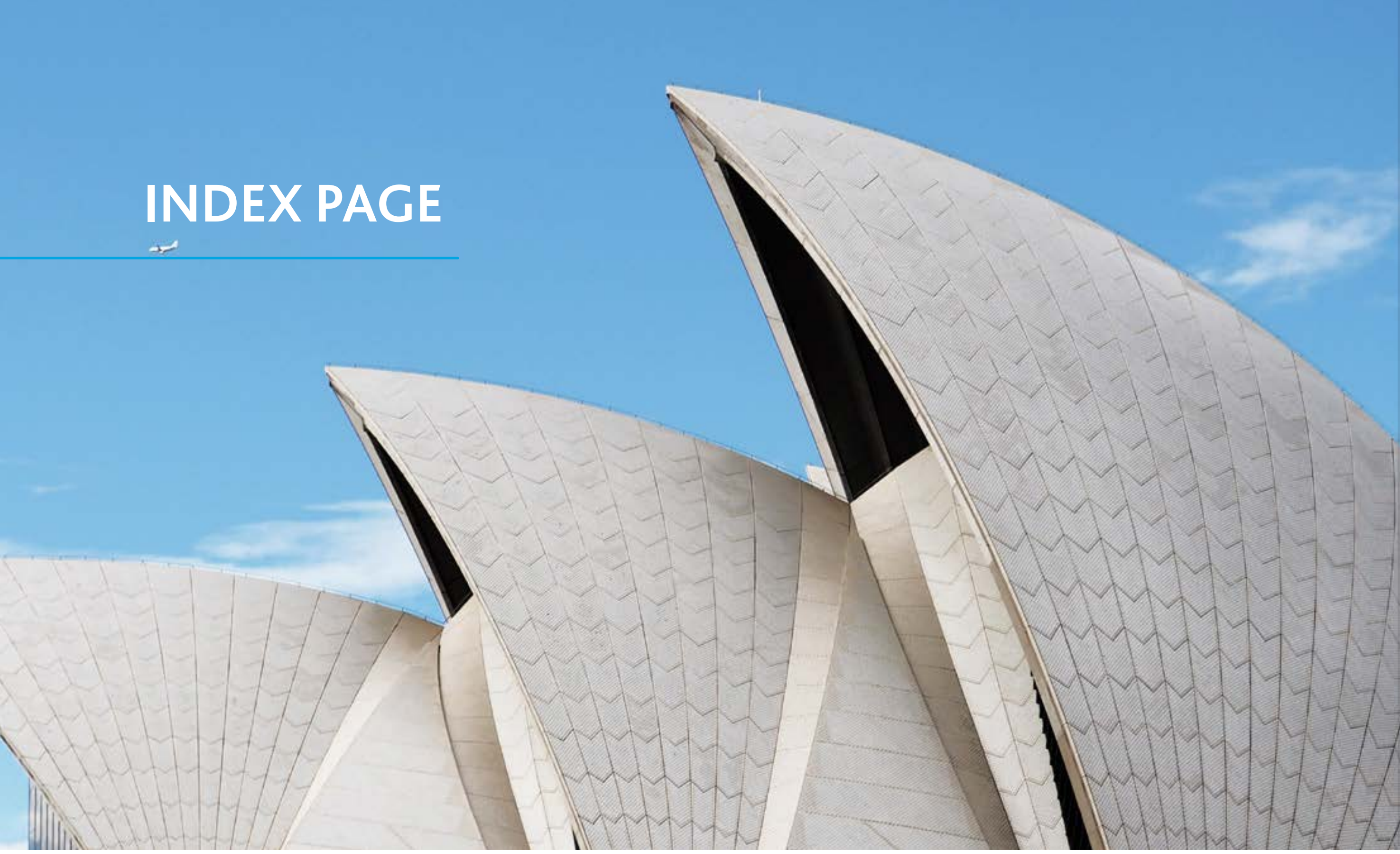
RETHINK FINTECH

Crisis as an opportunity – Australia

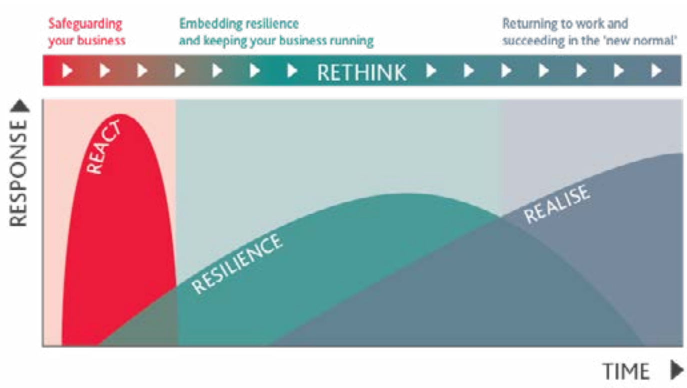
July 2020



INDEX PAGE

INTRODUCTION

Over the last few years, we've seen the Australian Fintech ecosystem mature. Fintechs have surged on a wave of financial growth, market opportunities and a thriving investment environment - while being boosted by new regulatory conditions to support entrepreneurship and the rise of non-traditional finance. However, with over three quarters of Australian Fintechs not yet making a profit, the COVID-19 crisis has threatened a flourishing sector, with many companies grappling with survival. This has been compounded by the subsequent market downturn, impacting the short-term viability of Fintechs' revenue and customer growth.



The COVID-19 silver-lining for Fintechs, is increased demand to embed financial services in all aspects of Australians' everyday lives. This has been propelled forward faster than would have occurred naturally.

Through social distancing and lockdowns, we've seen access and demand grow for fully digitised end-to-end customer experiences to meet Australians' personal and business financial needs.

As a result of the economic downturn, we've also seen consumers demand new ways to manage their payments. With Australia now in a recession, it's likely this preference will continue.

Fintechs need to RETHINK their position in the market. Fintechs who can resolve the immediate COVID-19-related business threats and fill gaps in the Financial Services supply chain to offer seamless transactions now, will secure their position in the market long into the future.

In this report, we present a guide to the challenges and opportunities facing Fintechs, and advice on how to come out of this disruption and succeed in a new normal.

BDO Australia's team of dedicated Fintech specialists assist our clients with both financial, business, and technological matters. We work closely with Fintech companies and are guiding them through all phases of the disruption created by COVID-19.

