



ASX Release

20 August 2019

Zip debuts on the global stage, with entry into four strategic markets

Zip Co Limited ('**Zip**') is pleased to announce today that it has entered into an agreement to acquire 100% of the shares in global instalment technology platform, PartPay Limited ('**PartPay**'), providing exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa.

Zip has concurrently agreed to acquire a direct strategic equity interest in New York based "buy now, pay later" ('**BNPL**') provider, QuadPay Inc. ('**QuadPay**').

Auckland headquartered PartPay provides Zip with:

- A portable platform that has been localised to international markets and is easily adaptable to new geographies;
- A significant instalment player in New Zealand (NZ), which includes an integration with NZ's leading retail group, The Warehouse Group; and
- An early-stage, fully operational United Kingdom (UK) subsidiary supported by a local team, which is ready to scale.

PartPay brings strategic relationships

Established in January 2017, PartPay has over 110,000 customers across over 250,000 instalment plans and is integrated into over 1,000 retailers including The Warehouse Group (NZ's leading retail group and including the TheMarket, NZ's newest online marketplace) and Spark (NZ's largest Telco). The NZ business complements Zip's Australian merchant base and aligns strongly with Zip's core strategy of bringing customers and merchants together via a fair and valued payments experience. Like Zip, PartPay has been conducting credit and ID checks from inception.

PartPay's key management team, including founder John O'Sullivan, will remain with the business and join the Zip team. PartPay added its first merchant onto the UK platform in January 2019, and is supported by a solid, local team who have begun to make inroads in this significant market.

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PartPay's technology platform has also been successfully deployed into other international markets where, in exchange for its codebase, PartPay secured strategic shareholdings within the following fast growing BNPL providers:

- 8.9% in QuadPay in the United States; and
- 24.7% in Payflex Proprietary Limited ('**Payflex**') in South Africa.

Launched in January 2018, New York headquartered QuadPay is a leading, high growth, US-based instalment provider. QuadPay enables consumers to pay in installments anywhere, online and in-store.

Launched in September 2018, Johannesburg based Payflex is the first to market within South Africa and with potential for exciting growth across Sub-Saharan Africa.

The PartPay acquisition involves total upfront consideration of NZ\$50.8 million (the '**Upfront Consideration**') with an earn-out of up to a further NZ\$15.0 million based on certain prescribed performance milestones being achieved during the FY20 and FY21 financial years (the '**Earn-out Consideration**').

The total maximum consideration of c. NZ\$65.8 million will be paid by Zip through the issue of new fully paid ordinary shares in Zip, subject to shareholder approval. The new Zip shares issued as part of the Upfront Consideration will be subject to certain voluntary escrow arrangements. Refer to the Appendix to this release for further information.

Increases stake in QuadPay in the United States

Concurrent to the PartPay acquisition, Zip has also entered into a subscription agreement with QuadPay to invest a further approximately US\$11.4 million into QuadPay, which, when combined with PartPay's existing shareholding, will result in Zip maintaining a 15% fully diluted shareholding in QuadPay.

As a strategic shareholder in QuadPay, Zip will have a right to appoint one director to the QuadPay board and priority allocation within further investment rounds. This investment by Zip in QuadPay is not conditional on Zip's acquisition of PartPay.

Alignment of organisational culture and interests

Zip CEO and Managing Director, Larry Diamond, said:

"This transaction marks the beginning of Zip's global expansion story. Whilst we see significant upside in the core Australian business, we feel the timing is opportune to begin investing abroad as we seek to build a global payments business."

"PartPay has proven experience swiftly launching their technology in four different markets, and the potential for many more. There is clear and strong alignment between PartPay's and Zip's philosophy on responsible credit, and we look forward to working with PartPay's highly capable management team as we grow our market share in New Zealand and expand into the United Kingdom."

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PartPay's CEO, John O'Sullivan, echoed Zip's enthusiasm:

"We've known the team at Zip for a while, and quickly realised they share our goal of building better and fairer payment alternatives. We are very excited to join the Zip team and contribute to the next stage of their growth and look forward to working closely with our New Zealand merchants and customers to continue to deliver innovative payment solutions."

Timetable and other information

Subject to Zip shareholder approval being obtained at either an extraordinary general meeting or at Zip's 2019 annual general meeting, Zip expects to complete the PartPay transaction by the end of October 2019. Further information about the date of the shareholder meeting to consider the necessary resolutions required to proceed with the PartPay transaction will be provided in due course.

Zip's additional investment in QuadPay is expected to be finalised by no later than 27 September 2019.

A summary of the key transaction terms is included in the Appendix attached to this release. An investor presentation, which explains the transaction, has also been lodged with the ASX.

