



IOUPAY LIMITED (ASX: IOU)
(ACN 091 192 871)

Suite 305, Level 3, 35 Lime Street,
Sydney NSW 2000
Tel: (02) 8296 0000
Website: www.iou-pay.com

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ASX Announcement

IOUpay to Acquire 42% of I-Destinas Specialised Malaysian Finance Company

Highlights

- IOUpay to acquire 42% of I.Destinas Sdn Bhd (“IDSB”), one of Malaysia’s leading providers of long term instalment based consumer credit services;
- Investment of RM126 million (~A\$41.3 million¹) to be paid in two tranches over a six month period (with the option to accelerate the second tranche);
- IDSB is a complementary business with IOUpay with prospective collaboration opportunities for cross-selling between IOUpay’s short term (up to 6mths) BNPL offering and IDSB’s longer term (10 yrs) consumer loan products;
- IDSB holds a unique and highly valuable AG Code² licence (1 of only 2 in Malaysia) providing a significant competitive advantage to IDSB in the consumer credit market in Malaysia;
- Purchase price does not change if IDSB outperforms an audited Profit Before Tax (PBT) target of RM30 million for FY 21 (noting IDSB has a 31 December 2021 FY end);
- Purchase price may be reduced in the event audited Profit Before Tax (PBT) is less than RM30 million (A\$9.8 million¹) for FY21 under a purchase price adjustment formula³; and
- Investment to be funded in two Tranches, Tranche 1 being 50% upfront from existing cash holdings, Tranche 2 being 50% due in six months (with the option to bring forward) will be funded as assessed to be appropriate closer to the time.

IOUpay Limited (ASX:IOU) (“IOUpay” or the Company) is pleased to announce that it has executed binding documents to acquire 42% of the total issued capital of I.Destinas Sdn Bhd (“IDSB”) for cash consideration of RM126 million paid 50% upfront and 50% payable no later than six months.

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 service offerings and business models with different financial, human and technical resources.

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- Note:
1. Assumed MYR/AUD exchange rate 3.05 using RBA sourced reference
 2. AG Code allows the deduction from civil servant salaries directly at source, granted by the Ministry of Finance, Accountant General
 3. Adjusted Purchase Price = 10 x PBT for FY21, but only where the variance in profit to RM 30m is > 10%

IDSB has significant credit management expertise and systems but does not effectively take credit risk, rather passing this on to its bank customers (RHB Islamic Bank Berhad (**RHB**) and Affin Bank) who also provide funding for each transaction.

As a result, IDSB acts as more of a specialist outsourced agent for banks for in-field origination, execution and settlement services generating upfront transaction fees and ongoing account management fees. IDSB does not generate interest rate spread income. Each bank provides funding for and assumes the credit risk of the customers they refer.

IDSB has a small portfolio of “direct” business (less than 10% of its total receivables), generating strong margins for instalment transaction processing and account management. Direct business is no longer being written and will run off naturally over the next two years.

Strategic Rationale

IDSB – One of Malaysia’s Largest Finance Companies

IDSB, formerly known as Arastu Sdn Bhd (“**Arastu**”), was incorporated in 1981. From 1981 to 2004, Arastu was a wholly owned subsidiary of Amanah Capital Malaysia Bhd (“**ACMB**”, a subsidiary of Permodalan Nasional Berhad “**PNB**”) until 2 May 2004.

PNB was established on 17 March 1978 as one of the instruments of the Malaysian Government’s ‘New Economic Policy’ and is one of the largest fund management companies in Malaysia. Arastu was renamed Ikhtiar Destinasi Sdn Bhd in 2004 and was shortened to I.Destinasi Sdn Bhd (“**IDSB**”) in 2009 as part of a corporate rebranding exercise.

The corporate timeline of IDSB as a finance company is representative of its size and growing relevance in the Malaysian financial sector particularly after being granted an AG Code Licence (see below) in 2013.

Leveraging from the corporate history of traditional consumer finance models in place at IDSB, IOUpay believes the investment in IDSB is highly attractive for the following reasons:

Servicing Banks

Both IOUpay and IDSB have a well-established history in servicing Malaysia’s largest banks, leveraging their expertise and resources to provide transaction services to bank customers. Each business intends to leverage its respective bank relationships to develop opportunities for each other.

Engagement with Merchant Networks

Both businesses engage with networks of merchants across Malaysia where approved customers purchase goods and services with finance facilities processed as non-interest bearing instalment plans. Cross pollination of business development opportunities between these networks is anticipated.

AG Code Licence

IDSB has always had an exclusive focus on providing its payment instalment facilities to government employees (or civil servants) who typically have long term stable employment and credit records, and have their salaries processed by the Malaysian Government civil servant payroll agency, ANGKASA.

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 ANGKASA.

This was a significant achievement for IDSB as it eliminated the risks of payment processing delays and the imposition of fees by 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.

Regulatory Oversight & Compliance

Both companies have secure, regular operations with Central Bank and retail bank audits and strict compliance obligations.

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.
- iii. Strategic process improvement opportunities for each business.
- iv. IDSB and IOUpay are well established companies with trusted businesses within the Malaysian banking industry. Partnering together should bring significant new revenue opportunities and help continue to build leadership brands.

