



**IOU Financial Inc.**

**Corporate presentation  
March 2020**

**TSX-V: IOU**

# 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 22 under the heading "Risks and Uncertainties" in IOU Financial's Q3 2019 MD&A dated November 13, 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 profitable, growing business

- Since 2009, IOU has originated approximately **CAD \$1 billion (US\$747 million)**, comprising **more than ten thousand loans** to small businesses (SMBs) throughout the United States and Canada.
- IOU provides quick access to working capital via its **fully integrated, built from the ground-up** technology platform.
- As banks continue to move away from lending to SMBs, **IOU has proven to be a trusted alternative source of financing.**

Note: Loan origination figure of US\$747 million as of Sept. 30, 2019.

# Investment considerations (1 of 2)

## **Fintech pioneer in a growing small business lending industry**

- IOU is one of the oldest, most experienced online lenders to SMBs in North America.
- Proprietary online platform processes and underwrites loan applications extremely quickly, with approvals and loan funding occurring in as little as 24 hours.

## **Growing Loans Under Management (“LUM”) drives growing revenues**

- Since Q4 2017, IOU’s total LUM has grown from C\$61.7M to \$108.0M as of Q3 2019.
- Over the same time period, TTM adjusted gross revenues have increased from to \$17.2M to \$22.5M as of Q3 2019.

## **Growing revenues drive growing earnings**

- IOU achieved full year profitability in 2018 and has remained profitable ever since.
- Operating leverage inherent in IOU’s business model should drive further earnings growth as LUM grows.

# Investment considerations (2 of 2)

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## Alignment of interests with management and insiders

- **Insiders own over 37%** of Company's stock.

## Valuation

- **Current market cap is less than trailing twelve month revenues.**

## Stock buy-back

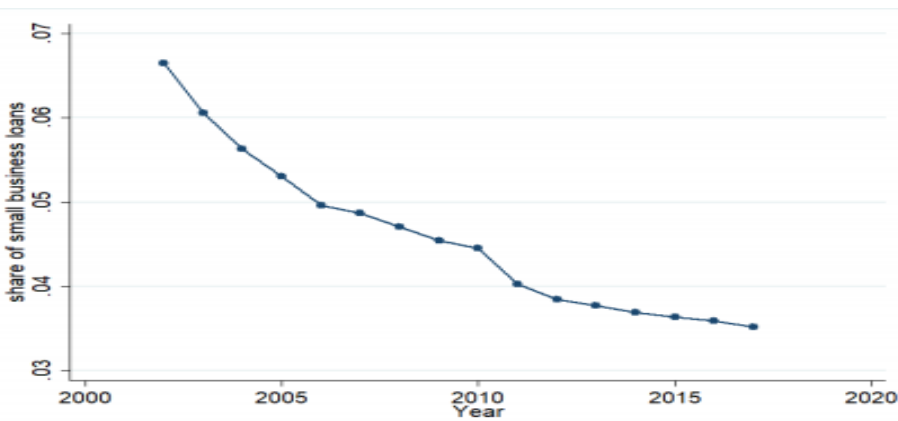
- IOU has re-purchased over 1.9M shares in the open market via its NCIB since May 2019.

Note: Share re-purchase data as of Feb. 28, 2020.

