FINTECH IN AUSTRALIA: WEATHERING MARKET UNCERTAINTY

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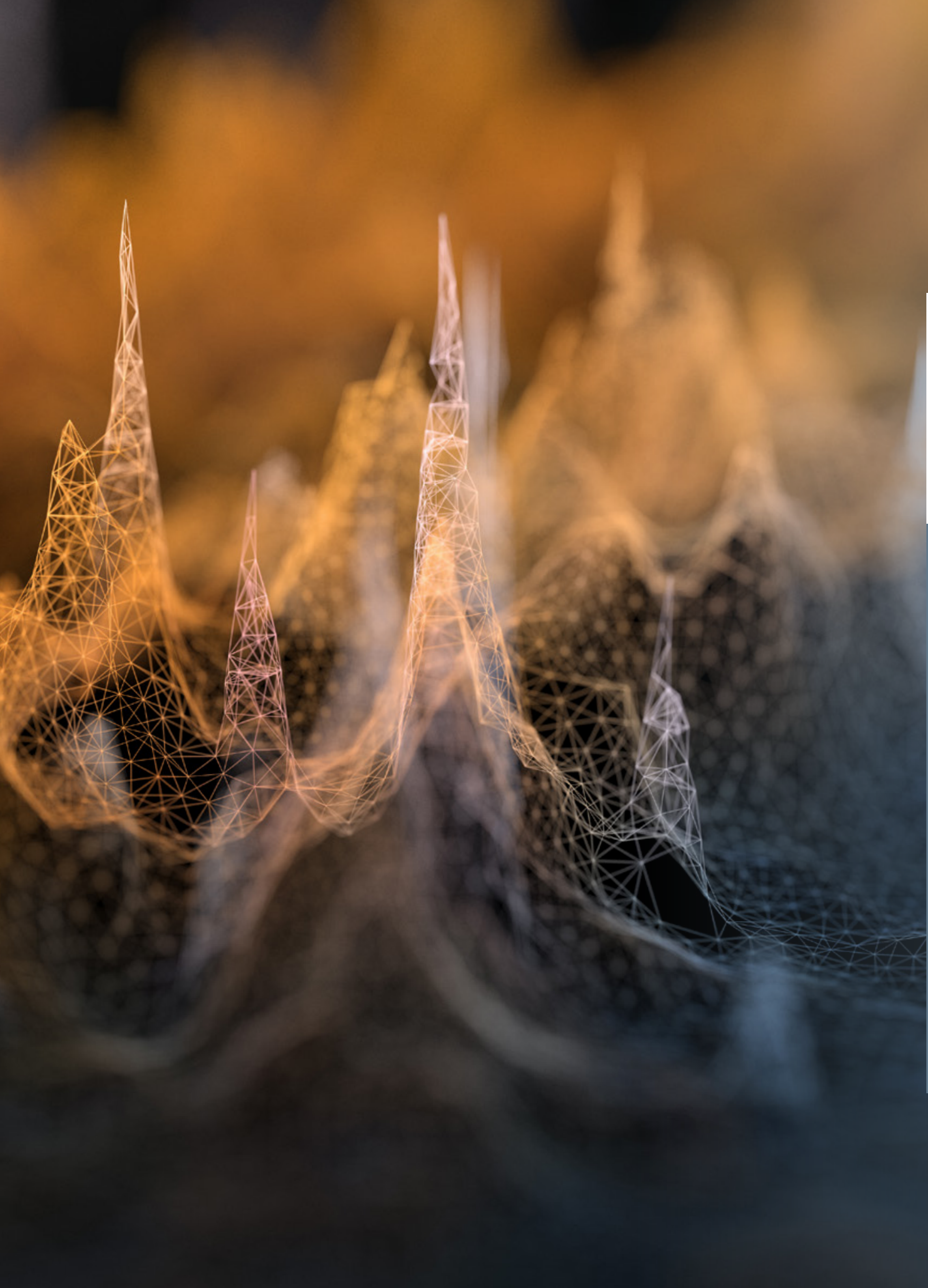


