



# IOU Financial Inc.

## Corporate Presentation

### March 2019

# Forward looking statements

Certain information set forth in this presentation may contain forward-looking statements. Forward-looking statements are statements, other than statements of historical fact, that address or discuss activities, events or developments that IOU Financial expects or anticipates may occur in the future. These forward-looking statements can be identified by the use of words such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. These forward-looking statements reflect management's current views and are based on certain assumptions including assumptions as to future economic conditions and courses of action, as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit IOU Financial will derive from them.

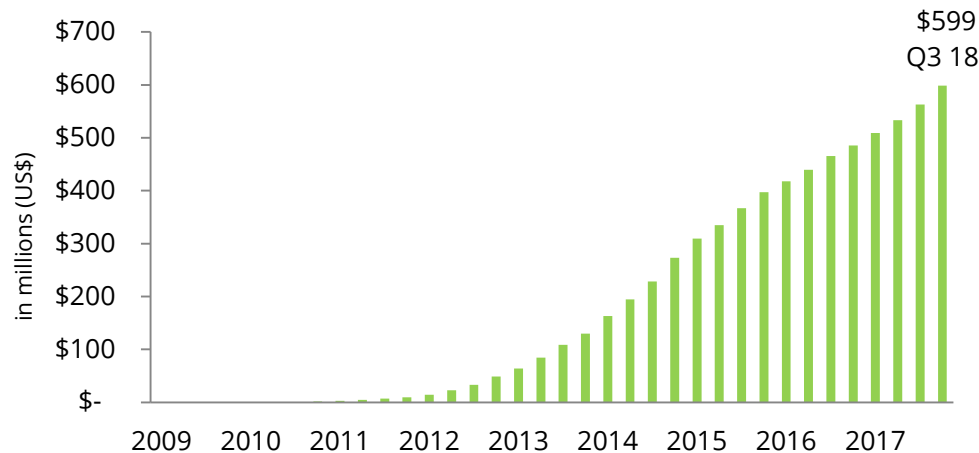
A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward looking statements, including, but not limited to risks inherent in growing a new business, dependence on third-party service providers, competition, regulatory risk, dependence on key personnel, risks related to rapid growth of IOU Financial, security and confidentiality risk, risk related to inability to attract borrowers and lenders, technological development risk, IT disruptions, maintenance of client relationships, litigation risk, volatility of stock price, and other factors that are beyond its control.

Additional information concerning these and other factors can be found beginning on page 20 under the heading "Risks and Uncertainties" in IOU Financial's Q3 2018 MD&A dated November 14, 2018, which is available under IOU Financial's profile on SEDAR at [www.sedar.com](http://www.sedar.com). IOU Financial does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

# A leading online lender to small businesses

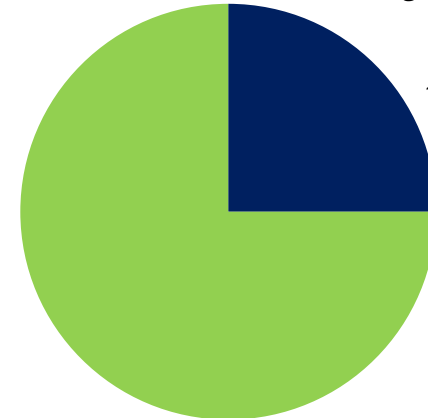
- **US\$600+ million** – of total loans originated since inception.
- **9,000+** loans made to merchants and small businesses across the US and Canada.
- **5 consecutive years** on the **PROFIT 500 List** of Canada's fastest growing companies.
- **Proprietary, fully integrated** technology platform.
- **3-5 minute** application process with approved loans funded in as little as 24 hours.
- **Scalable** operating and financial model.

## Cumulative loans originated



## Shareholder summary

87.8M total shares outstanding



~25% insider ownership

\* IOU announced surpassing US\$600 million of loan origination volume subsequent to the end of Q3 18. Total loan origination volume as of Q3 18 was US\$598.7 million.

