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ASX Announcement

December 2021 Quarterly Report & Business Activity Update

Highlights

- **Uptake of BNPL service offering continues with increased margins on myIOU BNPL transactions completed in the December Quarter (1 Oct to 31 Dec):**
 - **\$6,082,024 in Total Transaction Value has been transacted; delivering,**
 - **\$611,048 in Net Transaction Revenues;**
- **Positive adjusted Net Operating Cashflow – for the first time since product launch – positive \$1.20m after adding back \$5.26m payments to BNPL merchants that form part of BNPL receivables;**
- **Continued growth in Consumer and Merchant sign ups (since mid-June launch), approval and onboarding:**
 - **2,987 merchant outlets now onboarded (up 29% since 30 Sep)**
 - **1,536 merchant outlets activated and listed on myIOU (up 62% since 30 Sep)**
 - **39,422 consumer downloads of myIOU (up 132% since 30 Sep)**
 - **10,989 consumer activated accounts (up 129% since 30 Sep)**
- **Merchant acquisition across industry verticals and into regional Malaysia is driving significant growth trend in consumer onboarding and activation;**
- **Razer Merchant Services (“RMS”) now into full implementation phase following successful completion of integration testing, sales training and pilot;**
- **Update on IDSB completion and settlement process of acquisition;**
- **COVID-19 Environment Update – restrictions easing and economy reopening.**

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 31st December 2021.

BNPL Business Update

TTV¹ and NTR² Performance Metrics

Values for Period	1 October – 31 December 2021
Total Transaction Value ^{1,3}	\$6,082,024
Net Transaction Revenue ^{2,3}	\$611,048
myIOU Income Margin ⁴	10.0%
Cumulative Totals as at	31 December 2021
Merchant Outlets Signed	3,400
Merchant Outlets Onboarded	2,987
Merchant Outlets System Active	1,536
Merchant Relationships System Active	704
Consumer Downloads	39,422
Consumers Onboarded	27,986
Consumer Account Activations	10,989

- 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 2.99 using an RBA sourced reference
 4. myIOU Income Margin means NTR as a percentage of TTV
 5. Merchant Outlets means discrete shopfronts, whether physical or online
 6. Merchant Relationships means business entities that may have multiple outlets

Net Transaction Revenue (“NTR”) of \$611,048 on Total Transaction Value (“TTV”) of \$6,082,024 for the quarter reflects stronger than anticipated margins across a range of industry sectors with a myIOU Income Margin for the quarter of 10.0%.

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. The rigorous assessment of quality and value is yielding results with NTR up 23% on the previous quarter despite a minor reduction in TTV.

There are now in excess of 1,500 merchant outlets that are system active on the myIOU platform across twenty industry verticals with more than 1,800 signed as at 31st December still to be assessed for activation. These active outlets represent the physical and online shopfronts of more than 700 merchant relationships from around Malaysia.

Merchant & Consumer Activation

As the local Malaysian economy opens up, merchant acquisition is increasing with business development personnel able to be more active in the field and engage with prospective merchants through in-person marketing and account management calls. This includes dedicated sales staff operating in regional Malaysia under the Company’s regional commercial development plan.

During the December quarter, more than 200 merchant relationships operating over 500 outlets around Malaysia have been added to the myIOU platform. New merchants have been added to almost every industry vertical category. Key industry verticals with numerous merchants added since 30th September include: Electronics & Gadgets (93 merchants with 282 outlets); Automotive (43/102); Beauty & Wellness (29/100); and, Home Living (42/141).

Note that the ‘Electronics & Gadgets’ vertical includes electrical goods, electronics, information technology and electrical gadgets. These had previously been allocated between two separate categories.

Notable businesses amongst these new merchant relationships include the following electrical stores from regional Malaysia (outside Kuala Lumpur & Selangor): Wah Lee Chain Store Sdn Bhd, Darson Electronics Sdn Bhd, Star Electronics Sales and Services Sdn Bhd, and Surai Jerai Electrical Sdn Bhd.