Advisors

Zip is advised by:

- Corporate adviser: Monash Private Capital
- Australian legal adviser: Arnold Bloch Leibler

PartPay is advised by:

- Corporate adviser: Sturt Capital Partners
- New Zealand legal adviser: Bell Gully

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About Zip

ASX-listed Zip Co Limited (ASX: Z1P) or (“Zip”) is a leading player in the digital retail finance and payments industry. The Company offers point-of-sale credit and digital payment services to the retail, education, health and travel industries. It operates under the Zip Pay, Zip Money and Pocketbook brands. The Company is focused on offering transparent, responsible and fairly priced consumer products. Zip’s platform is entirely digital and leverages big data in its proprietary fraud and credit decisioning technology to deliver real-time consumer responses. Zip is managed by a team with over 50 years’ experience in retail finance and payments and is a licensed and regulated credit provider.

For more information, visit: www.zip.co

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Appendix: Details of Transaction Terms

Acquisition of 100% of the shares in PartPay for a maximum purchase price of NZ\$65.8m comprising both Upfront Consideration and the Earn-out Consideration, as detailed below.

Conditions precedent

The transaction is subject to conditions precedent, including:

- **Zip shareholder approval** - Zip shareholders approving the issue of the new Zip shares to the PartPay vendors as consideration under the transaction; and
- **Key third party consents** - PartPay receiving consents from various prescribed key third parties on terms acceptable to Zip (which conditions may be waived by Zip at its discretion).

The conditions must be satisfied, and completion must occur, by no later than 10 November 2019.

Upfront Consideration

- NZ\$50.8 million, payable in new Zip shares as follows (or cash, as per below):
 - 17.42 million Zip shares equating to a combined shareholding of 4.7% in Zip
 - Issued at A\$2.76 per Zip share, representing a 5% discount to Zip's volume weighted average price ('VWAP') in the 10 trading days prior to this announcement (up to and including 19 August 2019).
- Where a PartPay shareholder is unable to receive Zip shares without a disclosure document, that shareholder will be paid in cash
- The transaction is on a 'debt-free cash free' basis but with an agreed normal level of working capital
- Zip shares issued as the Upfront Consideration are subject to voluntary escrow arrangements as follows:
 - PartPay management shareholders, who together will hold 5.44 million of the Zip shares to be issued as the Upfront Consideration: c. 50% of these shares are escrowed for 1 year from the date of this announcement, with a further c. 25% escrowed for 2 years from the date of this announcement; and
 - All other PartPay shareholders (excluding shareholders under PartPay's employee incentive plan), who together will hold 11.35 million of the Zip shares to be issued as the Upfront Consideration: c. 50% of these shares are escrowed for 6 months from the date of this announcement.

Earn-out Consideration

- Up to a maximum of NZ\$15.0m, subject to certain prescribed performance milestones relating to the achievement of minimum transaction volumes on the PartPay platform being achieved during the FY20 and FY21 financial years.

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- If payable, the Earn-out Consideration is to be paid in two payment tranches relating to the 12-month periods ending 30 June 2020 and 30 June 2021, issued in new Zip shares (or cash, as per below).
 - A maximum of 5.40 million Zip shares can be issued in relation to the total Earn-out Consideration and will be issued at the higher of A\$2.76 per Zip share and a 5% discount to Zip's VWAP in the 10 trading days prior to issuance.
 - The maximum Earn-out Consideration (of NZ\$15.0m) may become payable early as a result of specific acceleration events as agreed between the parties.

Other terms

- Zip retains the right to pay any PartPay shareholder in cash for their PartPay shares, including if any PartPay shareholder is unable to receive Zip shares without Zip being required to issue a disclosure document. The value of the PartPay shares shall be determined based on the VWAP of Zip's shares for the 5 trading days immediately following the date on which the relevant cleansing notice in relation to the shares is released by Zip.
- If, when the Zip shares are issued as part of the Earn-out Consideration, Zip's share price is less than A\$2.76, Zip will be required to pay a true up amount in cash to the PartPay shareholders for this difference.



Zip agrees to acquire global instalment technology platform, PartPay

Zip Co Ltd (ASX: Z1P)

20 August 2019

Disclaimer and important notice

The information contained in this presentation has been prepared by Zip Co Limited ACN 139 546 428 (Company). The information in this presentation does not purport to be complete or to provide all information that an investor should consider when making an investment decision. It should be read in conjunction with the Company's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange.