# Small business lending market

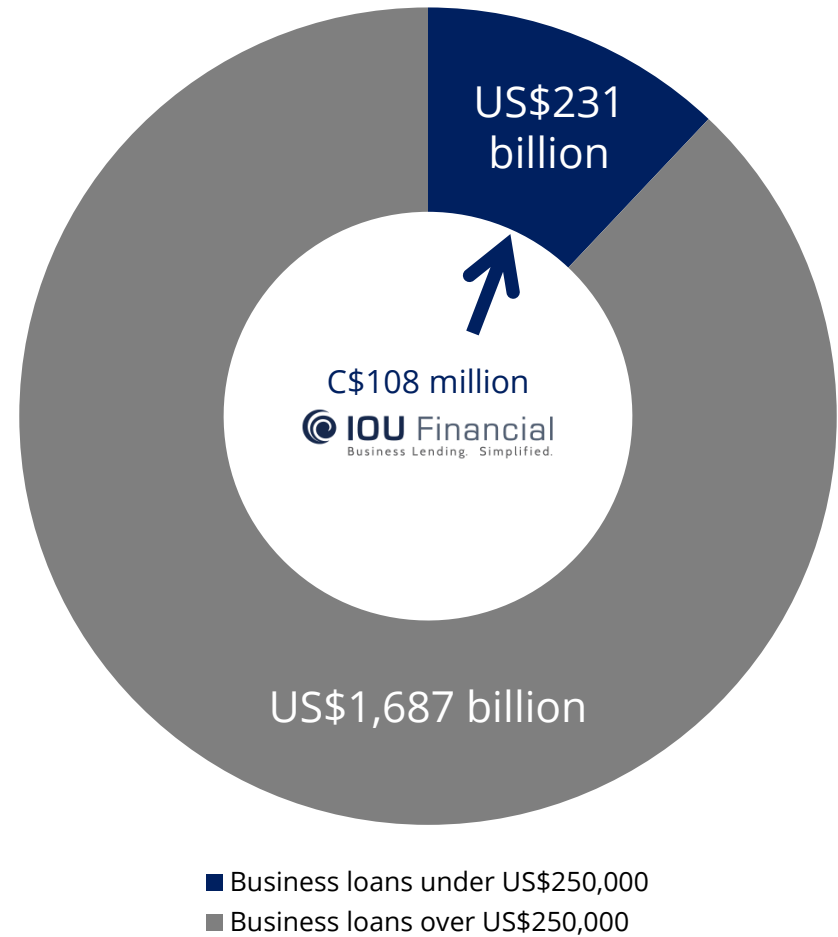
**Banks have been reducing their exposure to the SMB lending market for the past two decades.**

