes by our partners to cover the seasonal peak. The convertible notes and warrants are recorded with debt and embedded derivatives. The movement in this line includes the revaluation of the embedded derivative at 31 December, which resulted in a loss of $11 million being recorded compared to a gain in the previous year and the accelerated and standard effective interest charged in years I covered before.

Turning to the cashflow slide on slide 33, movement in receivables is largely supported by the net movement in borrowings, which is shown in financing activities. In line with the agreed terms with CBI investments, we paid $43 million to reduce the number of convertible notes that are held in Zip.

This included the three previous six-monthly payments of $10.8 million, which have been deferred by CBI. We also raised $30 million net of costs to fund the incentive payment on the conversion of the $70 million in convertible notes.

Moving on to slide 34 where we talk about available cash. At 31 December, we had $78.5 million in available cash and liquidity to fund operations. After allowing for cash held for [inaudible] that was unavailable to us and after including cash that can be withdrawn from our funding vehicles.

As set out on a previous slide, the movement in available cash from June to December included both cash requirements for the core business of approximately $57 million and non-core non-operation and off payments of $143.2 million as Larry spoke to earlier in the presentation.

In addition to the $78.5 million Zip has $32.4 million invested in its debt funding programs. We are in the process of looking to replace ourselves with third party investors and release this cash to fund operations.

Also, funding requirements for peak sales will reduce during the second half, reducing the level of equity funding and float required, and we're also expecting to release cash as mentioned before with the proceeds of asset sales.

Turning to slide 35, on the funding side we are well placed to support our strategic initiatives. We completed our second AAA rated issuance under the Master Trust structure in October and we paid them issuance maturing in the month.

We extended our variable Funding Note 2 for a further 12 months and FIIG Securities arranged mezzanine funding for us to sit below RBC as the Senior funder, with a revised limit to better reflect the usage of the facility.

Our weighted average cost of funds on drawn balances at 31 December across the Group has increased to 6.03% due to a 195 basis point increase in floating rates and a 38 basis point increase in rated average margin.

Handing back to Larry now to make some comments on our business model, priorities and outlook.

Larry Diamond: Thanks, Martin. I'm just on the priorities and outlook section. Slide 37 covers Zip's competitive advantage, which we really group into three key buckets. The first is product flexibility. Next we have our two-sided business model, and third, our ability to manage regulatory change.

Firstly, we know that the macro environment remains uncertain with interest rates lifting, inflationary pressures and post-COVID spending patterns evolving. In this higher cost of living environment. The BNPL is expanding at pace as consumers look for more ways to budget and merchants seek to drive incremental sales and respond to the shift back to in-store.

Our products provide fair and simple solutions for both discretionary but also everyday spend with the right level of payment flexibility and importantly, serviceability for any purchase, be they big or small.

It's how we help customers budget and manage their cost of living to maintain the lifestyle they choose. We also operate both an open and integrated payments network and in the first half customers shopped with Zip at close to 1 million locations.

We provide additional value to customers. For example, in Australia, Zip customers earned over $3.6 million through our rewards program, simultaneously driving demand for our merchants.

For merchants, it's all about driving incremental top line growth. We saw recently in Australia that the BIS Oxford Economics calculated that BNPL delivered $3.5 billion in net benefits to merchants in FY22, through things like new customer acquisition, increased basket size and higher customer satisfaction and retention, great validation of the sector.

Secondly, through this period our business model has remained resilient, as Pete touched on earlier. With our unique two-sided revenue model, we increased revenue margins whilst maintaining a laser focus on credit losses and still delivering top line growth.

Through this, we saw our NTM expand by 20 basis points, which is a great result in the rising interest rate environment.

Finally, as the regulatory discussions evolve in our core markets, Zip is supportive and always has been a simple fit for purpose regulation and we are well positioned for BAU for any of the three outcomes proposed by Treasury in the Australian market.

Similarly in the US. The recent CFPB report really validated the role of BNPL in the industry, recognising that BNPL imposes significantly lower direct financial costs on consumers than legacy consumer credit products.

With our partnership with WebBank, we remain well positioned to innovate as well as adapt to any future changes and we look forward to continuing to maintain an open dialogue with regulators in both markets.

Slide 38, we remain committed to our FY23 priorities. As we look to the remainder of this financial year we will continue to execute on our stated strategy building what we have already delivered so far and accelerating our path to profitability.

We are committed to sustainable growth in our core markets, which means we will continue to pursue new profitable merchants, fuelling customer acquisition as well as TTV growth while also scaling recent merchant wins.

