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ASX Announcement

## September 2021 Quarterly Report & Business Activity Update

### Highlights

- **Uptake of BNPL service offering continues to accelerate with myIOU BNPL transactions completed in the September Quarter (1 Jul to 30 Sep):**
  - **\$6,571,327 in Total Transaction Value has been transacted; delivering,**
  - **\$492,124 in Net Transaction Revenues;**
- **Growth in Consumer and Merchant sign ups (since mid-June launch), approval and onboarding:**
  - **2,311 merchants now onboarded (up 182% since 30 Jun)**
  - **946 merchants system activated and listed on myIOU (up 645% since 30 Jun)**
  - **16,999 consumer downloads of myIOU (up 914% since 30 Jun)**
  - **4,806 consumer activated accounts (up 968% since 30 Jun)**
- **Numerous new merchant relationships including with sector and product brand leaders – Senheng, Gintell & Hewlett Packard;**
- **Razer Merchant Services (“RMS”) testing now successfully completed, pilot group of merchants going live in November;**
- **IOUpay to acquire 42% of I.Destinasi Sdn Bhd (“IDSB”), one of Malaysia’s leading providers of long term instalment based consumer credit services with significant upside for IOUpay to cross-sell its BNPL service offering;**
- **Digital Marketing Strategy launched including social media influencers to build brand awareness and customer acquisition;**
- **COVID-19 Environment Update – Malaysia economy now opening up, infield activities to focus on the on-boarding and in-field support for merchants and consumer acquisition**

IOUpay Limited (ASX:IOU) (**‘IOUpay’** or **the Company**) has released its Appendix 4C today and the Board of Directors are pleased to provide this Quarterly Report & Business Activity Update for the period ended 30<sup>th</sup> September 2021.

## BNPL Business Update

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

Values for Period	1 July – 30 September 2021
Total Transaction Value <sup>1,3</sup>	\$6,571,327
Net Transaction Revenue <sup>2,3</sup>	\$492,124
myIOU Income Margin <sup>4</sup>	7.5%
Cumulative Totals as at	30 September 2021
Merchants Signed	2,588
Merchants Onboarded	2,311
Merchants System Active	946
Consumer Downloads	16,999
Consumers Onboarded	12,145
Consumer Account Activations	4,806

- Note:
1. Total Transaction Value (TTV) means total value of purchases made by myIOU customers
  2. Net Transaction Revenue (NTR) means TTV less the amounts paid to merchants
  3. All amounts in AUD, assumed MYR/AUD exchange rate 3.05 using RBA sourced reference
  4. myIOU Income Margin means NTR as a percentage of TTV

The uptake of myIOU during the first full quarter of operation since the mid-June launch of its flagship BNPL service offering has been strong given the highly restrictive COVID-19 MCO lockdown conditions keeping households at home and the vast majority of Malaysia's merchants storefronts closed. Despite these conditions the Company's business development and merchant services teams have been active signing, onboarding and activating record numbers of new merchants to the myIOU ecosystem many of whom have been forced to remain closed until October.

There are now in excess of 1,000 merchants that are system active on the myIOU platform across twenty industry verticals with more than 1,500 signed as at 30<sup>th</sup> September still to be activated. Variety and choice in shopping experience with myIOU continues to grow as new partnerships with big brands are on-boarded.

Net Transaction Revenue ("NTR") of \$492,124 on Total Transaction Value (TTV) of \$6,571,327 for the quarter reflects stronger than anticipated margins across a range of industry sectors with a myIOU Income Margin for the quarter of 7.5%.

Successful implementation of the Digital Marketing Strategy ("DMS") with the rollout of the portfolio of social media influencers is driving online engagement with myIOU, resulting in significant growth in consumer downloads, onboarding and activation.

### Senheng - New Merchant Relationship

During September the Company welcomed Senheng Electric (KL) Sdn Bhd to the myIOU ecosystem as a merchant operating 104 consumer electrical and electronics stores across Malaysia. Founded in 1989 by the Lim brothers, Senheng is one of the leading consumer electronics chain stores in Malaysia.