**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.

## Total US Commercial & Industrial loans

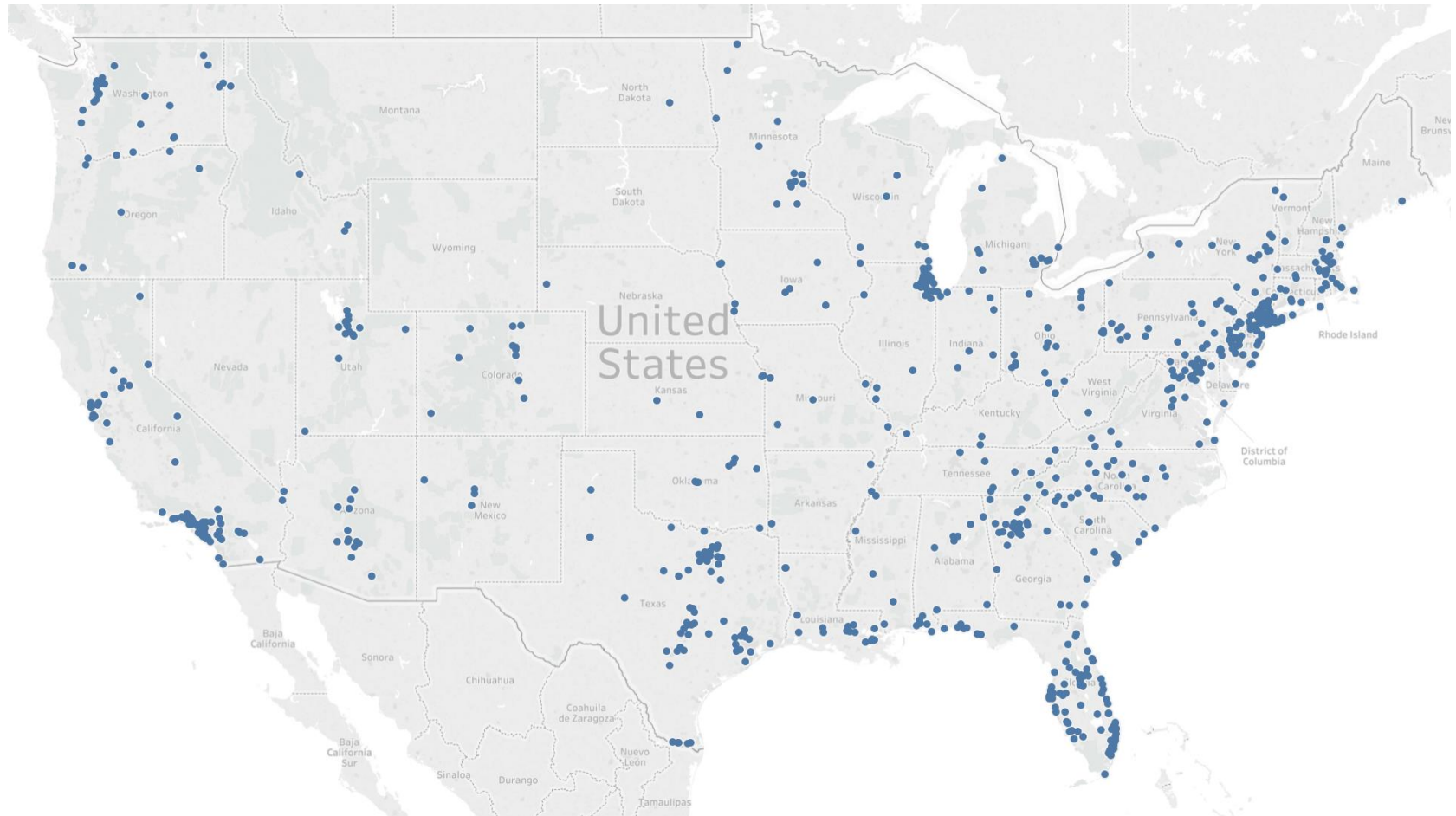


Note: US C&I loan portfolio according to the FDIC as of June 30, 2019. IOU loan portfolio as of Sept. 30, 2019. C\$108 million refers to IOU LUM as of Sept. 30, 2019.



# Geographically diverse loan portfolio

**Risk mitigation:** No one state represents more than 15%, and no one industry represents more than 15% of IOU's loans under management.



Note: Geographic data as of Jan. 8, 2020.

# IOU's typical borrower and typical loan

## Typical borrowers

- Contractors, wholesalers, restaurants, light manufacturing, online retailers, pharmacies, retail stores, etc.
- Average time in business: 11.6 years.
- Near prime credit scores.

## Typical loan

- Loan size: US\$5,000 to US\$500,000 in the US and up to C\$150,000 in Canada.
- Loan term: 6 months – 18 months, repaid either daily or weekly.
- Typical loan size: Approximately C\$100,000.
- Average term: 11.9 months
- Interest & fees on the typical \$100,000 loan: C\$27,200 to C\$32,700
- Generally used the funds for working capital purposes, to purchase new equipment, invest in an increased workforce, attend to repairs, expand their business, purchase more inventory or increase marketing efforts.

Note: Average loan size was US\$72,657 as of Q3 2019. All other data also as of Q3 2019.



# Institutional funding sources

## Credit Suisse

- US\$50M revolving credit facility.
- Expandable to US\$100M upon IOU's request and Credit Suisse's acceptance.
- Cost of borrowing rate is 90 day USD LIBOR + 4.5%.

## MidCap Financial

- US\$22M revolving credit facility.
- Cost of borrowing rate is 30 day USD LIBOR + 5.5%.
- MidCap Financial is an investee company and affiliate of Apollo Global Management.