TIM AMAN

Global Fintech Leader, BDO

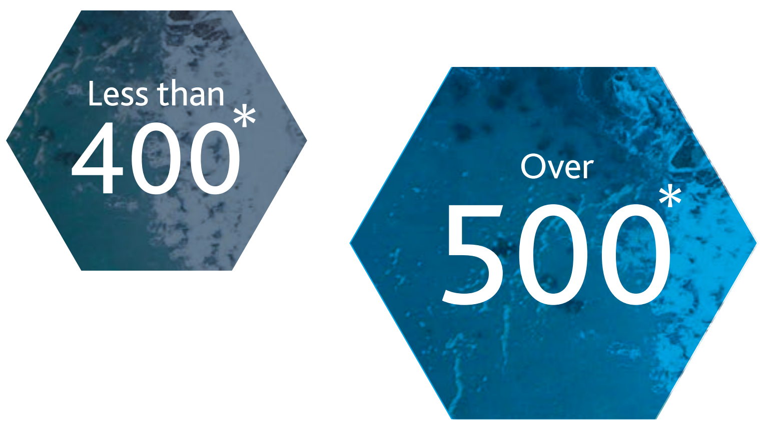
National Leader for Financial Services, BDO Australia

SECTOR OVERVIEW

Australia's Fintech sector has had a strong period of growth, having performed especially well over the last few years. According to a Visa report, between 2018 and 2019, 144 new Australian Fintech companies opened their doors, bringing the total from 382 to 526.

Consumer demand is high, with a 2019 survey finding 58 percent of digitally active adults in Australia use two or more 'groups' of Fintech services. The sector has also been supported through a combination of favourable economic and regulatory conditions, access to capital and proximity to the more established Asian market. Overall, the main macro challenge for Fintechs has been the skills shortage, given the smaller population.

Growth in Australian Fintech companies 2018-2019



* Number of Australian Fintech companies

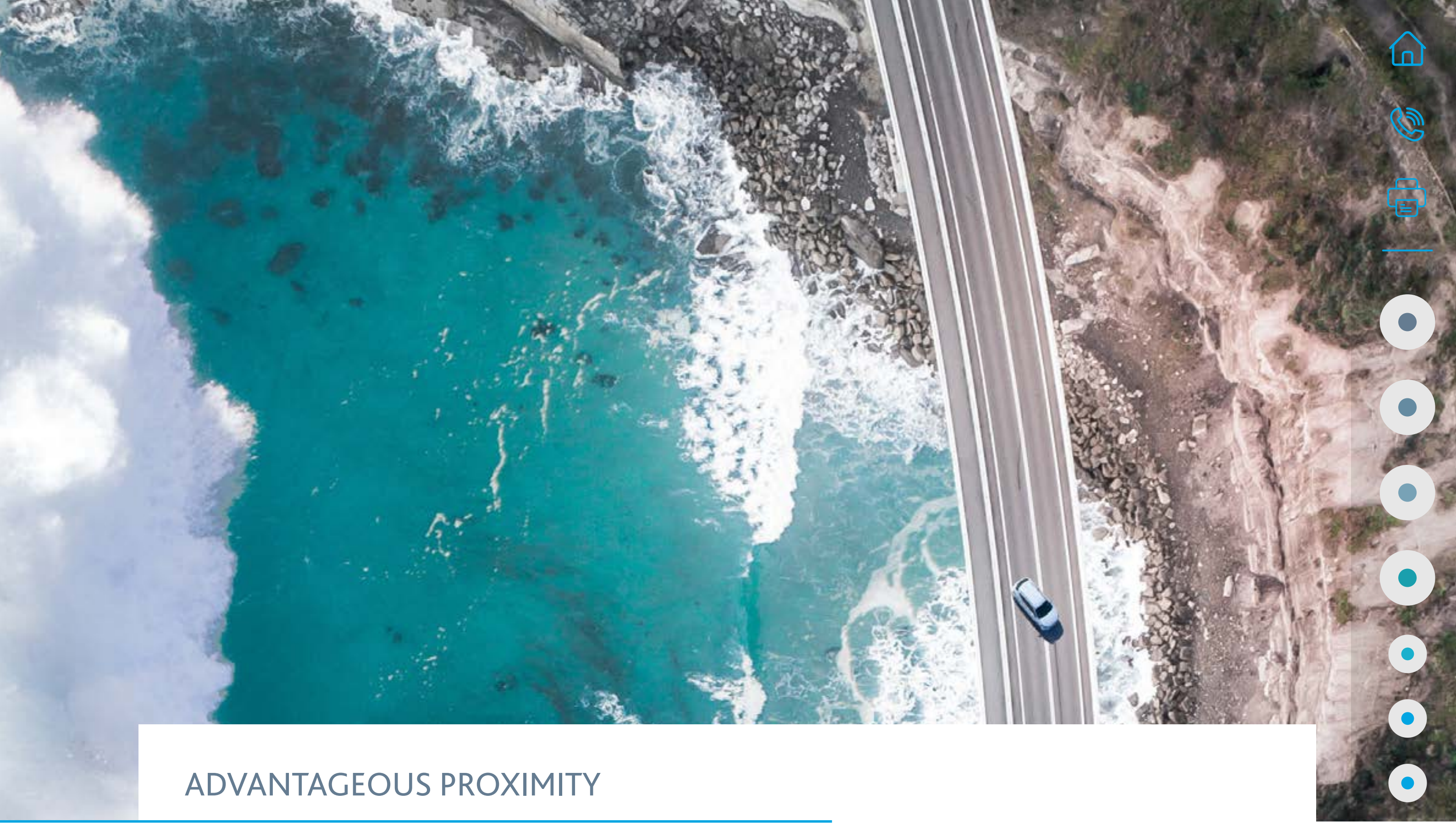
Number of Australian Fintech companies. Data: Visa, Graph: BDO Global

REGULATORY ENVIRONMENT

Australia's trajectory toward competitiveness in the market has been driven by the findings of the Royal Commission into Banking, Superannuation and Financial Services, which has, and will continue to impact the sector for years to come.

The Australian outlook for 2020 was bright, in part thanks to initiatives that aim to overcome barriers for new entrants and increase competitiveness. Alongside a plethora of grants available, Australia is a country with an ambitious focus on Open Banking including, the introduction of Consumer Data Right (CDR) legislation from 1 July 2020. Furthermore, due to the COVID-19 crisis, the 'Fintech regulatory sandbox' - a licence exemption and other licensing law reliefs allowing Fintechs to test the market without the red tape, was extended from 12 to 24 months.

