Zebit, Inc.
https://zebit.com/

ASX ANNOUNCEMENT – 29 July 2021

ZEBIT QUARTERLY ACTIVITIES REPORT & APPENDIX 4C
Q2 ENDING 30 JUNE 2021

San Diego based Zebit, Inc. (ASX: **ZBT**) (**Zebit** or the **Company**) is pleased to provide an update on its quarterly activities and cash flows for the quarter ended 30 June 2021 (**2Q21**). An Appendix 4C – Quarterly Cash Flow Report is attached after the Quarterly Activities Report. In addition, Zebit is providing performance vs its 12-month Prospectus forecast. All numbers contained in this announcement are unaudited and expressed in US dollars under US GAAP unless otherwise noted.

Executive Summary

Zebit outperformed its full 12-month IPO Prospectus forecast ended 30 June 2021. The Company beat revenue by $6.5M, booked a bad debts reserve[1] of 10.9%, and achieved an overall contribution margin[2] of 14.9% on $115.6M of revenue.

The Company reaffirms its revenue guidance of $140M-$150M for FY21 which is 60% - 71% greater than FY20 revenue of $87.7M. Given 1H21 revenue of $56.1M, 2H21 revenue is expected to be between $83.9M-$93.9M. To that end, management continues to accelerate Zebit's growth by investing in and optimising customer acquisition channels, deploying platform enhancements such as a mobile application, improving credit models, deepening its product assortment with new supplier relationships, and hiring key talent to add to its senior team and elsewhere in the organization.

It is important to note that 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.

Key Highlights

2Q21

- Revenue of $29.2M, up 190.5% or $19.2M vs $10.0M in 2Q20;
- Contribution Margin of 10.6%, a decline from 15.5% in 2Q20 when the Company's bad debts were at a historical low combined with higher gross margin from revenue generated via best customers;
- Bad Debts Reserve ("Bad Debts") of 15.3% vs 11.9% in 2Q20;

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[1] Bad Debts Reserve is the proportion of bad debt Zebit expects to take for historical outstanding sales. This number is estimated utilising forecasting provided by Zebit's data science team on a monthly basis and is adjusted for actual bad debt and any payments received after the receivable has been written off as it is incurred.

[2] "Contribution Margin" is Gross Margin less Bad Debts Reserve. "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. "Bad Debt Reserve" is the proportion of bad debt Zebit expects to take for historical outstanding sales. Refer to Section 6.2.4 of Zebit's Prospectus for further information.

- 2Q21 bad debts include a 1.8% point adjustment from prior periods;
- If the prior period adjustment was removed, the underlying 2Q21 bad debts performance would be estimated at 13.5% which is aligned to Company expectations as it continues to accelerate growth;

- Piloted Zebit's first national and local television campaigns, which the Company is expanding in 3Q21;
- Launched Zebit Grocery in Beta mode, allowing customers to shop in bulk across 9 categories and an initial selection of approximately 7,000 dry, frozen, and refrigerated products;
- Implemented a new alternative credit score which is being utilised in 3Q21 underwriting;

1H21

- Revenue of $56.1M, up 1.9% vs Prospectus and up 99.4% vs 1H20;
- Contribution Margin of 12.3% vs 13.3% in the Prospectus and 12.4% in 1H20;
- Bad Debts of 13.3% vs 14.3% in the Prospectus and 14.5% in 1H20;

Full 12 Month Prospectus Forecast (Last Twelve Months "LTM" from 1 July 2020 to 30 June 2021)

- Revenue of $115.6M, up 6.0% or $6.5M vs Prospectus;
- Contribution margin of 14.9% vs 12.8% in the Prospectus;
- Bad debts of 10.9% vs 14.7% in the Prospectus.

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

"The business performed well in the second quarter of 2021, building on strong growth from the previous quarter and adapting to changing consumer buying patterns. Consumer shopping behaviours were influenced by a semi-opened US economy, partial vaccinations, rising prices, and increased supply chain shortages coupled with an intense demand for home improvement, consumables, and travel and entertainment products and services. During the second quarter, the business invested marketing dollars in existing and new customer acquisition channels, continued to optimise approval rates, expanded product assortment, and evaluated new customer engagement strategies.