## Convertible debenture

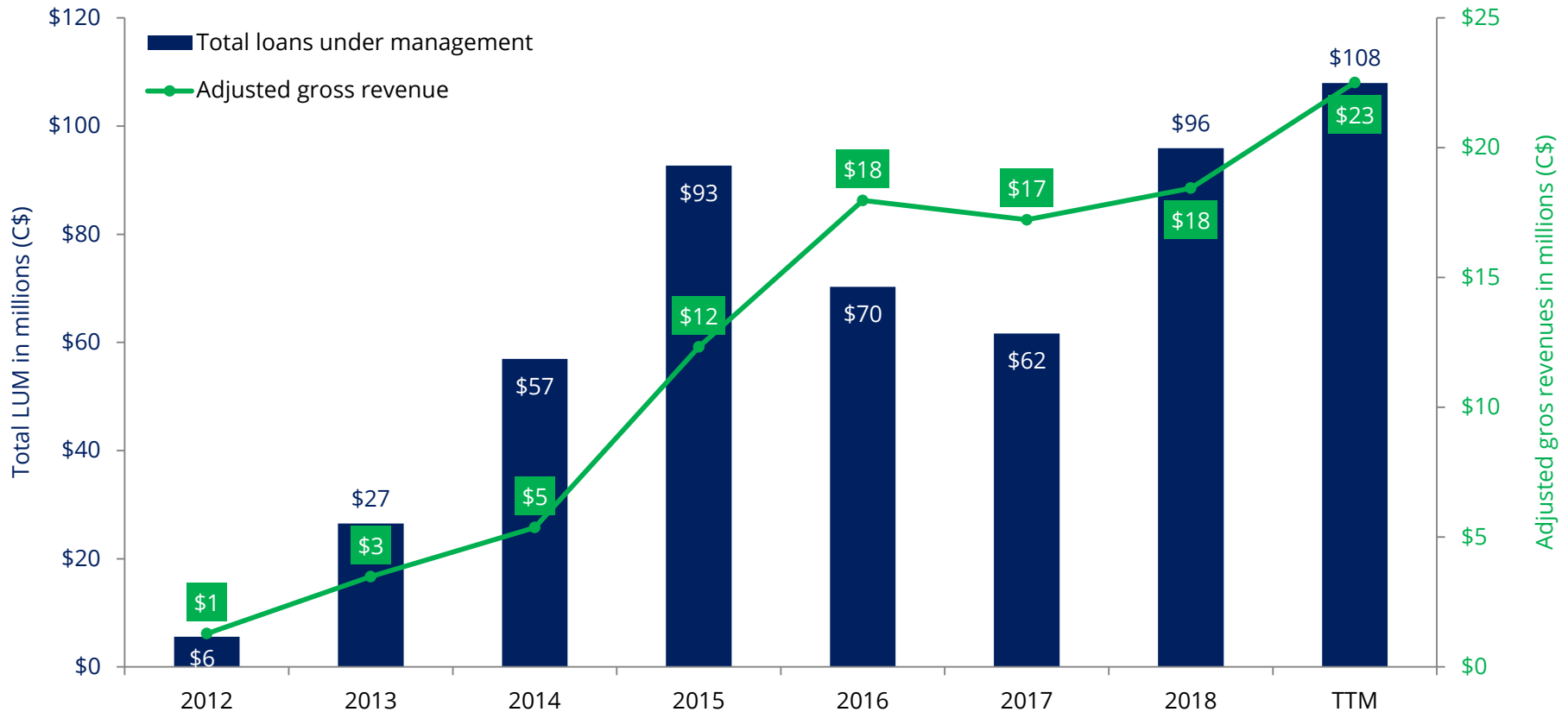
- C\$11.4M par value.
- 10% annual interest rate.
- December 31, 2023 maturity date.
- Convertible until December 31, 2020 at \$0.50.

Note: MidCap cost of borrowing rate as of Dec. 31, 2019.