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This presentation may contain statements that may be deemed "forward looking statements". Forward risks, uncertainties and other factors, many of which are outside the control of the Company can cause actual results to differ materially from such statements. Such risks and uncertainties include, but are not limited to: the acquisition and retention of customers, commercialisation, technology, third party service provider reliance, competition and development timeframes and product distribution. Usability of Zip's products depend upon various factors outside the control of the Company including, but not limited to: device operating systems, mobile device design and operation and platform provider standards, reliance on access to internet, limited operating history and acquisition and retention of customers, reliance on key personnel, maintenance of key business partner relationships, reliance on new products, management of growth, brand establishment and maintenance. A number of the Company's products and possible future products contain or will contain open source software, and the company may license some of its software through open source projects, which may pose particular risks to its proprietary software and products in a manner that could have a negative effect on its business. The Company's intellectual property rights are valuable, and any inability to protect them could reduce the value of its products and brand.

The Company's products may contain programming errors, which could harm its brand and operating results.

The company will rely on third party providers and internet search engines (amongst other facilities) to direct customers to Zip's products. Other risks may be present such as competition, changes in technology, security breaches, insurance, additional requirements for capital, potential acquisitions, platform disruption, ability to raise sufficient funds to meet the needs of the Company in the future, the Company's limited operational history, reliance on key personal, as well as political and operational risks, and governmental regulation and judicial outcomes.

The Company makes no undertaking to update or revise such statements, but has made every endeavour to ensure that they are fair and reasonable at the time of making the presentation. Investors are cautioned that any forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in any forward-looking statements made.

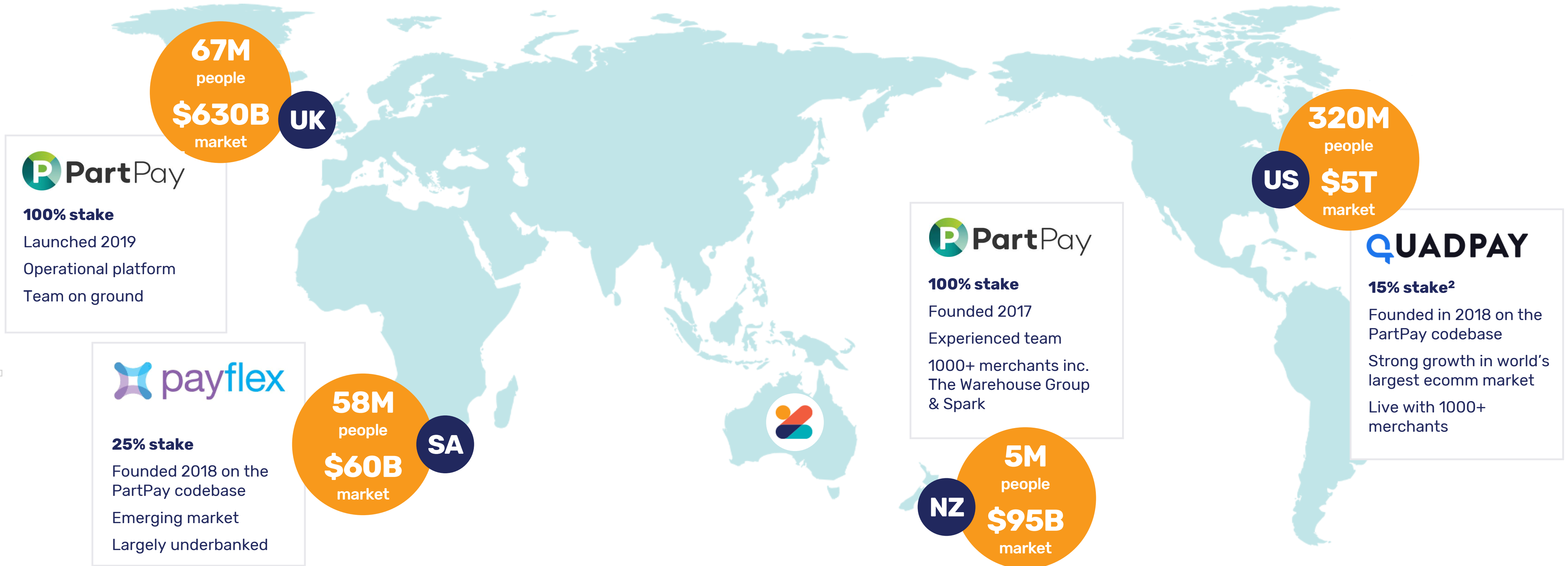
An investment in the Company's shares is subject to investment and other known and unknown risks, some of which are beyond the control of the Company. The Company does not guarantee any particular rate of return or the performance of the Company, nor does it guarantee the repayment of capital from the Company or any particular tax treatment. Before investing in the Company, you should consider whether this investment is suitable for you. Potential investors should consider publicly available information on the Company, carefully consider their personal circumstances and consult their professional advisers before making an investment decision. Additional risks and uncertainties that the Company is unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect the Company's operating and financial performance.



