



# IOU Financial Inc.

## Corporate Presentation

### April 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.

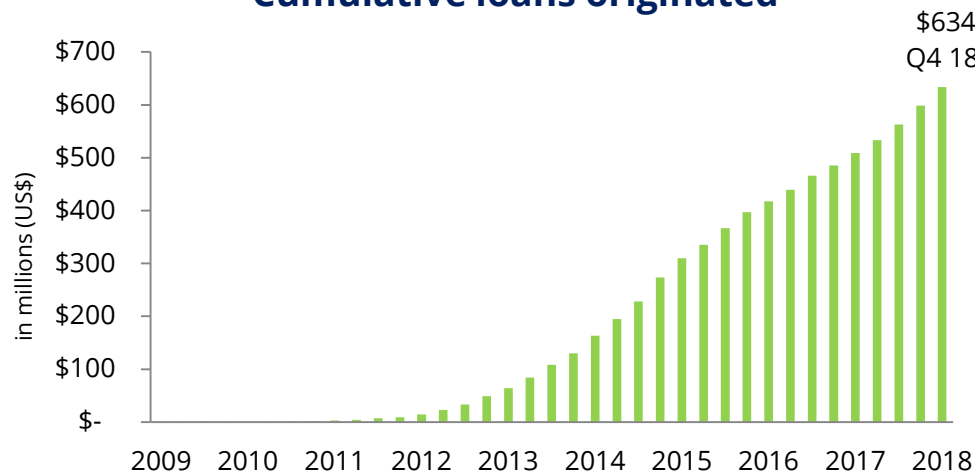
A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward looking statements, including, but not limited to risks inherent in growing a new business, dependence on third-party service providers, competition, regulatory 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 21 under the heading "Risks and Uncertainties" in IOU Financial's fiscal 2018 MD&A dated April 25, 2019, 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

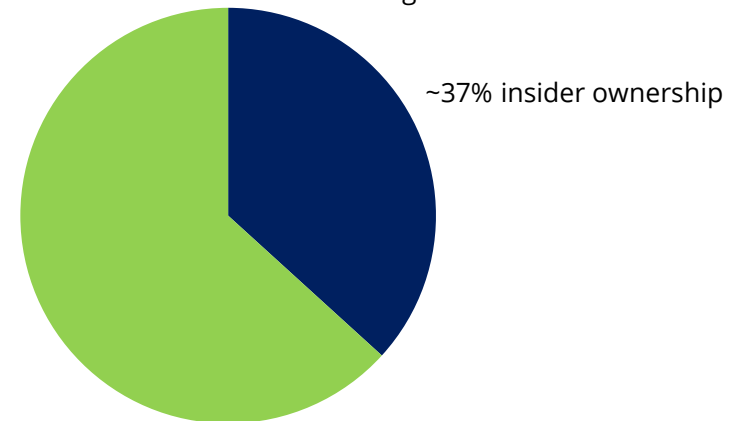
- **US\$630+ million** – of total loans originated since inception.
- **9,000+** loans made to merchants and small businesses across the US and Canada.
- **5 consecutive years** on the **PROFIT 500 List** of Canada's fastest growing companies.
- **Proprietary, fully integrated** technology platform.
- **3-5 minute** application process with approved loans funded in as little as 24 hours.

## Cumulative loans originated



## Shareholder summary

87.8M total shares outstanding



\* Total loan origination volume as of Q4 18 was US\$633.8 million.