# LUM growth drives revenue growth

**IOU circa 2012 – 2017:** Increasing total LUM to achieve scale and profitability.

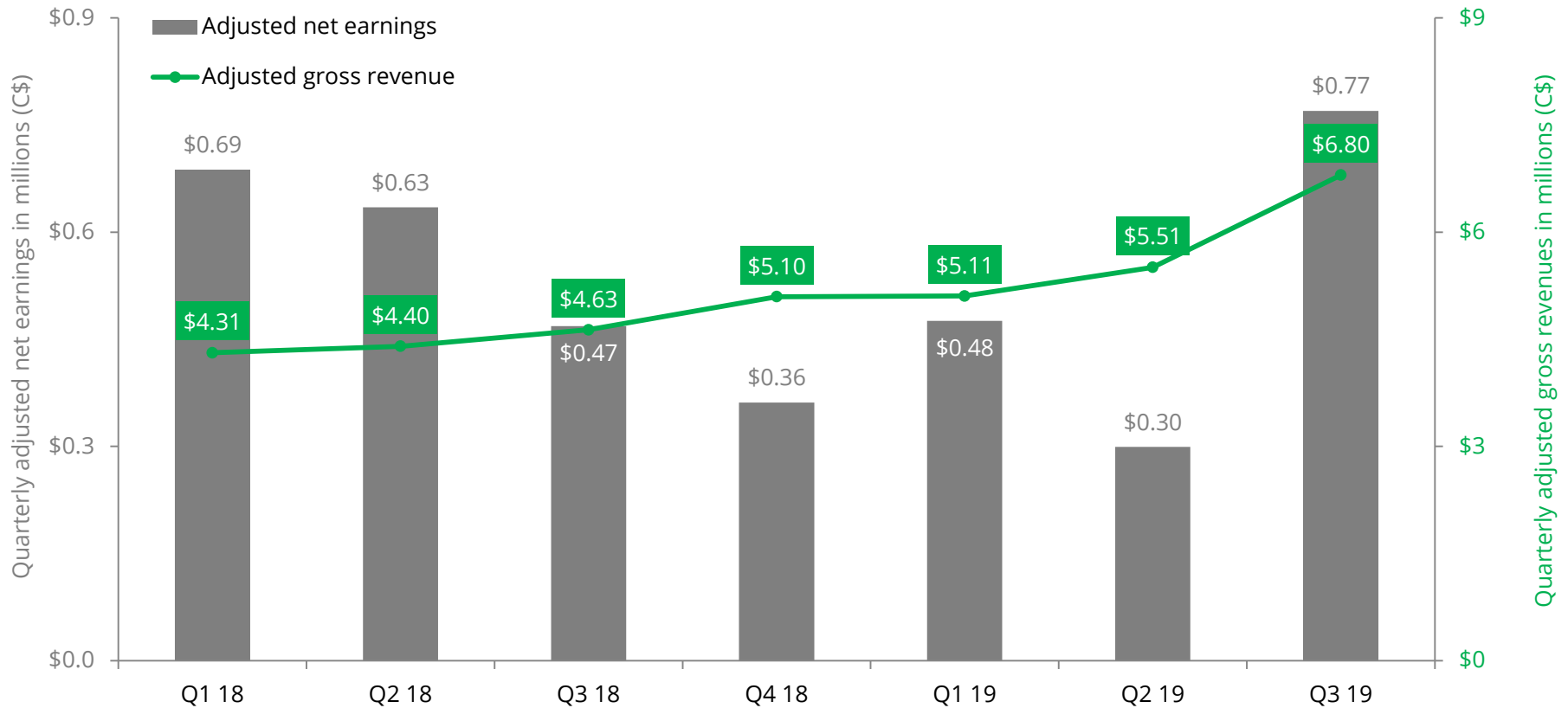
**IOU circa 2018 onwards:** Increasing total LUM drives revenue & earnings growth.



Note: TTM LUM and adjusted gross revenues as of Sept. 30, 2019.