These results confirm the strength of Zebit's performance against its 12-month Prospectus forecast ended 30 June 2021. They also demonstrate the team's ability to execute against its strategy, navigate through a period of great uncertainty, and exceed core metrics including revenue, contribution margin, and bad debts. The team has worked tirelessly to achieve these results and will continue to do so as we focus on executing the next phase of our growth strategy and build long-term, shareholder value. In short, we will continue to invest capital prudently in acquisition channels, data science, technology, and people to drive high growth in the business."

Key Performance Metrics for 2Q21, 1H21, and Full Prospectus Period

All figures below are shown in US$.

2Q21 Key Metrics (unaudited)	2Q21 Actual	2Q20 Actual		Change on 2Q20	
Revenue	**$29.2M**	$10.0M		**190.5%**	
Contribution Margin	**10.6%**	15.5%		**-4.9% points**	
Bad Debts	**15.3%**[3]	11.9%		**+3.4% points**	

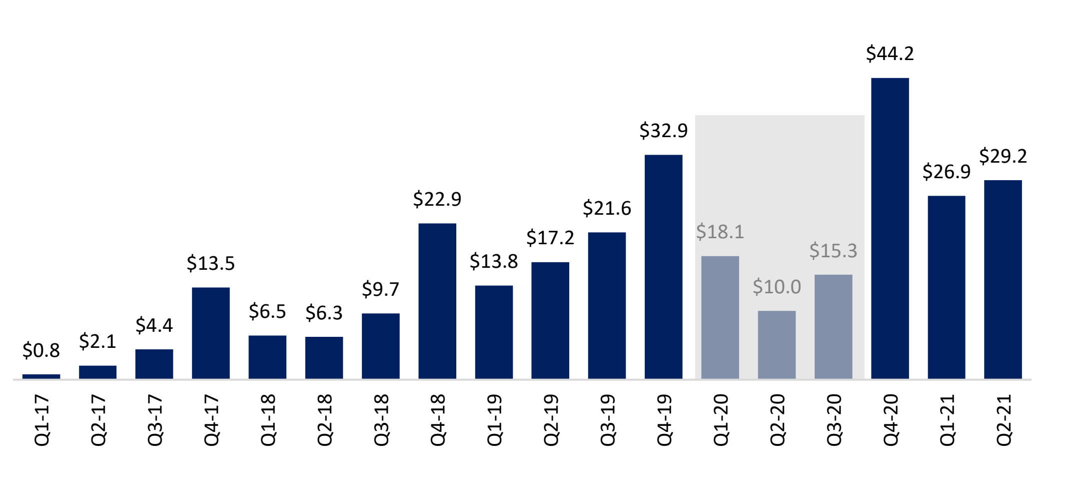
1H21 Key Metrics (unaudited)	1H21 Actual	1H20 Actual	Prospectus Forecast	Change on 1H20	Prospectus Change
Revenue	**$56.1M**	$28.1M	**$55.1M**	**99.4%**	**1.9%**
Contribution Margin	**12.3%**	12.4%	**13.3%**	**-0.1% point**	**-1.0% point**
Bad Debts	**13.3%**	14.5%	**14.3%**	**-1.2% points**	**-1.0% point**

Last 12 Months (Prospectus) (unaudited)	LTM Actual	Prospectus Forecast	Prospectus Change
Revenue	**$115.6M**	**$109.1M**	**6.0%**
Contribution Margin	**14.9%**	**12.8%**	**+2.1% points**
Bad Debts	**10.9%**	**14.7%**	**-3.8% points**
Cumulative Registered Users (000s)	**987**	**1,071**	**-7.8%**

Quarterly Performance & Business Update

In the second quarter of 2021, the US began to relax COVID-19 restrictions and commerce started to open across all 50 states. During this time, the Company saw strong revenue growth driven by increased demand for travel, home improvement, and daily consumables.