# Investment highlights

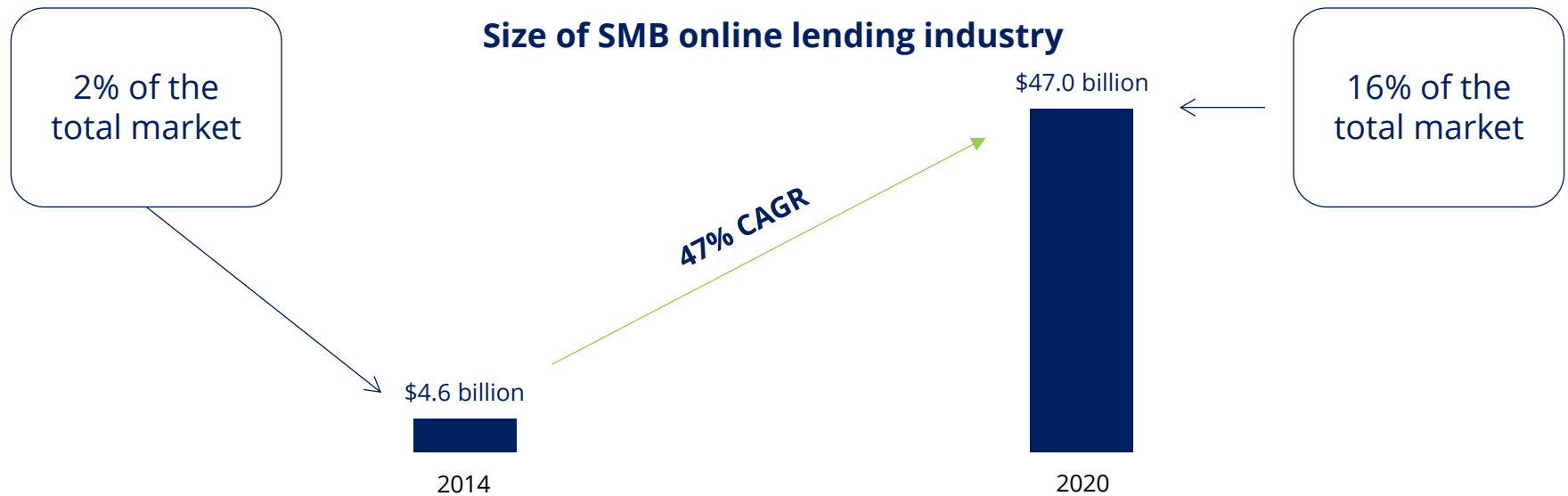
- **Significant inflection point – IOU profitable for four consecutive quarters**
  - Achieved profitability in Q4 17 with \$0.1 million in adjusted earnings, followed by \$2.1 million of adjusted earnings during the first three quarters of 2018.
- **Alignment of interests**
  - Directors and insiders own approximately 25% of Company's stock.
- **Large market with growing demand**
  - Online lenders expect to originate US\$47 billion in 2020 from just US\$4.6 billion in 2014 – a 47% CAGR.\*
- **Significant growth potential in loan originations**
  - IOU expects to ramp up its growth rate to 25%-30% per annum, over the long-term.
- **Demonstrated improvements in business fundamentals over past two years**
  - Increasing portfolio yield.
  - Decreasing cost of debt capital over time.
  - Implemented credit improvement strategies – with demonstrated results.
  - Decreasing operating expenses as a percentage of revenues.
- **Unique, proprietary technology platform**
  - Allows for industry-leading operating efficiency.

Source: \* Morgan Stanley Research, "Global Marketplace Lending: Disruptive Innovation in Financials," Blue Paper, May 19, 2015. Market size figures in USD.

# The online lending industry

**Online lenders will continue to increase their share of the small business lending market.**

*Larry Summers, former U.S. Treasury Secretary, sees online lenders capturing a 70% market share in small business lending.*