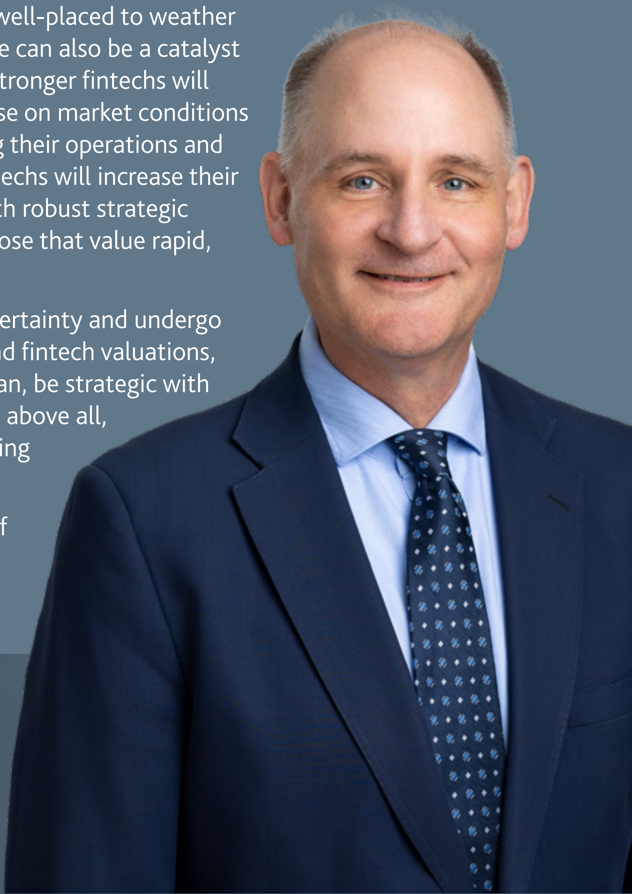
FOREWORD

Australia's overall economic outlook remains strong with the International Monetary Fund (IMF) forecasting the economy to grow by 1.6 per cent in 2023, outperforming other advanced economies around the world. However, our domestic economy, and the fintech ecosystem, are not immune to global macroeconomic conditions which continue to create a level of uncertainty and disruption to an otherwise booming fintech industry in Australia.

For fintechs who are opportunistic and well-placed to weather economic headwinds, market turbulence can also be a catalyst for innovation and new opportunities. Stronger fintechs will benefit from the opportunity to capitalise on market conditions from competitors who are consolidating their operations and preserving capital. Ultimately, these fintechs will increase their market share and presence. Fintechs with robust strategic plans and structures will long outlast those that value rapid, and often unsustainable, growth.

As we remain in the thick of market uncertainty and undergo a correction of the technology sector and fintech valuations, companies must continue to forward plan, be strategic with their operations and capital runway and above all, remain agile and adapt rapidly to changing conditions as they arise.

This publication serves as an overview of the current market and a guide to weathering uncertainty.



TIM AMAN
BDO GLOBAL LEADER
FINTECH

AUSTRALIAN FINTECH OVERVIEW

Australia's fintech ecosystem has grown exponentially in recent years, fuelled by a combination of innovative ideas, supportive regulatory frameworks, and an ever-increasing demand for convenient and customer-centric financial services. Fintechs are challenging traditional banking models, empowering consumers, and driving digital transformation across various sectors.

Innovative technologies such as artificial intelligence, blockchain, and machine learning are at the forefront of Australian fintechs, enabling them to offer disruptive solutions in areas such as payments, lending, wealth management, insurance, and regulatory compliance. Moreover, the rise of open banking initiatives has paved the way for increased collaboration between fintechs and traditional financial institutions, fostering an environment of co-creation and partnership.

Australia currently ranks sixth in the world for fintech, based on the Global Fintech Index, and second in Asia-Pacific. Australia's fintech industry is now worth more than US$4 billion (AU$5.87 billion). The sector has also significantly matured in the past year, with the majority (78 per cent) of fintechs now at a post-revenue stage, up from 70 per cent in 2021.

Click here to view the current FinTech Australia market map.

Current FinTech Australia market map as at August 2023

REGULATION AND GOVERNMENT SUPPORT

With the Australian Government's commitment to fostering fintech innovation and the country's robust digital infrastructure, the future remains promising for Australian fintechs. Updates to regulation and standards of conduct continue to evolve, with the Government announcing changes for open banking, Buy Now Pay Later (BNPL), blockchain, Central Bank Digital Currency (CBDC), and more.

The Australian Government announced in May 2023 that it will be regulating the BNPL industry, treating BNPL as credit products. The Australian Securities & Investment Commission (ASIC) has also been working on regulating misleading or false financial advice, taking action on fintechs who are not in compliance with regulations.

The Reserve Bank of Australia (RBA), in collaboration with the Digital Finance Cooperative Research Centre (DFCRC), also held an invitation-only conference in Sydney for participants in the Australian CBDC pilot project where they successfully completed the first real-world, cross-border settlement using the pilot CBDC.

BALANCING INNOVATION WITH REGULATION

The Australian Government faces a complex task of balancing the regulation of fintechs with incentivising their growth and innovation. While regulation is essential to safeguard consumer interests and maintain financial stability, it can also inadvertently stifle innovation if not carefully implemented.

One challenge lies in striking the right balance between protecting consumers and allowing fintechs to operate with agility and flexibility. Fintechs often operate in emerging areas where traditional regulations may not fully address their unique business models and technological advancements. This regulatory lag can hinder their growth and deter potential investors.

Another challenge is the need for regulatory clarity and consistency. Fintechs operate in a rapidly evolving landscape, and unclear or inconsistent regulations can create uncertainty, impeding their ability to plan and expand. A streamlined regulatory framework that keeps pace with technological advancements is crucial to foster innovation.

Moreover, balancing regulation with innovation requires collaboration and effective communication between fintechs and regulatory bodies. Close cooperation can ensure that regulations are informed by industry insights while addressing potential risks and protecting consumers.