IDSB Business Model and Key Metrics

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

Business Activity	31 August 2021
Active Loan Accounts (originated and serviced by IDSB)	37,573
Loan Balances Outstanding (bank receivables)	A \$851,680,739ⁱ

- i. 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. IDSB uses a financial year ending 31st December.

Ownership and Share Structure of IDSB

Dato' (Mr) Zainalabidin Bin Mohamed Husain has owned IDSB since 2004 when he purchased it from ACMB and was responsible for the renaming to Ikhtiar Destinasi Sdn Bhd in 2004 and subsequent shortening to I.Destinasi Sdn Bhd in 2009 as part of a corporate rebranding exercise.

In 2005, Datin (Mrs) Sri Farah Binti Abdul Malik was appointed director of IDSB.

Dato' Husain and Datin Malik are the directors and ultimate shareholders of IDSB.

About Dato' Husain

Dato' Husain, who is the executive chairman of IDSB, has a successful 30 year career in banking and finance in Malaysia. Dato' Husain graduated in 1986 with Bachelors of Science in Accounting from University of Minnesota, USA. He also holds a Master of Education degree in Management and Finance from Idaho State University, USA.

He spent 8 years at Arab Malaysian Merchant Bank – Credit Administration Division between years 1990-1998, ending his tenure as manager. In 1999, he joined Halim Securities as Head of Finance. In 2000, together with two former bankers, he started Ikhtiar Factoring Sdn Bhd (“**IFSB**”), a Bank Negara Malaysia (“**BNM**”) licensed scheduled factoring and leasing institution, assuming the post of Managing Director. In 2010 he sold all the shares in IFSB.

About Datin Malik

Datin Malik graduated in 1997 with a Bachelor of Arts in Law and Accounting with honours from Oxford Brookes University, U.K. She started her career as an internal auditor at Puncak Niaga (M) Berhad between 1997-1999. She went on to join Pejabat Ahli Parlimen WP Labuan as special assistant to the Member of Parliament between 2000-2005.

Pre-Investment Ownership

Current ownership of IDSB comprises:

- Dato' Zainalabidin Mohamed Husain (40%)
- Jiraniaga Sdn Bhd (“**JSB**”) (60%)

JSB is an investment holding company owned by Dato' Husain and Datin Malik.

Post-Investment Ownership, Board Composition & Management

The acquiring entity is IOUpay Limited's wholly-owned subsidiary IOUpay (Asia) Sdn Bhd.

Resultant ownership of IDSB upon completion of the investment will be:

- JSB (58%)
- IOUpay (Asia) Sdn Bhd (42%)

A third seat on the board of IDSB will be created to accommodate a director nominated by IOUpay. The Company has nominated Datuk Khairul Idham Bin Ismail, who was appointed non-executive director of IOUpay in November 2020.

The binding agreements for the transaction allow for expansion to the board consisting of 5 members, with IOUpay (Asia) Sdn Bhd entitled to appoint 2 directors and JSB entitled to appoint 3 directors.

There will be no changes to the management of IDSB.

Settlement of investment

Settlement of the investment is expected to occur by the end of September 2021 (**Settlement**). Payment of the purchase price for the investment will occur as follows:

- 1) Tranche #1 of RM63 million (approximately A\$20.7 million¹) – will occur on the date of Settlement;
- 2) Tranche #2 of RM63 million payable the later of completion of the audit of IDSB's FY2021 statutory accounts or six (6) months after Settlement (with the Company having the right to bring forward that tranche if it wishes).

As part of the negotiations IOU was able to prudently negotiate a purchase price adjustment in the event that there was more than a 10% variance to the RM 30m PBT threshold for FY31 December 2021.

In the situation where there is more than a 10% variance then the purchase "Adjusted Purchase Price" which is calculated as 10 x PBT for FY21, with the total variance to be adjusted against the Tranche 2 payment as a net reduction.

The Company intends to use its existing cash reserves to fund payment of Tranche #1. The Company will assess its cash position and the market closer to the due date for the Tranche #2 payment and make a decision on how it will fund that payment. The Tranche #2 payment may be funded by way of equity capital raising (conducted at a later stage) or the Company's existing cash reserves at the time (or a combination of both).

Other Key Terms

The customary conditions precedent for transactions of this nature apply including (where required) obtaining the approval of relevant authorities for the investment.

The formal agreements contain standard protections for IOU in the way of warranties and indemnities in IOU's favour (in the Share Purchase Agreement) as well generous minority protections for IOU's (less than controlling) shareholding in IDSB (contained in a Shareholders Agreement).

IOUpay will appoint a director and has nominated IOUpay independent non-executive director Datuk Khairul Idham Bin Ismail to join the board of IDSB.

Accounting Treatment

The investment in IDSB will be accounted for as an investment in an associate 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.

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

Yours faithfully,

IOUpay Limited

Jarrold White
Company Secretary

Media Enquiries:

Hannah Blackiston
Media & Capital Partners
hannah.blackiston@mcpartners.com.au

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.