

IOU Financial Inc. Reports Third Quarter 2020 Financial Results

- On a sequential basis, loan originations doubled to US\$18.4 million in Q3 2020 from US\$9.2 million in Q2 2020 as IOU gradually resumed loan originations to more businesses and geographical areas in the US.
- Subsequent to quarter end, IOU entered into a loan purchase agreement of up to US\$150 million with a fund managed by Neuberger Berman enabling IOU to capitalize on the eventual economic recovery.
- IOU's corporate cash position continues to remain stable at \$5.3 million since the onset of the pandemic due to cost reductions, government payroll assistance, recoveries of previously charged off loans, and a temporary reduction in the convertible interest expense.

MONTREAL, Nov. 23, 2020 /CNW Telbec/ - **IOU FINANCIAL INC.** ("IOU" or "the Company") (TSX-V: IOU), a leading online lender to small businesses (IOUFinancial.com), announced today its results for the three and nine-month period ended September 30, 2020.

Despite the setback caused by the COVID-19 pandemic, the Company is working to bring its loan origination volumes back to pre-pandemic levels and a return to profitability on an annual basis. In Q1 2020, the Company originated US\$38.1 million in loans and then hit low of US\$9.2 million in Q2 2020 due to the COVID-19 pandemic. However, in Q3 2020, loan originations increased to US\$18.4 million as IOU gradually resumed lending to more businesses and geographical areas in the US.

In-line with its plan to bring back its loan origination volumes to pre-pandemic levels, subsequent to quarter-end, IOU announced that it had closed a loan purchase agreement with a fund managed by Neuberger Berman of up to US\$150 million. The loan purchase agreement significantly bolsters IOU's funding capabilities and puts the Company in an excellent position to capitalize on the eventual economic recovery.

Although the Company had previously guided to growing its loan portfolio, the COVID-19 pandemic and its impact on IOU's loan portfolio had dictated an adjustment to the Company's funding strategy to reduce the loan portfolio in favour of the servicing portfolio. Nevertheless, the Company plans to continue to maintain diversified sources of capital to fund both its loan portfolio and servicing portfolio (loans being serviced on behalf of third parties).

IOU entered the COVID-19 pandemic in a strong financial position and has worked hard to maintain this position. Specifically, IOU's corporate cash position has remained stable at \$5.3 million since the onset of the pandemic due to cost reductions, government payroll assistance, recoveries of previously charged off loans and a temporary reduction in the convertible interest expense. In Q1 2020, adjusted operating expenses were \$2.6 million. In Q2 2020, adjusted operating expenses decreased 30.0% to \$1.8 million. In Q3 2020, adjusted operating expenses increased by 21.2% to \$2.2 million as the Company started to gradually reinvest in growth initiatives but remained significantly lower than pre-pandemic levels.

"Despite the continued challenges of COVID-19, we witnessed improved loan origination growth in Q3 2020 over Q2 2020 and continue to benefit from our strong liquidity position and our diversified and supportive sources of capital. IOU is well positioned to capitalize on the eventual economic recovery and to generate growing volumes of higher-quality loans," 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 the third quarter of 2020, the Company doubled its loan originations to US\$18.4 million in loans from Q2 2020 as IOU gradually resumed loan originations to more businesses and geographical areas in the US. Q3 2020 loan originations represent a decrease of 55.5% over Q3 2019 (US\$41.4 million). For the first nine months of 2020, the Company funded US\$65.7 million in loans (2019: US \$112.7 million), representing a decrease of 41.7% over the same period last year. The decrease in loan originations was a result of the COVID-19 pandemic whereby IOU modified its underwriting standards to cease lending to industries and geographical areas which were strongly impacted by COVID-19.
- As at September 30, 2020, total loans under management amounted to \$77.7 million (2019: \$108.0 million), representing a decrease of 28.0% year over year and is attributable to the decrease in loan originations in the first nine months of 2020 of 41.7% compared to the same period in 2019. The principal balance of the loan portfolio amounted to \$20.8 million (2019: \$54.5 million), representing a decrease of 61.8%. The principal balance of IOU Financial's servicing portfolio (loans being serviced on behalf of third parties) amounted to \$56.9 million (2019: \$53.4 million), representing an increase of 6.5%.