By addressing these challenges, the Australian Government can create a regulatory environment that encourages fintech innovation, supports competition, protects consumers, and ensures the overall stability of the financial system.

MACROECONOMIC OVERVIEW

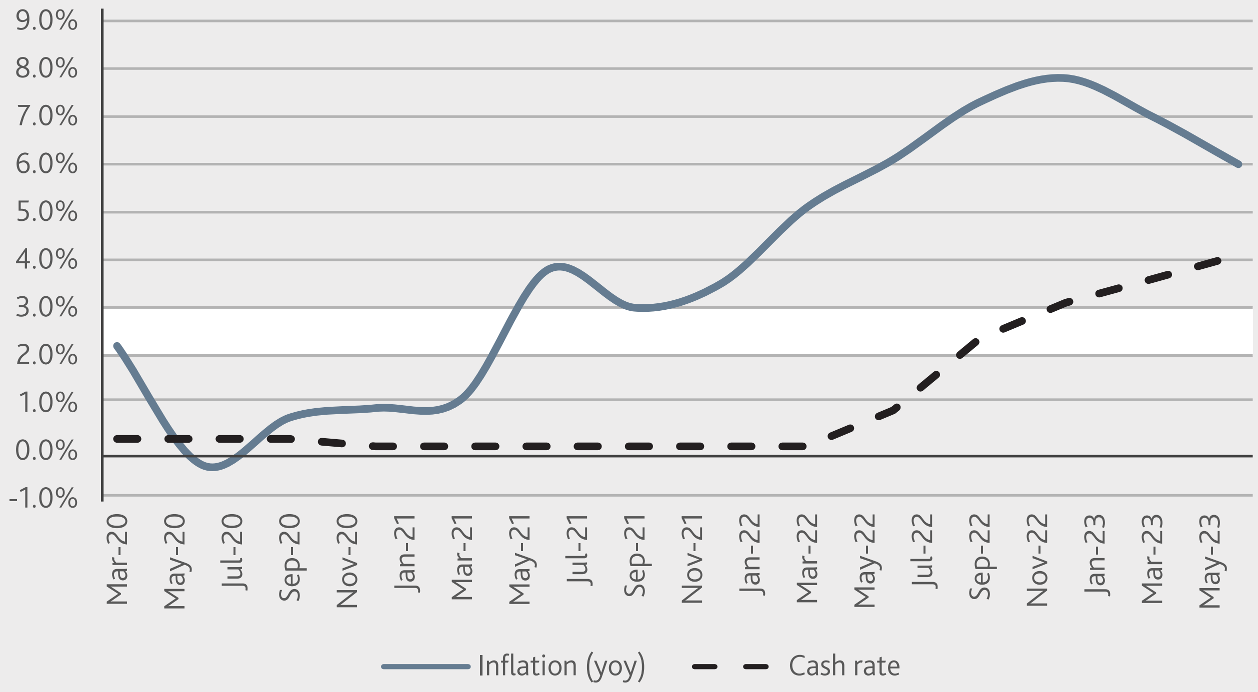
Australia has been experiencing high levels of inflation, resulting from breaks in global supply chains due to of the COVID-19 pandemic, natural disasters, and strong consumer demand. This issue was further exacerbated by an energy supply disruption following Russia's invasion of Ukraine. In addition, the monetary and fiscal policy response to the pandemic underpinned a strong recovery in consumer demand that has pushed up costs and prices.

Over the twelve months to the June 2023 quarter, there was a six per cent increase in inflation, well above the Reserve Bank of Australia's (RBA) target range of 2-3 per cent, resulting in continued hikes in the cash rate. However, inflation slowed in the June quarter, with the quarterly rise being the lowest since September 2021, marking the second consecutive quarter of lower annual inflation, from the peak of 7.8 per cent in the December 2022 quarter.

The slowing of inflation has led to the RBA to cease the recent increases in the cash rate. The last two months (as at August 2023) have seen the interest rate remain on hold, after seeing twelve increases over the previous thirteen months (where the cash rate has risen from 0.1 per cent to 4.1 per cent).

Further rate increases by the RBA may be determined by the release of Australian wages data by the Australian Bureau of Statistics. The data, scheduled to be released in September 2023, will reflect the June 2023 quarter and whether inflation is slowing at a sufficient pace.

INFLATION AND CASH RATE, AUSTRALIA



UNDERSTANDING THE IMPLICATIONS OF RISING INTEREST RATES

High inflation and rising interest rates will continue to have a negative impact on the wider economy. As the cost of borrowing for consumers and businesses increases, there will be a decrease in purchasing power, resulting in higher levels of price competitiveness, increased uncertainty, and reduced standards of living. High inflation effects everyone and damages the economy by eroding the value of savings, which hurts household budgets and makes it harder for businesses to plan and invest.

For fintechs and traditional financial institutions, the extent of how cash rate changes impact their companies depends on a range of factors. These factors include the company's specific business model, their sources of funding and product offering, as well as broader economic conditions and the regulatory environment.

