

RETHINK FINTECH

Crisis as an opportunity –
a global perspective

August 2020

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In this global edition, BDO's team of fintech experts presents some of the challenges facing fintech companies, advises on how to overcome them, and how to prepare to best grasp the future opportunities that await.

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INTRODUCTION



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Welcome to this report on the FinTech industry and the impact the coronavirus pandemic is having on it. Taking a global perspective, this report underlines the risks and challenges that are being faced as a result of this unprecedented situation, but also highlights some of the opportunities that have arisen from it.

As a leading offshore financial centre, Jersey has had a long association with FinTech and that relationship has grown deeper and stronger in recent years. Our service providers harness technology to expand their offerings to their global client base, while technologists look to leverage the industry's expertise to launch innovative new products and services on the global stage.

I am sure you will find a lot within these pages that will give you cause to reflect as well as plenty to take comfort from. If you'd like to discuss any of the issues raised by this report, hear more about our RETHINK model, or examine practical next steps in order to survive and thrive then please don't hesitate to contact me or your usual BDO contact.

Phil Ruelle
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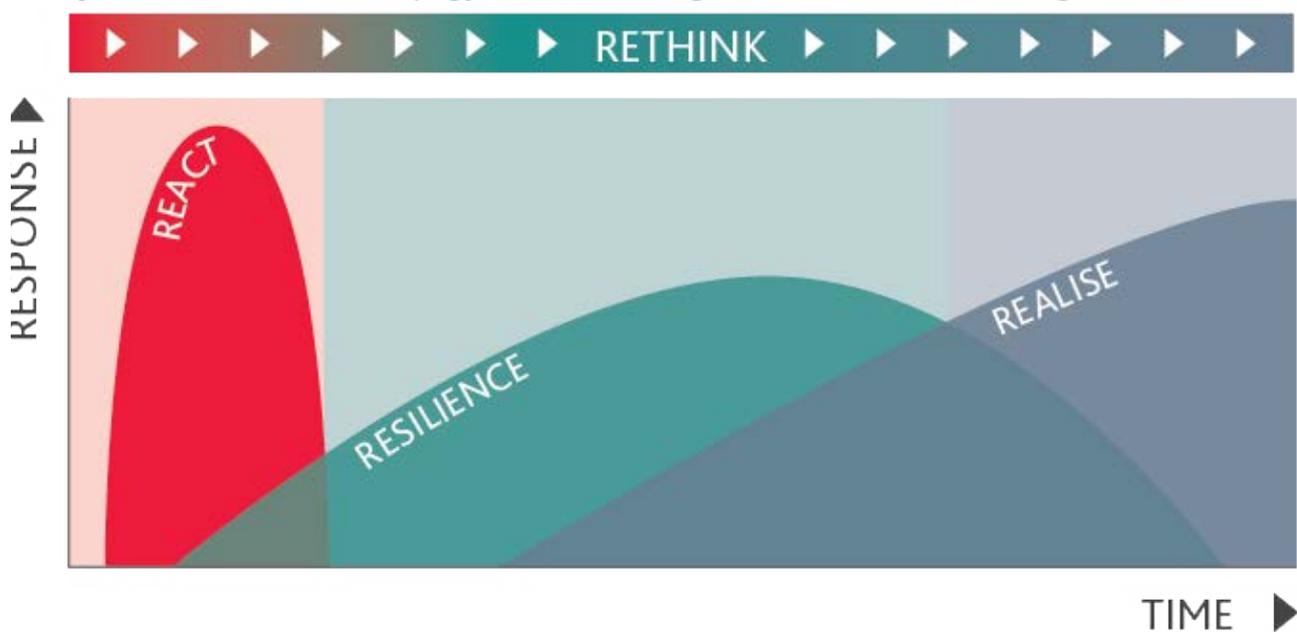
OVERCOMING COVID-19 CHALLENGES AND PREPARING FOR OPPORTUNITIES

Covid-19's effect on markets, the economy, industries and fintech companies leads to a mix of new opportunities and challenges. Increased financial digitisation and digital transformation are among new opportunities, while the general economic slowdown and changing funding and market dynamics lead to increased challenges.