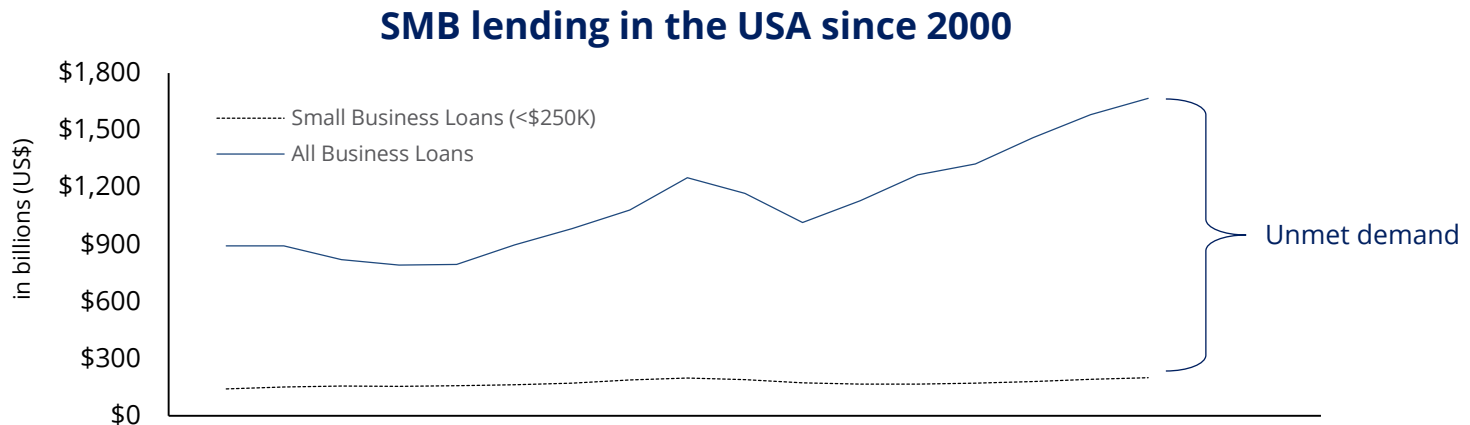


Source: Morgan Stanley Research, "Global Marketplace Lending: Disruptive Innovation in Financials," Blue Paper, May 19, 2015. Market size figures in USD.

# Industry growth drivers

Several key factors are driving the growth in online lending to SMBs.

- **Banks have largely exited the small business loan market**
  - With a focus on larger loans, banks' presence in the SMB loan market has been in decline over the past decade.
- **Readily available institutional debt capital**
  - Institutional capital has been attracted by relatively high rate of returns available by lending in this market.
- **Tremendous innovation and use of technology**
  - Ease and simplicity of the application process and the speed at which capital is delivered to merchants.



Source: FDIC, Q3 2016 - Commercial and Industrial Loan Balances at FDIC - Insured Institutions under \$250,000. All figures in USD.

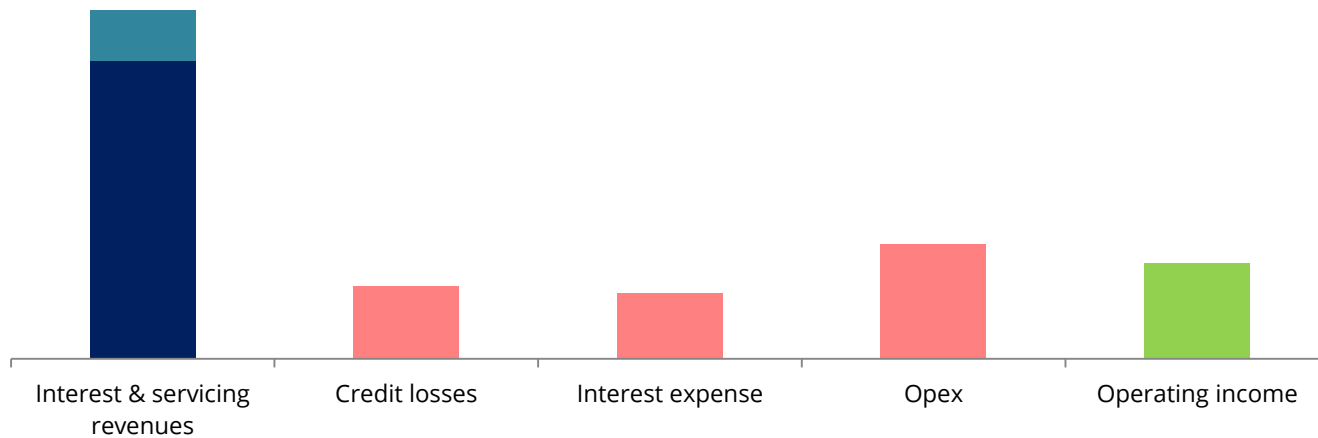
# Business model

**IOU's business model is simple, scalable and has significant embedded operating leverage.**

IOU generates **interest income** from originated loans held on its own balance sheet and **servicing income** from originated loans sold to institutional investors.

The Company's profitability is dependent on its cost of capital, the credit performance of its loan portfolio, and its operating efficiency.