Onboarding was completed during September. All Senheng stores including the larger flagship premium senQ stores went live on the myIOU platform as at 1<sup>st</sup> October 2021 in advance preparation for an IOUpay-Senheng collaborated promotion in conjunction with the launch of Apple's new iPhone 13 a week later.

### **Gintell – New Merchant Relationship**

Also during September, the Company welcomed Gintell (M) Sdn Bhd to the myIOU ecosystem as a merchant operating 101 health & wellness outlets across Malaysia. Gintell was established in 1996 and has more than 130 outlets across South East Asia with a product range encompassing fitness equipment, massage chairs and appliances, and beauty products.

Gintell's Malaysia outlets are planned to go live on the myIOU platform during October.

### **Hewlett Packard – New Merchant Relationship**

In August, the Company established a collaboration arrangement with Hewlett Packard ("HP") in Malaysia. Through the collaboration, 17 of HP's largest principal dealers have signed up as myIOU merchants covering 59 separate HP outlets.

A special marketing campaign has been implemented to introduce myIOU BNPL service availability and feature HP during October and into November.

### **Razer Merchant Services ("RMS") Update**

In the Company's June Quarterly Report and Business Activity Update announced on 29<sup>th</sup> July 2021, it reported that testing of integration between RMS and IOUpay systems was expected to be completed by early August. Due to the impact of continued MCO level 4 lockdown conditions in Malaysia, the timetable for testing was extended.

The RMS Quality Control & Implementation team has now completed integration testing with training of RMS internal and sales staff scheduled for early November.

With testing completed, a pilot group of merchants is currently being prepared to go live during November with full implementation to be activated on a timetable to be scheduled with RMS.

### **iPay88 Update**

On 2<sup>nd</sup> March, the Company announced it had signed a Merchant Referral Agreement with iPay88 (M) Sdn Bhd ("iPay88") to refer and acquire merchants to onboard and utilise IOUpay's myIOU BNPL payment service offering. System integration scoping has been significantly delayed due to COVID-19 MCO imposed restrictions beyond the control of either party. With the economic recovery alongside the easing of restrictions for fully vaccinated people in the country, commercial activities are planned and are expected to be finalised in the next quarter after successful system integration and testing.

## **4C Cashflow Analysis**

Receipts from customers increased to \$1,959,000 on a net operating cash outflow of \$7,710,000 reflecting the growth of the Company's BNPL activities which saw \$5,517,000 paid out to merchants for BNPL transaction purchases.

This net cash outflow figure includes product and manufacturing costs of \$1,501,000 (down from \$1,553,000 last quarter); these being the core telco costs of the Mobile Banking business division. Staff costs of \$687,000 rose by 43% from \$479,000 with the Company boosting staff levels by 38% from 60 as at 30<sup>th</sup> June to 83 as at 30<sup>th</sup> September with the largest additional resourcing being in the business development, account management and merchant services teams to accommodate the increase in BNPL business volumes and operational support required. Advertising and Marketing costs also increased to \$608,000, however approximately half of this consists of prepayments for six months of outdoor billboard campaign and influencer costs in exchange for heavily discounted pricing producing a normalised figure of \$450,000 per quarter or \$150,000 per month.

Factoring the BNPL merchant payouts into a normalised net operating cashflow produces a net outflow of \$2,193,000 for the quarter compared to \$1,714,000 reported last quarter.

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 Revenues which is not provided in the 4C Cashflow and therefore reported separately in the BNPL Business Update.

The Company had \$39,515,000 in cash and call deposits as at the end of the Quarter, however this amount is after deducting the \$5,517,000 paid out to merchants to come back as part of customer BNPL instalments and a 10% refundable holding deposit of \$4,191,000 (item 2.1 (b) of the Appendix) for the IDSB transaction. The \$5,517,000 merchant payout 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 no non-performing loans.

The Company's Mobile Banking division has continued to grow with transaction levels up to a record 85,385,966 transaction events, up from 79,736,191 in the previous quarter. Consistent with the June Quarterly Report the Company's Mobile Banking revenues are steadily increasing however this growth is not completely reflected in Receipts from Customers due to the payment terms with the banks and other mobile banking customers extending from 30 days to 90 days during the extended MCO period.

