IOU Financial Inc. Releases Financial Results for the year ended December 31, 2019

- Loan originations increased 23.4% to US$154.2 million in 2019 compared to 2018.
- Adjusted gross revenue increased 28.5% to $23.7 million in 2019 compared to 2018.
- Adjusted operating expense ratio decreased to 9.9% in 2019 compared to 11.0% in 2018.
- Adjusted net earnings amounted to $1.8 million in 2019 compared to $2.1 million in 2018.
- IOU repurchased 1,944,500 common shares since the beginning of its Normal Course Issuer Bid ("NCIB").

MONTRÉAL, April 29, 2020 /CNW Telbec/ - **IOU FINANCIAL INC.** ("IOU" or "the Company") (TSXV: IOU), a leading online lender to small businesses (IOUFinancial.com), announced today its results for the year ended December 31, 2019.

"In 2019, IOU made significant progress by increasing loan originations by 23.4% while generating $1.8 million in adjusted earnings and repurchasing approximately 1.9% of its common shares. In 2020, given the Covid-19 pandemic and its impact on the economy, IOU is focused on pro-actively managing its business through this time of crisis," said Phil Marleau, CEO.

FINANCIAL HIGHLIGHTS

- Please refer to the table below for adjustments made to IFRS gross revenue and operating expenses in order to better reflect the actual operating performance of the business. In 2019, the Company funded US$154.2 million in loans (2018: US $125.0 million), representing an increase of 23.4% over 2018. This was driven by identifying, recruiting, partnering and promoting existing relationships with business loan brokers, continued geographic expansion into Canada and investing in direct marketing and sales. This was in line with the Company's long-term outlook for annual loan origination growth of 25% to 30%. However, it should be noted the Company retracted in March 2020 its previously disclosed long-term outlook for loan origination growth of 25% to 30% due to the Covid-19 pandemic and its unknown consequences on the economy.
- As at December 31, 2019, total loans under management amounted to $110.8 million (2018: $95.9 million), representing an increase of 15.5% year over year and is attributable to the growth in loan originations of 23.4% compared to the same period in 2018. The principal balance of the loan portfolio amounted to $56.9 million (2018: $34.5 million), representing an increase of 64.8% and consistent with the Company's strategy to retain more loans on its balance sheet. The principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of third parties) amounted to $53.9 million (2018: $61.4 million), representing a decrease of 12.3%.
- Adjusted gross revenue increased 28.5% to $23.7 million for the year ended December 31, 2019 compared to 2018 ($18.4 million) due to an increase in interest revenue and servicing income.
- Interest revenue increased 32.7% to $17.9 million in 2019 compared to the same period in 2018 as a result of the increase in the average commercial loans receivable balance of 44.5% in 2019 compared to 2018. The increase in the interest revenue will lag behind the increase in the average commercial loans receivable balance as loans originated in the latter part of the year do not contribute interest revenue for the full year.
- Servicing income increased 25.0% to $4.5 million in 2019 compared to 2018 as a result of the increase in the average servicing portfolio of 27.8% in 2019 compared to 2018. The servicing portfolio yield decreased slightly from 8.2% in 2018 to 8.0% in 2019.
- Interest expense during the year ended December 31, 2019 increased 19.2% to $4.0 million (2018: $3.4 million). The increase is attributable to an increase in average borrowings of 30.3% in 2019 compared to 2018 and offset by a 1.0 percentage point decrease in the Cost of Borrowing Rate to 10.4%. In an effort to lower its Cost of Borrowing Rate, the Company closed a new credit facility in the first quarter of 2019 at a rate which is substantially lower than the current Cost of Borrowing Rate. Specifically, the rate on the new credit facility was 6.41% at December 31, 2019 or approximately 4.0 percentage points less than the current Cost of Borrowing Rate. Also, in December 2019, the Company modified and extended its 2016 Credit Facility until December 31, 2022. The modified interest rate of the Credit Facility is LIBOR plus 5.5%, down from LIBOR plus 8.5%. The new rate came into effect in January 2020. However, due to the Covid-19 pandemic, the Company effected modification agreements in March and April 2020 with certain borrowers in excess of allowable limits resulting in the 2016 Credit Facility charging additional default interest of 3% for a total interest rate of LIBOR plus 8.5% effective April 1, 2020.
- Provision for loan losses during the year ended December 31, 2019 increased to $8.0 million (2018: $5.0 million). The increase is attributable to an increase in the average commercial loans receivable balance in 2019 of 44.5% compared to last year and an increase in the Provisional Credit Loss Rate to 16.7% in 2019 compared to 15.2% in 2018 due to a slight increase in delinquencies related to loans originated in Q2 and Q3 2019. The Provisional Credit Loss Rate in 2019 of 16.7% was in line with the Company's expected average of approximately 16.5%. However, due to the Covid-19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Provisional Credit Loss Rate to average approximately 16.5%.The Provisional Credit Loss Rate is a representation of the expected credit loss within the lifetime of the loan and includes a provision to all current loans (Stage 1 provision). The growth in the principal balance of the loan portfolio contributed approximately 1.0% to 2.0% to the Provisional Credit Loss Rate compared to the Net Credit Loss Rate.
- The Net Credit Loss Rate decreased from 13.4% in 2018 to 12.5% in 2019. The Net Credit Loss Rate in 2019 of 12.5% was below the Company's expected average Net credit Loss Rate of approximately 15%. However, due to the Covid-19 pandemic and because the unprecedented economic situation due to the pandemic remains unknown, the Company is retracting its previous expectation for the Net Credit Loss Rate to average approximately 15%. The Company uses the Net Credit Loss Rate as an alternative measure to the Provisional Credit Loss Rate as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge-offs and recoveries.
- Adjusted operating expenses increased 21.0% or $1.7 million to $10.1 million in 2019 (2018: $8.4 million) due primarily to reinvestments in staff, technology and advertising and promotion expenses. However, the Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, decreased to 9.9% in 2019 (2018: 11.0%) as the Company increased its loans under management at a greater rate than operating expenses. Operating expenses increased to $9.9 million for the year ended December 31, 2019 compared to $8.5 million in the same period in 2018. The reinvestments in staff, technology and advertising and promotion expenses were partly offset by the non-recurring gain relating to the revaluation of convertible debentures of $0.5 million in Q3 2019 following the extension of the convertible debentures from December 31, 2020 to December 31, 2023.
- IOU closed on the year ended December 31, 2019 with adjusted net earnings of $1,758,254, or $0.02 per share compared to adjusted net earnings of $2,152,712 or $0.02 per share for the same period last year.
- IOU closed on its year ended December 31, 2019 with IFRS net earnings of $1,523,309, or $0.02 per share, compared to IFRS net earnings of $2,710,218 or $0.03 per share for the same period in 2018.

