

29 April 2022

ASX Announcement

## March 2022 Quarterly Report & Business Activity Update

### Highlights

- Accelerated uptake of BNPL service with increased volumes of myIOU BNPL transactions completed in the March Quarter (1 Jan to 31 Mar):
  - \$11,031,848 in Total Transaction Value (“TTV”) has been transacted; delivering,
  - \$559,150 in Net Transaction Revenues (“NTR”).
- Positive adjusted Net Operating Cashflow for the second consecutive quarter, having launched product in June 2021 – positive \$1.33m after adding back \$13.33m payments to BNPL merchants that form part of BNPL receivables;
- Non-Performing Loans (“NPL”) of \$38,281 and NPL Ratio 0.16% - indicates modest delinquencies – reinforces strong credit quality control strategy;
- Continued growth in Consumer and Merchant sign ups (since mid-June launch), approval and onboarding:
  - 3,443 merchant outlets now onboarded (up 15% since 31 Dec)
  - 1,990 merchant outlets activated and listed on myIOU (up 30% since 31 Dec)
  - 68,224 consumer downloads of myIOU (up 73% since 31 Dec)
  - 20,302 consumer activated accounts (up 85% since 31 Dec)
- SOGO Department Stores signed as merchant partner – Phase 1 POS integration Q4 FY22 – Phase 2 Online integration Q1 FY23;
- Razor Merchant Services (“RMS”) - 290 approved merchants now live with myIOU;
- myIOU 2.0 launched with coordinated marketing campaign and new brand ambassadors Priscilla Wong & Syafiq Kyle announced – Phase 1 enhancements implemented;
- IDSB Investment Update – share transfer for 1<sup>st</sup> Tranche of 21% interest registered – formal accounting for investment in Appendix 4D Interim Report – Two dividend distributions received totalling RM1,680,000 (~A\$533,333);
- Sibu Kurnia Marine Sdn Bhd (“SKM”) – Government approvals for acquisition received;
- COVID-19 Environment Update – Phase 4 of National Recovery Plan progressing with a significant reopening of the economy; increase in cases not impacting activity.

IOUpay Limited (ASX:IOU) ('IOUpay' or the Company) has released its Appendix 4C today and the Board of Directors are pleased to provide a Quarterly Report & Business Activity Update for the period ended 31<sup>st</sup> March 2022.

## BNPL Business Update

### TTV<sup>1</sup> and NTR<sup>2</sup> Performance Metrics

Values for Period	1 January – 31 March 2022
Total Transaction Value <sup>1,3</sup>	\$11,031,848
Net Transaction Revenue <sup>2,3</sup>	\$559,150
myIOU Income Margin <sup>4</sup>	5.1%
<b>Cumulative Totals as at</b>	
<b>31 March 2022</b>	
TTV (past 12mths <sup>5</sup> )	\$23,742,839
NTR (past 12mths <sup>5</sup> )	\$1,663,198
Non-Performing Loans <sup>6</sup>	\$38,281
NPL Ratio <sup>7</sup>	0.16%
Merchant Outlets Signed <sup>8</sup>	3,903
Merchant Outlets Onboarded	3,443
Merchant Outlets System Active	1,990
Merchant Relationships System Active <sup>9, 10</sup>	807
Consumer Downloads	68,224
Consumers Onboarded	50,145
Consumer Account Activations	20,302

- Note:
- Total Transaction Value (TTV) means total value of purchases made by myIOU customers
  - Net Transaction Revenue (NTR) means TTV less the amounts paid to merchants
  - All amounts in AUD, assumed MYR/AUD exchange rate 3.15 using an RBA sourced reference
  - myIOU Income Margin means NTR as a percentage of TTV
  - myIOU launched 15<sup>th</sup> June 2021 so past 12mths TTV & NTR are shown for period from launch
  - Non-Performing Loan (NPL) means the current outstanding value of a transaction account which has an instalment remaining unpaid for at least 6 months
  - NPL Ratio means NPL as a percentage of TTV written during past 12 months
  - Merchant Outlets means discrete shopfronts, whether physical or online
  - Merchant Relationships means business entities that may have multiple outlets
  - Merchant Relationships System Active does not include any merchants that have been onboarded by Razer Merchant Services to its payment platform with the myIOU BNPL payment option

A significant increase in activity during the first half of the March quarter contributed to elevated transaction volumes with TTV of \$11,031,848 delivering NTR of \$559,150. Whilst myIOU Income Margin was down relative to the previous quarter, this reflects differing transaction profiles and commercial terms, as well as promotional campaigns. Increased competition, particularly with respect to high-volume, big-name merchants, has also impacted average returns as the Company expands its market presence. Effective annualised returns for individual transaction profiles remain within the Company's target range.