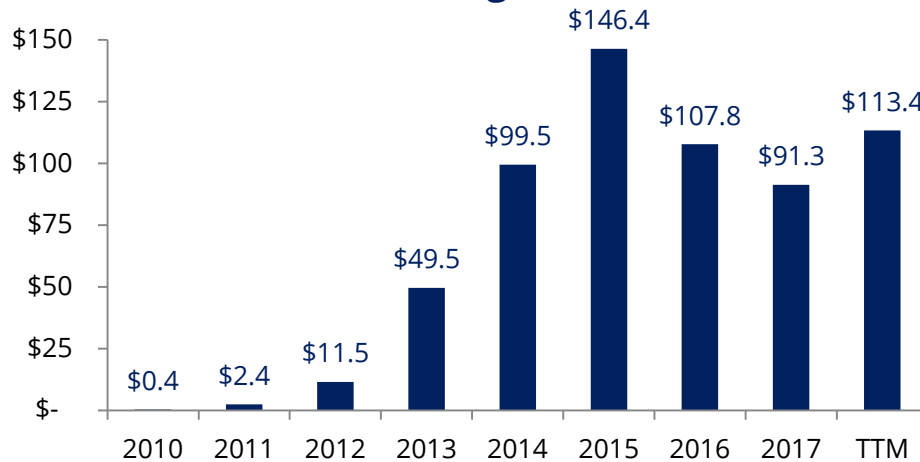
## IOU's business model



# Loan originations & Loans under management

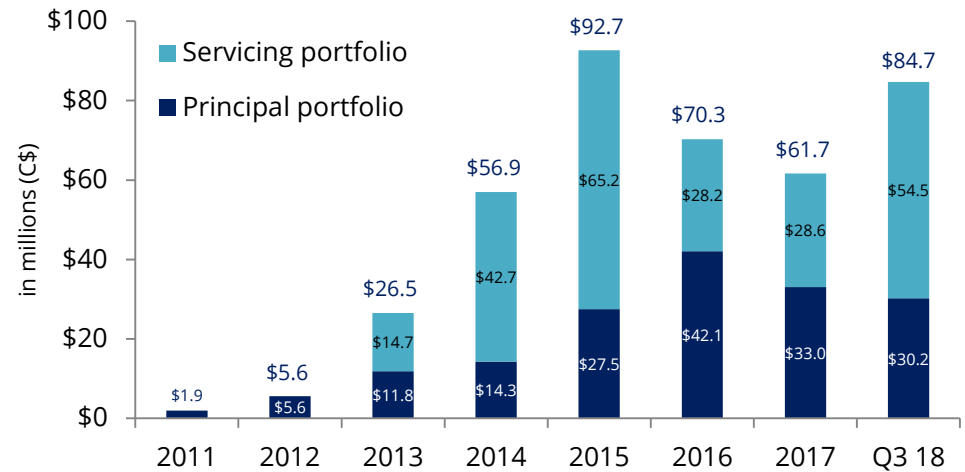
**IOU intends to ramp up loan origination growth to 25%-30% per annum over the long-term.**

## Loans originated



Note: TTM refers to "Trailing Twelve Months" as of Q3 18.

## Total loans under management



IOU will grow loan originations by:

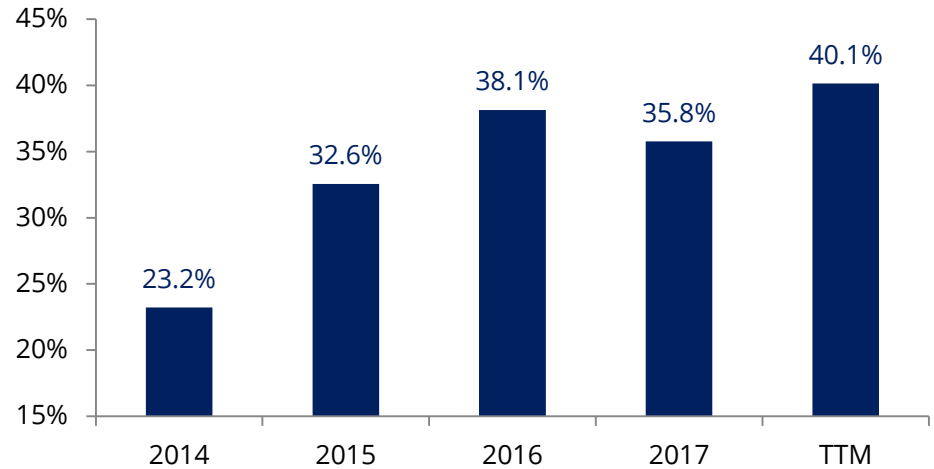
- Increasing the number of quality loan brokers working with IOU.
- Adding new products to monetize IOU's existing application funnel.
- Further geographic expansion into Canada.
- Continuing to add new strategic partners such as banks and payment processors.