For our millions of customers we are investing heavily to enhance core product experiences, driving continued engagement and referrals to our merchant partners and we will continue the great work achieved on credit performers to deliver on management target range and have a range of cost cutting initiatives underway to continue to drive down other variable costs including payment processing.

Finally, we are focused on executing the outcomes of the strategic review. Our outlook on slide 39 really remains unchanged and we are committed as ever to really achieve the best outcomes for our customers and merchants as well as driving long-term shareholder value creation.

We have clear medium-term targets that we are driving the business towards as we continue to scale. What this slide also shows is that we are at or on the path to achieving these targets with the core business delivering a 2.7% net transaction margin this half.

We acknowledge that there is more work to be done on our fixed costs and we have taken actions to deliver efficiencies such as business reorganisations, streamlining management roles, reducing marketing spend, third party procurement savings and initiatives to lower our IT spend.

With the simpler business and the outcomes of the strategic review now finalised, we expect to exit the US in FY23, cash EBTDA positive to also neutralise the cash burn from our rest of world footprint during this second half.

With all of this, we remain on track to deliver a positive cash EBTDA as a Group in the first half of financial year 2024.

Onto the final slide where I'd like to make some closing remarks. We have continued our solid momentum into January with TTV up 9% and revenue up 13% year over year. US credit losses, as Pete touched on, are currently trending at 1.4% on a cohort basis.

Zip's differentiated business model is proving resilient in the current operating environment and our proposition is delivering more value to consumers and merchants every day. The addressable opportunity remains significant, particularly in the US with BNPL and embedded finance still maturing in these markets. In Australia, we are well positioned to strengthen our competitive position in market and ready for any regulatory change.

As presented, we are taking healthy strides to reduce our cash burn and have the balance sheet to fund the Company through to profitability. Finally, we have the team and focus to execute on our strategic plan and Group cash EBTDA positivity in the first half in FY24. On behalf of Pete and I, we would like to thank the entire Zip team, our dear Zipsters, for everything they have passionately delivered this half and to our shareholders for their loyal and ongoing support.

So that ends the formal part of the presentation. We'll now open up for Q&A.

Operator: Thank you. If you wish to ask a question via phones, you will need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via webcast, please enter it into the Ask a Question box and click submit. In the interests of time, we ask that participants limit themselves to two questions. To ask further questions, please re-join the queue. Your first question comes from Elise Kennedy with Jarden. Please go ahead.

Question: (Elise Kennedy, Jarden) Hi Larry and Pete, thanks for the questions. The first one I wanted to ask is just around those marketing costs. Can you give some colour around where those changes are coming from and if you're still able to invest enough in the last to grow the customer, the kind of trade off you're making there and any data that you might be seeing there?

The second question is just on the capital recycling against a softer consumer. What's your experience or expectations on the transaction frequency as the consumer gets softer? I'm trying to understand there if in this type of environment and maybe you've seen it in the States more than Australia today, are they more or less reliant on buy-now-pay-later and data you've got captured on that? Thanks.

Peter Gray: Thanks Lisa. I might throw to Larry for the first question, which was largely related, I think, to marketing costs in the US.

Larry Diamond: Yes, thanks. So yes we saw really good improvement over the period. Of course some of that related to the brand work we did in August of the year prior around launching the brand. But I think what we've actually seen is a bit of a normalisation in expectations in the industry, so whereas previously there were larger co-marketing partnerships that were structured with retailers, I think they sort of recognise that in a rising cost environment, those can be done at a much more affordable amount. We also tend to tie it to some historical deals that we've done.

So as we roll forward, we expect a much more manageable marketing cost and of course we drive most of our 70% plus of customer acquisition through merchant partners. But in fact not all merchant partners are necessarily looking for co-marketing. They're starting to see the value that BNPL delivers for them. If you talk to CMOs, for example, who are spending 5% to 15% on advertising, marketplaces to drive new customer acquisition, they're able to get that at a much more de minimis amount through Zip which is driving obviously increased basket size and repeat customer traffic. So I think the market is getting much more normalised, which obviously puts us in a really good place going forward.

Peter Gray: Thanks Larry and I think the second question, Elise, if I understand you correctly, is utilisation of BNPL accounts and categories as the market matures. So it's probably early stages I the US, market maturity, with regards to multiple use or reliance on BNPL. Certainly it's more heavily exposed potentially to discretionary spend categories in that market, but obviously has significant runway for growth given the market maturity is very early stages.