Total payments to Directors and their nominated entities for the quarter was \$142,000 as set out in item 6.1 of the Appendix.

The Company received interest income of \$475,000 from its call and interest-bearing deposit accounts.

### **IDSB Investment**

On the 9<sup>th</sup> September 2021 the Company announced that it had executed binding documents to acquire 42% of the total issued capital of I.Destinasi Sdn Bhd ("IDSB") for cash consideration of RM126 million paid 50% upfront and 50% payable in approximately six months.

Settlement is pending completion with one remaining condition precedent expected to be satisfied in November at which point the first tranche payment for 50% of the purchase price will be made.

IDSB is a private company incorporated in Malaysia in 1981, which operates a financial services business focusing on providing instalment based consumer credit services to civil servants for and on behalf of Malaysian banks. The investment in IDSB represents a non-controlling interest in a uniquely and strategically aligned business with IOUpay.

The investment will not see any merger of operations directly or indirectly. Both companies have distinct and complimentary service offerings and business models with different financial, human and technical resources.

### **AG Code Licence**

In 2013, IDSB was granted, by the Ministry of Finance, an Accountant General Salary Deduction Code ("AG Code") which allowed IDSB to deduct salaries of civil servants directly at the paymaster source and put IDSB salary deduction capability on par with that of Malaysian public service payroll processor ANGKASA. This AG Code license is one of only two in Malaysia (the other being held by ANGKASA).

The ability to deduct instalment payment obligations directly from the customers' salaries at source, prior transfer to the customer, is a valuable asset of IDSB as a provider of unsecured term finance (without effectively taking credit risk). The AG Code licence is not held by the retail trading banks, providing a significant competitive advantage to IDSB in the consumer credit market.

### Prospective Value-Added Benefits

The relationship between IOUpay and IDSB as a result of the investment may allow IOUpay to explore the following collaboration opportunities:

- i. Cross-selling/marketing opportunities for the businesses of both IOUpay and IDSB (who provide non-competing services to overlapping or common customers). Each business will have the ability to offer their shorter vs longer term facilities to each other's customers.
- ii. Prospective growth via the creation of all-of-bank customers for IOUpay. The investment presents a unique strategic opportunity for IOUpay to secure IDSB bank customers for their BNPL service offering.

### 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.

Business Activity	31 December 2019	31 December 2020	30 September 2021
Active Loan Accounts <sup>5</sup>		27,136	35,996
Loan Balances Outstanding <sup>6,7</sup>		A \$615,633,115	A \$897,753,115
Financial Performance <sup>7,8</sup>	FY2019	FY2020	30 September 2021 <sup>9</sup>
Total Revenue	A \$8,572,430	A \$6,851,977	A \$7,864,066
Profit Before Tax	A \$6,256,716	A \$3,705,041	A \$5,274,682

- Note:
5. Loan Accounts are originated and managed by IDSB for its partner bank lenders
  6. Loans are funded by partner bank lenders who take consumer counterparty credit risk
  7. The dollar values in the table above are shown in AUD, having been converted from MYR assuming an MYR/AUD exchange rate of 3.05, using an RBA sourced reference
  8. IDSB uses a financial year ending 31 December
  9. Revenue and profit figures are shown for the 9 months to 30 September 2021.

The 2020 figures reflect the impact of the COVID-19 pandemic on IDSB's business in particular the Malaysian Government introduced six-month loan moratorium that allowed consumers and SME's to postpone paying any monthly personal loan, mortgage, car loan or business loan from 1<sup>st</sup> April 2020.

This effectively provided only three months of normal operating conditions for 2020, in which time IDSB secured a second bank loan processing collaboration agreement with Affin Islamic Bank Berhad ("Affin Bank") adding to its existing agreement with RHB Bank Islamic Berhad signed in 2010.

In line with IDSB's expectation for the Affin Bank business to reach the size of its RHB business within three years, IDSB's business volumes for the first six months of 2021 consistently performed on track to reach its \$10m Profit Before Tax target benchmark under the Share Purchase Agreement signed with the Company despite the COVID-19 MCO level 4 lockdown restrictions. However, a second six-month loan moratorium was subsequently imposed from 7<sup>th</sup> July 2021 disruption around which has been added to with the recently announced Bank Negara Malaysia ("BNM") temporary national suspension of the access of all credit reporting agencies to the Central Bank's Central Credit Reference Information System ("CCRIS") announced on 1<sup>st</sup> October due to potential cyber threats and data leaks.

