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Zip shares surge on QuadPay deal to chase Afterpay into the US

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Jun 2, 2020 - 2.20pm



Zip Co shares have surged on its expansion into the United States, after the lender announced the \$400 million acquisition of New York-based buy now, pay later player QuadPay in an all-scrip deal that will boost its customers to 3.5 million.

The deal, [initially revealed by Street Talk on Sunday night](#), will allow Zip to chase Afterpay in the high-growth US market, where consumers are turning to interest free, instalment payments as an alternative to paying with credit cards, and the providers are in a land grab to acquire retailers to offer the products.

The acquisition is a sign of Australia's dominance in the fast-growing global sector, where Afterpay and Zip will compete in the US with ASX-listed Sezzle, Affirm and Klarna, which Commonwealth Bank is helping to expand in Australia.

Zip shares surged by 39 per cent after resuming trading on Tuesday to \$5.21 by mid-afternoon. The company said it had been encouraged by QuadPay's "continued strong growth and performance especially during the COVID-19 outbreak".



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Zip, which counts Westpac as an investor, will issue almost one-quarter of its issued share capital to QuadPay shareholders to fund the deal, valuing the New York-based fintech at just over \$400 million. The deal will also be funded by an unusual structure involving the issuance of \$100 million in convertible notes and \$100 million in warrants.

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Zip already holds 14 per cent of QuadPay, through its acquisition of PartPay in NZ last year, making it the second-largest shareholder of QuadPay outside of founders. It said QuadPay's co-founders and co-CEOs will join Zip's global management team.

QuadPay, which launched in 2017, has 1.5 million US customers, compared with Afterpay's 5 million, and processes almost \$1 billion of annualised sales.



Zip founders Peter Gray and Larry Diamond, "The US is a critical part of our global strategy," says Diamond. **AFR**

After the deal, which requires shareholder approval, Zip will have 3.5 million customers, 26,000 merchants and will process total sales of \$3 billion, delivering annualised revenue of around \$250 million.

"The US is a critical part of our global strategy and vital as merchants increasingly look for a global payments solution. We have been impressed by QuadPay's continued innovation," Zip CEO Larry Diamond said.

How Street Talk broke the story on Monday morning



Heights Capital Management, an affiliate of US-based Susquehanna International Group, will fund the deal by buying the \$200 million of convertible notes and warrants, which was [separately revealed by Street Talk on Monday night](#).

The structure allowed Zip to raise funding at a premium to its share price pre-deal, rather than at a discount. Zip said the deal would be accretive based on transaction volume and revenue.

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Unlike Afterpay, QuadPay can facilitate instalments payments anywhere where Visa cards are accepted, both online and offline. It has a partnership with Stripe, a leading provider of payment software for merchants.

Shaw and Partners analyst Jonathon Higgins said the deal would be well received by the market and QuadPay is adding around 100,000 new customers each month, around 35 per cent of Afterpay's rate of customer acquisition.

"This gives Zip another leg of growth and puts the company into the global payments space," Mr Higgins said. "Afterpay has enjoyed a significant re-rating and growth uplift from USA and overseas expansion, and this is the playbook for investors with QuadPay and the US now coming into the envelope."

Zip also has operations in the UK, South Africa and New Zealand. It said QuadPay uses the same technology platform as Zip, which will minimise integration costs and help acquire new merchants.

On regulation, Zip said QuadPay is licensed by the California Department of Business Oversight, which recently required Afterpay to operate under a licence

there. Zip said Quadpay conducts credit file checks on customers to assess risk.

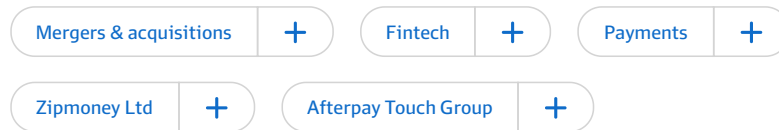
The deal is expected to complete in the first quarter of 2021.

James Eyers writes on banking, fintech and technology. Based in our Sydney newsroom, James is a former Legal Affairs and Capital editor for the Financial Review *Connect with James on [Twitter](#)*. Email James at jeyers@afrc.com.au



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