In Australia obviously consolidation will likely reduce the number of players. We haven't seen a significant increase in utilisation of multiple BNPL providers, I think it's reasonably consistent with regards to customers who probably use both ourselves and Afterpay, the dominant one and two players in this market, interchangeably, depending on where they're shopping.

We haven't seen a huge mix shift with regards to discretionary versus everyday spend, but I think what we have seen in the discretionary spend category is probably a shift towards the market leaders such as JB HI-FI and the top 10 brands which continue to deliver increases to top line sales, albeit maybe in contradiction to broader sales figures more generally, which has seen an increase in their market share. So again, we're really well placed not only to capitalise on that shift as we have integrations with all those partners, but also to capitalise on market share due to consolidation.

Question: (Elise Kennedy, Jarden) Great, thank you.

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

Question: (Siraj Ahmed, Citigroup) Thanks. Just a first question, Larry or Pete, just on the guidance for the cash with the loss to reduce by 50%, I mean if you look at 1Q versus 2Q, there's been a material improvement. The core markets have consisted of one million loss, so that sort of implies that loss are increasing again. Maybe can you just talk to 3Q versus 4Q executive thinking, thinking ahead?

Peter Gray: Yes, thanks Siraj, I'll take that one. So obviously the core cash EBITDA number of $33 million was a great result and a very strong improvement on the previous period and particularly as you're calling out the split over the quarters, which gave us the exit run rate. I think in terms of the guidance, what we're really trying to show is a more normalised run rate for that cash. So if you took the top end of the range and it was a $16 million burn for the half, that's probably more reflective of natural burn taking out seasonal peak volumes which we were the benefit of in the December quarter.

Question: (Siraj Ahmed, Citigroup) Ok so as it stands that's means officially some of those peak volumes from [inaudible] will come through in bad debts in 3Q, is that the way to think about it?

Peter Gray: Yes, so some of the volume that we've written will lead to increased volumes as a percentage of TTV over more a seasonally quite quarter. I think some of the benefits we've seen in January with regards to revenue margins are off the back of that peak revenue flowing in. Over February and March we will see slightly higher losses as a percentage of TTV, but I think the important callout with regards to our loss performance is the performance on a cohort basis, so i.e. of the volume that we wrote in November and December, we are suggesting that the losses from that volume be about 1.4% or 1.5% of those volumes and that will flow through in this quarter.

Question: (Siraj Ahmed, Citigroup) Then second thing, in terms of just the expected cash balance at the end of the half, I mean you're flagging a few things here. I guess you can't talk to specific proceeds from sales, but just wondering ball park how much you think the sales plus another mezzanine debt or whatever could bring in.

Larry Diamond: I'll get Martin to respond to that one, thanks Siraj.

Martin Brooke: Yes, I think we called out the targets that we're looking at from the funding side of things, the $32.4 million. Then on the asset side of things, obviously part of the half year end process, we go and look at the carrying value of those assets and we write those down, well send it down to what the realisable value is. So I'd refer you to those sections of the half-year report to get a bit of an indicator of what our expectations are.

Question: (Siraj Ahmed, Citigroup) Okay, great. So the carrying value has been written down. Okay, perfect.

Martin Brooke: Yes.

Question: (Siraj Ahmed, Citigroup) Thank you, excellent.

Operator: Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Question: (Wei-Weng Chen, RBC Capital Markets) Hi, just a question on salaries. So you had $91 million in the half, just wondering how we should think about that going forward as you exit some of your businesses.

Larry Diamond: Again, I'll get Martin to respond to that one.

Martin Brooke: Yes, so that number is from four operations, so that includes everything other than the discontinued – sorry, continued operations, so it's everything other than the discontinued. So we'd expect that to reduce over this half because we're winding down in the Middle East which we called out. Part of the strategic review we'll be looking at exiting the other non-core markets, so that will obviously reduce the wages and salaries down as a consequence. So we'd expect it to be significant or reasonably reduced in the second half and then also the benefits of the activities we're taking to streamline the operation in our core market and make things simpler will also have an impact there.

Question: (Wei-Weng Chen, RBC Capital Markets) Okay, great. Is there a number that you can kind of maybe help us think about, what that reduces to?

Martin Brooke: There is, but I can't tell you.

Question: (Wei-Weng Chen, RBC Capital Markets) Okay. Then I guess you alluded to it in one of your points earlier, one of your much smaller peers went into administration earlier this year as lenders pulled support. Just wondering if you could think about, so how would you think about this risk as it relates to Zip?

