28 October 2021
Zebit, Inc.
https://zebit.com/

ZEBIT QUARTERLY ACTIVITIES REPORT AND GROWTH STRATEGY UPDATE
3Q ENDING 30 SEPTEMBER 2021

San Diego-based Zebit, Inc. (ASX: **ZBT**) (**Zebit** or the **Company**), an ESG-focused eCommerce company dedicated to changing the lives of US credit-challenged consumers, releases its Appendix 4C Quarterly Cash Flow Report for the quarter ended 30 September 2021 (**3Q21**) and a review of its business activities. The Appendix 4C and information below are unaudited and expressed in US dollars under US GAAP unless otherwise noted.

OVERVIEW

- Booked US$29.1M of revenue in 3Q21, with 90% growth over previous corresponding period (**PCP**);
- Added 156.7K new registrants, an increase of 36.8% over 2Q21 and 366.4% over PCP;
- Executed nine contracts with strategic suppliers offering ~50K products across higher-margin categories;
- Made a strategic decision to pursue high revenue growth (35%-40% pa) vs hyper revenue growth (60%-71% pa) to strengthen core operating metrics that drive the business toward profitability in a sustainable way;
- By shaping revenue via targeted acquisition, enhanced underwriting, deepened product assortment, and leveraging strong recurring annual revenue from tenured customers that generate a higher average Contribution Margin[1] per order, the Company expects to increase overall Gross Margin[2], Contribution Margin, and GPAPA% (Contribution Margin less marketing acquisition cost as a percent of revenue)[3];
- Starting with orders placed in November, and into CY22, the Company estimates monthly Bad Debts[4] of 12.0%-13.5%, Contribution Margin between 12.5%-14.0%, and GPAPA% in the range of 7.0%-8.5%[5];
- On a full year basis for CY21, the Company estimates Bad Debts will be 15.0%-16.0%, Contribution Margin will be 9.5%-10.5%, and GPAPA% will be between 2.0%-3.0%; and
- Due to the Company's decision to manage its growth to bolster key operating metrics in a more controlled way ahead of November and December, which are the seasonally strongest order months, the Company has provided revised revenue guidance for CY21 of US$118M-US$123M, representing 35%-40% growth over CY20;

BUSINESS UPDATE

Zebit booked US$29.1M revenue in 3Q21 which represents a 90% increase over PCP. Revenue growth was driven through increasing investment in customer acquisition and expanding the Company's product catalogue.

Customer Acquisition: Zebit added 156.7K new registrants in 3Q21 compared to 114.5K for 2Q21 (representing a 36.8% increase QoQ) and 33.6K vs PCP (a 366.4% increase). At the end of September, Zebit launched its first

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[1]Contribution Margin is Gross Margin less Bad Debts Provision.

[2] Gross Margin is the dollar margin, reflected as a percentage, between the price at which Zebit sources a product and the price Zebit charges its consumer for the product including shipping margin and all dropship fees and adjustments.

[3] GPAPA% is defined as Gross Profit After Paid Acquisition and is calculated as Contribution Margin less marketing acquisition costs as a percent of revenue.

[4]Bad Debts Provision is the estimate of Bad Debts that Zebit expects to take for historical revenue vintages with a positive underlying Accounts Receivable balance. The initial provision is estimated utilising forecasts provided by Zebit's data science team on a monthly basis and is adjusted for actual Bad Debts and any recoveries related to payments received after the receivable has been written off. Bad Debts Provision is not a static number at any point in time, as it is influenced by new revenue months, potential adjustments from prior periods, and offsets related to recoveries of written off debt and other factors.

[5] Estimates are based on internal Company forecasting scenarios that take into consideration marketing acquisition targeting, Gross Margin on expected product sales, and revised underwriting of customers at registration and checkout. These are estimates based on forward assumptions of what consumers will buy from Zebit on a monthly basis and the respective risk of those transactions.

mobile application in the Apple and Google Play stores, recording over 42K downloads as of mid-October. The mobile application is expected to increase brand awareness, while offering a new, low-cost way to acquire customers as well as providing an effective way to communicate directly with existing customers.