# Revenues

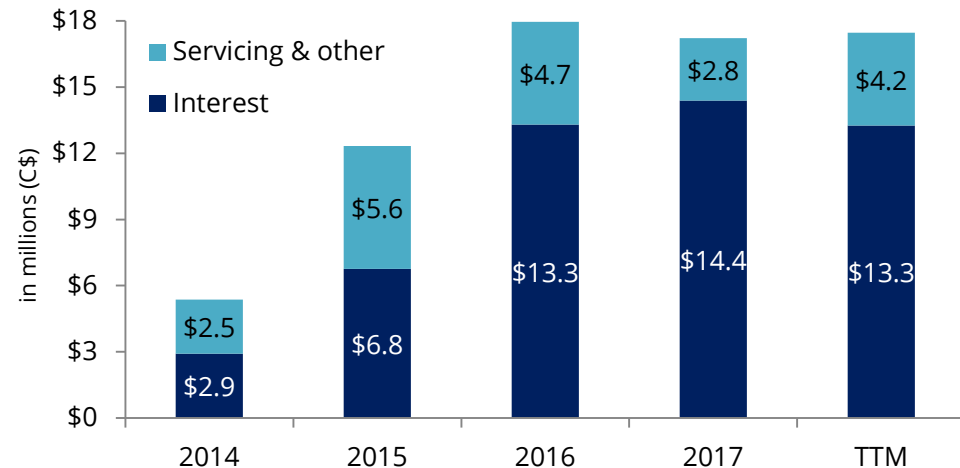
**IOU utilizes a hybrid revenue strategy to fully optimize its origination platform.**

## Increasing portfolio yield over time



Note: 2014 to 2017 portfolio yields calculated under IAS 39; TTM 2018 under IFRS 9.

## Revenue breakdown



Note: TTM refers to "Trailing Twelve Months" as of Q3 18.

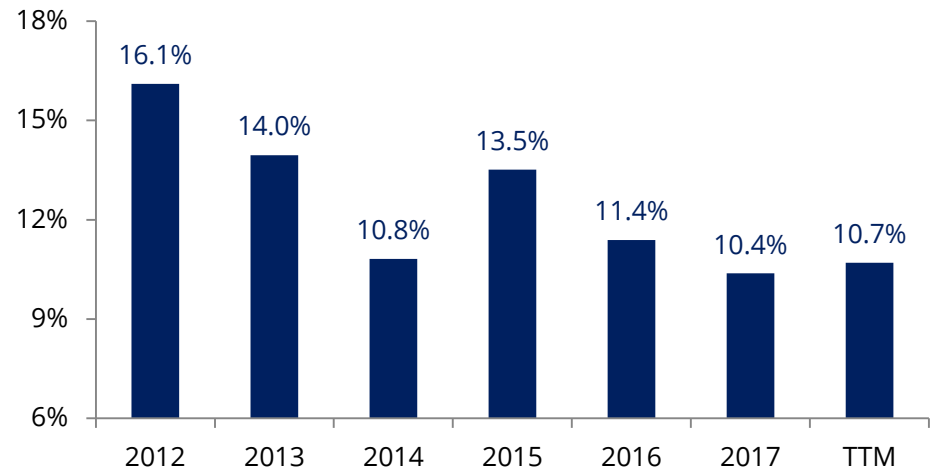
The portfolio yield on IOU's principal portfolio has increased as IOU improved pricing.

Note: "Servicing & other" revenues represent actual cash revenues & exclude certain non-cash items such as gains on servicing asset & amortization of servicing asset. Servicing fees amounted to \$2.9M; and "other" fees amounted to \$1.3M over TTM period. "Portfolio yield" is calculated by dividing 9 TTM interest revenues earned by the avg of the beginning, quarterly, & end of period commercial loans receivable balance o/s over such period.