Acquisition gives Zip a global presence

Zip enters into an agreement to acquire PartPay¹, a global instalment technology platform with exposure in four key markets (US, UK, NZ & SA)

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Source: The World Bank (2018), Nielsen Insights 2018 (NZ), Retail Economics UK (2018), US Census 2019 (US), Dept of Statistics South Africa (2019)

1- The transaction is subject to shareholder approval and other conditions precedent

2- The 15% stake in QuadPay comprises PartPay's interest plus Zip's additional investment as summarised on slide 5

Acquisition rationale and strategic alignment

1

Activate global growth potential

- Accelerate and de-risk Zip's global expansion strategy with existing presence in NZ, UK, US and SA markets.
- Proven platform portability enables localisation and easy entry to new markets.

2

Grow NZ market share

- Access to one of NZ's leading BNPL players with key brands including The Warehouse Group and Spark.
- Ability to leverage Zip's Trans-Tasman relationships to drive growth and enable cross-border commerce.

3

Exposure to new markets

- Fast track our entry into the UK, a significant market opportunity (5x Australia¹).
- Exposure to the large US retail market (via QuadPay²) and emerging South African market (via PayFlex²).

4

Global BNPL sought after

- Zip's strategic partners have global presence and desire a global solution.
- Increased cross-border retail favours platforms that support multiple jurisdictions.

5

Capable team with cultural fit

- Strong and capable management team with proven experience standing up offerings in new markets.
- Cultural alignment and shared philosophy on responsibility (Credit, ID checks and responsible spending speed bumps built into offering).

1. Global Ecommerce UK 2019 (eMarketer) and NAB Online Retail Sales Index (December 18)
2. QuadPay (www.quadpay.com), Payflex (www.payflex.co.za)



Ability to derive immediate synergies from this transaction

With our brand, strategic relationships, core capabilities and capital we can help accelerate the rollout of the PartPay platform in its existing markets:



The Zip brand

- Zip has invested significantly in its brand across the region for both consumers and retailers.



Top line growth

- Grow revenues from new customers, new segments and new markets.
- Leverage Zip's deep investment in platform and channel integrations.



Proprietary risk technology

- Leverage Zip's unique credit experience and data science capabilities.
- Microservices-led architecture supports localised decisioning.



Technology capabilities

- Leading mobile app development.
- Expertise in CRM, comms automation, dev and infrastructure ops.



Improved efficiencies

- Unlock flexibility and optionality to distribute workforce.
- Leverage platform, licenses, services to optimise cost.

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Transaction overview

Acquisition of 100% of PartPay providing exposure to four key geographies NZ, UK US and South Africa. Zip is also increasing its shareholding in US-based QuadPay to 15%.

PartPay (NZ & UK) including strategic interests in QuadPay (United States) and Payflex (South Africa)

Upfront consideration

- NZ\$50.8 million, payable in new Zip shares¹ as follows:
 - 17.42 million Zip shares equating to a combined shareholding of 4.7% in Zip.
 - Issued at A\$2.76 per Zip share, representing a 5% discount to Zip's VWAP² in the 10 trading days prior this announcement.
- Debt-free cash free transaction but with an agreed normal level of working capital.
- Voluntary escrow arrangements with key management shareholders - escrowed 50% for 1 year and 25% for 2 years - ensuring a close alignment of interests with Zip shareholders.

Earn-out consideration

- Up to a maximum of NZ\$15.0m, subject to certain prescribed performance milestones relating to the achievement of minimum transaction volumes on the PartPay platform being achieved during FY20 and FY21.
- If payable, the Earn-out Consideration is composed of two payment tranches in respect of the 12-month periods ending 30 June 2020 and 30 June 2021.
- A maximum of 5.4 million additional Zip shares can be issued in relation to the total Earn-out Consideration and will be issued at the higher of A\$2.76 per Zip share and a 5% discount to Zip's VWAP in the 10 trading days prior to issuance.

Additional investment in QuadPay (United States)

- Zip has concurrently agreed to acquire a direct strategic equity interest in New York based "buy now, pay later" provider, QuadPay.
- Zip is investing a further c.US\$11.4m into QuadPay, which, when combined with PartPay's existing investment, will result in Zip maintaining a 15% fully diluted shareholding in QuadPay. As a strategic shareholder in QuadPay, Zip will have a right to a board seat and priority allocation within further investment rounds.

1. Except where a PartPay shareholder is unable to receive Zip shares without a disclosure document, in which case that shareholder will be paid in cash

2. VWAP denotes volume weighted average price

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Thank you