Traditional financial services companies, such as banks and insurance companies, will feel the changes in the cash rate to a greater extent, as they rely heavily on interest income to fund their operations. As interest rates climb, they face higher expenses when procuring funds. The rising cost of capital influences everything from mortgages to business loans. This not only affects profit margins but also trickles down to consumers and businesses seeking financing, potentially dampening borrowing demand and constraining economic growth. While higher interest rates mean that the loans extended by these institutions become more lucrative, the demand for loans might diminish due to the increased borrowing costs, limiting the potential expansion of their lending portfolios. Striking the right balance between profitability and customer demand becomes a challenge to be addressed.

Fintechs that offer alternative sources of funding, such as peer-to-peer lending or crowdfunding, may be less affected by changes in the cash rate, compared with organisations that rely on traditional borrowing pathways.

WEATHERING A RECESSION

A recession can have significant implications for fintechs and other financial services companies. However, the ability to adapt, innovate and respond to a changing market may unlock new opportunities.

Companies with a focus on interest-yielding products may benefit from clients who are holding their cash in savings and may be seeking higher yields. There may also be more opportunities to service clients who will need debt management and debt relief guidance, or increased assistance with digital banking and budgeting tools.

The fears of a recession are widespread in the current environment. The financial needs of consumers and businesses will no doubt increase – especially in terms of extending the life of their financed assets or obtaining restructuring assistance.

As traditional financial services companies struggle during a recession due to conventional product mixes, they may become more aggressive in their efforts to compete with fintechs. There may also be increased impact through regulatory mechanisms which often favour traditional financial institutions.

OPPORTUNITIES FOR FINTECHS

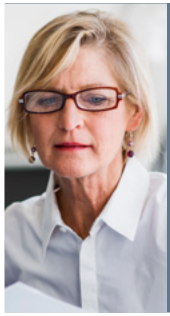
Despite the challenges, a recession can also create opportunities for fintechs to innovate and develop new products or services to meet the changing needs of consumers and businesses and provide alternative solutions to the industry. Even in a challenging economic environment, the innovative technology employed by fintechs will drive faster services and products at a lower cost than traditional financial institutions.

UNDERSTANDING FINTECH FAILURES AND DEBT RESTRUCTURING

CAUSES OF FINTECH FAILURES

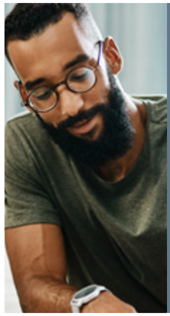
There has been an increase in the number of fintech failures in 2022, with the 2023 run rate of failure suggesting that this trend is set to continue. Many fintechs in Australia have struggled to demonstrate sustainable business models and generate consistent revenues.

The most common challenges for fintechs have been identified as:

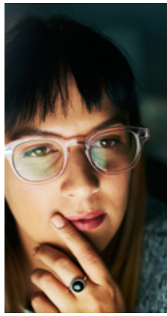


Access to capital
While fintechs often leverage technology to streamline financial services, they still require significant capital for research and development, operational expenses, and scaling their businesses. Access to funding can be challenging, especially for early-stage startups or those with unproven business models.

Profitability and revenue generation
Achieving profitability can be difficult for fintechs due to high initial costs, competition, and the need to scale rapidly. Developing sustainable revenue models that generate consistent income is a crucial challenge, especially when many fintechs offer low-cost or free services.

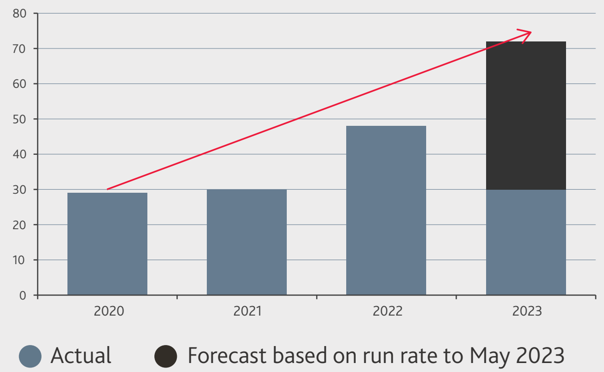


Scalability and infrastructure
As fintechs grow and expand their services, scalability becomes a challenge. Managing increased transaction volumes, maintaining system uptime, and ensuring infrastructure can handle growing demands require significant investments in technology and operational capabilities.



Long term, affordable wholesale funding
Many fintechs operate businesses that provide credit services that require wholesale funding, including online lenders, digital banks, BNPL, and invoice financing.
One significant challenge for fintechs in obtaining wholesale funding lies in establishing credibility and demonstrating their ability to generate sustainable returns. Without this track record, fintechs typically obtain wholesale funding that is short term and expensive.

UNDERSTANDING FINTECH FAILURES AND DEBT RESTRUCTURING



The figure opposite demonstrates the number of insolvency appointments since 2020.