Australia's financial reporting environment also gives global investors confidence in the Australian market, with the Australian Accounting Standards meeting the requirements of the International Financial Reporting Standards (IFRS).



ADVANTAGEOUS PROXIMITY

Australia is uniquely positioned near the Asian tech hubs. This makes Australia a great place to test and springboard - particularly for Western countries who can be closer to the tech hubs, but also take advantage of Australia's English-language to operate.

ACCESS TO CAPITAL

Until the recent downturn, Australia had experienced 28 years of growth – making it favourable for both investors and business. This is due to both The Australian Stock Exchange (ASX), which is the fourth largest traded stock globally as well as Australia's burgeoning Venture Capital market.

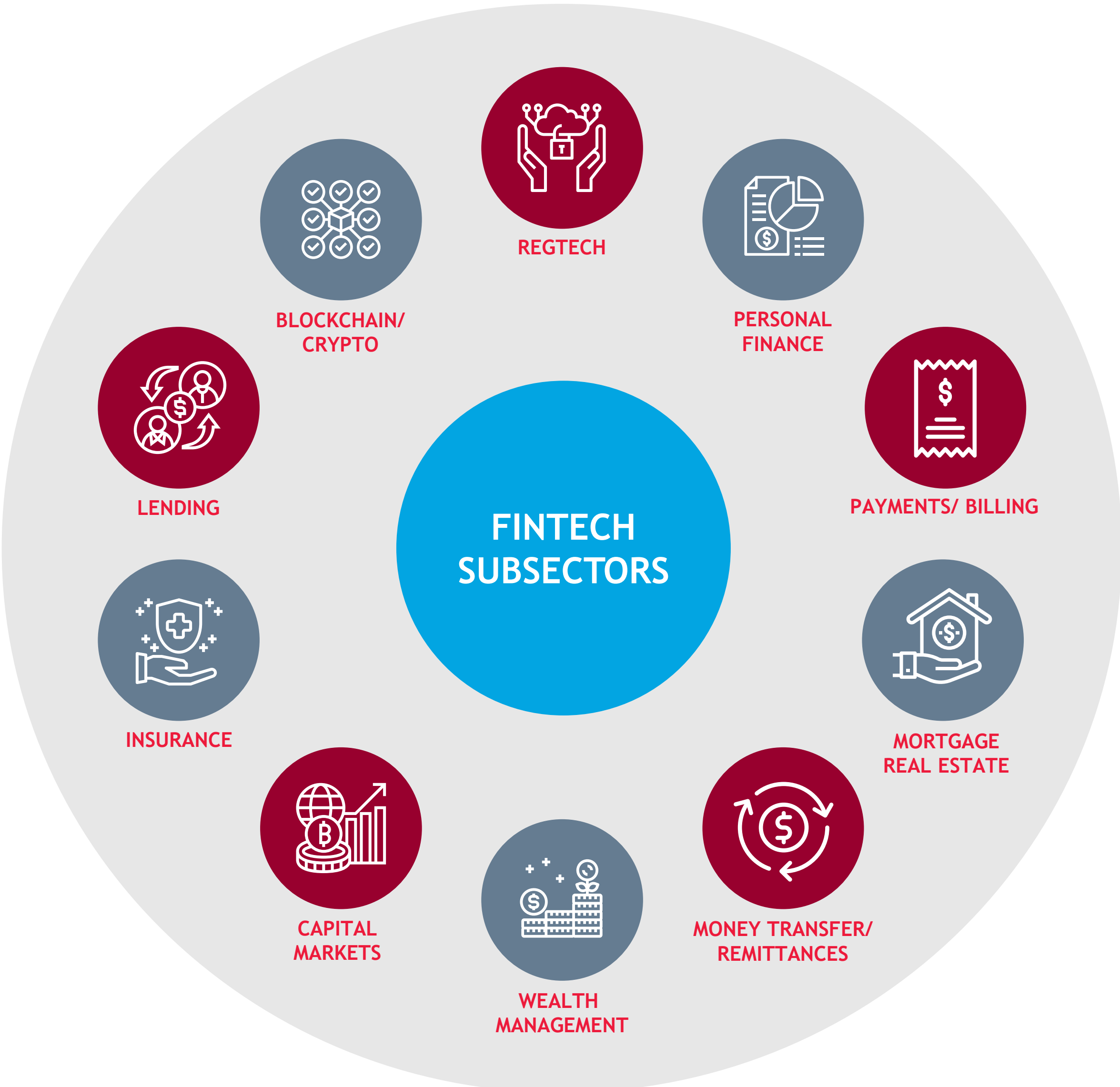
Australia is also home to a compulsory superannuation system. For those Fintechs who can effectively commercialise their idea, there's a unique opportunity to take advantage of the $3 trillion pool of investments in Australian superannuation funds to secure capital for both funding rounds and pursuing IPOs on the Australian ASX Exchange or collaboration with bigger businesses.

SUBSECTOR OUTLOOK

The Australian Fintech market is vibrant and diverse, offering a broad array of financial services and solutions, including both back-end and customer-facing services. The two largest subsectors are Wealth and Investment, and Consumer and Business Lending.

Steven Sorbello,
National Corporate Finance Leader

> *The Australian financial ecosystem is, as is the case almost everywhere, primed for further disruption by innovative Fintech companies. We are assisting them navigate the crisis and be best prepared for grasping future opportunities.*



The wealth and investment management, asset management and trading market is driven by the large pool of funds under management in Australia, including the superannuation funds.

The peer-to-peer (P2P) lending environment has been driven by both business and personal use. For small-to-medium enterprises, the lending landscape has been a significant issue for many years, with many reliant on banks for loans and access to capital being tight. However, in recent years, Fintechs have met this need, offering P2P lending. The younger demographic and merchants alike, have also quickly adopted the buy now, pay later model (BNPL).

Industry incumbents are viewed as one of smaller Fintech companies' greatest competitor. However, Fintech companies are also working on how they can build out their relationships with this group. Recent data from S&P highlights how traditional banks - which own 75% of the market - have a strong influence on Fintech rollout in Australia because they can withstand the pressure and will easily absorb them. However, given their traditional models, they would do well to collaborate and learn from nimbler Fintechs.

Emerging sectors in Australia include Blockchain, Regtech and Insurtech. In particular, the regtech sector is promising given the aftermath of the Royal Commission findings, with the costs of regulatory compliance on banks driving innovation. However, while regulators such as ASIC are looking at ways they can encourage adoption of regtech, and The Senate Select Committee are determining policy changes, the sentiment across the subsector is that more support is required from the government and associated bodies – including, collaboration with the entire ecosystem to support regulatory expectations, clearer communication, and more incentives.