The public listed service provider of BNM's CCRIS platform, CTOS Digital Berhad ("CTOS") has since highlighted its commitment to fulfil the conditions in order for the suspension to be uplifted providing IDSB with a resumption to normal operating conditions.

These conditions have seen a temporary slowdown in processing capabilities with credit checks having to be manually processed instead of online, while actual loan application numbers remain strong with a growing backlog of applications which can be expected to be added to the monthly volumes for the remainder of 2021 once the CCRIS system service is resumed.

Pricing adjustments to the investment due to any variations to the profit target benchmark are accommodated for under the Share Purchase Agreement.

### **Accounting Treatment**

The investment in IDSB will be accounted for as an investment in an associate under AASB12 and AASB128, using the Equity Method.

The Company's share of IDSB's profit / loss will be presented as a separate line item (being "share of profit / loss from associates") as distinct from the Company's primary operating profit / loss (in accordance with all relevant accounting standards). This will provide IOUpay shareholders and the market with clear visibility of the financial impact of the investment.

### **Digital Marketing Strategy Launched**

In the BNPL Business Offering & Operational Update of 19<sup>th</sup> August, the Company announced that it has implemented a sophisticated Digital Marketing Strategy ("DMS") that targets key cultural demographic groups throughout Malaysia. A portfolio of social media influencers has been developed with fourteen selected individual influencers who have significant followings and alignment with the Company's brand values to drive awareness in and engagement with the myIOU service offering.

The portfolio of influencers is being actively managed with data analysis used to measure performance and for the purposes of shaping campaign initiatives. Social media influencer campaign content is being deployed across a variety of platforms and channels targeting specific communities of consumers and merchants that the Company believes will benefit from and engage most with its myIOU BNPL services.

The Company's portfolio of social media influencers and Yuna (as the 'Face of myIOU') provide an aggregate reach in excess of ten (10) million followers (based upon number of followers for each channel for each influencer). Since 1<sup>st</sup> August, the Company's influencers have been engaging with Malaysian consumers and merchants with unique, localised and engaging content and myIOU awareness campaigns.

The consumer market response has been immediate and productive with myIOU uptake generated in the respective community groups targeted.

### **Brand Ambassador and "Face of myIOU" Announced for Launch of DMS**

In the BNPL Business Offering & Operational Update of 19<sup>th</sup> August, the Company announced the signing of award-winning international singer-songwriter, Yuna, as the 'Face of myIOU'.

This announcement marked a significant achievement for the Company as it rolls out a sophisticated, targeted digital marketing strategy across Malaysia, where the myIOU BNPL service has been launched.

With over a million followers on social media, Malaysian born Yuna is one of South East Asia's biggest success stories having entered the music industry after completing her legal studies at the Faculty of Law of Universiti Teknologi MARA in Shah Alam, Kuala Lumpur graduating with a Bachelor of Legal Studies (Hons.) (2009).

Achieving top 10 US Billboard Chart success and collaborating with major international recording artists including Pharrell Williams and Usher, Yuna's success story continues to grow after initially breaking through to Malaysian and international audiences through social media platforms. Yuna enjoys a wide reach and connection to her followers across the South East Asia region with her representation for some of the Malaysia's big brands and is supporting the Company's objectives to grow its user base and connection with local businesses and consumers.

Through this partnership, Yuna is representing the brand as an opinion leader of myIOU through campaigns and promotional activities across online and offline media platforms.

### **New Senior Executive**

A new senior executive appointment has been made with Susan Ng to the role of Regional Commercial Officer (RCO) commencing 1<sup>st</sup> October.

**Susan Ng** (RCO) brings 20 years of sales & marketing experience in banking & financial services in Malaysia and China. Her appointment expands key account and commercial management capabilities of the Company, particularly with respect to merchant acquiring and strategic partner relationships. Ms Ng will work alongside Mr Christopher Kok as RCO's responsible for business development in distinct geographical areas.