On a financial year-to-date basis, the Company has written TTV of \$23,137,657 delivering NTR of \$1,615,662 (AUD values assume MYR/AUD exchange rate 3.15 as per note 3). The resultant myIOU Income Margin for FY22 to 31<sup>st</sup> March 2022 is 7.0%, which remains above expectations and within the Company's target range.

In this March quarter, the Company has reported Non-Performing Loans ("NPL") for the first time given the portfolio was effectively established at the myIOU BNPL launch mid-June 2021. The NPL of \$38,281 and NPL Ratio of 0.16% as at 31<sup>st</sup> March 2022 indicates modest delinquencies and is a reflection of the Company's targeted consumer acquisition process, including sophisticated credit scoring technology to

authenticate customers and independently check credit profiles, as well as its continuous assessment and management of merchant relationship performance.

Note that the NPL Ratio metric has been included to provide a relative measure of delinquencies against the size of the portfolio to aid longitudinal comparative analysis.

The Company continues its focus on building a community of quality merchants and consumers as part of its 'best-in-class' brand positioning in South East Asia. There are now close to 2,000 merchant outlets that are system active on the myIOU platform across thirteen industry verticals, with more than 1,900 signed as at 31<sup>st</sup> March still to be assessed for activation. These active outlets represent the physical and online shopfronts of more than 800 merchant relationships from around Malaysia.

Note that the previously reported twenty industry verticals have been consolidated into the thirteen categories now shown on the myIOU apps and myIOU.com website.

### **Merchant & Consumer Activation**

During the March quarter, 124 new merchants operating 380 outlets around Malaysia were added to the myIOU platform. New merchants were added to 12 industry vertical categories. Key industry verticals with numerous merchants added since 31<sup>st</sup> December include: Electronics & Gadgets (39 merchants with 106 outlets); Beauty & Wellness (24/80); Automotive (18/81); Fashion (16/56); and, Home & Living (12/36).

Notable businesses amongst these new merchant relationships include: Arissto (Malaysia) Sdn Bhd ('Electronics & Gadgets' from KL/Selangor); Best Point Electrical Chain Store Sdn Bhd ('Electronics & Gadgets' from regional Malaysia with 7 outlets); Cavenzi Design Sdn Bhd ('Home & Living' from KL/Selangor with 6 outlets); Healthy World Lifestyle Sdn Bhd t/as Ogawa Malaysia ('Beauty & Wellness' from KL/Selangor with 43 outlets); Kemudi Timur Elektronik ('Electronics & Gadgets' from regional Malaysia with 20 outlets); Lazo Diamond ('Fashion' from KL/Selangor with 33 outlets); and Weng Kwong Jewellery ('Fashion' from KL/Selangor with 7 outlets).

Additionally, the Company's merchant services teams deployed the myIOU offering to a further 92 outlets relating to existing merchant relationships established in prior periods. These included an additional 51 Wah Chan ('Fashion') outlets and 11 Baloy ('Home & Living') outlets.

Concurrently with merchant acquisition activities, the Company's merchant services teams and Operations Division conduct ongoing re-assessment and evaluation of merchant relationship performance to ensure alignment with IOUpay brand values, anticipated transaction activity levels and satisfaction of return expectations. Following review, those merchant relationships not meeting satisfactory levels of performance, and considered unlikely to improve, are terminated and removed from the myIOU platform.