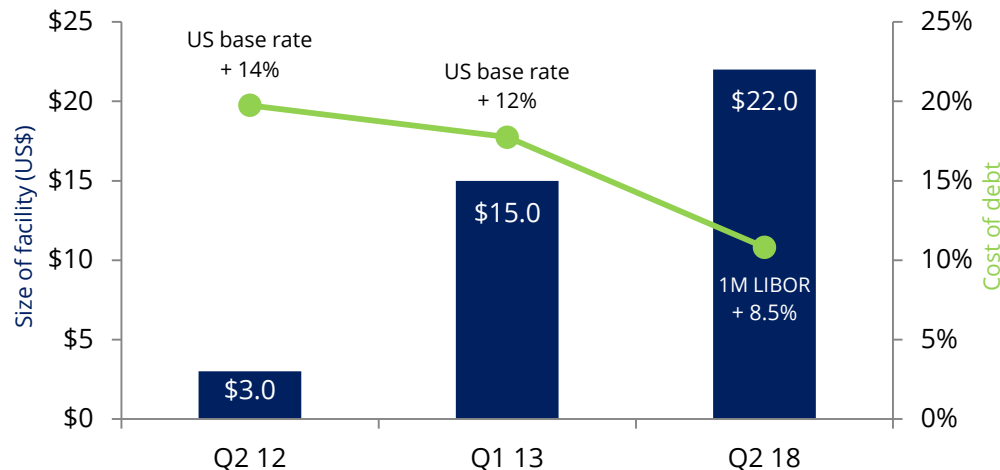
# Interest expenses

**IOU has increased its borrowing capacity and lowered its cost of debt capital over time.**

## Decreasing average cost of borrowing



## IOU borrowing evolution



In 2018, IOU successfully modified and extended its facility with MidCap Financial, a company owned and managed by Apollo Global Management.

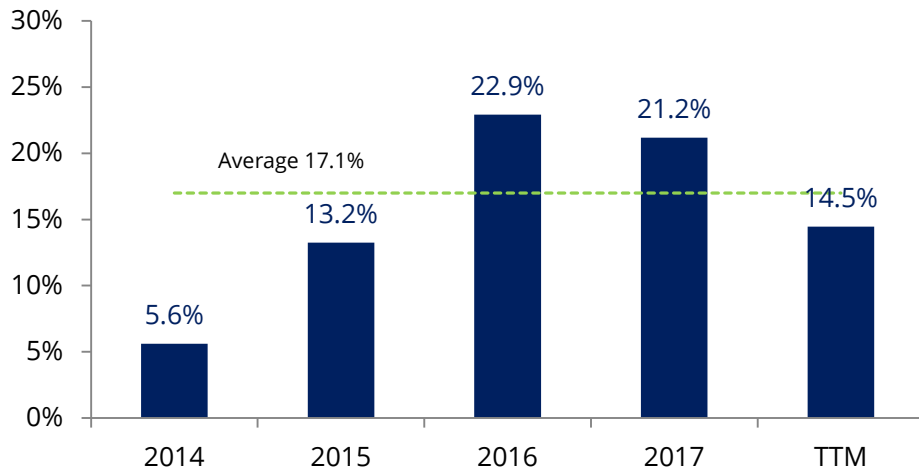
Note: TTM refers to "Trailing Twelve Months" as of Q2 18. As of Nov. 2/18, the US Base rate and LIBOR 1-month rate were 5.75% and 2.32%, respectively.

Note: "Average cost of borrowing" is calculated as interest expenses divided by the average balance of debt outstanding over such period. The average balance of debt outstanding considers the average of five quarterly points-in-time, including the beginning and end of such period. Interest expenses and the average balance of debt outstanding includes both conv. debenture and credit facility interest expenses and balances.

# Credit performance

**Provisional loss rates have declined over the past twenty-one months as the credit quality of IOU's loan book has improved.**

**Provisional loss rates**



Compared to prior years, and particularly in 2016, loss rates in the online lending industry to small businesses increased over historical norms.\*

In response to this, **IOU pro-actively implemented the following strategies** to improve its portfolio's credit performance:

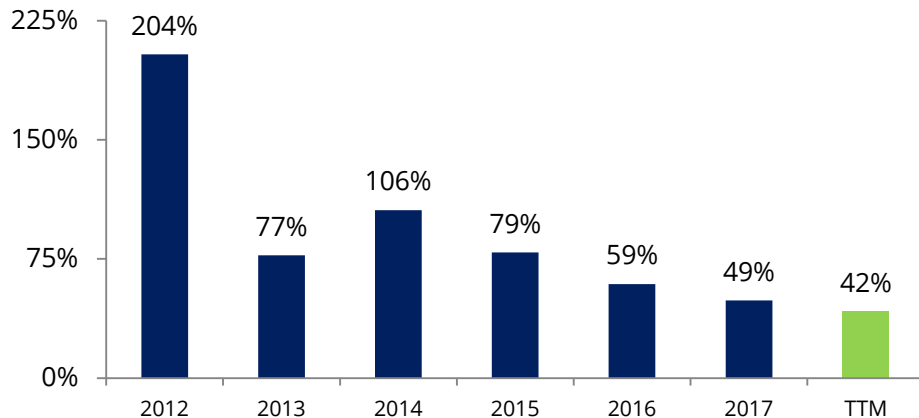
- A tightening of credit oversight.
- An aggressive litigation strategy to pursue intentional defaults by borrowers.
- Improved servicing and collections processes.