Product Assortment: Zebit grew its assortment by ~50K new products bringing its total active products to over 170K across 25 product categories. Expansion focused on electronics, baby, home decor, jewellery, women's accessories, and higher margin e-certificates. The Company also executed nine additional strategic supplier contracts during the quarter, giving Zebit access to sell ~15K new products in 4Q21 and ~35K additional products to be made available in early CY22. Zebit has also entered into an agreement with a premier LTL (less than truck load) freight provider to deliver larger and higher margin products, such as furniture, directly into customers' homes.

Credit and Risk: In 3Q21, Zebit tightened its underwriting compared to 1H21 and CY20 due to a change in the consumer repayment profile identified following the close of 2Q21. The Company also incorporated new alternative credit variables into its registration underwriting after a multi-month retroactive study to determine its effectiveness. In 4Q, Zebit expects to begin reporting payment performance data (i.e., data furnishing) on accounts to one of the largest alternative credit bureaus in the US. Data furnishing will impact consumers' alternative (non-FICO) credit scores and could motivate them to make repayments on time to improve their scores.

Marc Schneider, Co-Founder and CEO of Zebit commented:

"Our 3Q21 underlying performance was strong vs PCP and demonstrates that Zebit continues to lead the way in delivering a highly disruptive eCommerce business model. Zebit is guided by a deep-rooted social mission to provide interest free and penalty free eCommerce shopping, supported by six-month product financing to over 120 million US consumers who are prevented from accessing mainstream credit. With the changes in underwriting and increased focus on generating more attractive eCommerce operating metrics at a more prudent and sustainable high-growth vs hyper-growth rate, we expect to post stronger overall results in 4Q21 and into CY22".

3Q21 Key Performance Metrics

As noted in Zebit's Half Year Results and Appendix 4D, the Company estimated that a prior period adjustment of US$500K - US$1.5M would be booked in 3Q21 for 1H21 order months that had aged over 3 months at the time of the estimate. Specifically, the estimate only covered 1Q21 orders, given no additional information was present at that time to estimate an adjustment for 2Q21 orders.

Zebit has now booked a US$1.5M prior period adjustment for 1Q21 orders and a US$827K adjustment for April and May orders. These adjustments were a result of under reserving the Company's initial Bad Debts Provision for 1H21 and are fully allocated to 3Q21, as required by US GAAP.

All figures below are shown in US$

Key Metrics US$ Millions (unaudited)	3Q21 With Adjustments	3Q21 Underlying Performance[6]	3Q20 Actual	3Q21 With Adjustments vs 3Q20	3Q21 Underlying vs 3Q20[7]
Revenue	$29.1M	$29.1M	$15.3M	90%	90%
Bad Debts	21.8%	13.8%	6.3%	15.5 points	7.5 points
Contribution Margin	3.4%	11.5%	22.0%	18.6 points	(10.5) points
Net Income	($8.6M)	($6.3M)	($334K)	2,477%	1,777%

YTD Key Performance Metrics

All figures below are shown in US$

Key Metrics US$ Millions (unaudited)	2021 (1Q-3Q)	2020 (1Q-3Q)	YoY Change
Revenue	$85.2M	$43.5M	96%
Bad Debts	16.2%	11.6%	4.6% points
Contribution Margin	9.3%	15.8%	(6.5%) points
Net Income	($15.9M)	($5.0M)	($10.9M)

OUTLOOK

For 4Q21, Zebit is focused on generating stronger operating metrics and guiding the business prudently toward future profitability. In particular, the business is:

- Targeting marketing spend to drive the acquisition of higher quality registrants;
- Increasing order conversion through platform enhancements while maintaining a world class average Net Promoter Score of 75;
- Expanding the product assortment to move customers "up-margin" and capture lifecycle purchases from replacing tyres to going on vacation to needing a new baby stroller; and
- Refining credit and risk models, while implementing additional fraud-prevention technology

The Company is providing revised revenue guidance for CY21 between US$118M-US$123M, which represents 35%-40% growth on CY20. The strategic decision to pursue high-growth (35%-40% pa) vs hyper-growth (60-71% pa) is expected to generate increased Gross Margin, Contribution Margin, and GPAPA%. This is a deliberate decision to leverage the strong recurring annual revenue from tenured customers that generate a higher average Contribution Margin per order, while layering in new customer revenue with controlled marketing spend starting in November and continuing into CY22.