The significant growth trend in consumer engagement, initially reported in November, has continued into the March 2022 quarter (Q3 FY22). As measured against results as at 31<sup>st</sup> December 2021, consumer downloads are up 73%, consumer onboarding is up 79% and consumer account activation is up 85%. The relatively higher onboarding and account activation growth (versus growth in downloads) continues to evidence strong consumer engagement with the myIOU BNPL offering.

Almost 75% of consumers who download the myIOU app complete the onboarding process and, most significantly, about 30% of those who download the app go on to complete a transaction. These ratios have remained consistent over time with a growth trend in activation to transaction identified since the launch of myIOU 2.0 mid-March.

As previously reported, this growth aligns with expansion of shopping choice as new merchants are added and the Company deepens its coverage of regional Malaysia. The increased consumer engagement also correlates with the Government's easing of COVID-19 restrictions, the Company's ongoing Digital Marketing Strategy and various promotional campaigns.

Additionally, there has been a significant uplift in consumer engagement related to the launch of myIOU 2.0 (refer below) which has continued through the following weeks up to the date of this report.

### **SOGO Department Stores Merchant Agreement**

During the March quarter, the Company entered into a Merchant Agreement with SOGO (K.L.) Departmental Store Sdn. Bhd. (“SOGO”) for the provision of myIOU BNPL services at SOGO’s department stores on both point-of-sale (POS) and e-commerce payment platforms. Following signing, the parties are now working on systems integration and testing.

Integration, testing and rollout will be in two phases. The Company expects to launch myIOU on SOGO’s POS platform for instore purchases by the end of the June quarter. In the second phase, the Company expects to ‘go live’ with myIOU on SOGO’s e-commerce platform for online purchases during the September quarter.

SOGO is one of Malaysia’s leading retailers, operating three properties in key commercial districts in Kuala Lumpur, Selangor and Johor with a total retail floor space of 100,000 square metres. The original landmark Kuala Lumpur property represents 60,000 square metres of retail space with SOGO the sole occupant. The Selangor and Johor properties are integrated shopping malls in which SOGO is the anchor tenant.

Additional retail properties are currently being developed. The Merchant Agreement will apply to any additional retail properties as well as the current properties and SOGO’s e-commerce platform.

SOGO has established a loyal following of frequent shoppers including approximately 800,000 SOGO Card members who enjoy the benefits of special offers and promotions. IOUpay will work with SOGO to develop marketing initiatives to promote the myIOU BNPL offering to SOGO’s customers and, in particular, the SOGO Card members.

### **Razer Merchant Services (“RMS”) Update**

As reported in the December 2021 Quarterly Activities Report, the Company approved more than 140 merchants for onboarding by RMS from their first batch of merchants offered for review. RMS has now confirmed onboarding to their system and IOUpay has completed its merchant confirmation process.

During the March quarter, a second batch of 150 merchants was also approved by IOUpay and onboarded by RMS to its payment platform. RMS has now onboarded a total of 290 merchants, making myIOU available as a payment option to those merchants’ consumer customers.

RMS is currently compiling a third batch of merchants for review, based upon IOUpay’s industry vertical preferences and minimum transaction value expectations. The Company is conducting monthly training of sales staff to ensure optimal signup rates.

### **iPay88 Update**

The Company’s December Quarterly Report and Business Activity Update announced 31<sup>st</sup> January 2022 advised that commercial activities with iPay88 (M) Sdn Bhd had been delayed due to ongoing negotiation of commercial terms and operational details and were expected to be finalised in the March 2022 quarter (Q3 FY22).

Negotiations have continued into April 2022 and the Company now expects resolution of terms during the current June quarter (Q4 FY22).

Once commercial terms and operational details are finalised, then systems integration and testing will be performed with expected completion during the December quarter (Q2 FY23). The Company notes that the expected integration and testing timetable has been extended at the request of iPay88.

## **Customer and Merchant App & Website Enhancements - myIOU 2.0 Launch**

In August 2021, the Company commenced a process of reviewing and upgrading its BNPL customer interfacing technology, including myIOU mobile apps for consumers and merchants, as well as the myIOU.com website and the merchant web portal.