ACCESSING CAPITAL IN THE WHOLESALE MARKETS

Fintechs providing credit services have the difficult task of managing their funding. In Australia, those without Australian Prudential Regulation Authority (APRA) oversight will not have the benefit of being an Authorised Deposit-taking Institution (ADI) are unable to take deposits from retail investors. Fintechs without the ADI accreditation can only access corporate credit or wholesale markets.

Ripples started appearing in the wholesale markets in early 2023 as the aggressive tightening of cash rates by central banks around the world started affecting all lenders, and the available capital in the wholesale markets were re-priced. These ripples grew to waves in March 2023 when Silicon Valley Bank collapsed, smaller banks in the US faltered, and then Credit Suisse also collapsed, forcing a merger with UBS.

Wholesale debt investors have been wary of the solvency of smaller lenders and conscious of the recoverability of loans on their books - especially in commercial property and other areas of higher risk lending. Unfortunately these concerns have a habit of triggering other issues. As some wholesale lenders pull back or tighten their own credit appetite, the wholesale borrowers will need to be more cautious with their own loan growth. Typically, if there is uncertainty in the funds available to lend to wholesale borrowers, most retail lenders will also start to tighten up their credit appetite or raise interest rates further to temper loan growth.

UNDERSTANDING FINTECH FAILURES AND DEBT RESTRUCTURING

IDENTIFYING THE FINTECHS MOST AT RISK

Fintechs with a reliance on wholesale markets and are lending to riskier segments of the market, are the first to experience adverse effects. These fintechs are further up the risk curve and usually include credit card lenders, unsecured personal loans, short term business overdrafts and lines of credit, and startup business funding etc.

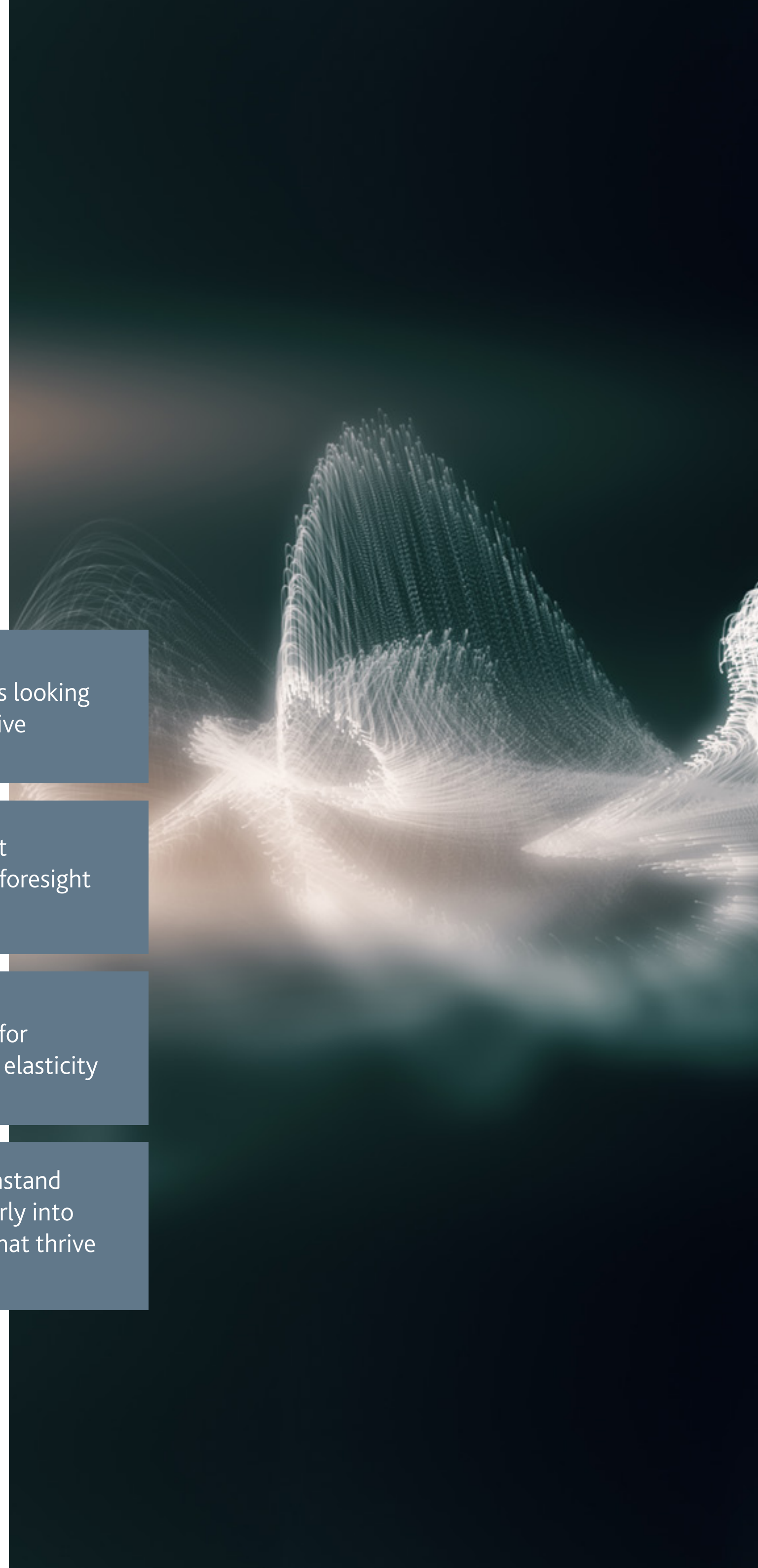
Wholesale lenders to these fintechs may refuse to roll-over debt investments or they may demand higher interest rates to compensate for the increased risk. Capital is constrained, or more expensive, as the underlying borrowers themselves are also facing economic headwinds.