- Since the establishment of the NCIB on May 1, 2019, IOU repurchased for cancellation 1,944,500 common shares in the market for a total cost of $500,668.

Adjusted and IFRS net earnings

For the year ended December 31	**2019**	2018
	$	$
Interest revenue	**17,861,394**	13,464,475
Servicing & other income	**5,837,860**	4,979,791
Adjusted Gross Revenue	**23,699,254**	18,444,266
Interest expense	**3,998,673**	3,355,496
Provision for loan losses	**7,951,635**	5,004,324
Recoveries	**(248,043)**	(322,000)
Cost of Revenue	**11,702,265**	8,037,820
Adjusted Net Revenue	**11,996,989**	10,406,446
Adjusted operating expense	**10,117,365**	8,369,410
Income tax expense/(recovery)	**121,370**	(115,676)
Adjusted Net Earnings	**1,758,254**	2,152,712
Adjusted Net Earnings per Share	**0.02**	0.02
Adjusted Net Earnings	**1,758,254**	2,152,712
Non-cash gain on sales of loans	**3,273,642**	3,466,884
Non-cash amortization of servicing asset	**(3,706,180)**	(2,743,101)
Non-cash stock-based compensation	**(287,986)**	(166,277)
Non-recurring gain	**485,579**	-
Net Earnings per IFRS	**1,523,309**	2,710,218
Net Earnings per Share	**0.02**	0.03

OUTLOOK

The Company's principal balance of its loan and servicing portfolios is diversified both across industry type and location within North America, mostly in the United States. Due to the Covid-19 pandemic, IOU has modified its underwriting standards to cease lending to industries and geographical areas which are strongly impacted by Covid-19. The company continues to originate loans and support businesses deemed essential by various governments.

The duration of the current situation with the pandemic is unknown and considering the uncertainty faced by the North American economy over the coming months, the Company retracted in March 2020 its previously disclosed long-term outlook for loan origination growth of 25% to 30%. However, the Company also sees potential for a greater than expected need for small business loans as significant working capital will be required once the situation normalizes. Furthermore, the Company is working closely with various government agencies to assist some of its merchants who may encounter hardships as a result of the Covid-19 pandemic.