The objectives in enhancing the UI/UX design include:

- a design update to better reflect branding and improve key feature sets
- streamlining & simplification to increase onboarding speed and efficiency
- substantial functionality improvements to user experience, designed to increase activity and grow transaction volumes

The mobile app technology upgrades are being rolled out in two phases. Phase one includes:

- Design refresh using a minimalist style with refined interface to enhance user experience
- Improvements to ease of navigation, e.g. visibility of merchants selection & upcoming payments
- Higher accessibility to vouchers & promotions

Phase one technology functionality enhancements to various aspects of the user interface of the mobile consumer app include to the home, registration, sign-in, merchant listing and payment breakdown pages, as well as to the user dashboard.

The Company conducted a five-day roadshow event from 16<sup>th</sup> to 20<sup>th</sup> March at the IOI City Mall in Putrajaya, Malaysia to launch myIOU 2.0 (including the phase one app upgrade) and announce its two new brand ambassadors. The roadshow featured three key merchants and provided an interactive consumer experience to encourage engagement with the app and lead customers through the myIOU BNPL purchase and payment process. Various media, advertising and promotional campaigns are being implemented, leveraging myIOU 2.0 and the new brand ambassadors to drive engagement with both merchant and consumer communities.

Media coverage of the roadshow and launch included leading print media (including The Sun Daily, Malaysian Reserve & The Star), more than 20 online publications (including Business Today, Lowyat, Malaysian Business and Marketing Interactive) and a number of blog sites. The extensive media coverage of the event is estimated to have generated over \$300,000 in promotional value.

During the March quarter, the myIOU.com website was upgraded with a design and functionality refresh. Early data and feedback to the Company indicates improved customer experience and increased consumer engagement.

The Company is also developing mobile software development kits ("Mobile SDK") with myIOU payment options. These are planned to be released during June 2022. Mobile SDK provides a set of software development tools that allow merchants' own mobile apps to integrate with IOUpay (enabling myIOU as one of the payment options) without the need for full API integration.

Phase two of the myIOU 2.0 technology upgrade is scheduled to rollout in July 2022.

## **New Brand Ambassadors – Priscilla Wong & Syafiq Kyle**

In August 2021, the Company signed international singer songwriter, Yuna, on a six-month contract as its inaugural Brand Ambassador. Yuna brought the value of her considerable following in Malaysia and around South East Asia to the promotion of the Company and the myIOU brand. Yuna's personal interest in the impact and challenges faced by small and medium-sized enterprise during the COVID-19 health emergency very much aligns with IOUpay's product offerings and brand positioning. With Yuna's support the Company broadened and deepened awareness in the Malaysian marketplace of myIOU and its distinctive branding and premium BNPL product offering.

The Company introduced two new Brand Ambassadors to strategically support and promote the new myIOU 2.0 launch. Consistent with its Digital Marketing Strategy, the Company's strategy is to leverage the influence of the new ambassadors to increase brand exposure in additional follower communities, giving access to new potential customers and further driving engagement with myIOU.

The two new Brand Ambassadors were announced on 18<sup>th</sup> March 2022 at the myIOU 2.0 launch.

The Company signed Priscilla Wong as myIOU International Brand Ambassador. Ms Wong is a Hong Kong based actress and television host with 1.2 million followers on the Instagram social media platform as well as a strong following in, and connection to, Malaysia.

The Company signed Syafiq Kyle as myIOU Brand Ambassador. Mr Kyle is a high profile local Malaysian actor and model with 2.5 million Instagram followers.

Each ambassador is contracted for calendar year 2022 to produce content each month, working with the Company's Marketing Team to promote brand awareness and also on specific campaign initiatives.

#### **4C Cashflow Analysis**

Receipts from customers were \$5,726,000 (down from \$6,087,000 last quarter) reflecting reduced mobile banking transactions. The net operating cash outflow of \$12,004,000 is derived after paying out \$13,334,000 to merchants for BNPL purchases during the period.

This net cash outflow figure includes product and manufacturing costs of \$1,257,000 (down from \$1,627,000 last quarter); these being the core telco costs of the Mobile Banking business division. Staff costs of \$1,064,000 rose by 20% from \$890,000 with the Company increasing staff levels across the group by 8% from 133 as at 31<sup>st</sup> December to 143 as at 31<sup>st</sup> March, plus the impact of recruitment during the December quarter being reflected for a full quarter. Consistent with the previous quarter, additional resourcing was mainly applied to accommodate increased BNPL business volumes and the operational support required.