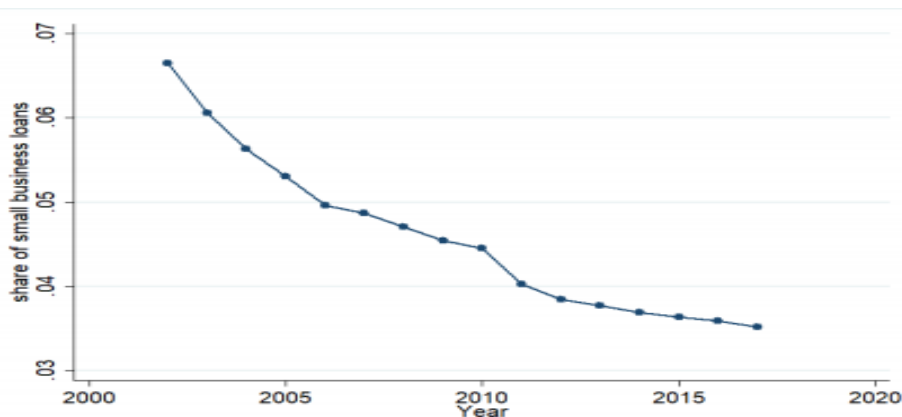
# Investment highlights

- **Focused on profitable growth**
  - IOU originated US\$125M of small business loans in 2018.
  - IOU expects to profitably grow originations by 25%-30% per annum, over the long-term.
- **Unique, proprietary technology platform**
  - Allows for industry-leading operating efficiency.
- **Alignment of interests with management and insiders**
  - Insiders own approximately 37% of Company's stock.
- **Unique exposure to a growing online lending industry**
  - IOU is a compelling option for investors seeking exposure to the rapidly growing SMB lending industry.
  - One of the only pure-play publicly-traded online lenders to small businesses.

# Online lending to small businesses

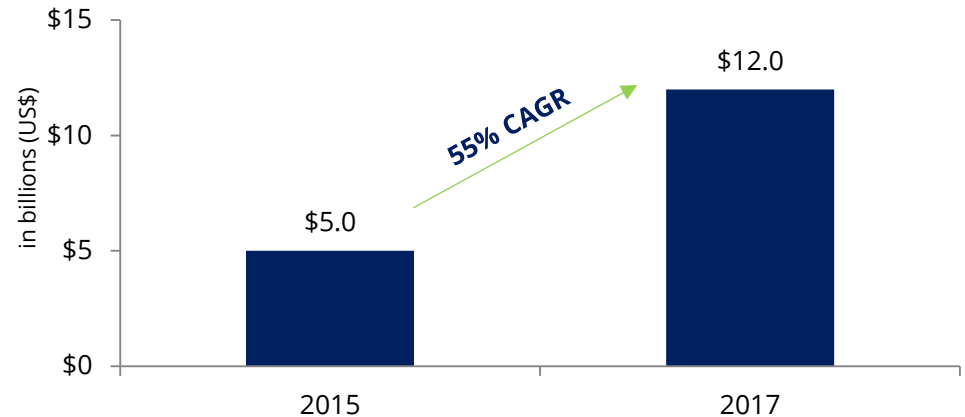
**Online lenders will continue to increase their share of the small business lending market.**

## Small business loans as a share of total US bank loans



Source: Pang, H 2018, *Information Technology Improvement and Small Business Lending* utilizing data from FDIC reports on US depository institutions

## Estimated total loan originations by online lenders to US small businesses



Sources: [Harvard Business School](#), [Board of Governors of the Federal Reserve](#)

As banks have exited the SMB lending market, there has been significant growth in online lending to small businesses. SMB loans as a percentage of total bank loans decreased from 6.7% to 3.5% from 2002 to 2017.