COVID-19 STRIKES HARD

THE COVID-ECONOMY

While ‘born’ digital and global, many Australian Fintech companies are directly reliant on the state of the Australian economy. This is particularly true for many early-stage startups. The effect of COVID-19 on the Australian Fintech scene has been profound, with the initial impacts seeing job loss and consumer confidence dip almost overnight – with many of the ‘market darling’s’ valuations being downgraded significantly.

Matt Laming,
National Business Services Leader

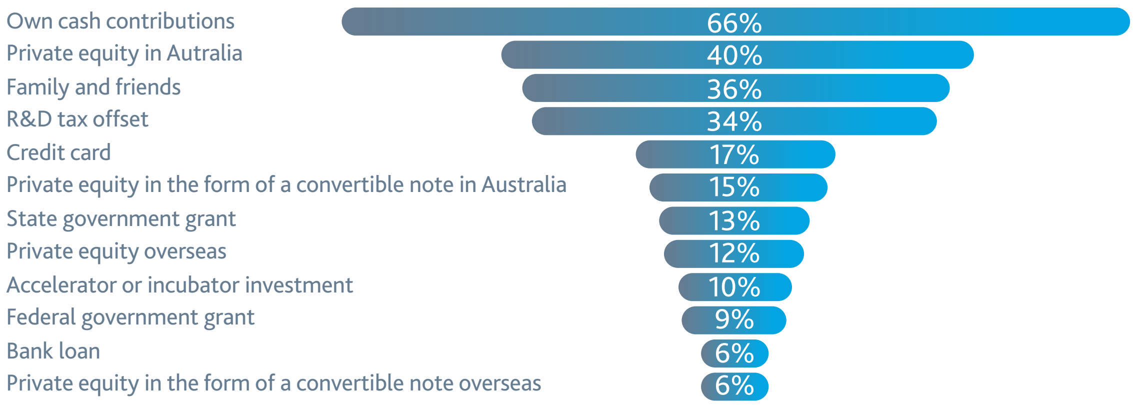
> *Compared to before the COVID-crisis, we are seeing an increased focus on short-term liquidity and securing capital for the immediate future. In some cases, this could be a case of survival, unless the company in question overhauls its underlying financial structures and business strategies. It plays a big part in our daily conversations with industry insiders and advisory services we are currently providing to Fintech companies.*

As Australia emerges from hibernation, the country also enters its first recession in almost three decades. Overall, it remains too early to estimate exactly how hard-hit Australia will be by COVID-19. The International Monetary Fund (IMF) predicts Australia will be the hardest hit in the Asian region, with a 6.7 per cent decrease in the economy and unemployment of 7.6 per cent.

Acting as a buffer to this fall is Australia’s response to contain the virus, alongside the significant Federal government stimulus packages. With these currently pegged to end in September, the biggest risk for businesses now is to ensure they are prepared for the pending ‘fiscal cliff’ – how businesses set themselves up for this will be critical. Businesses need to be planning now for the cliff and looking ahead to profitability or solvency once support measures expire.

Since many of the companies are early stage - relying on contributions from their immediate circle and own money - the increasingly uncertain road toward profitability due to market changes is a major issue. Up to 40% of Australian Fintechs identified in the Visa survey had no recorded revenue in the previous 12 months. Almost a third (31%) had generated revenues of less than $100,000.

Funding avenues used by Australian Fintech companies



Funding avenues pursued by Australian Fintech companies. Data: Visa. Graph: BDO Global.

Furthermore, almost two-thirds of Fintech companies were looking to raise capital in Australia over the coming year. One third were looking to raise capital overseas. The IMF predicts that the global cumulative loss to global GDP over 2020 and 2021 could be approximately US$9 trillion dollars. Given the Fintech space is reliant on global activity, in the short term, capital raising may be particularly challenging. With a recession, it's likely that many investors will return to their core investments that pose less risk. However, that said, investors are sitting on vast amounts of un-deployed capital - meaning that investment channels are not necessarily closed, but are awaiting stabilisation before reopening.

Prior to COVID-19, the M&A market was active, with both foreign investors and Australian companies creating synergies. Foreign players are putting considerable money and effort into building presence in the Australian market. Locally, there's also wider collaboration. As Table 1 highlights, there's been a sharp decline in M&A activity involving Australian targets, most likely due to COVID-19. In Q4 2019, there were 11 deals, and in Q1, only 3 deals took place. While the Pandemic has impacted the Australian market since February, impacts were felt in the Asian region since December.

Capital-backed foreign Fintech companies pose an immediate threat to local Fintech player's competitiveness in the context of COVID-19. Given Australia's vulnerability to foreign investors the Australian government has responded by tightening its rules on foreign takeovers in order to protect domestic companies from predatory buyers. This has been in the form of major reform with the government announcing a stricter Foreign Investment Review (FIR) Framework in March.

Quarter	Total number of deals	Disclosed deal value (AUD)	Avg disclosed deal value
Q1 2020	3	4.36	4.36
Q4 2019	11	415.93	51.99125

Table 1. Recent Fintech M&A transactions involving Australian targets, Source: S&P Capital IQ, BDO Analysis

BDO RETHINK - ASSISTING FINTECHS DURING AND AFTER THE CRISIS

Tim Aman,
Global Fintech Leader

BDO Australia has advised many Australian Fintech companies and helped guide them through different growth stages. Our front-row seat has given a great view of a sector in rapid development. While COVID-19 may challenge the industry in the short run, Fintech companies look poised to grab the opportunities waiting on the other side.

Over the past few months, the economic landscape has changed rapidly. BDO has developed the RETHINK model as a practical guide to help companies assess potential risks and issues. This is a three-phased structured approach that creates the optimal foundation to develop their business through each phase – REACT, RESILIENCE, REALISE.

Initially, Fintechs face the REACT phase. Focus will be on the immediate fallout from COVID-19, such as keeping employees safe, securing cash flow, and ensuring that funding runway is in place. Now, many are already transitioning into the RESILIENCE phase. The emphasis in this phase will be on building out and solidifying business models, workflows, supply chains, increasing the speed of digital transformation, and creating the foundation for work in 'the new normal'. Beyond this, a REALISE phase awaits where Fintechs will be able to take advantage of the opportunities from changes to economies, societies, as well and professional and personal lives. This will, among other things, involve securing capital for growth, technological innovation, and continuous adaption of business models.