Other notable businesses and brands welcomed to the myIOU ecosystem during the period include Advanced Apotheke Sdn Bhd (Jurlique), Brightstar Computer Sdn Bhd (including Dell & Lenovo), Box of Bricks Sdn Bhd (Lego), Five Star Fitness Sdn Bhd (trading as Star Fitness) and Petsmore Sdn Bhd (specialising in pet products).

As shopping choice expands with many new merchants added across industry verticals and physical store locations throughout the country, consumer engagement with myIOU has continued a significant growth trend reported in November. Consumer app downloads, onboarding and account activation metrics are all up by circa 130% since Q1 FY22. This growth also correlates with the Government's easing of COVID-19 restrictions, the Company's ongoing Digital Marketing Strategy and various promotional campaigns.

Razer Merchant Services ("RMS") Update

Following successful completion of systems integration testing by the RMS Quality Control & Implementation team, training of RMS internal and sales staff on the myIOU platform was conducted by the IOUpay Merchant Services team and completed at the end of October. During November, a pilot was selected to "go live" with the myIOU BNPL offering.

The Company has now moved to full implementation with RMS to send batches of merchants for review and acceptance by IOUpay. As at the date of this report, the Company had completed its review of the initial batch and approved more than 140 merchants for onboarding by RMS so that those approved merchants will offer their customers the option of funding purchases using myIOU when they go to the 'checkout'. Onboarding of approved merchants from the initial batch is expected early February.

iPay88 Update

The Company's September Quarterly Report and Business Activity Update announced 29th October 2021 advised that commercial activities with iPay88 (M) Sdn Bhd were expected to be finalised in the December quarter. Due to ongoing negotiation of commercial terms and operational details, this has been delayed. The Company now expects resolution of terms by end of the current March quarter.

Once commercial terms and operational details are finalised, then systems integration and testing will be performed with expected completion during Q4 FY22.

4C Cashflow Analysis

Receipts from customers increased to \$6,087,000 reflecting growing instalment receipts from BNPL transactions. The net operating cash outflow of \$4,061,000 is derived after paying out \$5,262,000 to merchants for BNPL purchases during the period.

This net cash outflow figure includes product and manufacturing costs of \$1,627,000 (up from \$1,501,000 last quarter); these being the core telco costs of the Mobile Banking business division. Staff costs of \$890,000 rose by 30% from \$687,000 with the Company boosting staff levels across the group by 60% from 83 as at 30th September to 133 as at 31st December with the largest additional resourcing being in the business development, account management, merchant services, operations and credit teams to accommodate the increase in BNPL business volumes and operational support required.

Advertising and Marketing costs of \$523,000 notionally decreased by 14% from \$608,000, however the previous quarter included pre-payment of advertising and influencer costs for six months in exchange for heavily discounted pricing. After adjusting the September quarter for the pre-payments, the December quarter shows an increase of approximately 16% reflecting the growth of the Company's BNPL activities.

Administration and corporate costs of \$2,000,000 rose by 22% from \$1,635,000 reflecting overall growth of the Company plus costs associated with the IDSB investment.

Factoring the BNPL merchant payouts into net operating cashflow produces a positive net inflow of \$1,201,000 for the quarter compared to an effective net outflow of \$2,193,000 reported last quarter. This is the first time since product launch that the Company has produced a positive quarterly effective operating cashflow.

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 \$15,384,000 in cash and call deposits as at the end of the Quarter, however this amount is after deducting the \$5,262,000 paid out to merchants to come back as part of customer BNPL instalments and does not include a holding deposit of approximately \$3,177,000 (being RM9,500,000) for the IDSB transaction. The \$5,262,000 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 no non-performing loans.

The Company's Mobile Banking division produced 77,593,345 transaction events, down from 85,385,966 in the previous quarter. This reflects temporary system down time during upgrade and transition to a new data centre with larger capacity infrastructure capabilities to accommodate expected future growth in transaction volumes. Consistent with the September Quarterly Report, the Company's Mobile Banking revenues are 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 and yet to return to pre-COVID norms.