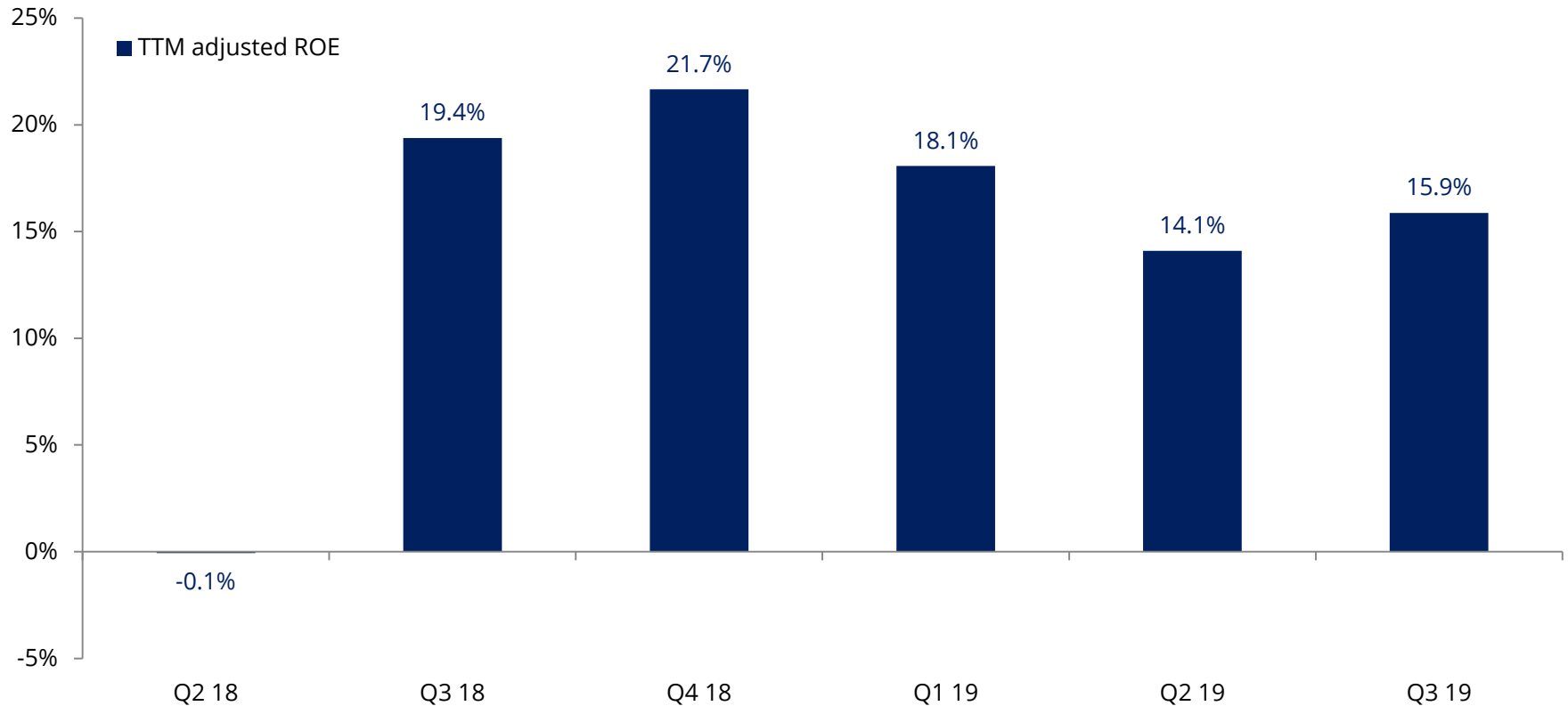
# Revenue growth drives earnings growth

**IOU achieved full year profitability in 2018 and will continue to focus on earnings growth.**



# Impressive ROE

With profitability achieved in 2018, IOU demonstrates a compelling ROE for investors.



Note: Adjusted ROE calculated by dividing TTM adjusted earnings by average shareholder's equity over the TTM time frame (5-point average over the time frame).

# Growth strategy

## **Growth in loan originations of 25% - 30% per year should ultimately drive significant earnings growth**

- Growth in loan originations drives LUM growth, which drives revenue growth, which drives earnings growth.
- Operating leverage inherent in business model should drive more to the bottom-line.

## **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.

# Capital structure

Stock symbol	TSX-V: IOU
Shares outstanding	86.6M
Options	6.9M
Warrants	nil
Fully diluted	93.4M
Insider ownership	32.3M
Basic insider ownership (%)	37%
Cash	\$4.5M
Convertible debentures	\$11.4M
SPV funding debt	\$34.6M
Commercial loans receivable balance	\$52.5M
Servicing portfolio	\$53.4M
Market capitalization	\$15.6M

Note: Financial data as of September 30, 2019. Share data as of February 28, 2020.

# Proven & experienced management team



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



**Joshua Zickefoose, MBA**  
VP, Sales & Strategy  
Former VP at Equifax, Sun Trust, PNC, US Bank, and Infantryman, US Army



**Stewart Yeung, CPA, CA**  
VP, Finance & Controller  
Former VP Finance at i2C Inc., Quadbridge Inc., and Sr. Accountant at KPMG



**Richard Zapata**  
Engineering & Technology  
Former Instructor at TTS, Data Engineer & Data Architect at BioIQ and Cotiviti