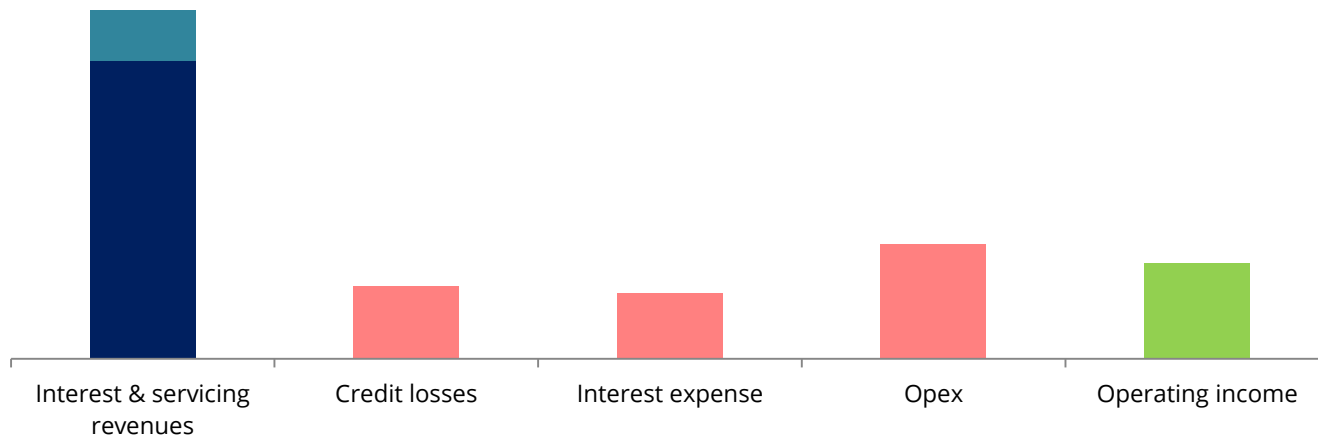
# Business model

**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.

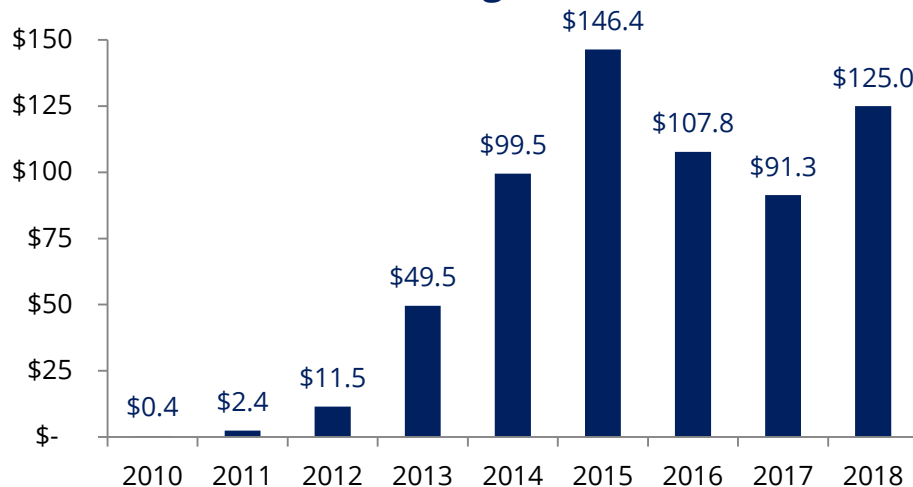
## IOU's business model



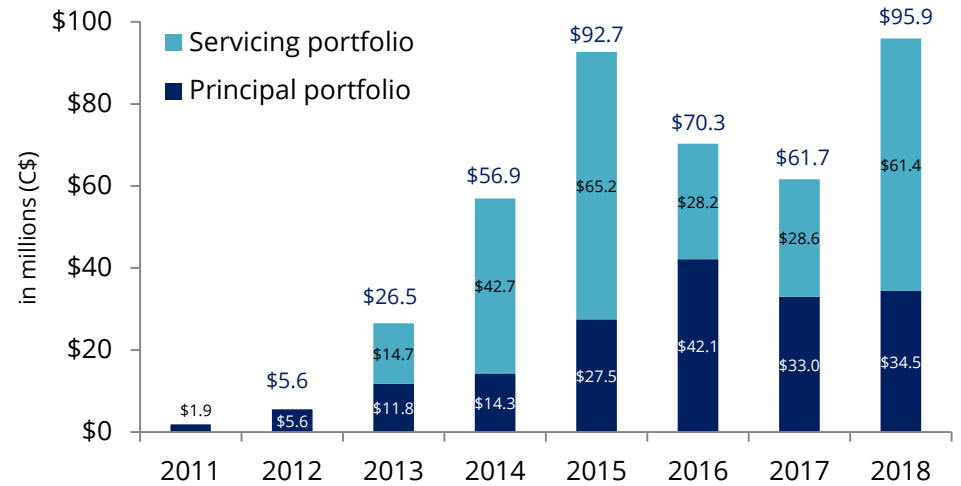
# Loan originations & Loans under management