Quarterly Revenue (US$ million)



* Shaded area denotes where the Company was intentionally dampening demand due to capital constraints prior to its IPO

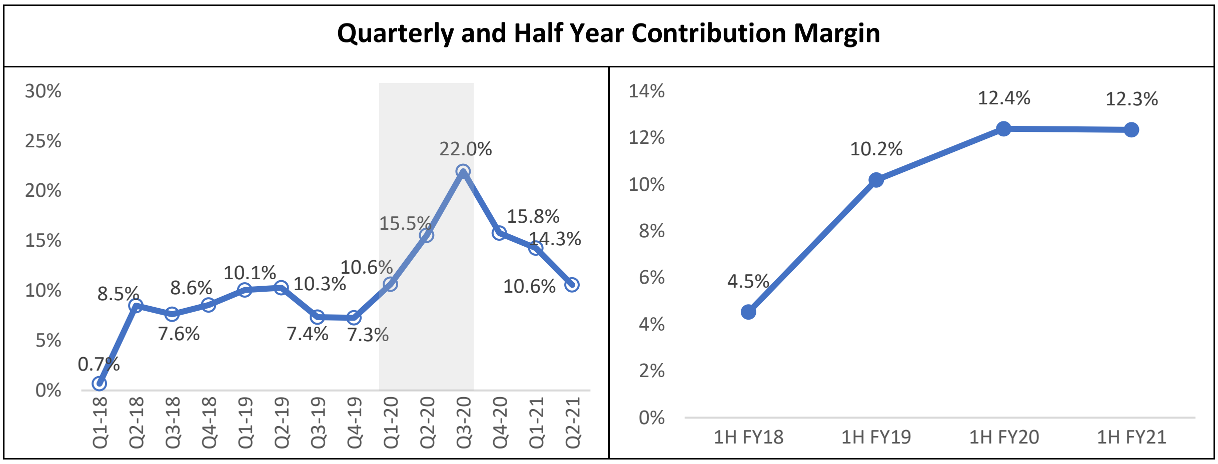
[3] 2Q21 bad debts include a 1.8% point adjustment from prior periods and if removed leaves underlying bad debts performance of an estimated 13.5% for 2Q21 which is aligned to Company's expectations as it continues to accelerate growth.

Zebit addressed consumer demand in 2Q21 by selling lower gross margin e-certificates for hotels, airlines, and large box stores that focus on home improvement needs. The sale of e-certificates increased from 36.2% of revenue in 2Q20, when the Company was intentionally dampening demand by limiting product selection to higher gross margin items, to 57.2% in 2Q21 when it offered a full product assortment to all customers. Zebit's consumer buying patterns were matched by the broader trend across the US.

"Home Depot crushes estimates, its sales jump 32.7% as customers rang up bigger purchases… In the first two weeks of May, U.S. same-store sales have climbed more than 30% compared with the same period two years ago.[4]"

"The TSA screened more than 2 million flyers for the first time since March 2020.[5]"

"US airlines are scrambling to ramp back up to meet soaring travel demand that has transformed America's airports from cavernous to crowded almost overnight.[6]"



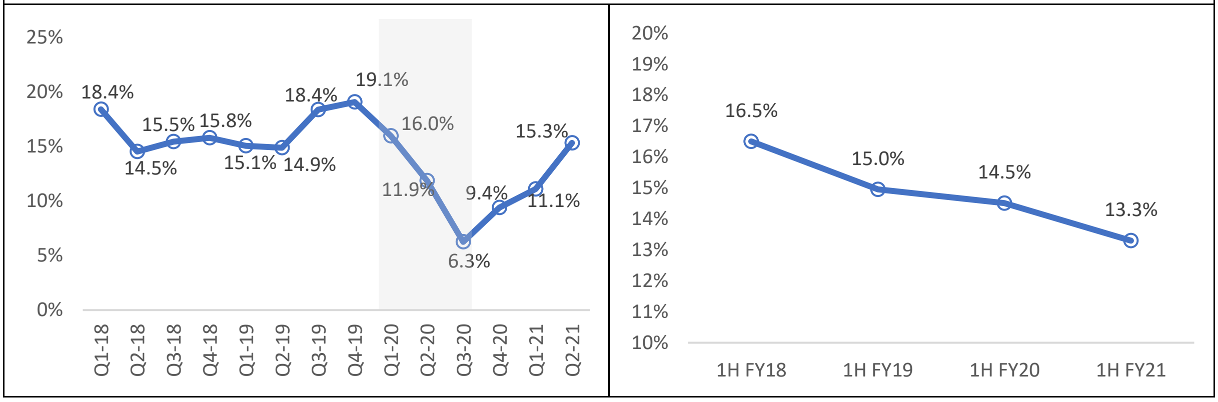
*Shaded area denotes where the Company intentionally dampened demand due to capital constraints prior to its IPO