Larry Diamond: Yes, so we have been of the view that consolidation would occur in our industry and that's certainly what we're seeing now. It's a very positive outcome for Zip and should in fact enable us to strengthen our market-leading position. As we called out in the call, we've already received a significant number of inbound enquiries off the back of that consolidation and it seems to be following similar trends to what we saw in the New Zealand market with a reduction in the number of players. It does position the market leaders very well to increase their market share, so a strong opportunity for us.

Question: (Wei-Weng Chen, RBC Capital Markets) Yes, okay. Then just last question on your second-half expected cash movements in cash flow, just item 4, you mentioned a significant reduction in, it was basically your M&A and your convertible note redemption, but does this go to zero or are there still payments that you're committed to?

Larry Diamond:	Yes, again I'll defer to Martin on this one.
Martin Brooke:	Yes, so there's a commitment to pay $10.8 million to SIG each six months under the terms of the convertible note we have with them, at their request, so the next payment will happen on 1 March, that's in progress. There's very immaterial other payments, $1 million or so, so pretty much the SIG one is the only big one.
Question:	(Wei-Weng Chen, RBC Capital Markets) Okay, thanks. That's all from me.
Operator:	The next question comes from Tom Beadle with UBS. Please go ahead.
Question:	(Tom Beadle, UBS) Hi guys, thanks for the opportunity. Actually Siraj and Wei-Weng asked most of my questions, but just maybe to clarify on that $32 million in debt funding that you might replace with third party providers, I guess are you looking to replace 100% of this and would this require the renegotiation of any of your covenants at all?
Larry Diamond:	Thanks Tom.
Martin Brooke:	We are looking to replace 100% of them and it wouldn't require us to renegotiate anything. '
Question:	(Tom Beadle, UBS) Okay, great, thanks.
Operator:	Your next question comes from Siraj Ahmed with Citigroup. Please go ahead.
Question:	(Siraj Ahmed, Citigroup) Just one follow up, so you mentioned, about the AU, Australia regulatory changes, that you [inaudible], I think your Zip Money or is it Zip Pay, I sense Zip Pay is completely regulated, you do all the steps, right, but Zip Pay, how is that placed, in either Option 2 or Option 3?
Peter Gray:	Yes, Siraj, so just to clarify, Zip Money is the regulated product, so that is fully compliant with existing regulation and responsible lending obligation. With regard to Zip Pay, so we already actually do ID credit checks and affordability checks by connecting to transactional banking accounts. So we're actually already largely compliant with all responsible lending obligations. There would be a minor tweak with regards to information customers might be required to provide at the point of application, but again, that's what we're already doing with Zip

Money. So in terms of a process and risk rules and data plug ins to third party providers et cetera, we're already operating in totally compliant fashion for that product.

Question: (Siraj Ahmed, Citigroup) Got it, some tweaks there. Just a quick clarification on losses in Australia. Previously, it's shown an expected loss trend. You're not showing that.

Have losses ticked up in January, February that you've seen? Or is the trend in line with what you're expecting?

Peter Gray: No, nothing sinister there. I think we showed forecast losses because we were operating outside our target range. We were - very important to show the market that we were delivering improved losses and continued to see that forecast come in, to get inside our targeted range, now that we're largely operating there. That is simply the reason for that.

We don't see any deterioration in our performance and it's largely continuing on-trend. Having said that, as we called out in the presentation, we had - really well placed with a very low loss base now, should there be deterioration in the external environment.

Again, we're well placed in terms of monitoring early indicators to adjust our risk settings further, should they be required to be more conservative.

Question (Siraj Ahmed, Citigroup) Okay. Thank you.

Operator That is all the time we have for questions today. I'll hand the conference back over to Mr Diamond.

Larry Diamond: Thank you. I just want to thank everyone for listening in today. I think, hopefully, what you've seen is - when we look back over the last 12 months - that we've made significant inroads on the updated strategy and really coming to the end of that with a core business that has never looked better.

Improving margins, improving cash EBTDA and continued healthy BMTL demand. The next piece is really just the global simplification. Which has not been easy, I might add. Thank all the team involved.

But reducing from 14 markets to four markets and simplifying the model is going to deliver cash inflows this half and also, much more simpler business model.

Finally, we are well funded and have the cash and liquidity to carry us through to EBTDA positivity in FY24. Thanks again, everyone and thanks for your loyalty. Cheers.

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

[END OF TRANSCRIPT]