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



# Trading comparables

Fintech & Specialty finance companies		Valuation information											Financial highlights	
Company	Ticker	Share price	Shares o/s	Market cap	TTM revenues	TTM Revps	Trailing P/S	TTM earnings	TTM EPS	Trailing P/E	Book value per Share	P/BV	ROE	ROA
<b>Commercial lenders</b>														
On Deck Capital (US\$)	NYSE:ONDK	\$3.49	74.6	\$260.2	\$444.5	\$5.96	0.6x	\$28.0	\$0.37	9.3x	\$4.23	0.8x	9.2%	2.2%
Funding Circle Holdings (£)	LSE:FCH	£0.79	271.3	£214.3	£160.3	£0.59	1.3x	-£49.3	-£0.18	n/a	£1.39	0.6x	n/a	n/a
Chesswood Group (C\$)	TSX:CHW	\$9.19	16.3	\$149.4	\$123.6	\$7.60	1.2x	\$15.8	\$0.97	9.4x	\$9.78	0.9x	9.9%	1.9%
Accord Financial (C\$)	TSX:ACD	\$8.90	8.4	\$75.2	\$54.8	\$6.49	1.4x	\$11.3	\$1.33	6.7x	\$11.27	0.8x	12.0%	2.9%
Crown Capital (C\$)	TSX:CRWN	\$6.88	9.5	\$65.1	\$25.4	\$2.68	2.6x	\$1.1	\$0.12	n/m	\$10.38	0.7x	1.1%	0.4%
Flow Capital (C\$)	TSXV:FW	\$0.145	77.7	\$11.3	\$1.0	\$0.01	11.0x	-\$4.1	-\$0.05	n/a	\$0.39	0.4x	n/a	n/a
Commercial lenders avg	-	-	-	-	-	-	3.0x	-	-	8.5x	-	0.7x	8.0%	1.9%
Commercial lenders median	-	-	-	-	-	-	1.4x	-	-	9.3x	-	0.7x	9.5%	2.1%
<b>Consumer lenders</b>														
LendingClub (US\$)	NYSE:LC	\$11.01	88.1	\$970.3	\$758.6	\$8.61	1.3x	-\$30.7	-\$0.35	n/a	\$10.07	1.1x	n/a	n/a
Enova International (US\$)	NYSE:ENVA	\$19.22	34.5	\$662.5	\$1,174.8	\$34.08	0.6x	\$36.6	\$1.06	18.1x	\$12.59	1.5x	9.5%	2.6%
Goeasy Corp. (C\$)	TSX:GSY	\$62.61	14.3	\$898.1	\$582.4	\$40.60	1.5x	\$73.6	\$5.13	12.2x	\$23.53	2.7x	24.3%	6.7%
Greensky Inc. (US\$)	NASD:GSKY	\$7.98	66.4	\$530.1	\$505.5	\$7.61	1.0x	\$36.6	\$0.55	14.5x	n/a	n/a	n/m	4.4%
Curo Group Holdings (US\$)	NYSE:CURO	\$9.23	41.5	\$382.9	\$669.0	\$16.13	0.6x	\$67.0	\$1.61	5.7x	\$0.84	n/m	n/m	6.6%
Elevate Credit (US\$)	NYSE:ELVT	\$3.30	44.1	\$145.6	\$767.3	\$17.39	0.2x	\$28.0	\$0.64	5.2x	\$3.30	1.0x	21.7%	3.8%
Mogo Finance Tech (C\$)	TSXV:MOGO	\$3.02	27.3	\$82.4	\$65.4	\$2.40	1.3x	-\$8.5	-\$0.31	n/a	\$0.51	5.9x	n/a	n/a
Axis Auto Finance (C\$)	TSXV:AXIS	\$0.24	97.1	\$23.3	\$32.5	\$0.33	0.7x	-\$4.1	-\$0.04	n/a	\$0.35	0.7x	n/a	n/a
Rifco (C\$)	TSXV:RFC	\$1.18	21.6	\$25.5	\$39.5	\$1.83	0.6x	\$0.0	\$0.00	n/m	\$1.35	0.9x	n/m	n/m
Dealnet Captial (C\$)	TSXV:DLS	\$0.07	284.0	\$19.9	\$30.4	\$0.11	0.7x	-\$2.0	-\$0.01	n/a	\$0.12	0.6x	n/a	n/a
Brattle Street Inv. Corp (C\$)	TSXV:BRTL	\$0.11	39.4	\$4.3	\$2.8	\$0.07	1.6x	\$0.2	\$0.01	18.8x	\$0.29	0.4x	2.0%	1.8%
Consumer lenders avg	-	-	-	-	-	-	0.9x	-	-	12.4x	-	1.6x	14.4%	4.3%
Consumer lenders median	-	-	-	-	-	-	0.7x	-	-	13.3x	-	1.0x	15.6%	4.1%
<b>Overall average</b>	-	-	-	-	-	-	1.7x	-	-	11.1x	-	1.3x	11.2%	3.3%
<b>Overall median</b>	-	-	-	-	-	-	1.2x	-	-	9.4x	-	0.8x	9.7%	2.8%
<b>IOU Financial (C\$)</b>	<b>TSXV:IOU</b>	<b>\$0.18</b>	<b>86.6</b>	<b>\$15.6</b>	<b>\$20.4</b>	<b>\$0.24</b>	<b>0.8x</b>	<b>\$1.8</b>	<b>\$0.02</b>	<b>8.8x</b>	<b>\$0.15</b>	<b>1.2x</b>	<b>14.7%</b>	<b>3.6%</b>