Due to the uncertainty surrounding the current situation, the Company furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salary for all remaining employees commencing on April 1, 2020. IOU also announced, in April 2020, that more than two-thirds of the value of the Company's convertible debenture holders have agreed to defer the payment of interest from the April 30, 2020 payment period to the June 30, 2020 payment period ("reprieve period") and capitalizing the accrued interest over the reprieve period to the principal amount of the debentures at the end of the reprieve period, in accordance to the terms of the trust indenture under which such debentures were issued.

While the current unprecedented economic situation due to the pandemic remains uncertain, the Company is prepared to react quickly as the situation may require and looks forward to emerging as a stronger business coming out of this downturn.

CONFERENCE CALL

The Company will hold a conference call at 4:30 (EDT) on April 30, 2020, to discuss its financial results. The dial-in number to access the conference call from Canada and the United States is 1 (888) 231-8191 (toll-free), conference ID: 1992455.

About IOU Financial Inc.

IOU Financial Inc. provides small businesses throughout the U.S. and Canada access to the capital they need to seize growth opportunities quickly. In a unique approach to lending, IOU Financial's advanced, automated application and approval system accurately assesses applicants' financial realities, with an emphasis on day-to-day cash flow trends. IOU Financial allows these businesses to apply for nine, nine, twelve, fifteen and eighteen-month term loans of up to US$500,000 to qualified U.S. applicants ($150,000 in Canada) within a few business days, with affordable charges favorable to cash-flow management. Its speed and transparency make IOU Financial a trusted alternative to banks. To learn more visit: IOUFinancial.com.

Forward Looking Statements

Certain information set forth in this news release may contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of IOU including, but not limited to, the impact of general economic conditions, industry conditions, dependence upon regulatory and shareholder approvals, the execution of definitive documentation and the uncertainty of obtaining additional financing. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. IOU does not assume any obligation to update or revise its forward-looking statements, whether as a result of new information, future events, or otherwise.

Definitions

- *Adjusted gross revenue is defined as gross revenue prepared in accordance with IFRS for the period, plus amortization of servicing* *assets less gain on sale of loans. The Company uses adjusted gross revenue as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates the non-cash gain on sale of loans and the non-cash amortization of servicing assets which influence operating results depending on the timing and amount of the loan sales.*

- *Portfolio Yield is calculated as follows: interest revenue divided by the average commercial loans receivable for the period presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and year-end period end balances, presented on an annualized basis.*
- *Servicing Portfolio Yield is calculated as follows: servicing income divided by the average servicing portfolio for the period presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and year-end period end balances, presented on an annualized basis.*
- *The Cost of Borrowing Rate is calculated as follows: interest expense divided by the average borrowings for the period, presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and year-end period end balances, presented on an annualized basis.*
- *The Provisional Credit Loss rate is calculated as follows: provision for loan losses divided by the average commercial loans receivable for the period, presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.*
- *The Net Credit Loss rate is calculated as follows: charge offs net of recoveries divided by the average commercial loans receivable for the period, presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis. The Company uses the Net Credit Loss Rate as an alternative measure to the Provisional Credit Loss Rate as it excludes the effect of provisions (reductions) in the allowance for expected credit losses during the period which may not coincide with the actual timing of charge-offs and recoveries.*
- *Adjusted operating expenses is calculated as follows: total operating expenses prepared in accordance with IFRS for the period less: stock-based compensation and non-recurring costs, plus non-recurring gains. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and year-end period end balances, presented on an annualized basis. The Company uses adjusted operating expenses as it eliminates items that do not necessarily reflect how the Company is performing. Specifically, it eliminates non-cash stock-based compensation which is given at different times and prices and non-recurring costs and gains which affects operating results only periodically.*
- *The Adjusted Operating Expense Ratio is calculated as follows: adjusted operating expenses divided by the average loans under management for the period, presented on an annualized basis. The year-to-date ratios are calculated on a five-point basis, using December, March, June, September and period end balances, presented on an annualized basis.*
- *Beginning in the first quarter of 2019, the calculation of adjusted net earnings was revised and is defined as net earnings for the period prepared in accordance with IFRS less: gain on sale of loans and non-recurring gains, plus: amortization of servicing assets, stock-based compensation and non-recurring costs. Prior to the first quarter of 2019, the calculation of adjusted net earnings (net loss) was defined as net earnings (net loss) for the period in accordance with IFRS less: gain on sale of loans and income tax recovery, plus: amortization of servicing assets, stock-based compensation, amortization of transaction costs-financing credit facilities, depreciation and amortization, income tax expense and non-recurring costs. As a result, the prior comparative periods have been calculated to reflect the revised definition.*

View original content:
http://www.prnewswire.com/news-releases/iou-financial-inc-releases-financial-results-for-the-year-ended-december-31-2019-301049779.html

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