Safeguarding
your business

Embedding resilience
and keeping your business running

Returning to work and
succeeding in the 'new normal'

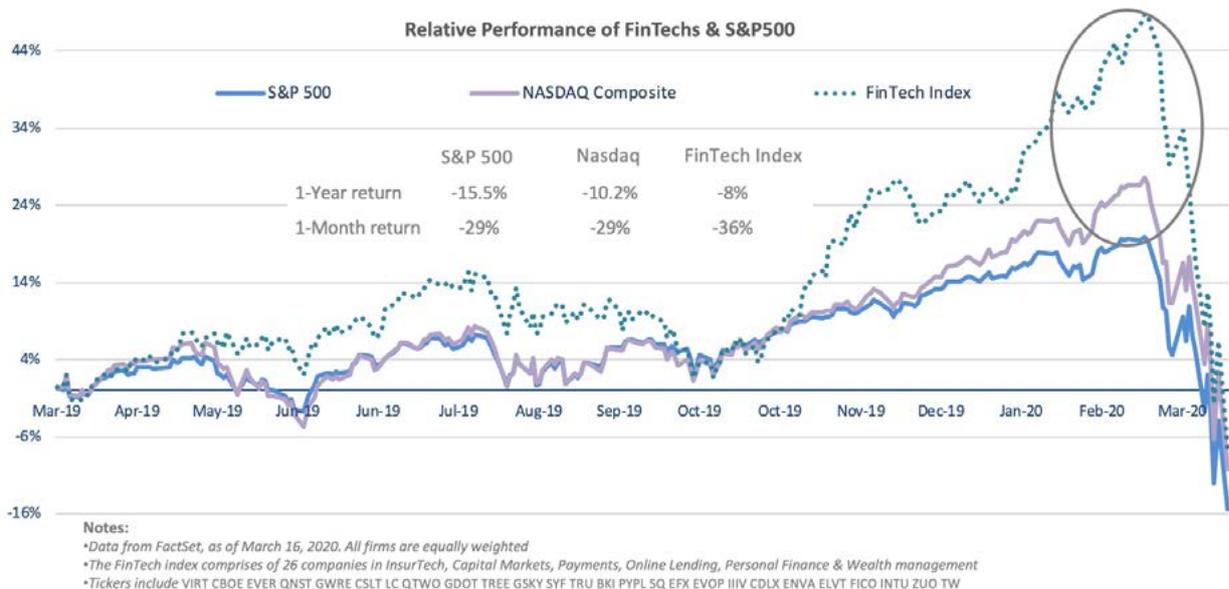


BDO's RETHINK model assists companies overcome the short-term fallout of Covid-19 and prepare to grasp the opportunities that await on the other side. Graph: BDO Global

Most fintech companies are still in – or just exiting - a **REACT** phase, working through the initial ramifications of Covid-19, safeguarding their business, and addressing immediate risk factors such as changes in cash flow. Companies and sub-industries will then move into a **RESILIENCE** phase, looking to build out risk mitigation and growth initiatives such as business continuity planning, permanent remote working strategies, and access to growth funding. Such initiatives play a pivotal part in being able to **REALISE** the opportunities that trends such as increased digital transformation and a push toward cashless transactions present for fintech companies across the globe.

THE INFLUENCE OF SIZE AND SUB-INDUSTRY DURING COVID-19

Size and sub-industry matter when gauging the initial effects of Covid-19 on fintech companies. The Fintech index, comprising 26 publicly traded companies, fell rapidly at the beginning of the crisis. An analysis from Rosenblatt Securities Investment Banking suggests that a downturn could wipe as much as US\$76 billion off the top 58 fintech unicorns' market value.