Total payments to Directors and their nominated entities for the quarter was \$163,000 as set out in item 6.1 of the Appendix.

The Company received interest income of \$208,000 from its call and interest-bearing deposit accounts.

IDSB Investment

The Company announced on 9th September 2021 that it was acquiring 42% of the total issued share capital of I.Destinasi Sdn Bhd ("IDSB") for a purchase price of RM126 million (~A\$42.1 million ⁹) ("Purchase Price").

On the 1st December 2021 the Company announced confirmation that all conditions precedent to completion of the first tranche of the investment in IDSB had been satisfied facilitating settlement of the first tranche payment for 50% of the Purchase Price ("Settlement"). The first tranche payment of RM63 million (~A\$21.1 million ⁹) was funded from existing cash holdings.

The second tranche of the investment for the remaining 50% of the Purchase Price is payable by the later of completion of the audit of IDSB's FY21 statutory accounts or six (6) months after Settlement (with the Company having the right to bring forward the second tranche if it wishes).

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

In the meantime, the Company has been working closely with IDSB management to establish reporting protocols, build operational interaction and develop inter-company staff working relationships. Planning is well underway for a pilot programme marketing 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.

Business Activity	31 December 2019	31 December 2020	31 December 2021
Active Loan Accounts ⁷		27,136	36,323
Loan Balances Outstanding ^{8,9}		A \$627,987,000	A \$774,247,000
Financial Performance ^{9,10}	FY19	FY20	FY21 ¹¹
Total Revenue	A \$8,744,452	A \$6,989,475	A \$10,357,380
Profit Before Tax	A \$6,382,269	A \$3,779,390	A \$6,747,021

- Note:
7. Loan Accounts are originated and managed by IDSB for its partner bank lenders
 8. Loans are funded by partner bank lenders who take consumer counterparty credit risk
 9. The dollar values in the table above are shown in AUD, having been converted from MYR assuming an MYR/AUD exchange rate of 2.99, using an RBA sourced reference
 10. IDSB uses a financial year ending 31 December
 11. Revenue and profit figures for FY21 are based on un-audited management accounts

As the Company reported in its September 2021 Quarterly Report announced 29th October 2021, 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.

These operating conditions during the first half of the December quarter saw a temporary slowdown in processing capabilities with credit checks having to be manually processed instead of online. The temporary suspension was lifted and access to the Central Credit Reference Information System resumed during November.

Purchase Price Adjustment

As part of the negotiations, the Company was able to negotiate a purchase price adjustment in the event that there was more than a 10% variance to the RM30 million Profit Before Tax ("PBT") threshold for the FYE 31st December 2021 (FY21).

In the situation where there is more than a 10% variance then the Adjusted Purchase Price will be calculated as 10 x PBT for FY21, with the total variance to the Purchase Price adjusted against the second tranche payment as a net reduction.

Based upon the unaudited management accounts for FY21, the Company expects there to be an adjustment to the Purchase Price and a reduction in the amount of the second tranche payment. The actual amount of the variance in PBT and hence the corresponding reduction in the value of the second tranche payment will be determined once IDSB's audited statutory accounts are available.

Formula for Calculation of Purchase Price Adjustment:

- Adjusted Purchase Price ("APP") = 10 x PBT (for FY21 based on audited accounts)
- Total amount payable = 42% x APP
- Second tranche payment = Total amount payable less first tranche payment
= 0.42 x 10 x PBT minus RM63m

The Company will assess its cash position and the market closer to the due date for the second tranche payment and make a decision on how to fund that payment at that time.

Note that the Company paid a refundable holding deposit (being 10% of the Purchase Price) which is being held in escrow pending completion of the transaction. The deposit is currently RM9.5m (~A\$3.2m⁹) following a partial refund after the first tranche payment and will be fully refunded following completion of the second tranche payment.