[6] 3Q21 underlying performance is based on an initial Bad Debts Provision for the orders months within the quarter. It is important to note that the initial Bad Debts Provision for any order month is the estimate of Bad Debts that Zebit expects to take for historical revenue vintages with a positive underlying Accounts Receivable balance. The initial provision is estimated utilising forecasts provided by Zebit's data science team on a monthly basis and is adjusted for actual Bad Debts and any recoveries related to payments received after the receivable has been written off. Bad Debts Provision is not a static number at any point in time, as it is influenced by new revenue months, potential adjustments from prior periods, and offsets related to recoveries of written-off debt and other factors. In short, 3Q underlying performance is an estimate subtracting out the prior period adjustments allocated to the quarter from 1H21.

[7] Quarterly YoY comparisons of revenue, Contribution Margin, Bad Debts, and other key metrics for FY20 to FY21 will be biased. From 1Q20 to 3Q20, Zebit was capital constrained ahead of its IPO resulting in management taking steps to dampen demand during that period. This was accomplished by raising all customer down payments at checkout to collect more money upfront, thereby automatically lowering bad debts. Other actions included increasing product prices, reducing product selection to a set of high margin items, and driving revenue from high value, lower risk customers. During this time, Zebit also minimised investment in acquiring new customers. The cumulative result produced more cash, historic low bad debts, and higher contribution margin compared to any prior period since the Company's inception.

- Starting in November, and into CY22, the Company estimates monthly Bad Debts of 12.0%-13.5%, Contribution Margin between 12.5%-14.0%, and GPAPA% in the range of 7.0%-8.5%[8]; and
- On a full year basis for CY21, estimates Bad Debts will be 15.0%-16.0%, Contribution Margin between 9.5%-10.5%, and GPAPA% between 2.0%-3.0%.

APPENDIX 4C CASH FLOW PERFORMANCE 3Q21 vs 2Q21

Zebit ended 3Q21 with a cash balance of US$10.9M, which will continue to fund the Company's growth. For 3Q21, cash used in operating activities increased by (US$2.3M) to (US$6.1M) from (US$3.8M) used in 2Q21 operating activities.

A summary of the operating cash outflows can be found below:

- Cost of goods sold were US$20.9M, down US$1.7M from 2Q21;
- Administrative and corporate costs were US$1.9M, flat compared to 2Q21;
- Advertising and marketing expenses were US$3.8M, up US$376K from 2Q21; and
- Staff costs were US$2.2M, up US$412K from 2Q21 driven by selected new hires to support the growth of the business.

As noted in the Appendix 4C, the Company made payments of US$89K for salaries and benefits to the CEO as a Director of the entity. No other payments were made to any related parties or their associates of the entity.

INVESTOR CONFERENCE CALL

A conference call will be held on 28 October 2021 at 11 am AEDT.

Participants wishing to ask a question or listen in to the call should register in advance and join via their browser here:

To register in advance for this meeting, please click the link below:

Zebit September 2021 Quarterly Briefing

After registering, you will receive a confirmation email containing information about joining the meeting.

AUTHORISATION

This announcement was approved by Zebit's Board.

About Zebit, Inc.

ASX-listed Zebit, Inc. (ZBT: ASX) or ("Zebit") is a California based, ESG eCommerce company that is dedicated to changing the lives of US credit-challenged consumers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit was founded in 2015 and operates in all 50 states across the US.

For more information, visit: https://zebit.com/

[8] Estimates are based on internal Company forecasting scenarios that take into consideration marketing acquisition targeting, Gross Margin on expected product sales, and revised underwriting of customers at registration and checkout. These are estimates based on forward assumptions of what consumers will buy from Zebit on a monthly basis and the respective risk of those transactions.

CONTACTS

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