In the chart above, contribution margin was artificially elevated in 2Q20 to 3Q20 due to dampening demand during that period. This was managed 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. This collectively resulted in historically low bad debts, increased cash flow, and high contribution margin compared to any period since the Company's inception. In addition, 4Q20 contribution margin was above average due to government subsidies contributing to better collections performance.

The decline in contribution margin in 2Q21 was due to lower gross margins generated from a higher proportion of e-certificate sales in travel and entertainment (pent up demand from COVID as consumers started to travel again), and an increase in bad debts from a 1.8% point adjustment booked in the quarter from prior periods. If the adjustment was removed from 2Q21, the underlying bad debts performance would be approximately 13.5% and contribution margin would have increased to 12.4%.

[4] https://www.cnbc.com/2021/05/18/home-depot-hd-q1-2021-earnings.html
[5] https://thepointsguy.com/news/tsa-2-million-flyers/
[6] https://techxplore.com/news/2021-06-sudden-surge-airlines.html

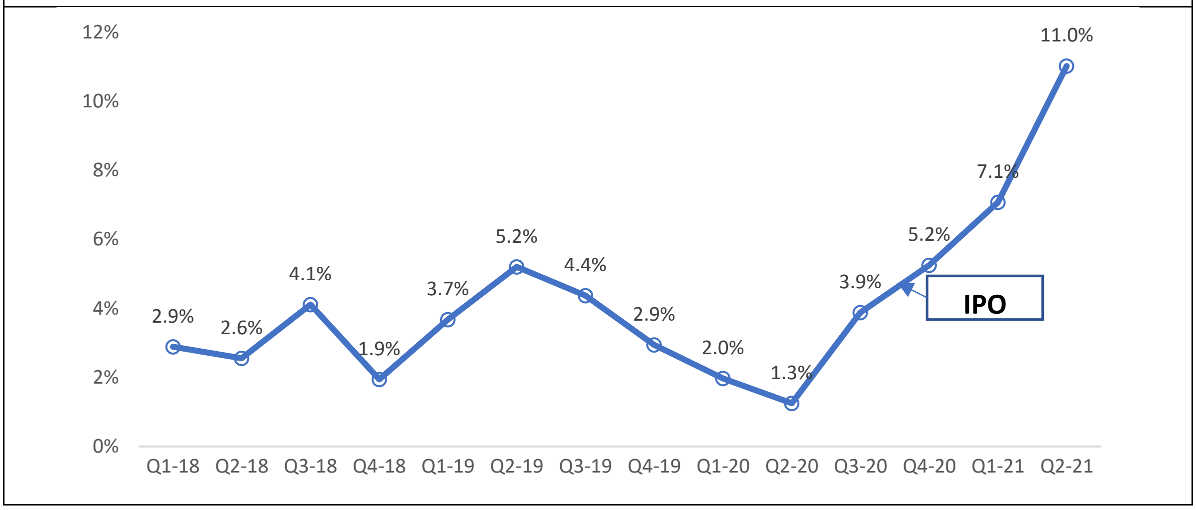
Quarterly and Half Year Bad Debt Reserve



*Shaded area denotes where the Company intentionally dampened demand due to capital constraints prior to its IPO