These strategies have **demonstrably improved** IOU's provisional loss rates, starting in Q4 17.

# Operating expenses

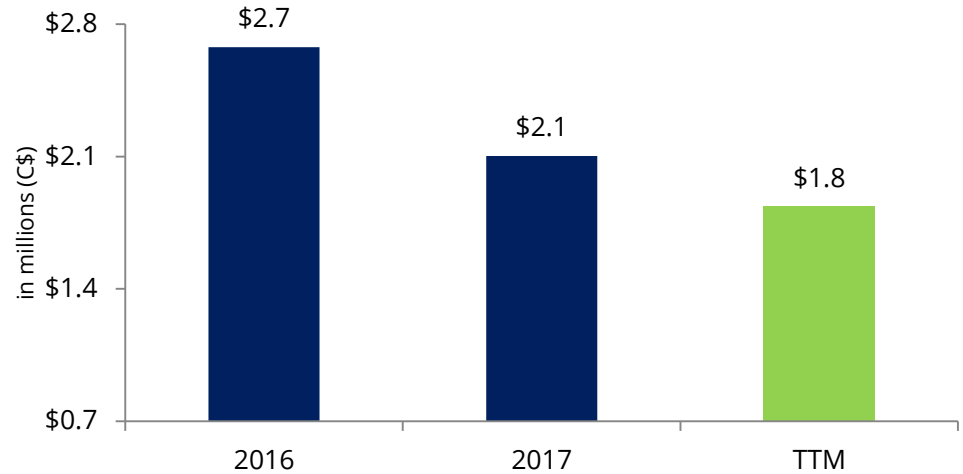
**IOU's scalable business model provides solid operating leverage.**

**Adjusted opex as a percentage of adjusted revenues**



Note: TTM as of Q3 2018

**Average quarterly adjusted opex**



In Q3 16, IOU publicly announced a significant cost reduction effort to set the table for sustainable growth.

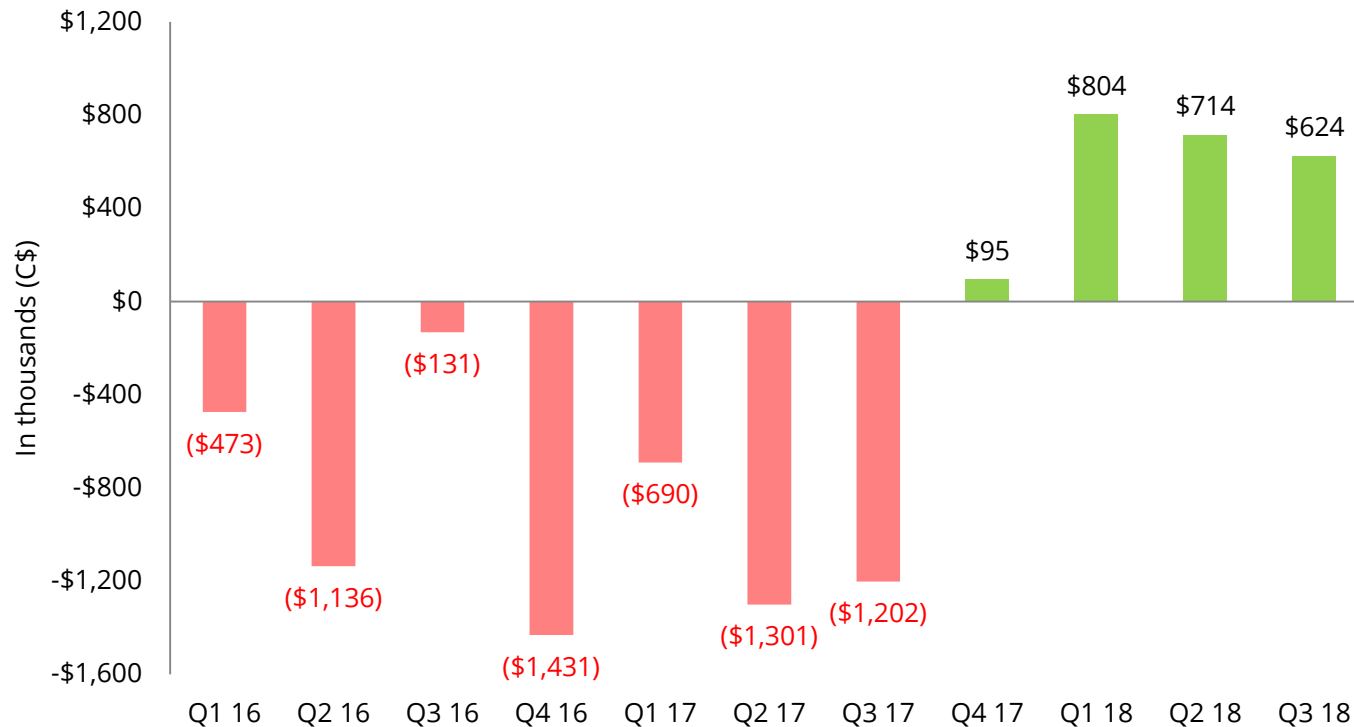
- Opex has declined on a quarterly basis since public announcement.
- IOU will carefully manage opex into the future, balancing profitability with growth opportunities.