Fintech companies who successfully respond to the currently troubled economic waters, implement resilient, efficient strategies and initiatives, as well as lay the groundwork for grasping future opportunities, will be well poised for realising their full, disruptive potential in the years ahead.

In the short term, the economic impact and fallout of COVID-19 make conditions difficult for Fintechs, with the priority being on cash flow and solvency. Safeguarding business is critical for Fintechs, who must consider belt tightening and cost saving measures into the medium term and seek out relevant stimulus and grants. The four key areas of focus should be sustainability, operations, supply chain and health and safety.

AUSTRALIA'S STIMULUS SITUATION

Governments across the world have launched – and will likely continue to launch - stimulus programmes. The goal is often to ensure that companies can survive in the short to medium-term. A similar situation is playing out in Australia. BDO are tracking the situation and advising Fintech companies on what funds may be available to them, and how BDO Australia may help companies secure those funds.

Furthermore, it's worth noting that stimulus packages and aid programmes are not the only avenues of funding for necessary capital. Investors, especially PE firms and the Australian superannuation funds, are sitting on vast amounts of dry powder. While we may well see a short-term interruption of M&A and funding activity, access to capital – both domestically and abroad - should still be available for Fintech companies with strong value propositions.

A PLETHORA OF OPTIONS

One of the issues facing Australian Fintech companies now, is the long list of possible avenues to capital. The government has announced a total $213.6bn from the commonwealth, $11.8bn from the states and $105bn in RBA-government lending.

Many are finding it difficult to gain access to certain pools of funds made available to companies through various stimulus packages.

While Fintechs are eligible for loans out of the Australian fund for start-ups, some companies risk being disqualified from certain stimulus measures, such as the JobKeeper payments. So far, no dedicated fund is available for Fintech start-ups, and pursuing funds through funding rounds may be necessary. Some regulatory issues are being addressed, but it remains unlikely that there will be full clarity across the board in the near term.

The average Australian start-up has just under six employees. Navigating the various stimulus packages, finding out if you are eligible for support and completing the application processes may be both time-consuming and laborious at the best of times. Our guidance to Fintech companies is to work closely with experts to establish which avenues to additional capital apply, as well as which represent the best opportunities. The answers to such questions will often be determined on a case-by-case basis.

Australian stimulus packages relevant to Fintech companies

The following are some of the stimulus packages that may be relevant to Australian Fintech companies:

- JobKeeper programme - payments of $1,500 a fortnight to employers to retain employees
- SME guarantee scheme - guarantee 50 per cent of new loans issued by eligible lenders to SMEs
- Cash flow support - cash flow support of up to $100,000 for eligible small and medium-sized businesses
- Temporary relief for distressed businesses - increasing the threshold and time to respond to for statutory demands
- Increase in asset write-off - increasing the instant asset write-off threshold from $30,000 to $150,000.

Keeping an eye on your changing regulations

During 2020, every week can seem like an era for companies. That also applies to the regulatory updates and changes that affect what parts of various stimulus packages Fintech companies may be eligible for. Some of the change which may influence Fintech companies and their employees include tax-free payments to SMEs, possible work-from-home deductions, and the JobKeeper payments to companies who retain employees.

REGULATION CHANGES LEAD TO ISSUES AND NEW OPPORTUNITIES

The Australian Prudential Regulation Authority (APRA) has stated that it will suspend granting new banking licences for approximately six months. The decision has been met with criticism from Fintech circles. As Fintech Australia's general manager, Rebecca Schot-Guppy, put it to InnovationAus:

"APRA's decision to withhold providing banking licences will stifle innovation when it's needed most. A minimum six-month delay to licensing could collapse Fintechs seeking this licence and cost [the nation] jobs – they can't afford to tread water for that long."

For Fintechs focused on lending, the Government's new $15-billion Structured Finance Support Fund (SFSF) may be of some assistance to ensure maintaining access to funding markets. However, it is not necessarily going to be enough.

RECOMMENDED STEP-BY-STEP PLAN

This step-by-step plan is our recommendation for clients in the REACT phase, to ensure best prospects for managing through this business crisis.

STEP 1 - Build your "new world" cash flow forecast

Build a 12 month cash flow forecast - 3 months (weekly) and then 9 months (monthly) taking into account your "new world" – build in revenue impacts but retain committed expenses as is for now – understand if you are cash flow positive. If not – understand your cash burn and your runway before existing reserves are exhausted.

STEP 2 – If you have a cash deficiency now or coming up – identify measures to reduce costs or increase revenue

Identify discretionary or non business critical expenditure to eliminate immediately. Identify overheads to defer, adjust or remove (e.g. rent, equipment leases, employee costs). Identify capital outflows to defer or adjust (e.g. dividends, bank loan repayments, capex).

STEP 3 - Engage with key stakeholders regarding potential standstill arrangements

This will be critical – you need to engage with key creditors such as landlords, ATO and suppliers, explain your situation and attempt to negotiate stand still arrangements where possible. An independent report from your accountant or financial advisor on your financial position will bring credibility and assist negotiations.

STEP 4 – Conduct due diligence on other capital sources

Consider collateral and equity available to support finance. Engage with your existing financiers - bring them into the "tent". Consider equity sources – do existing shareholders have capacity? Are there logical buyers of your equity you can approach? Do you have assets that are non-core to realise in short time to generate cash?

STEP 5 - Consider government support available

Identify the measures in the federal government's stimulus packages and state government support programs that are available. Identify how they impact cash flow and apply where relevant.

STEP 6 – Develop a 90 day "business rescue" plan

Develop a 90 day action plan incorporating steps above. Include:

- Implementation of the cash flow measures identified (i.e. apply to financier for funds, negotiate with creditors for standstills.
- Engagement with key stakeholders such as employees, financiers, landlords, customers and suppliers and remaining creditors to ensure they understand your position to continue business.

STEP 7 – Update your cash flow forecast

Recast your cash flow forecast in-line with your 90 day plan. Forecast for 90 days initially on weekly basis – be sure you can remain cash flow positive. When you are confident you can manage through the next 90 days – extend your forecast for a further 9 months (taking into account timeframes of stand stills agreed) to determine how long your "runway" is now… understand the point where you exhaust cash reserves and which you cannot go past (if within the next 12 months).