Accounting Treatment for IDSB Investment

As previously announced, 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.

Other Update Items

Customer and Merchant App & Website Enhancements - myIOU 2.0

In the September Quarterly Report, the Company reported having 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.

Production work remains on schedule for an expected launch of myIOU 2.0 during Q3 FY22.

Supplementary Annual Report Disclosure

In the Company's 2021 Annual Report announced to the market 30th September 2021, the schedule on page 61 showing Distribution of Shareholders Number as at 24 September 2021 omitted the total percentage of securities held by holders in each category. Following is the complete schedule as required under ASX Listing Rule 4.10.7.

1. Shareholding Information

a. Distribution of Shareholders Number as at 24 September 2021

	Number of ordinary shares	Number of holders	Percentage of holding *
1 - 1,000	1,892,952	2,353	0.34
1,001 - 5,000	22,527,942	8,448	4.09
5,001 – 10,000	26,487,372	3,365	4.80
10,001 – 100,000	163,846,773	5,163	29.71
100,001 and over	336,657,026	791	61.05
	<hr/> 551,412,065	<hr/> 20,120	<hr/> 100.00

* Rounded to two decimal places.

COVID-19 Environment

During October and early November, nearly all states, territories and major economic centres 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.

On 10th October, all interstate and international travel restrictions for fully vaccinated residents were lifted as the required vaccination threshold of 90% of the adult population had been reached.

On 28th December 2021, the travel bans on incoming movements from various Southern Africa nations were lifted, indicating an acceptance that the Omicron variant of the SARS-CoV-2 virus was already established in Malaysia. On 3rd January 2022, Sarawak and Kelantan moved to Phase 4 of the NRP, marking the end to interstate movement restrictions within Malaysia.

With economic re-opening and interstate travel permissions, the Company deployed a dedicated Regional Commercial Officer to develop the regional areas outside of the Klang Valley central economic hub encompassed by Kuala Lumpur and Selangor. Business development operatives have been employed and calling programmes implemented with immediate success evidenced by the numerous merchant relationships established (particularly in the electrical goods sector).

International travel in the region remains problematic with relationships still needing to be managed remotely via telephone and video conferencing. The travel situation continues to restrict progress with territory expansion initiatives for which face-to-face contact is essential when developing relationships across the varied cultures of South East Asia.

Outlook

During the December Quarter, as Malaysia moved into Phase 4 of its National Recovery Plan, the Company accelerated acquisition of merchant relationships into the myIOU community. Successful implementation of the Company's regional commercial development plan has significantly contributed to growth, and the momentum established into 2022, along with execution of key partnership opportunities, positions the Company to further deepen its myIOU product coverage in Malaysia.

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.

Relationships with quality partners who manage large communities of high value merchants and consumers is a core focus of the Company's strategy and continues into the second half of FY22. The Razer Merchant Services partnership has now moved into full implementation which, along with other key partnership opportunities including iPay88, augurs well for continued strong growth in merchant and consumer acquisition.

The momentum established in merchant acquisition across industry verticals and throughout regional Malaysia has been an important foundation for building brand awareness and growing the myIOU user base. The Company continues to leverage its community of merchants into acquisition of new consumers utilising targeted community promotions and digital marketing and influencer campaigns.

The release of myIOU 2.0 in Q3 FY22 will further streamline the merchant and consumer experience, and is designed to deliver additional operating efficiencies and activity levels for new and existing customers. A comprehensive marketing and advertising campaign is planned to capitalise on the release for optimal growth and value generation.

Settlement of the IDSB investment in the December Quarter strengthens the Company's prospects for financial growth through cross-marketing opportunities and customer acquisition for myIOU from IDSB's high-quality customer base, along with participation in potential future dividends.

The Company's Mobile Banking Division continues to perform and with improved infrastructure of greater capacity is ready to accommodate anticipated further growth in transaction volumes.

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

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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 provided 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.