Advertising and Marketing costs of \$540,000 marginally increased by 3% from \$523,000 and includes payments relating to the myIOU 2.0 launch and contracts with new brand ambassadors.

Administration and corporate costs of \$1,375,000 decreased by 31% from \$2,000,000 in the December quarter which included costs associated with the IDSB investment.

The underlying BNPL business generated a positive net cash inflow of \$1,330,000 for the quarter (up 11%) compared to an effective net inflow of \$1,201,000 reported last quarter. This is the second successive quarter that the Company has produced a positive quarterly effective operating cashflow. This positive cashflow result is calculated by adjusting the reported net operating cash outflow of \$12,004,000 by adding back the \$13,334,000 Payments to Merchants made during the period.

The Company expects the current level of operating cash flows and core operational expenditure (excluding the \$13.33m in cash outflows) to continue at the current level for the remainder of calendar 2022. Notably, the Payments to Merchants were significantly higher on a run rate basis during the March quarter due to higher than normal volumes due and the success of one-off promotions by the Company, including a product launch, and more competitive pricing for BNPL product lines.

The Company has been monitoring the total cash allocated to funding its BNPL product lines closely since this increase and reduced its generation of new BNPL business activity to reflect the available capital and repayment profile of BNPL accounts receivable to align with the working capital requirements of the Group. This includes monitoring volumes and the cycling of the receivables portfolio whilst managing operating

outflows and operating obligations of the Group with the amortisation/repayment cycle of BNPL proceeds owed from customers.

Payments to Merchants (along with the profit margin on the BNPL transactions) form part of BNPL receivables which will be reflected as cash receipts in future reporting periods, and represent amounts due to be returned to the Group within relatively short maturities (terms up to 6 months from the date funded).

It follows that cash inflows generated by the portfolio are anticipated to significantly increase in future periods and will be reflected as incoming cash inflows that will be used to manage the net levels of net operating cash outflows at a sustainable run rate in future periods.

The Company's Net Transaction Revenues are spread over the term of each BNPL transaction and are added to the merchant payout figure plus upfront BNPL deposits to calculate Total Transaction Revenue which is not provided in the 4C Cashflow and therefore reported separately in the BNPL Business Update.

The Company had \$3,157,000 in cash and call deposits as at the end of the quarter, however this amount is after deducting the \$13,334,000 paid out to merchants to come back as part of customer BNPL instalments and does not include a holding deposit of approximately \$3,016,000 (being RM9,500,000) for the IDSB transaction. The \$13,334,000 merchant payment figure combined with the Company's Net Transaction Revenues is effectively now BNPL receivables to be reflected as cash receipts in future months excluding any non-performing loans (NPL's). To date the Company has not identified a material balance of non-performing loans.

The Company's Mobile Banking division produced 66,375,549 transaction events, down from 77,593,345 in the previous quarter. In December, the Company's Mobile Banking Division upgraded and transitioned to a new data centre with larger capacity infrastructure capabilities to accommodate expected future growth in transaction volumes. During the transition period, the business operated with reduced capacity so transaction volumes for some customers were diverted to other providers. Whilst there has been a lag in the diverted transactions returning to IOUpay, transaction volumes totalled 25,192,437 during March, indicating a return to volumes achieved prior the upgrade.

Total payments to Directors and their nominated entities for the quarter was \$160,000 as set out in item 6.1 of the Appendix.

### **IDSB Investment**

In the BNPL Business Offering & Operational Update announced 1<sup>st</sup> March 2022, the Company confirmed that completion of the first tranche payment of RM63 million (~A\$21 million<sup>3</sup>) and the transfer of shares representing 21% of the total issued share capital of I.Destinasi Sdn Bhd ("IDSB") to IOUpay's wholly-owned subsidiary IOU Pay (Asia) Sdn Bhd ("IOU Asia") had been effected. This date becomes the effective settlement date for the purposes of determining the date by which the second tranche payment is due (being the later of completion of the audit of IDSB's FY21 statutory accounts or six months after settlement).