Note: Adjusted opex excludes non-recurring and non-cash items as listed in IOU's financial disclosure (note 13 of financial statements). Adjusted revenues calculated as interest revenue plus "servicing & other" revenues as defined on Revenues slide 9.

# Inflection point: profitability achieved

IOU has recorded four consecutive quarters of profitability on both an accounting (IFRS) and adjusted earnings (cash) basis.

Quarterly adjusted losses and earnings since 2016



# Proven & experienced team



**Phil Marleau, CFA**  
Chief Executive Officer  
Former equity research analyst at  
Merrill Lynch, CSFB, Scotia Capital



**Robert Gloer**  
President & COO  
Former SVP East Region  
at First Franklin Financial



**David Kennedy, CPA, CA**  
Chief Financial Officer  
Former CFO at Dale Parizeau Morris  
Mackenzie & CFO at Mirabaud Canada



**Benjamin Yi, CFA**  
Capital Markets & Corp. Dev.  
Former Investor at Dundee Corp &  
1832 Asset Management L.P.



**Madeline Wade**  
VP, Operations  
Formerly underwriting  
at First Franklin Financial



**Jeff Turner**  
VP, Credit & Compliance  
Former VP & Branch Manager  
at First Franklin Financial



**Mark Schrews**  
VP, Wholesale  
Former nuclear weapons technician  
at US Navy & broker at Metro Brokers



**Christophe Choquart, MBA**  
VP, BD & Strategic Partnerships  
Former institutional equity sales  
at Bear Stearns & Lehman Bros

# Comparables

**IOU represents a very compelling investment opportunity.**

- **IOU is profitable and is at a key inflection point**
  - IOU has posted a full year of profitability, with strong showings in Q1, Q2 and Q3 of 2018.
- **Very few publicly-traded competitors**
  - IOU represents compelling value for investors seeking exposure to the rapidly growing SMB lending industry.
- **Highly-aligned management team & insiders**
  - Insiders and directors own approximately 25% of the Company.

Online lenders		Valuation			Price-to-sales ratio			Price-to-earnings ratio		
Company	Ticker	Share price	Shares outstanding	Market cap	TTM Revenues	TTM RevPS	Trailing P/S	TTM Earnings	TTM EPS	Trailing P/E
On Deck Capital (US\$)	NYSE:ONDK	\$5.79	74.6	\$431.7	\$398.4	\$5.34	1.1x	\$27.7	\$0.37	15.6x
Mogo Finance Tech (C\$)	TSXV:MOGO	\$3.41	22.9	\$78.2	\$58.5	\$2.55	1.3x	-\$23.2	-\$1.01	-
LendingClub (US\$)	NYSE:LC	\$3.44	423.2	\$1,456.0	\$694.8	\$1.64	2.1x	-\$128.3	-\$0.30	-
Peer group average	-	-	-	\$767.1	-	\$2.10	1.7x	-	-	-
<b>IOU Financial Inc. (C\$)</b>	<b>TSXV:IOU</b>	<b>\$0.21</b>	87.8	<b>\$18.4</b>	<b>\$18.2</b>	<b>\$0.21</b>	<b>1.0x</b>	<b>\$2.3</b>	<b>\$0.03</b>	8.0x

Source: Company reports, Yahoo! Finance

Note: TTM refers to “Trailing 12 Months” as of Q3 18 for IOU & MOGO. For ONDK & LC, TTM refers to calendar 2018. Share prices reflect intra-day prices as of March 8, 2019.



# **IOU Financial Inc.**

## **Corporate Presentation**

### **March 2019**

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