STEP 8 – Implement the plan and monitor regularly

Start engaging with relevant stakeholders to put your plan into action. Monitor progress regularly (weekly to begin with) and keep updating the cash flow forecast weekly to monitor the length of your runway. Be conscious of when your cash reserves are exhausted so you do not continue to incur expenditure past that point.

Learn more about the REACT phase

BDO Australia has launched a series of insights and efforts to support Fintech companies through the current hardships. Visit our website or contact us via email or phone to hear more about how we can help your company through the crisis and help you grasp the opportunities which await on the other side.

In the short term to medium term, many Australian Fintech companies are going to need to restructure their organisation, strategy and financial setup. Any company in early-stage growth mode – be it Fintech or otherwise – will find the likely economic downturn following in the wake of COVID-19 challenging to navigate.

For Fintechs, their resilience will be typified on how well they can attract capital at each of the Rethink phases. Some will be looking at mergers and acquisitions to stay afloat and carve out revenue streams.

The capital Raising Journey for Fintechs

Determining what financing route to take can be a challenge for Fintechs. Here we uncover the four stages of the capital raising journey and some of the things you should keep in mind.

The top 5 areas in which Fintechs need to build RESILIENCE

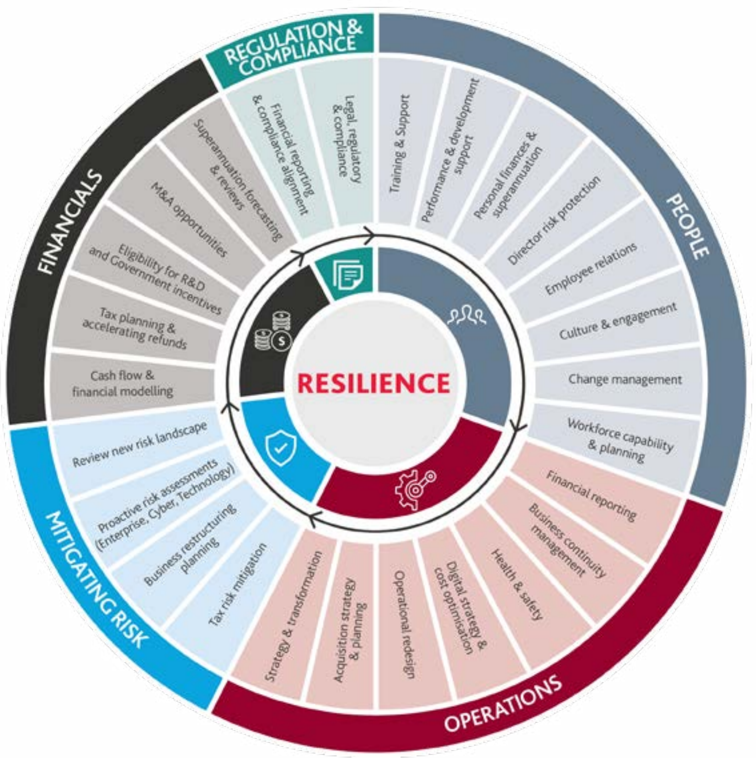
1. FINANCIALS: Understanding the economic impacts on the business will be critical in this phase. Cashflow will still be important to manage, as will understanding your funding options, your tax plans, tax deferrals and accelerating refunds. On the flip side, there will likely be many opportunities to consider as you start to gear up to phase 3 – Realise. READ: Cash flow forecasting: the art and science
2. REGULATION & COMPLIANCE: There are many legal and compliance impacts to factor into your business response, including contracts for goods and services, regulatory relief for a range of suppliers and statutory requirements, director obligations, employee arrangements and financiers. It will be crucial to review your contracts, business insurances, ATO obligations and financial reporting requirements. Read the article: The key things you need in a Virtual Outsourced CFO
3. PEOPLE: Protecting your workforce will continue to be a high priority as the business returns to work. The personal well-being impacts of the effects of COVID-19 should also not be forgotten. Health and safety again features strongly, as does building on your organisational culture and internal engagement as you return your workforce to the business. Consider outsourcing one-off Virtual HR services to meet your people needs.

DOWNLOAD NOW

How can you respond, stabilise, and rebuild after COVID-19 through mobilisation of your people? Read our publication, Paradigms perception and performance: overcoming crisis through people

4. OPERATIONS: Managing your business in this phase will be about your financial reporting as we fast approach the end of the financial year. Business process management, program and project management, contract assurance, supply resilience and managing your insurances will also be key. Operational planning, facilities management and inventory reviews will be important, as will your IT strategy and cost optimisation. There will also be workforce capability and return to work arrangements to plan. READ: [Is your IT delivering value? Why now is the time for IT cost optimisation]
5. MITIGATING RISK: Addressing risk and ensuring your business evolves to regulation, legislation and compliance will be important. Aligning your financial reporting and compliance requirements in light of COVID-19 adaptations will need to be considered. Proactively assessing your levels of risk for example, cyber security, project risk and the potential for fraud, will be critical for long-term resilience. Mitigating your tax risk will also need consideration.

The RESILIENCE wheel – identify threats and opportunities



Fintechs can use this wheel to identify the largest threats and potential opportunities within each area, as well as a framework for what actions your findings necessitate. Following a review, plan and track progression. You will be able to follow up initiatives and react in a timely fashion to the unforeseen – and often unforeseeable – changes that will manifest themselves over the coming months and likely even years. The wheel also represents many (although not all) of the areas where we are assisting Fintech companies with navigating the crisis.

DO YOU WANT TO KNOW MORE?

BDO have put together a range of resources aimed at meeting business needs during this time. To discuss further, please [contact your local Partner.]

DOWNLOAD OUR PLANNING GUIDE: BOOSTING YOUR BUSINESS RESILIENCE

AUSTRALIA'S FINTECH COMPANIES TAKE COVID-19 LEAD

Australian Fintech companies are playing an active role in mitigating the fallout of COVID-19 – not just for themselves, but for the Australian economy in general. At the same time, they are showcasing their ability to create efficiencies and quicken financial processes when compared to incumbents. For example, Moula and Prospa have been selected among 1 of 5 non-bank lenders to participate in the Coronavirus SME Guarantee Scheme to support small and medium-sized Australian businesses. Furthermore, Lumi has been selected to assist with delivering COVID-19-related guarantees to SMEs.

PIVOTING AND PURSUING PROSPECTS

While not all Australian Fintech companies will make it through the current crisis, many will – and they will find themselves in an excellent position to thrive. Thankfully, being small often equals being nimble and therefore, Fintechs are in a strong position to take advantage of the opportunities on the horizon.