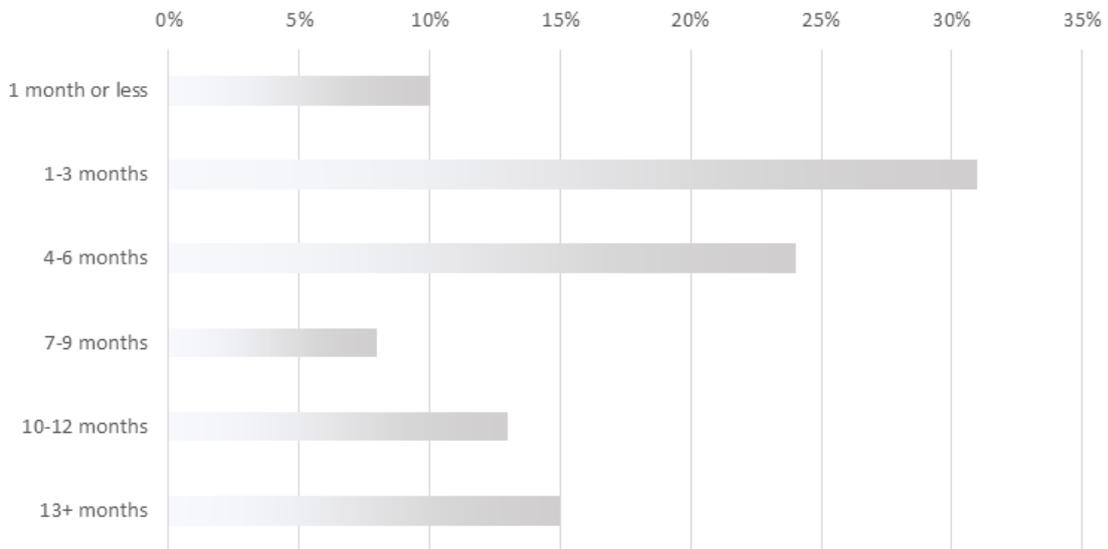


The immediate impact of Covid-19 on some of the world's largest fintech companies' value was dramatic. Data: FactSet. Graph and analysis: Rosenblatt Securities Investment Banking. Reprinted with permission.

Large incumbents, such as PayPal, Mastercard, and Visa, have downgraded earnings forecasts. However, large companies' resources and size often equal buffers to weather short-term storms. Many are now working with partners and advisors on reworking financial modelling, developing business recovery plans, cost optimisation, etc.

Smaller, often nimbler, fintech companies may have better opportunities to pivot or explore new, potential revenue streams that arise during and post-Covid. In that sense, they could be said to be in a stronger position. Funding and runway challenges, as illustrated clearly by Start-up Genome's survey of more than 1000 technology start-ups, as well as immediate cash flow struggles, hamper some of their potential for growth and developing new solutions. This also applies to fintech companies.

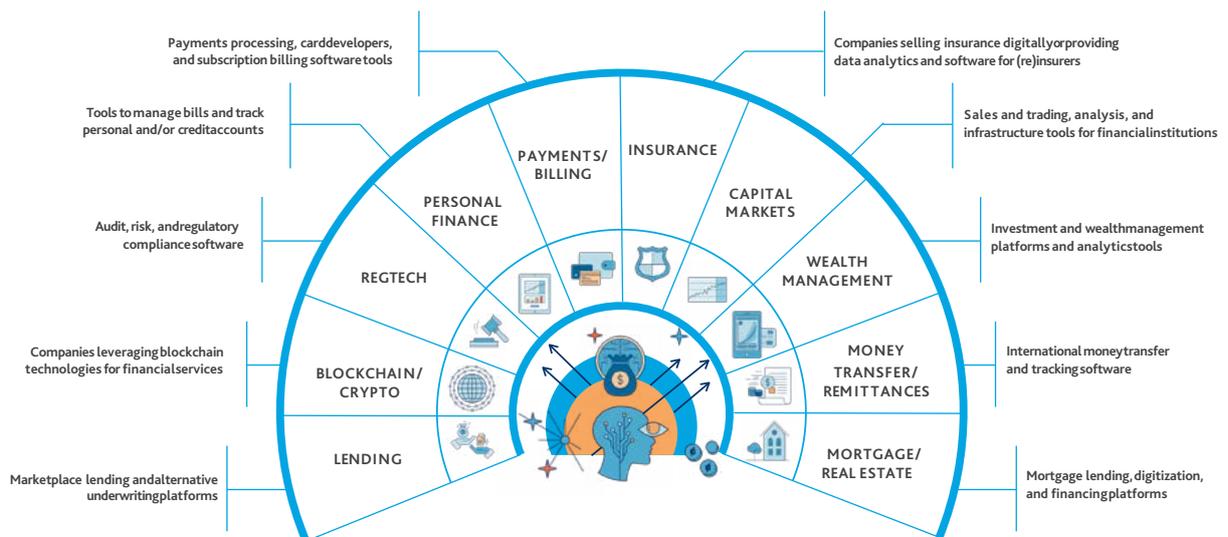
Months of runway for 1000+ technology start-ups



Many technology start-ups, including fintech companies, will need to restructure their finances to increase runway in order to survive. Data: Start-up Genome. Graph: BDO Global

Specific fintech sub-sectors, such as wealth management and neo-banks, are at particular risk and may face struggles in the short term. In contrast, others, such as some types of lending platforms, may see immediate, new opportunities. That said, the exact threat and opportunity landscape vary significantly depending on region and country.

What Fintech covers



Source: CB Insights Fintech Report Q1 – 2020.

AID PACKAGES - A STEP IN OVERCOMING SHORT-TERM CRISIS

New government aid programmes and stimulus packages aimed at offsetting at least some of the effects of Covid-19 have been launched continually since the early months of 2020. Following the developments and determining if your company qualifies and what aid packages apply is a novel, as well as time-consuming task.