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

## Loans originated



## Total loans under management



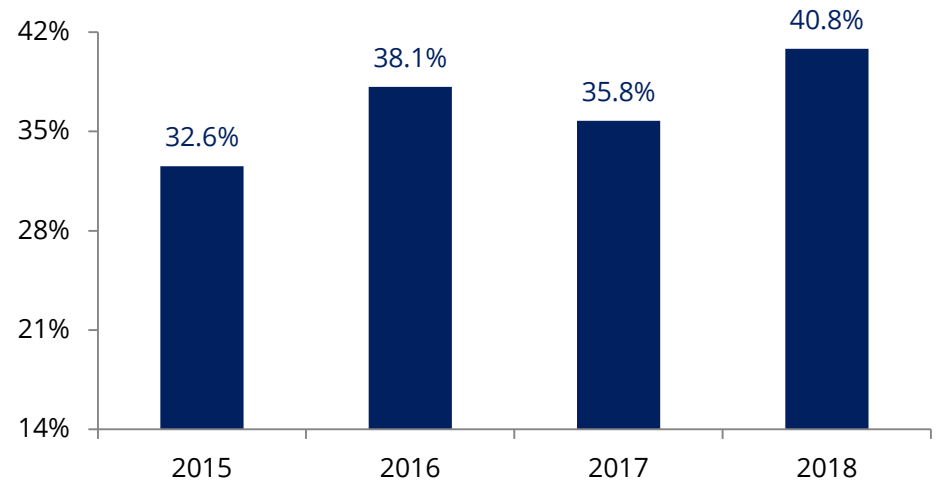
IOU will grow loan originations by:

- Increasing the number of quality loan brokers working with IOU.
- Investing in direct marketing and sales.
- Expanding product offering to serve more SMBs.
- Further geographic expansion into Canada.
- Continuing to add new strategic partners such as banks and payment processors.

# Revenues

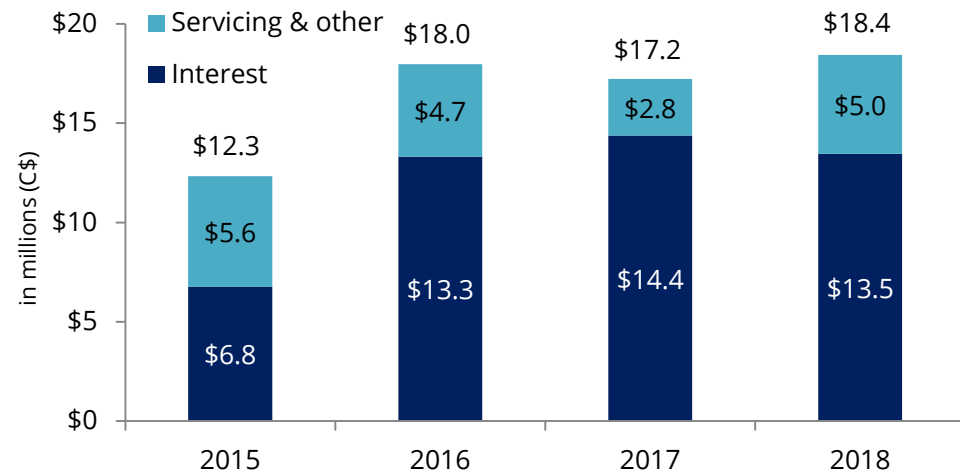
**IOU utilizes a hybrid revenue strategy to fully optimize its origination platform.**

## Increasing portfolio yield over time



Note: 2015 to 2017 portfolio yields calculated under IAS 39; 2018 under IFRS 9.

## Revenue breakdown



Note: Figures may not add due to rounding.