In the Appendix 4D and Financial Report announced 28<sup>th</sup> February 2022, the Company reported for the first time in its financial accounts its (current) 21% investment in IDSB. The reporting reflects the IOU share of IDSB's net earnings for the month of December only, given the timing of the First Tranche Payment and settlement of the Tranche 1 portion of the acquisition was 30<sup>th</sup> November 2021.

Based upon unaudited numbers of IDSB (currently subject to an external audit) for FY21, the Company expects there to be a downward adjustment to the overall purchase price of IDSB, which will be reflected as a net reduction to the amount of the Second Tranche Payment as per the previously disclosed terms of the Second Tranche Payment. The actual amount of the variance in profit before tax and hence the

corresponding reduction in the value of the Second Tranche Payment will be determined once IDSB's audited statutory accounts are completed.

Since December 2021 the Company has been working closely with IDSB management to establish reporting protocols, build operational interaction and develop inter-company staff working relationships. A pilot programme is being developed to market myIOU BNPL services into IDSB's high credit quality, civil servant customer base.

### IDSB Business Model and Key Metrics

IDSB generates revenue through upfront transaction fees and ongoing account management fees which are calculated based on the number and value of loans originated and serviced by IDSB.

Portfolio as at	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Mar 2022
Active Loans # <sup>11</sup>	n/a	27,136	36,323	38,909
Loan Balances <sup>12,13</sup>	n/a	A \$627,987,000	A \$774,247,000	A \$792,872,000
Business Activity	FY19	FY20	FY21	Q1 FY22
New Loans #	n/a	n/a	n/a	2,782
New Loans \$	n/a	n/a	n/a	A \$72,597,778
Financial Performance <sup>13,14</sup>	FY19	FY20	FY21 <sup>15</sup>	Q1 FY22
Total Revenue	A \$8,300,290	A \$6,634,453	A \$9,831,291	A \$2,507,067
Profit Before Tax	A \$6,059,677	A \$3,587,421	A \$6,404,315	A \$1,428,714

- Note:
11. Loan Accounts are originated and managed by IDSB for its partner bank lenders
  12. Loans are funded by partner bank lenders who take consumer counterparty credit risk
  13. The dollar values in the table above are shown in AUD, having been converted from MYR assuming an MYR/AUD exchange rate of 3.15, using an RBA sourced reference
  14. IDSB uses a financial year ending 31 December
  15. Revenue and profit figures for FY21 are based on un-audited management accounts

As the Company reported in its December 2021 Quarterly Report announced 31<sup>st</sup> January 2022, the business volumes of IDSB during 2020 and 2021 have been variously impacted by the COVID-19 health emergency (including loan moratoriums imposed by the Malaysia Government in each year) and the temporary national suspension imposed by Bank Negara Malaysia of access to credit reference information during October and November due to potential cyber threats and data leaks.

With the expiry of the loan moratoriums in January, business activity immediately returned to levels achieved in the first half of 2021 (prior the loan moratoriums but still subject to pandemic-related impacts). Prospects for growth remain strong given economic activity trends during Phase 4 of the National Recovery Plan.

### IDSB Dividend Distributions

The Company received dividend distributions from IDSB during the March quarter based upon its current 21% shareholding. The values of the dividend payments are shown in the table below. The AUD equivalent amounts shown in the table assume an MYR/AUD exchange rate of 3.15 as per note 13 above.

Date Received	MYR Dividend	AUD Equivalent	Applicable Period
2 <sup>nd</sup> March 2022	MYR 772,800	AUD 245,333	December 2021
11 <sup>th</sup> March 2022	MYR 907,200	AUD 288,000	January 2022

The timing and amounts of any future dividend distributions will be determined by and at the discretion of the Board of IDSB. The Company notes that the share purchase agreement entered into by the relevant parties includes provisions for IDSB to maintain an agreed amount of working capital.

### **Ministerial Consent for Acquisition of Sibu Kurnia Marine Sdn Bhd**

As announced on 19<sup>th</sup> January 2021, the Company secured a Malaysian Money Lending Licence (MA1951 Licence) via the acquisition of 100% of the ordinary shares in Sibu Kurnia Marine Sdn Bhd (“SKM”).