While many countries across the world are launching funds and aid packages aimed at start-ups, dedicated fintech programmes are few and far between. Singapore is leading the way with an earmarked \$150 million for helping fintechs. We may see more countries launch similar initiatives in future. BDO's on-the-ground fintech experts are advising companies on which aid packages may apply to specific companies. We advise you to contact your local BDO office to hear more about how we can assist you in this regard.

Aid and stimulus packages alone do not offset the need for fintech companies to look at how they address the short-term cash flow and liquidity issues. While investors have not put a stop to early-stage investments in fintech, deal activity is down - and could stay low for the remainder of 2020.

Early-stage (seed/angel + Series A) fintech deals 2016 - 2020 Q1



Many technology start-ups, including fintech companies, will need to restructure their finances to increase runway in order to survive. Data: Start-up Genome. Graph: BDO Global

Investor focus is generally on consolidating existing portfolios and liquifying assets to strengthen cash positions, and fintechs may want to look at similar approaches. Finding ways to manage loss with speedy realignment, re-focusing marketing on areas with high ROI, repurposing use of equity, including to reward and incentivise staff, and understanding the outlook for funding and M&A opportunities are among other areas which must be addressed.

FINTECHS PRESENT UNIQUE POSSIBILITIES AND FLEXIBILITY



How fintech companies are helping during Covid-19

Covid-related actions: for example, the Covid Calculator in the UK, created by fintech companies. The solution calculates how much financial support a company may be entitled to.

Helping customers in need: fintechs are, amongst other things, waiving late fees, offering mortgage payment breaks and redirecting budget toward helping customers through the crisis.

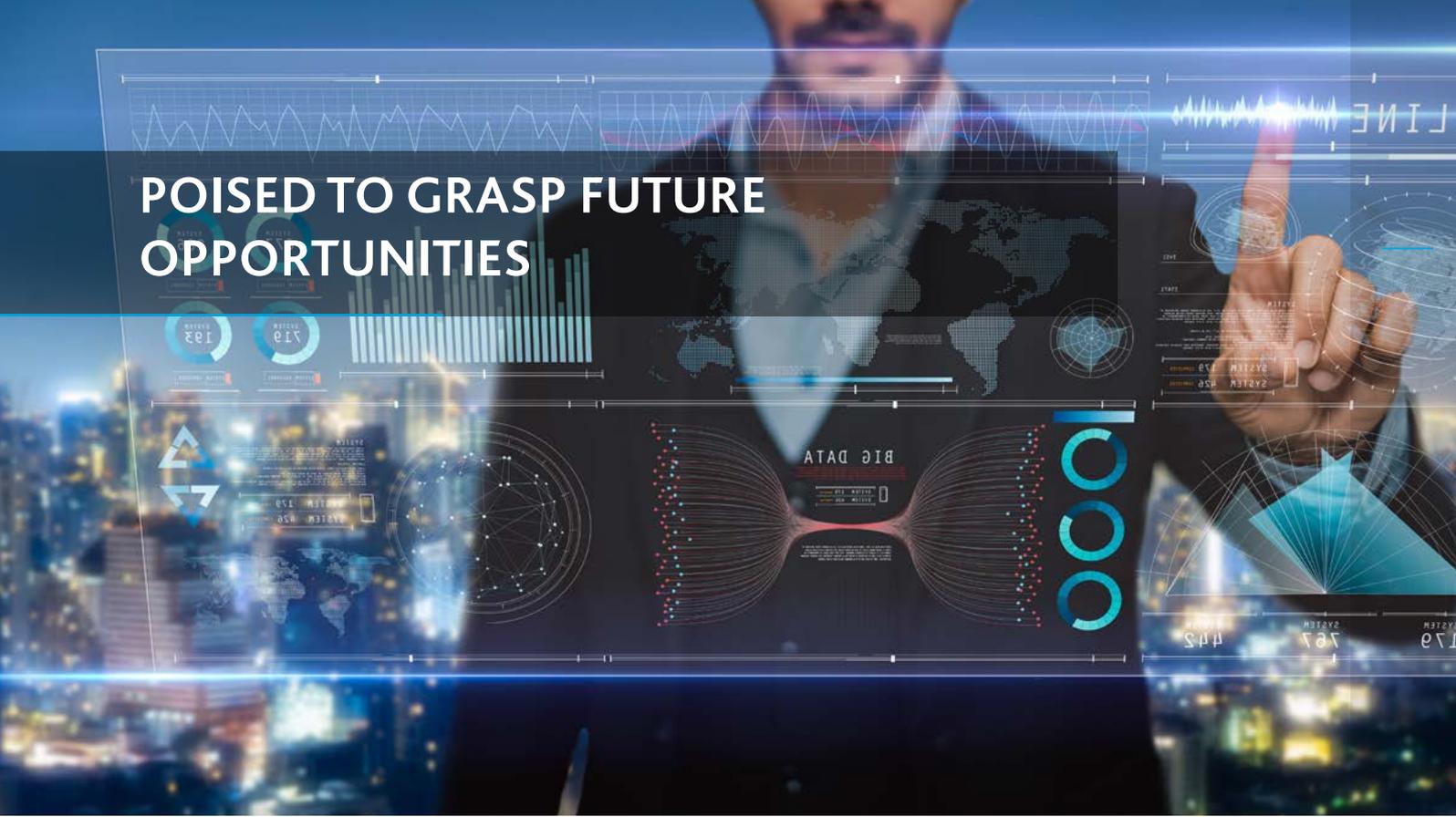
Distributing aid and relief packages: speed is essential for aid packages such as the US CARES acts' \$450 billion. FinTechs across the globe are streamlining the delivery of crucial funds to companies and individuals.