In the wake of COVID-19, smaller Fintech companies may look to pivot their solutions in areas likely to be hardest affected, such as wealth management. At the same time, the new economic reality that encourages contactless payments, online transfers and operations, opens up new opportunities.

One example is Fintech companies looking to work with government agencies to manage the loans to SME companies. Furthermore, many Fintechs are offering services for free or at a lower rate to onboard customers – both individuals and companies - giving them a chance to position themselves and showcase their solutions to a consumer base that are primed to use their services.

To succeed in the REALISE phase, Fintech's must:

- Respond to shifts in consumer behaviour and new market conditions
- Find avenues of collaboration to create synergies
- Undertake technological transformation
- Manage expansion and costs
- Seek expert advice

Although COVID-19 has slowed the world economy, it's important to remember that neither it, nor technological development have stopped. New areas for Fintechs' solutions keep on appearing. For example, the shape of Internet of Things (IoT)–enabled contactless payments, which could well be in high demand through smart city-scapes within a few years.

We are likely to see big changes in consumer behaviour due to COVID-19. For example, an increased push toward end-to-end digital solutions, as COVID-19 has both customers and incumbents extra focussed on areas such as digital transformation, contactless payments, and online financial services.

That goes for both end-users and financial institutions. Fintechs are often the originators of such solutions and will likely be extra sought after by large-scale incumbents who, through partnerships or M&A, will look to combine Fintech companies' flexible, digital solutions with their capital, distribution access, and compliance infrastructure. Fintech's may want to seek out collaboration with incumbents such as traditional lenders who are safe-guarded through their other investments, but also identify the need to expand their Fintech options.

Fintechs are also launching new products that are particularly targeted towards the market conditions created by COVID-19. One example is MOGOPLUS's Hardship Management Solution, a set of data analytics designed for lenders to manage hardship journeys for Australians affected by the on-going crisis.

The environment is shifting faster than ever. While capital-backed foreign firms may enter the market, local Fintech players have a distinct advantage in knowing their market compared to their competitors. Australian Fintechs should be taking advantage of their presence on the ground. By researching the current climate and tapping into consumer behaviours, they can effectively tailor their solutions to meet Australian needs.

SUBSECTOR FOCUS: FINTECH - LENDING

Fintech online lending companies have huge, disruptive potential. Their solutions could fundamentally change how parts of Australians' finances work. During COVID-19, Fintech lenders have been in the vanguard of securing necessary funds for companies and individual customers, often at speeds far beyond what traditional lenders can offer. However, the crisis has also shown how vulnerable many companies in the subsector are.

To start with the overview, lending companies are seeing a sharp drop in activity levels, with the likes of Lending Club reporting a 90% drop in loan volumes. Cash flow has become a major risk factor, as consumers and businesses miss payments or default. Platform lenders, which connect borrowers and lenders, have been better insulated against the direct fallout of COVID-19.

For both, advanced backend technologies, such as AI and advanced credit risk algorithms, help limit losses. Simultaneously, they are underpinning loan processes that are happening at speeds consumers and small businesses are unused to. For example in relation to distribution of aid packages, but also connected to traditional loans.

Digital processes for home loans provides an excellent example of this. Due to COVID-19, many mortgage lenders have struggled to handle requests. Fintech solutions leveraging technologies such as blockchain have proven their ability to handle the mortgage processes, as well as introducing fractional property, real time applications for home loans and automation of the home loan process, making it both faster and more efficient.

Post-COVID, we can expect to see increased competition in the space, with companies incumbents forced to adapt or be outcompeted. Before that stage, start-ups need to survive, and incumbents and larger Fintech companies alike will be looking at boosting their solutions portfolios at a cut rate through acquisitions.

Recent Merger and Acquisition activity in Australia highlights the demand for those Fintechs who are in the business of lending. Financing companies have been the target of the majority of transactions in the past two quarters, as shown in Table 2. Notable highlights include the acquisition of Spotcap Australia Pty Ltd; Funding Box 3 (Australia) Pty Limited and, Spotcap New Zealand Ltd by Australian-owned Zip Co Limited. Zip has seen rapid adoption of its BNPL model in Australia since its launch in 2013. Those lending Fintechs who can succeed in Australia's market will typically succeed on a global scale.

Announced date	Target	Buyer Headquarters	Buyer	Transaction Value (AUD)	Target issuer business description
02/20/2020	Sequoia Financial Group Limited (ASX:SEQ)	-	-	4.36	Integrated financial products
02/12/2020	Stratton Finance Pty Ltd	-	-	-	Car finance broker
01/14/2020	BIT Trade Australia Pty Ltd	United States	Payward, Inc.	-	Cryptocurrency investment and digital exchange platform
12/19/2019	CML Group Limited (ASX:CGR)	Australia	Scottish Pacific Group Limited	117.99	Financial Management and payroll services
12/12/2019	International Acceptance Pty Ltd.	Australia	Resimac Group Ltd (ASX:RMC)	6.0	Consumer and personal loans
12/05/2019	Pioneer Credit Limited (ASX:PNC)	United States	The Carlyle Group Inc. (NasdaqGS:CG)	120.08	Financial Services - acquiring and servicing retail debt portfolios
11/13/2019	CML Group Limited (ASX:CGR)	Australia	Consolidated Operations Group Limited (ASX:COG)	105.19	Financial Management and payroll services
11/11/2019	Platform Consolidated Group Pty Limited	Armidale Investment Company Pty Ltd (Australia); Consolidated Operations Group Limited (ASX:COG) (Australia)	Consolidated Operations Group Limited (ASX:COG); Armidale Investment Company Pty Ltd	-	Finance for asset financing and mortgage
10/04/2019	Brightday	Australia	Pearl Funds Management Pty Ltd.	-	Online platform combining superannuation and advice
09/24/2019	Fair Go Finance Pty Ltd	Australia	Skybound Capital (AU) Pty Ltd	20.0	Personal loans and digital finance
09/11/2019	Silver Chef Rentals Pty Ltd	Australia	Next Capital Pty Ltd.	18.25	Hospitality funding solutions
09/10/2019	Classic Funding Group Pty Ltd.	Australia	CML Group Limited (ASX:CGR)	18.0	Business Financing
09/06/2019	Spotcap Australia Pty Ltd/Funding Box 3 (Australia) Pty Limited/ Spotcap New Zealand Ltd	Australia	Zip Co Limited (ASX:Z1P)	10.42	Business financing
09/02/2019	Debtor Finance Business of Bank of Queensland	Australia	Octet Finance Pty Limited	-	Debtor Finance

Table 2. Recent Fintech M&A transactions involving Australian targets, Source: S&P Capital IQ, BDO Analysis

For companies hoping to avoid being subsumed through acquisitions, seeking funding alongside accelerating partnership plans with financial institutions may help access to the capital, distribution network and financial expertise (legal, compliance, etc.), which incumbents have. In return, they bring solutions that underpin traditional companies' digital transformation.