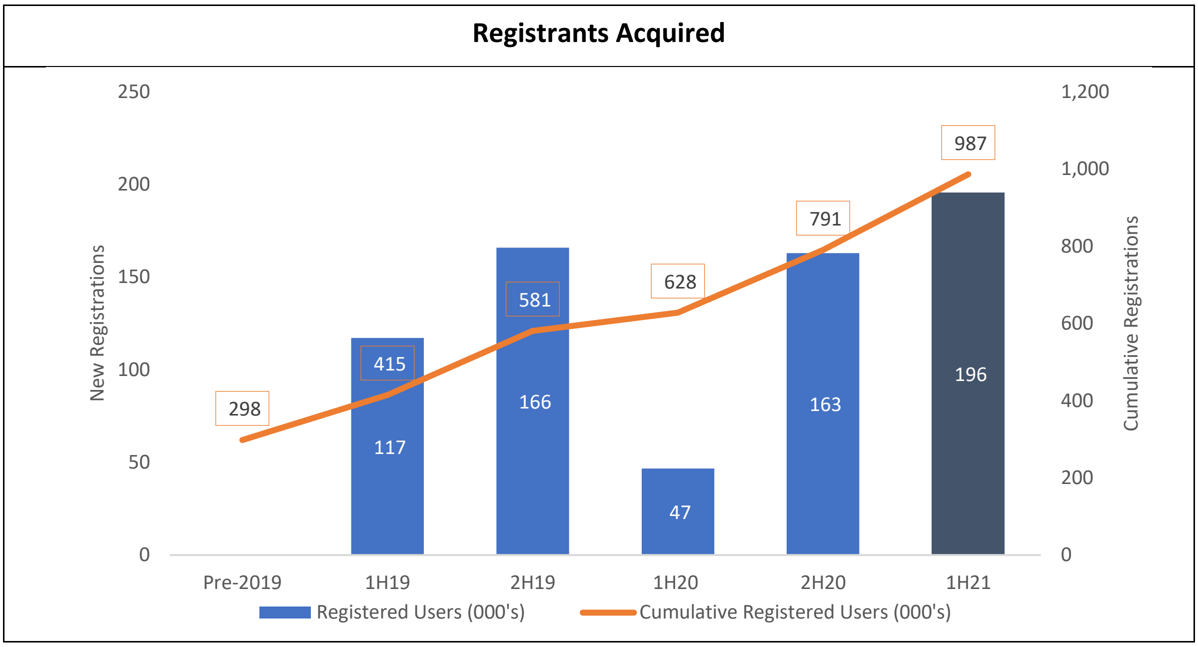
After the IPO in late October, Zebit increased its marketing expenditure on the acquisition of new customers via existing and new channels to reignite growth. Funds were deployed across the Company's core channels (such as Facebook and Paid Search) and allocated to test channels such as TV. Test channels will require additional investment over time to optimise. In addition, Zebit has been testing new B2B affiliate partnerships which will also require time to mature.

Marketing Spend as a Percent of Revenue



The Company missed its 12-month registration Prospectus target by 7.8%. The lower number of registrants is attributed to two key factors. First, consumer privacy changes related to the implementation of iOS14[7] by Apple diminished the Company's ability to attribute applications to Facebook and other digital channels and obscured its ability to make informed spending decisions. This issue was common to all companies acquiring new customers online and was not unique to Zebit. The Company has already implemented a solution in 3Q21 that is expected to improve attribution. Second, testing new marketing channels resulted in fewer registrations compared to deploying the monies in known channels.

[7] https://www.forbes.com/sites/kateoflahertyuk/2021/01/31/apples-stunning-ios-14-privacy-move-a-game-changer-for-all-iphone-users/?sh=365e83e07e8d



Building Strong Foundations to Drive Growth

In the third quarter, Zebit will leverage improved underwriting data to qualify customers, which should allow the Company to approve more applicants, lower its cost of acquisition, and lift the proportion of good customers in the mix. In addition, the team is working diligently to add more products to the site across grocery, home, appliances, and furniture. At the same time, Zebit intends to expand its marketing tests into TV, digital billboards, and other channels to acquire customers across broader media. Lastly, Zebit will augment its talent pool by starting recruitment for its first Chief Technology Officer who will focus on aligning the Company's platform strategy with its business objectives, while continuing to harden its cybersecurity risk posture.