In her previous role with Alliance Bank Malaysia from 2017 until 2021, Ms Ng was Merchant Head reporting to the CEO and Group SME Head. In this position, she was responsible for all aspects of the bank's merchant acquiring business from strategy, business development and financial performance to personnel, technology, compliance and risk management. As product owner, she managed various product development innovations and strategic marketing initiatives including infrastructure enhancement and integration of large merchants.

From 2014 to 2017 Ms Ng held leadership positions with United Overseas Bank Malaysia working in merchant acquiring to develop and implement strategic plans and marketing initiatives to acquire, grow and retain merchant business volumes. During this time, Ms Ng built and led successful merchant acquiring teams that delivered significant sales and revenue volumes as well as prominent merchant relationships to the bank.

Ms Ng holds a Bachelor of Business Administration (Marketing) from the University of Hertfordshire, United Kingdom (2001).

Ms Ng's subject matter expertise and current market relationships in key account merchant acquisition, business development and marketing add significant strength to the Company's ability to continue to secure the BNPL volumes of many of Malaysia's largest brands and customer communities.

### **Other Update Items**

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

In August, the Company began 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. Following the review, an external specialist design firm was engaged to provide design and performance advice and commence development work with IOUpay's technology and marketing teams.

The objective is enhancement of the UI/UX design including:

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

Production work is well-progressed with an expected launch for myIOU 2.0 during Q1 2022.

### **Territory Expansion**

With travel restrictions positioned to improve in the coming quarter the Company has resumed plans to progress new SEA territory expansion opportunities and will report on commercial arrangements as they develop.

### **COVID-19 Environment**

On 15<sup>th</sup> June, the Malaysia Government introduced a phased National Recovery Plan (“NRP”) based upon regional satisfaction of certain vaccination and caseload milestones. During August and through September, various restrictions began to be relaxed, allowing economic activity to increase. On 1<sup>st</sup> October, the major population and economic centres of Kuala Lumpur and Selangor moved to Phase 2 of the NRP allowing inter-district travel and some further relaxation of restrictions.

During the fourth quarter, the 13 states and territories of Malaysia are expected to move into Phase 4 of the NRP as vaccination rates continue to push towards 90% and subject to satisfactory caseload indicators (e.g. daily new cases & ICU bed usage). Under Phase 4, it is expected there will be no gathering limits and that all economic sectors will be reopened.

As the economy opens up and travel restrictions are eased, the Company expects to further accelerate onboarding & activation of new merchants. The Company is now focused on expanding business development activities into selected Malaysian regional economic centres including Penang, Johor Bahru, Sabah and Sarawak and is implementing various in-field marketing and merchant service initiatives to support this merchant and customer acquisition plan.

### **Outlook**

The Company secured numerous key partnership opportunities in the lead up to the June 15 launch of myIOU and more recently during the September Quarter which position the BNPL business volumes for a phase of accelerated growth now that the COVID-19 MCO level 4 lockdown restrictions have been lifted in key cities and regional areas. With the distribution networks of Senheng, Gintell, Hewlett Packard, Razer Merchant Services (RMS) now onboard the outlook for the Company’s BNPL business volumes are set to further strengthen.

The Company continues to focus on achieving its growth and quality objectives through building its big brand merchant networks on our platform, targeted community product offerings and engagement through digital marketing and influencer based campaigns and increasing customer activity levels through tailored myIOU BNPL spending limits and merchant campaigns. The release of myIOU 2.0 will further streamline merchant and customer experience designed to deliver further operating efficiencies and BNPL activity levels for new and existing customers.

Resourcing will continue to expand in business development and account management, merchant and customer services and credit and risk teams to service the growth in business volumes and continue the best-in-class SEA positioning the Company has created.

The outlook for the Company's Mobile Banking Division continues to remain strong with transaction levels rising from both new and existing customers.

Completion of the IDSB investment further adds to the Company's outlook for strong financial growth directly through its cross marketing and customer acquisition opportunities as well as potential for future dividends.

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

Yours faithfully,

**IOUpay Limited**

**Jarrod White**  
**Company Secretary**

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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.