On 14<sup>th</sup> January 2022, the Company announced that it had received formal government approval from the Malaysian Ministry of Housing and Local Government (“the Ministry”), for the transfer of shares in SKM to IOU Pay (Asia) Sdn Bhd (“IOU Asia”).

The Company confirmed receipt of the ministerial consents and formal approvals required to complete the transfer of control and formal ownership title of SKM (which was required due to the MA1951 Licence it holds). The Company had been awaiting the required approval from the Ministry due to ongoing local government delays resulting from COVID-19, and more importantly the impacts from various changes of Malaysian government during that time.

The Company also confirmed that with the approval provided by the Ministry, the official transfer of licence ownership and control of SKM is completed, and that despite the unexpected delay in Ministerial consent being granted, that this process had all been completed within the terms of the acquisition as originally announced on 19<sup>th</sup> January 2021.

The Company made the acquisition of SKM early in 2021 for the purpose of acquiring the MA1951 Licence that SKM holds. There are several reasons that the Company sought and obtained the money lending licence.

The licence was an essential commercial requirement early in 2021 when the Buy-Now-Pay-Later (“BNPL”) business was being built as a number of payment gateway partners required the Company to hold a money lending licence in order for them to enter into payment processing agreements. These payment gateway partners are critical for the operation of the BNPL business, which naturally functions via the processing of credit and debit card payments to and from merchant and consumer customers.

Furthermore, the Malaysia Government has over recent years been signalling that it is contemplating a Consumer Credit Act to regulate the provision of consumer credit in Malaysia. Anticipating the potential for such legislation to regulate BNPL consumer credit products, the Company viewed the acquisition of a money lending licence to be strategically prudent.

During November 2021, various news outlets reported that Bank Negara Malaysia and the Malaysia Government intends to enact a new Consumer Credit Act in 2022. In its BNM Annual Report 2021 published 30<sup>th</sup> March 2022, Bank Negara Malaysia confirmed that it was working with the Malaysia Ministry of Finance and the Securities Commission Malaysia on consumer credit legislation that would include regulation of BNPL schemes.

The Company expects the prospective legislation and supporting regulation to be comprehensive and may require non-bank credit providers offering products such as BNPL to hold a money lending licence.

### **COVID-19 Environment**

All states, territories and major economic centres have now moved into Phase 4 of the Malaysia Government’s National Recovery Plan (“NRP”). Phase 4 provides for the re-opening of all economic sectors, interstate travel (subject to SOPs) and no gathering limits. Economic activity continues to improve as evidenced in the Company’s BNPL performance metrics. Malaysia’s GDP rose 3.6% in Q2 FY22 and

Bank Negara Malaysia expects the recovery to continue through calendar 2022 subject to any future COVID-19 variants.

The Department of Statistics Malaysia (“DOSM”) has reported business sentiment in Malaysia rebounding in the March quarter (Q3 FY22) to a positive trajectory for the first time since the previous nine quarters (prior the COVID-19 pandemic), registering a confidence indicator of +7.6%, up from -0.3% in the last quarter. The DOSM reports that among all of the surveyed sectors, Services, Industry and Wholesale & Retail Trade sectors expect better business performance.

The Malaysia External Trade Development Corporation, the national trade promotion agency under the International Trade and Industry Ministry, has reported eight successive months of double-digit year-on-year growth in exports, imports up 30% compared to March 2021 and the trade surplus rose 10%. The increased trade and economic activity is expected to be complemented by the Regional Comprehensive Economic Partnership agreement which includes the 10 members of ASEAN plus China, Japan, South Korea, Australia and New Zealand, and which Malaysia ratified in January and came into effect on 18<sup>th</sup> March.

Whilst there has been a significant surge in COVID-19 cases (likely associated with a recent Omicron variant wave), Bloomberg reports that serious illness and deaths are significantly lower than last year. Malaysia’s Ministry of Health has stated that it expected the Omicron wave to peak in the second half of March. More than 80% of the population is fully vaccinated and 49% have received booster doses. Malaysia’s Health Director General has indicated preparation for herd immunity following high vaccination rates and infection recoveries, and is looking forward to moving into endemicity. Reuters reports the government has vowed not to reimpose lockdowns amid a ramped up vaccination programme.