Quarterly Cash Flows

Select Balance Sheet Data

US$000's	**Unaudited 31 March 2021**	**Unaudited 30 June 2021**	**QoQ Change**
Cash and cash equivalents	21,186	16,188	4,998
Restricted cash	150	150	0
Total cash	**21,336**	**16,338**	**4,998**

As of 30 June 2021, the Company had total cash on hand of US$16.3M, which includes US$150,000 of restricted cash. Total cash on hand declined by US$5.0M during 2Q21. US$3.4M of this is related to expenditure on marketing.

Key operating cash outflows:

- Product manufacturing and operating costs totalled US$22.6M in 2Q21 compared to US$22.6M in 1Q21. COGS in 2Q21 were higher by approximately US$2M, which was offset by stability in accounts payables balance as 1Q21 saw increased payments to Vendors related to peak holiday sales.

- Advertising and marketing payments rose to US$3.4M in 2Q21 vs US$1.9M in 1Q21. The increase in advertising and marketing payments align with Zebit's increased spend on marketing.
- Staff costs, inclusive of wages, salaries, and other employee related benefits, were relatively flat at US$1.8M in 2Q21 vs 1Q21.
- Administrative and corporate costs were US$1.7M in 2Q21, compared to US$2.3M in 1Q21. The decrease is attributed to lower accounting costs from the Audit completed in 1Q21, greater pre-paid expenses in 1Q21 related to 2Q21 activities, and a state sales tax credit.

At the end of 2Q21, the Company had drawn US$13.8M against its US$35M Bastion credit facility, leaving room for continued growth.

Use of Funds

Zebit provides the following 'Use of Funds' statement pursuant to ASX Listing Rule 4.7C.2. The Prospectus period covered 1 July 2020 through 30 June 2021, while the use of funds commenced after the funds were received on 26 October 2020.

Uses / (Sources) of Funds	Prospectus (US $000)	2Q21 (US $000)	Cumulative Expenditure (US$000)	Commentary
Working Capital	$6,366	-$925	-$2,680	Cash receipts in 2Q21 offset working capital need beyond known sources of funds below
Marketing Expenses	$6,645	$3,397	$6,302	
Active Customer Underwriting & Payment Processing Costs	$4,196	$946	$2,698	
Offer Costs	$3,744	$0	$651	Offer costs were paid primarily pre IPO and not included in post IPO cash flow
Repayment of Debt	$1,609	$1,168	$1,637	Repayment of revolving loan facility as accounts receivables decline after peak holiday in the fourth quarter
New Employee Compensation	$848	$371	$840	
Alternative Capital Raising Expenses	$750	$0	$700	
Platform Development	$343	$41	$125	
Total Uses / (Sources) of Funds	**$24,500**	**$4,998**	**$10,273**	

Related Party Payments

As noted in section 6 of the Appendix 4C, payments of US$100,000 were made for salaries and benefits to the CEO as a Director of Zebit. No other payments were made to any related parties of their associates of the entity.

Second Quarter Briefing

Zebit is providing a briefing on these results today through the **Coffee Microcaps Appendix 4C Reporting Wrap**, commencing 10.30am (AEST). All are welcome to attend, with registration via this Link to Webinar.

Half Year Results Announcement

Zebit will release its results for the six months ended 30 June 2021 on 26 August. A briefing will be held at 9.00am AEST with participation via webcast.

Full details of our results, including the presentation, will be available on the ASX and our website (www.zebit.com) shortly before the briefing on 26 August 2021.

Access to the live webcast (with synchronised slides) will be via the following link:
Webcast link: https://services.choruscall.com.au/webcast/zebit-210826.html

Authorisation

This Quarterly Activities Report was approved by Zebit's Board.

About Zebit, Inc.

ASX-listed Zebit, Inc. (ZBT: ASX) or ("Zebit") is a California based eCommerce company that is dedicated to changing the lives of over 120 million U.S. 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 U.S.

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

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