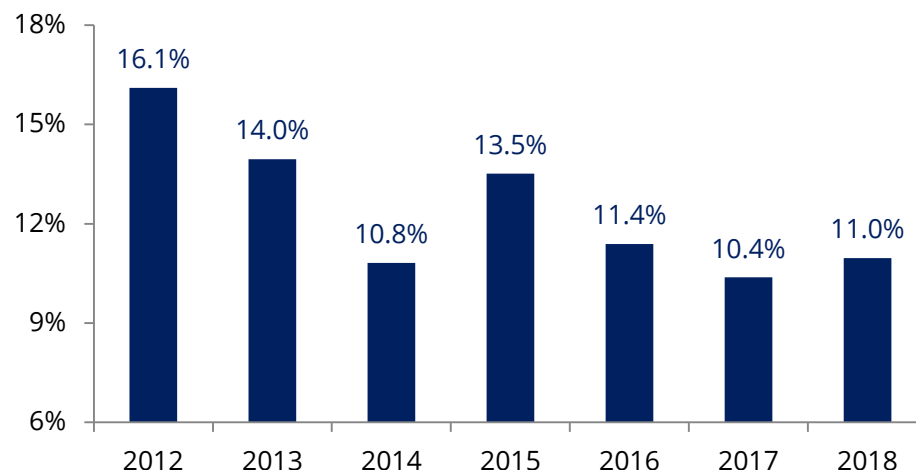
Note: "Servicing & other" exclude certain non-cash items such as gains on servicing asset & amortization of servicing asset. Servicing fees amounted to \$3.6M; and "other" fees amounted to \$1.4M over TTM period. "Portfolio yield" is calculated by dividing TTM interest revenues earned by the 5 point 8 avg of the beginning, quarterly, & end of period commercial loans rec. balance o/s over such period.



# Funding sources and interest expenses

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

**Decreasing average cost of borrowing**



Funding source	Type of facility	Size of facility	Funding cost	Maturity date
Convertible debentures	Unsecured corporate	C\$11.5 million	10.0%	12/31/2020
Midcap Financial	Secured term loan + revolver	US\$22 million	1M USD L + 8.5%	12/31/2020
Credit Suisse	Secured revolver	US\$50 million	3M USD L + 4.5%	03/05/2022

In Q1 19, IOU entered into a 3 year, US\$50 million warehouse credit facility with Credit Suisse, lowering its overall funding costs and further diversifying its funding sources.

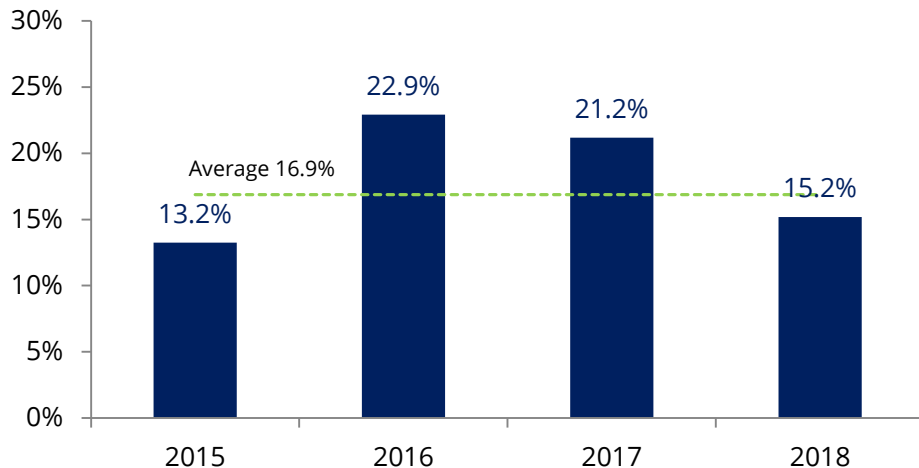
Note: As of April 1/19, the 1-month USD LIBOR rate was 2.49% and the 3-month USD LIBOR was 2.6%. The revolving period for the Credit Suisse facility ends Mar.5/21 with an amortization period beginning after the revolving period ending on Mar. 5/22.

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

Since 2016, provisional loss rates have declined from 22.9% to 15.2%.