During Mastercard's first quarter earnings call, a positive piece of news was a 40% jump in contactless payments as a direct result of Covid-19. It is one example of how digital, contactless payments have seen a marked global increase in 2020. Furthermore, it is an indication of how digital transformation of financial services such as payments, transfers and loans have all been on the mind of individual customers and companies during Covid-19. Across the spectrum of fintech sub-industries, companies have been able to display their unique business propositions and ability to react with speed and flexibility that financial incumbents struggle to match.

Across the globe, fintechs are involved in streamlining the application process and distribution process for financial aid packages. Fintechs' technological prowess and innovative solutions are also enabling companies – especially SMEs - and individuals to secure the capital needed to meet immediate needs through alternative lending channels.

What the post-Covid 'new normal' will be remains shrouded in uncertainty. However, the focus on increased digitisation and finding alternative, innovative solutions are likely to remain as customers, companies and countries move through the react, resilience and realise phases.

In such a world, fintech companies who overcome the short-term challenges and have the ability to showcase their solutions to customers will be excellently positioned for rapid growth. For many incumbents, the crisis has highlighted the need for new services and solutions, leading to increased possibilities for collaboration and partnerships with fintech companies.



POISED TO GRASP FUTURE OPPORTUNITIES



While too early to tell, initial economic analysis indicates there will be an immediate bounce-back effect on the heels of Covid-19. For example, China is forecast to follow a 40% drop in GDP for Q1 with a 50% increase in Q2. Other parts of the developed world (Japan, the EU, and the US) are expected to see similar GDP bounce-backs in Q3.

Fintech companies are facing unprecedented challenges. Many will not have experienced an economic downturn before. The effects of the crisis will likely linger, followed by a 12 - 18 months rebuild. During all this time, some face a tightrope walk to survive.

Pitchbook data shows that PE and VC firms had a record \$1.2 trillion of dry powder, so companies with solid value propositions and credible management teams will likely not see an immediate constraint on funding.

Companies who succeed with onboarding clients and customers during the Covid-19 crisis will be excellently positioned to grow their market shares in the near future, as are companies with the ability to push for consolidation. Fewer IPOs and more deals in the sub \$250 million space aimed at merging solution suites and growing market shares can be expected. Post-crisis, increased digitisation will likely create conditions which lead to increased momentum and a cycle of continuous growth for fintech companies.

HELPING NAVIGATE DISRUPTION AND GRASP OPPORTUNITIES

Throughout the **REACT**, **RESILIENCE** and **REALISE** phases, fintech companies will need to address a wide variety of business areas, processes, and strategies. Not only internally, but also in relation to partners, collaborators, customers, and clients. We at BDO are ready to assist your company throughout all the phases.

BDO has developed a Covid-19 business readiness diagnostic tool and action platform that can be used as a starting point for assessing a situation and formulating responses.



Source: BDO Global

The graphic also represents some of the areas where we are ready to assist fintech companies with navigating the immediate crisis and their journey towards future opportunities.

BDO is monitoring developments across the globe with a focus on the +160 territories where we are present. Our 'globally local' DNA makes us the optimal partner for navigating aid and stimulus packages, as well as all other parts of the **REACT**, **RESILIENCE** and **REALISE** phases.

We have experts standing by to assist fintech companies, wherever they are active.

Our services cover all aspects, as well as all growth stages, of fintech companies. Be it audits, business services, assurance, tax advice, M&A, funding, risk assurance and mitigation, etc., we are ready to assist your company.



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

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