- Adjusted gross revenue decreased 43.9% to \$3.8 million for the three-month period ended September 30, 2020 compared to Q3 2019 (\$6.8 million) due to a decrease in interest revenue and servicing income. Adjusted gross revenue decreased to \$14.9 million (2019: \$17.4 million), representing a decrease of 14.2% for the nine-month period ended September 30, 2020 compared to the same period in 2019.
- Interest revenue decreased 53.3% to \$2.4 million in Q3 2020 compared to the same period in 2019 largely as a result of a decrease in the principal balance of the loan portfolio as well as a decrease in portfolio yield from 39.7% in Q3 2019 to 29.9% in Q3 2020. The decrease in portfolio yield is due in part to the Company effecting modified payment plans with clients due to the COVID-19 pandemic commencing in March 2020.
- Servicing income decreased 22.7% to \$0.9 million in Q3 2020 compared to Q3 2019 as a result of the decrease in the servicing portfolio yield from 9.0% in Q3 2019 to 6.8% in Q3 2020. The decrease in servicing yield is due largely to the Company effecting modified payments plans with merchants due to the COVID-19 pandemic commencing in March 2020.
- Interest expense during the three-month period ended September 30, 2020 decreased 48.4% to \$0.5 million (2019: \$1.1 million). The decrease is attributable to a decrease in average borrowings of 44.1% in Q3 2020 compared to Q3 2019 and to the decrease in the Cost of Borrowing Rate to 9.6% in Q3 2020 from 10.4% in Q3 2019. Interest expense during the nine-month period ended September 30, 2020 decreased 15.0% to \$2.5 million (2019: \$2.9 million).
- Provision for loan losses during the three-month period ended September 30, 2020 decreased to (\$0.7) million (2019: \$2.4 million). At the onset of the COVID-19 pandemic in March 2020, the Company increased the allowance for expected credit losses based on its standard provision methodology. The reversal in the provision for loan losses in Q3 2020 is attributable to a decrease in actual delinquencies since the beginning of the COVID-19 pandemic as well as to the decrease, on a sequential basis, in commercial loans receivable in the Stage 3 provision category from \$24.6 million in Q2 2020 to \$16.8 million in Q3 2020. Provision for loan losses increased to \$9.4 million for the nine-month period ended September 30, 2020 (2019: \$5.7 million).
- The Net Credit Loss Rate increased from 12.6% in the third quarter of 2019 to 22.2% in the third quarter of 2020 due to increased charge offs as a result of the COVID-19 pandemic. However, on a sequential basis, the Net Credit Loss Rate decreased from 37.6% in Q2 2020 to 22.2% in Q3 2020. The Company also uses the Net Credit Loss Rate as another measure for loan losses 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 decreased 15.7% to \$2.2 million in Q3 2020 compared to \$2.6 million in Q3 2019 primarily due to measures taken at the beginning of Q2 2020 in response to the COVID-19 pandemic. On April 1, 2020, the Company furloughed approximately 40% of its full-time employees and implemented a temporary 20% reduction in salaries for all remaining employees as well as having managed certain vendors and discretionary costs resulting in decreased data services and IT costs as well as travel and entertainment expenses. The Adjusted Operating Expense Ratio, which is a measure of the Company's operating efficiency, increased to 10.5% in the third quarter of 2020 (2019: 10.1%) as the decrease in operating expenses was at a lower rate than the decrease in the Company's loans under management following the COVID-19 pandemic. Operating expenses increased to \$2.3 million in Q3 2020 compared to \$2.2 million in the same period in 2019. For the nine-month period ended September 30, 2020, adjusted operating expenses decreased 10.2% to \$6.7 million (2019: \$7.4 million) and the Adjusted Operating Expense Ratio decreased to 8.9% in the first nine months of 2020 from 9.9% in the first nine months of 2019.
- IOU closed on its third quarter ended September 30, 2020 with adjusted net earnings of \$1.7 million compared to adjusted net earnings of \$0.8 million for the third quarter ended September 30, 2019. IOU closed on the nine-month period ended September 30, 2020 with adjusted net loss of \$3.1 million, compared to adjusted net earnings of \$1.5 million for the same period last year.
- IOU closed on its third quarter ended September 30, 2020 with IFRS net earnings of \$1.7 million, or \$0.02 per share, compared to IFRS net earnings of \$1.0 million or \$0.01 per share for the same period in 2019. IOU closed on the nine-month period ended September 30, 2020 with IFRS net loss of \$3.5 million, or (\$0.04) per share, compared to IFRS net earnings of \$1.3 million or \$0.01 per share for the same period last year.

Adjusted and IFRS net (loss) earnings

	Three-Month		Nine-Month	
For the period ended September 30	2020	2019	2020	2019
	\$	\$	\$	\$
Interest revenue	2,411,178	5,165,303	11,195,852	12,663,112

Servicing & other income	1,400,536	1,634,082	3,738,211	4,752,084
Adjusted Gross Revenue	3,811,714	6,799,385	14,934,063	17,415,196
Interest expense	547,716	1,062,039	2,466,131	2,899,799
(Reversal) Provision for loan losses	(650,489)	2,367,101	9,405,065	5,712,484
Recoveries	(145,600)	(41,640)	(588,344)	(169,913)
Cost of Revenue	(248,373)	3,387,500	11,282,852	8,442,370
Adjusted Net Revenue	4,060,087	3,411,885	3,651,211	8,972,826
Adjusted operating expense	2,227,503	2,641,979	6,672,180	7,427,983
Income tax expense	85,845	-	85,845	-
Adjusted Net Earnings (Loss)	1,746,739	769,906	(3,106,814)	1,544,843
Adjusted Net Earnings (Loss) per Share	0.02	0.01	(0.04)	0.02
Adjusted Net Earnings (Loss)	1,746,739	769,906	(3,106,814)	1,544,843
Non-cash gain on sales of loans	791,402	734,264	1,998,956	2,356,397
Non-cash amortization of servicing asset	(781,519)	(938,051)	(2,375,369)	(2,844,177)
Non-cash stock-based compensation	(58,034)	(51,084)	(113,018)	(236,902)
Non-recurring gain	-	485,579	73,478	485,579
Net Earnings (Loss) per IFRS	1,698,588	1,000,614	(3,522,767)	1,305,740
Net Earnings (Loss) per Share	0.02	0.01	(0.04)	0.01

OUTLOOK

While the current unprecedented economic situation due to the pandemic remains uncertain, the Company continues to maintain diversified sources of capital as well as to manage its liquidity position with a view to emerging as a stronger business coming out of this downturn. Despite the setback caused by the COVID-19 pandemic, the Company is working to bring its loan origination volumes back to pre-pandemic levels and a return to profitability on an annual basis.

IOU's financial statements and management discussion & analysis for the quarter ended September 30, 2020 have been filed on SEDAR and are available at www.sedar.com.

CONFERENCE CALL

The Company will hold a conference call at 4:30 (EST) on November 25, 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: 6663487

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 six, 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.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September 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 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 nine-month ratios are calculated on a four-point basis, using December, March, June and September period end balances, presented on an annualized basis.*
- *The calculation of adjusted net (loss) earnings is defined as net (loss) 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.*

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