Provisional loss rate



In Q3 16, IOU pro-actively implemented the following strategies to improve its portfolio's credit performance:

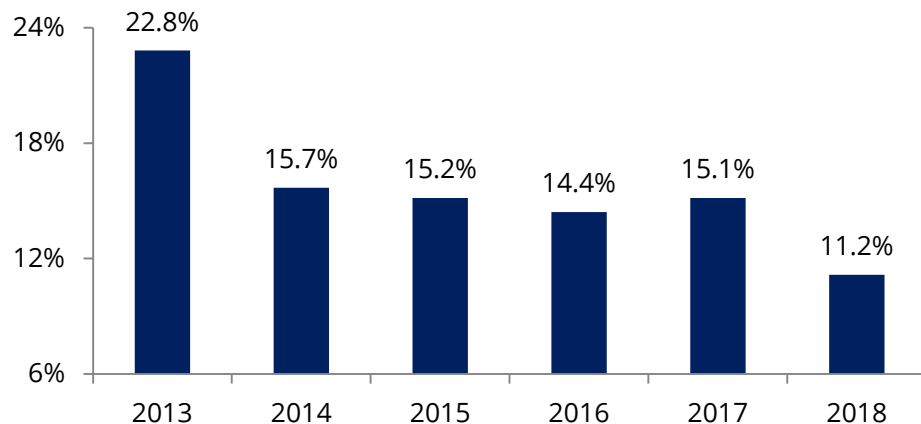
- A tightening of credit oversight.
- An aggressive litigation strategy to pursue intentional defaults by borrowers.
- Improved servicing and collections processes.

These strategies have improved IOU's credit performance, as demonstrated by IOU's 2018 provisional loss rate.

# Operating expenses

**Since 2016, the operating expense ratio has declined from 14.4% in 2016 to 11.2% in 2018.**

**Operating expenses a percentage of loans under management**



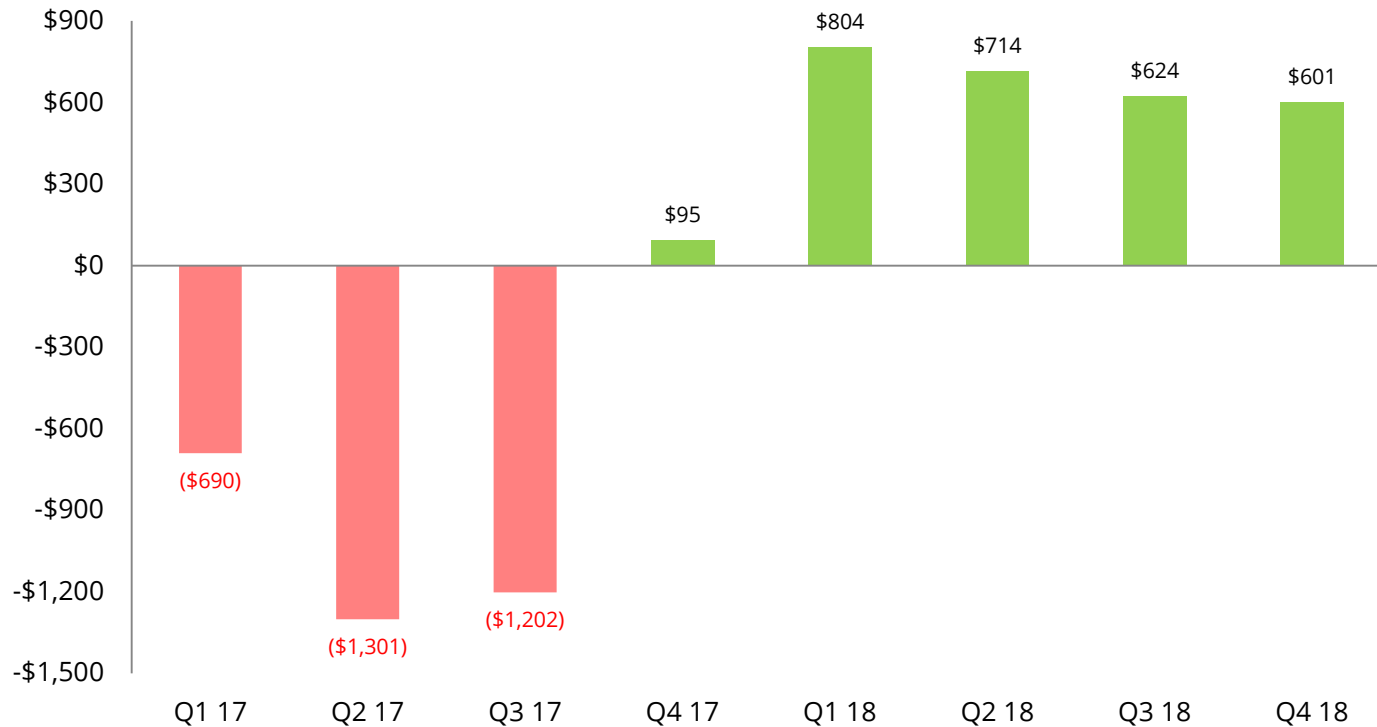
In Q3 16, IOU publicly announced a significant cost reduction plan to set the table for sustainable growth. The Company has successfully executed on this plan as demonstrated by the declining operating expense ratio.