Fintech lenders higher up the risk curve will probably find themselves unable to access funding at all, or at least not at a cost that is viable for their business model. These fintechs will need to prove they understand their loan book and its risks, and that they have taken early action to manage any arising problems.

RECESSION READINESS BEST PRACTICES

Fintechs need to prepare prior to even the first signs of financial distress appearing. Our specialists recommend:

- Cash needs to be a key focus for resilient businesses looking to capitalise and weaker businesses looking to survive
- For organisations in good financial standing, market turbulence creates opportunity — if they have the foresight and agility to seize it
- A downturn may require more defensive measures for organisations with tighter finances or high demand elasticity
- Building strategic resilience (or the capacity to withstand business shocks and pivot to new opportunities) early into an economic downcycle separates the businesses that thrive from those that struggle.



THE STATE OF FUNDING

Australia's fintech industry has witnessed remarkable growth in recent years, fuelled by technological advancements and a supportive regulatory environment. To sustain this momentum, fintech companies rely heavily on capital raising to fund their operations, develop innovative solutions, and scale their businesses.

IS THE FINTECH BOOM BEHIND US?

The fintech sector in Australia experienced a significant boom in the past five years, attracting considerable investor interest both domestically and internationally. The rapid evolution of digital payment systems, blockchain technology, robo-advisory services, and peer-to-peer lending platforms has created immense opportunities for innovative startups. Investors have recognised the potential for disruptive fintech solutions, leading to increased funding options and strong support from venture capital firms, angel investors, and traditional financial institutions.

However, the last twelve months (LTM) has seen a downturn in deal flow and many fintechs are struggling to raise capital, particularly at the valuations they have come to expect in previous few years. The current issue with capital raising is not due to limited availability of capital - as there is a historic level of dry powder in the market – rather, it is an issue of a fintech's valuation. There is a mismatch in the market between the expectations of an investor, and that of the founder – many of whom are holding out for better valuations.

In the last twelve months trailing June 2023, there have been 33 venture capital deals in financial services, amounting to a deal value of US$556 million, or ~AU$840 million, compared to the LTM trailing June 2022, where there were 68 deals amounting to a deal value of US$2,033 million, or ~AU$3,071 million (source: Preqin).

SATURATION IN MARKET

The boom in new fintechs has also led to a saturation in the marketplace, further affecting valuations. There is a lot of competition with fintechs trying to acquire the same type of customers. This is driven by the well-publicised stories of Australian unicorns like Afterpay and Zip, but it is worth noting that early success of fintechs was driven by the first-mover advantage (being the first or one of the earliest entrants to the market).

The saturation of fintechs in the market has also led to a re-direction of capital to other sectors, such as health or other tech-enabled businesses. However, this is likely just a temporary market correction and not a sign that fintech's sector will be deserted by investors in the long term.

THE STATE OF FUNDING

INVESTORS ARE INCREASINGLY RISK AVERSE

Many funded fintechs are not achieving the scale and rapid levels of growth that investors anticipated, which in turn is leading to a higher level of risk aversion from investors.

Investors are conducting more rigorous due diligence on all deals that come across their desk, with many sophisticated investors implementing new risk matrixes with very low margins for variation. That is, if exact requirements aren't sufficiently met in terms of the fintech's systems, management practices, finances and forecasts, deals might be dropped entirely without leeway for additional negotiation or discussion.

DUE DILIGENCE BEST PRACTICES FOR FINTECHS

In order to facilitate a smooth due diligence process, we recommend:

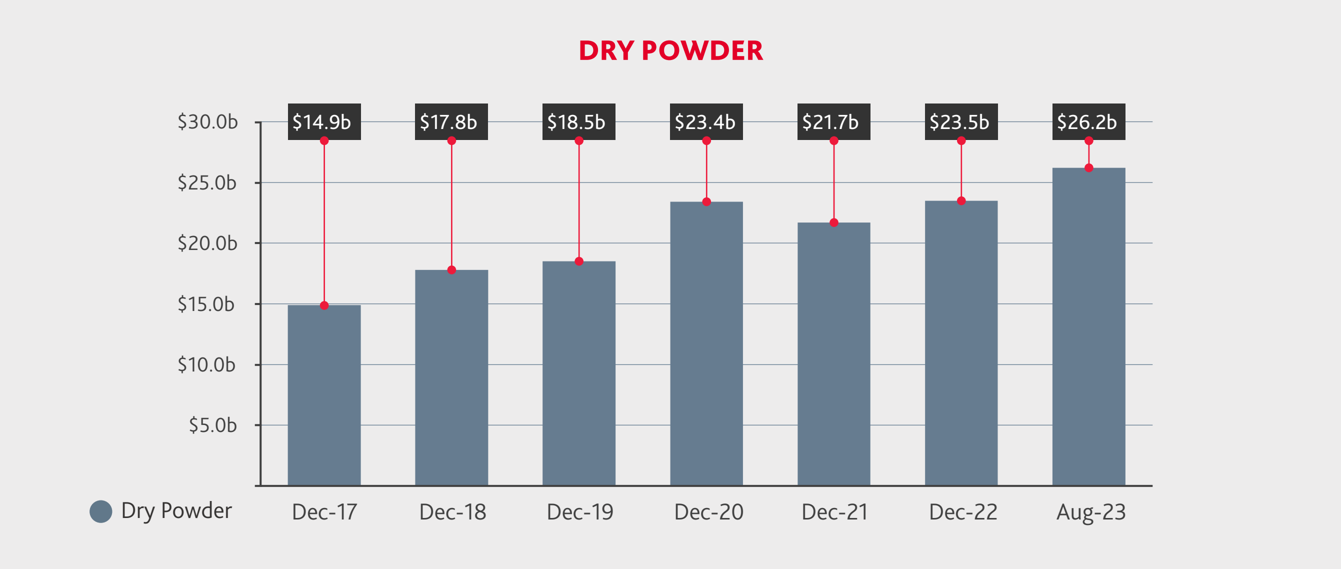
- **Being aware of the time commitments** – time will be required from the finance and leadership teams. Ensure there is capacity in the team to offer this time without neglecting the day-to-day requirements of the business
- **Preparing key information sets in advance of the process** – high priority financial requests will include historical monthly management accounts (P&L and balance sheet) and cash flow detail. Key operational agreements such as customer and supplier contracts will also be important
- **Preparing a detailed and realistic forecast model** – a forecast that is supported by a pipeline of new customers or detailed customer wins/churn data will be viewed more favourably. Key forecast assumptions, especially in a high-growth company, will be interrogated by investors
- **Being able to clearly articulate the company's story** – explaining the historical trading of the company and the impact of any one-off events will help investors to understand the company's trajectory and the underlying profitability.

THE STATE OF FUNDING

CAPITAL RAISING OUTLOOK

Historically, fund managers in venture capital and private equity look to deploy their capital in times of economic downturn as there are greater opportunities to execute deals at a better value. All funds have an investment mandate to deploy their funds and realise the vestment, typically within a three-to-five-year span.

This means that there is no incentive for funds to keep the dry powder, and while due diligence has increased and funds are more risk averse, funds will need to invest their capital eventually, if not soon. As at August 2023, Australian-based fund managers are holding ~US$26 billion in dry powder, compared to December 2017 where they held only ~US$14 billion.



There is also a lot of interest from international funds who are interested in the high-quality companies and technology offerings emerging in Australia's market. However, from the fintech's perspective, now is not an opportune period to raise large amounts of capital as the depressed valuations could lead to high levels of equity dilution.

FINTECH FAILURES SUGGEST AN INCREASING NEED FOR GROWTH STRUCTURING AND PLANNING

There are many examples of businesses founded on a great idea, which ultimately fail when they lose sight of their goals or are unable to effectively manage rapid growth. Intentional, planned growth and an effective strategic plan are the best defences against this scenario.

The fintech sector is particularly vulnerable to the downsides of rapid growth, compared to other sectors. In an industry where innovation, new technology and customer acquisition are integral to the very existence of the business, it's easy for the focus to remain on platform and product development, and less on ensuring adequate runway and improving the efficiencies of the business' operations.

According to CB Insights data collected from founders of technology startups, the top five reasons startups fail are cited as:

TOP FIVE REASONS WHY STARTUPS FAIL

1. **38** per cent — Ran out of cash or failed to raise new capital
2. **35** per cent — No market need
3. **20** per cent — Were outcompeted
4. **19** per cent — Flawed business model
5. **18** per cent — Regulatory or legal challenges

However, it is worth noting that the reasons are from the perspective of the founders and may not be entirely accurate or objective – they are also reflective of the wider technology industry rather than just fintech. Issues such as running out of cash or failing to raise new capital may be a symptom of another problem within the founder, the team, the business or the product, or financial literacy.

FINTECH FAILURES SUGGEST AN INCREASING NEED FOR GROWTH STRUCTURING AND PLANNING

SLOWING DOWN – IT'S A MARATHON, NOT A SPRINT

The 2022 State of Australian Startup Funding report suggests that over 60 per cent of investors in Australia believe that valuations have declined by 30 per cent or more compared to 2021. Approximately 17 per cent of investors believe that valuations dropped by more than 50 per cent.