The economic recovery is expected to be further boosted by the reopening of international borders with Malaysia ending mandatory quarantine for inbound fully-vaccinated travellers on 1<sup>st</sup> April.

## **Outlook**

Throughout the financial year to date, the Company has been establishing a foundation of quality merchants, refining and enhancing its product offerings, and building a maturing portfolio of BNPL receivables. The business has now delivered successive quarters of positive effective operating cashflow and is generating cash to fund operating expenses. Whilst the BNPL market in Malaysia is increasingly competitive, the Company has continued to maintain its strict brand values of pursuing quality merchants, credit worthy consumers and profitable transactions.

Relationships with quality partners who manage large communities of high value merchants and consumers is a core focus of the Company’s strategy. The Razer Merchant Services partnership is in full implementation which, along with other key partnership opportunities including iPay88, augurs well for continued strong growth in merchant and consumer acquisition.

The highlighted new merchant agreement with Malaysian retailer, SOGO, evidences the Company’s core strategy. Positioning IOUpay’s premium brand values alongside retailers such as this leading department store operator is a natural fit and opens opportunities to leverage innovative product development into SOGO’s large community of loyalty card members.

The Company’s regional commercial development plan continues its success with quality merchants being acquired who actively engage in promotion of myIOU, increasing sales volumes and raising brand awareness. The momentum established is expected to continue through the June quarter (Q4 FY22).

The Company’s focus on quality merchants with the capacity to deliver value is being maintained through its rigorous processes of identification, assessment and approval, followed by ongoing review and active account management. Appropriate resourcing will continue to be applied across the business processes to

ensure merchants and partners align with the Company's values, and to optimise value creation and customer experience.

The release of myIOU 2.0 has delivered immediate benefits, further streamlining the merchant and consumer experience, as evidenced by engagement and activity levels for new and existing customers. A comprehensive marketing and advertising campaign is underway to capitalise on the release for optimal growth and value generation. Efficiency benefits are expected through various technology enhancements including via the introduction of mobile software development kits.

Cross marketing to IDSB's high credit quality customers is set to kick-off with a pilot programme being developed. Settlement of the second tranche of the IDSB transaction in the June quarter will double the Company's share of any future dividend distributions. The growing working relationship between the complementary businesses of IOUpay and IDSB is well-positioned to foster development of additional mutually beneficial new business opportunities.

The Company's Mobile Banking business division now has the benefit of improved infrastructure of greater capacity and is ready to accommodate anticipated further growth in transaction volumes from existing and potential new customers. The recent uptick in transaction flow is a positive indicator and the potential to leverage improved infrastructure capacity into new client acquisition positions the business to increase its share of this market.

The release of this announcement was authorised by the Board of the Company and released by the Company Secretary.

Yours faithfully,

**IOUpay Limited**

**(Aaron) Lee Chin Wee**  
**Chairman & Executive Director**

**Media Enquiries:**

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**About IOUpay (ASX:IOU):**

IOUpay Limited (ASX:IOU) provides fintech and digital commerce software solutions and services that enable its institutional customers to securely authenticate end-user customers and process banking, purchase and payment transactions.

The Company's core technology platform enables large customer communities to connect to end user customers using any mobile device and integrate mobile technology throughout their existing business and customer product offerings. The Company's business divisions consist of Mobile Banking and Digital Payments which service leading banks in Malaysia and large telcos and corporates in Malaysia & Indonesia. IOUpay also works with telecommunication network providers to provide mobile OTT (over-the-top) services that leverage their subscriber base to build active communities.

**Forward Looking Statements**

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward-looking words such as "believe", "expect", "estimate", "will", "may", "target" and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the expected outcome of the acquisition. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of IOUpay and cannot be predicted by IOUpay and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which IOUpay operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of IOUpay or any of its subsidiaries, advisors or affiliates (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement or any outcomes expressed or implied in any forward-looking statements. Statements about past performance are not necessarily indicative of future performance.