\*Operating expense ratio calculated as TTM operating expenses divided by the average loans under management for the time period.

# Adjusted earnings/(losses)

IOU has successfully executed on its plan to achieve profitability.

Quarterly adjusted earnings/(losses) since 2017



# 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

# Trading comparables

**IOU represents a compelling investment opportunity.**

- Focused on **profitable growth**
- **Highly aligned** management team
- **Proprietary technology platform** provides solid **operating leverage**
- **Pure-play exposure** to a **growing** online SMB lending **industry**

Fintech & Specialty finance companies		Valuation			Price-to-sales			Price-to-earnings		
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	\$5.36	74.6	\$399.6	\$398.4	\$5.34	1.0x	\$27.7	\$0.37	14.4x
Funding Circle Holdings (£)	LSE:FCH	£2.46	271.3	£667.4	£141.9	£0.52	4.7x	-£49.3	-£0.18	-
LendingClub (US\$)	NYSE:LC	\$3.24	423.2	\$1,371.3	\$694.8	\$1.64	2.0x	-\$128.3	-\$0.30	-
Goeasy Corp. (C\$)	TSX:GSY	\$46.74	15.7	\$732.5	\$506.2	\$32.30	1.4x	\$53.1	\$3.39	13.8x
Chesswood Group (C\$)	TSX:CHW	\$10.64	16.8	\$178.9	\$110.6	\$6.58	1.6x	\$22.9	\$1.36	7.8x
Accord Financial (C\$)	TSX:ACD	\$10.00	8.3	\$83.3	\$46.9	\$5.63	1.8x	\$10.4	\$1.24	8.0x
Axis Auto Finance (C\$)	TSXV:AXIS	\$0.47	96.9	\$45.6	\$28.0	\$0.29	1.6x	-\$5.3	-\$0.05	-
Crown Capital Partners (C\$)	TSX:CRWN	\$9.70	9.7	\$93.9	\$32.7	\$3.37	2.9x	\$7.1	\$0.73	13.3x
Mogo Finance Tech (C\$)	TSXV:MOGO	\$4.72	22.9	\$108.2	\$61.3	\$2.67	1.8x	-\$23.2	-\$1.01	-
<b>Peer group average</b>	-	-	-	<b>\$409.0</b>	-	-	<b>2.1x</b>	-	-	<b>11.5x</b>
<b>IOU Financial Inc. (C\$)</b>	<b>TSXV:IOU</b>	<b>\$0.26</b>	<b>87.8</b>	<b>\$22.8</b>	<b>\$19.2</b>	<b>\$0.22</b>	<b>1.2x</b>	<b>\$2.7</b>	<b>\$0.03</b>	<b>8.4x</b>

Source: Company reports. TTM refers to 12/31/18 for all companies. Share prices reflect closing prices on 04/26/19.



# **IOU Financial Inc.**

## **Corporate Presentation**

### **April 2019**

**For more information, please contact:**

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