EXTERNAL AUDIT

- Agreed Upon Procedures
- AFSL Compliance Support
- APRA Regulation And Return Assistance
- Audit Of Financial Statements
- Controls Reports

INTERNAL AUDIT & FORENSIC SERVICES

- Secondments
- AML/ CFT
- Specialist Technical Support
- Outsource
- Co-source
- Forensic Services

INDEPENDENT EXPERT REPORTS

- Regulatory Response Audit Reports
- Enforceable Undertaking Independent Expert Reporting
- Operational Due Diligence Reports

EXTENDED ASSURANCE

- Non-financial Reporting Review
- Risk Framework Review
- Risk And Compliance Outsourcing

TAX ADVICE

- R&D
- Tax Compliance
- Transfer Pricing

RISK CULTURE ASSESSMENTS

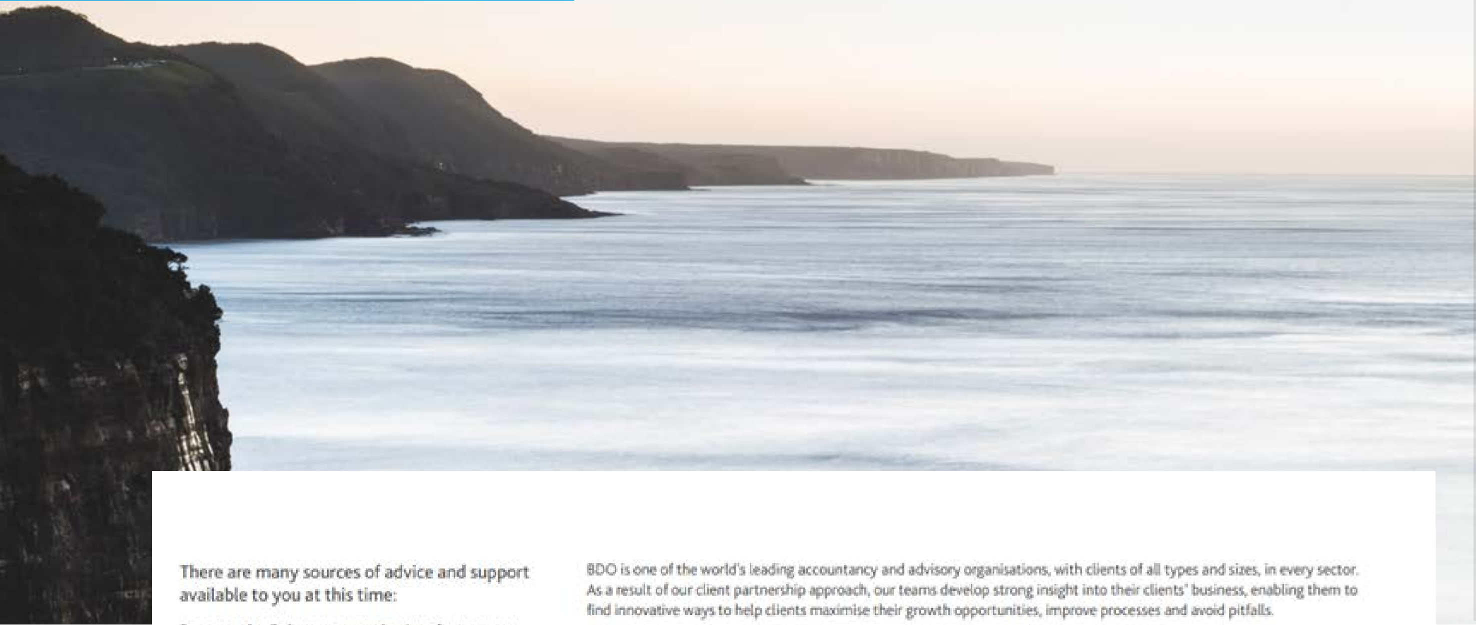
- Impact Of The Royal Commission
- Risk Culture Assessment
- Conduct Framework Review

TECHNOLOGY ADVISORY

- Cyber Security
- IT Transformation
- Data Quality Support
- Blockchain

An overview of some of the services BDO provides for fintech companies.

ABOUT BDO IN AUSTRALIA



There are many sources of advice and support available to you at this time:

For a more detailed assessment and review of your current options please visit the BDO COVID-19 Website which is updated daily.

COVID19 RESOURCES

NEED HELP?

BDO is one of the world's leading accountancy and advisory organisations, with clients of all types and sizes, in every sector. As a result of our client partnership approach, our teams develop strong insight into their clients' business, enabling them to find innovative ways to help clients maximise their growth opportunities, improve processes and avoid pitfalls.

BDO has 1,900+ partners and staff across Australia, making us one of the country's largest associations of independently owned accounting practices. We have offices in New South Wales, Northern Territory, Queensland, South Australia, Tasmania, Victoria and Western Australia.

For more information about BDO services, visit www.bdo.com.au

1,741 PEOPLE
10 OFFICES
204 PARTNERS
FIGURES TAKEN AS AT 01 APRIL 2020

OUR NATIONAL FINANCIAL SERVICES TEAM

BDO Australia has a team of dedicated Fintech experts assisting Fintech companies with navigating the current crisis, consulting on areas such as increasing business model resiliency and gaining access to funds necessary to secure short-term cash flow. Contact our team to hear more about our services and how we can assist you.

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To get in touch with your local team, Visit our website.

ABOUT THE AUTHOR

Tim Aman is the National Leader of Financial Services at BDO Australia and, the global leader of BDO's dedicated Fintech team.

With a career spanning more than 27 years, Tim is a recognised expert for the Financial Service industry providing audit and assurance services including, wealth management, funds management, superannuation, retail, and investment banking, leasing and insurance clients.

Tim possesses a deep understanding of the financial sector's emerging challenges and technological influences. He advises on numerous organisational approaches in an increasingly complex regulatory environment and is dedicated to helping the startup community and established providers navigate the growing global Fintech market.