Note: Stock prices taken as of month-end close (2/28/20). Q4 19 data used for ONDK, LC, ENVA. Q3 19 TTM data used for all other companies. BRTL Q3 19 data as of Aug. 31/19 due to difference in reporting period.

# Appendix

# Adjusted & IFRS net earnings reconciliation

	2017	2018	TTM
Interest revenue	\$14,386,265	\$13,464,475	\$16,200,816
Servicing & other revenue	\$2,838,453	\$4,979,791	\$6,310,762
<b>Adjusted gross revenue</b>	<b>\$17,224,718</b>	<b>\$18,444,266</b>	<b>\$22,511,578</b>
Interest expense	\$3,680,425	\$3,355,496	\$3,764,133
Provision for loan losses	\$8,614,664	\$5,004,324	\$7,393,353
Recoveries	(\$381,927)	(\$322,000)	\$235,073
<b>Cost of revenue</b>	<b>\$11,913,161</b>	<b>\$8,037,820</b>	<b>\$10,922,413</b>
<b>Adjusted net revenue</b>	<b>\$5,311,557</b>	<b>\$10,406,446</b>	<b>\$11,589,165</b>
<b>Adjusted operating expense</b>	<b>\$8,875,682</b>	<b>\$8,369,410</b>	<b>\$9,798,470</b>
Income tax expense/(recovery)	\$101,110	(\$115,676)	(\$115,676)
<b>Adjusted net earnings/(loss)</b>	<b>(\$3,665,235)</b>	<b>\$2,152,712</b>	<b>\$1,906,371</b>
Non-cash gain on sale of loans	\$1,856,237	\$3,466,884	\$3,332,596
Non-cash amortization of servicing assets	(\$1,665,859)	(\$2,743,101)	(\$3,696,614)
Non-cash stock-based compensation	(\$160,672)	(\$166,277)	(\$262,554)
Non-recurring gain/(costs)	(\$819,753)	\$0	\$485,579
Net earnings/(loss) (IFRS):	(\$4,455,282)	\$2,710,218	\$1,765,378

Note: TTM refers to Trailing Twelve Months as of Sept. 30, 2019. Net earnings under IFRS are calculated by adding to adjusted net earnings: (i) gain recognized on sale of loans, and subtracting (ii) amortization of servicing asset, (iii) stock-based compensation, and (iv) non-recurring costs/(gain) listed above. These four items are adjusted for as they are either non-cash or non-recurring and do not reflect on the actual operating performance of the business.



# IOU Financial Inc.

## Corporate presentation March 2020

**For more information, please contact:**

Benjamin Yi, MFin, CFA  
Capital Markets & Corporate Development  
IOU Financial Inc.  
byi@ioufinancial.com

Jeff Walker  
Vice President, Investor Relations  
The Howard Group  
jeff@howardgroupinc.com

**[www.ioufinancial.com](http://www.ioufinancial.com)**