After a historic few years of heightened valuations and a fixation on the fintech sector, investor, retail, and media sentiment are now cooling off the fintech hype. Overall, investors are slowing down their investment cadence and prioritising the wellbeing of their current portfolios. Around 55 per cent of venture capital firms reported that half of their investments were follow-on investments in current portfolio companies, and 80 per cent reported doing at least one internal or bridging round that went unannounced.

Furthermore, most fintechs are not achieving the multiples that investors initially anticipated and 90 per cent of investors have reported telling their portfolio companies to reduce spending to increase their cash runway (source: The State of Australian Startup Funding).

Fintechs previously prioritised being the first to market, but with such a heavy market saturation of fintechs and similar product offerings, the key now lies in being the most efficient and operationally-sound in market. Investor sentiment has also shifted from prioritising rapid growth to a focus on sustainable growth with a path to profitability and positive cash flow. Growth structuring and planning for the long-term is not only the best way for fintechs to weather the market headwinds but it will also improve investor confidence.

FINTECH FAILURES SUGGEST AN INCREASING NEED FOR GROWTH STRUCTURING AND PLANNING

FINANCIAL MANAGEMENT BEST PRACTICES FOR FINTECHS

Fintechs that can demonstrate effective financial management and governance will find themselves ahead of the pack when seeking to raise capital and with higher levels of internal stakeholder confidence. Fintechs should prioritise:

Budgeting, forecasting, and modelling

If prepared correctly and with a thorough understanding of the business, budgets can help estimate revenue, expenses and cashflow. Forecasting will also allow business owners and leadership to gauge their future position according to different scenarios. By assessing the current state and past performance of the business, fintechs will be able to determine how they should allocate their resources and future budgets.

Managing your capital

In times of uncertainty and economic change, keeping an eye on a business' cash position is crucial. Having constant visibility over profit and cash flow positions will keep a fintech from missing crucial financial goals and help set attainable cash flow goals in the future.

Accurate and complete reporting

While financial statements provide important information, such as the level of profit or debt, they do not provide a complete picture of the performance of the business. Implementing robust management reporting standards and KPI dashboards, together with proper financial analysis and commentary, will help a fintech assess the financial impact of their future strategic and operational decisions.

FINTECH FAILURES SUGGEST AN INCREASING NEED FOR GROWTH STRUCTURING AND PLANNING

MITIGATING THE RISKS OF UNCONTROLLED GROWTH

Australian fintechs who are fortunate enough to avoid the current economic headwinds should also look beyond being fiscally responsible and take a proactive approach to mitigate the risks of uncontrolled growth. The rapidly evolving market conditions may take some fintechs by surprise over the next twelve months.

Fintechs who are growing rapidly should ask themselves the following questions:

- Has a robust strategic plan been created, and is there a clear understanding of how it will be implemented?
- Is there a risk management strategy and a plan for the 'what ifs'?
- Are there scalable processes and operational systems in place?
- How are current and future resourcing requirements being managed?
- Is there sufficient working capital and runway for the next twelve months?
- Is there a mutual understanding of what success looks like, across senior hires and employees?
- Is there any confusion about the company's core culture?

Fintechs looking to weather the economic uncertainty in the period ahead would benefit from taking a proactive approach to planning and growth structuring. Growth is an important goal for every company but there are risks that come with uncontrolled growth. Fintechs at all stages of growth may also benefit from refocusing some of their short-term growth goals, to maximising their operational efficiency.

TAX INCENTIVES FOR AUSTRALIAN FINTECHS

As access to private investors and funding tightens around the world, fintechs can benefit from the financial support provided by the Australian Federal Government through its Research & Development (R&D) Tax Incentive.

The R&D Tax Incentive is a pre-eminent initiative that aims to incentivise innovation and knowledge generation in Australia by providing access to two different types of tax offsets, depending on the fintech's stage of business.

OVERVIEW OF THE INCENTIVES

For earlier stage startups with aggregated turnover of less than $20 million, a refundable tax offset is available to assist with cash flow. This is calculated as the fintech's corporate tax rate, plus an 18.5 per cent premium.

As for larger, more established fintechs with aggregated turnover of $20 million or more, the scheme is aimed at reducing the effective cost of undertaking R&D activities in Australia. This non-refundable tax offset is their corporate tax rate plus an incremental premium.

The below table provides an overview of the R&D thresholds, effective for income periods from 1 July 2021.

Turnover	Corporate Tax Rate	R&D Offset Rate	Total Offset Rate	Refundable?
0 - $20 mil	25%	18.5%	43.5%	Yes
$20 mil - $50 mil	25%	8.5%/16.5%	33.5%/41.5%	No
$50 mil+	30%	8.5%/16.5%	38.5%/46.5%	No

DEFINING FINTECH ELIGIBILITY FOR R&D

During COVID-19, the Australian Government faced significant media and public pressure to ensure that investment in Australian companies was preserved. These pressures were a driving force for the updates to the R&D incentives that are now in place.

However, not all elements of software development are considered eligible R&D activity. In April 2022, long-awaited updates to the software sector guidance were released. Taxpayer Alerts TA 2017/3 'ordinary business activities' and TA 2017/5 'software development activities' seek to explore examples of activities, and also clarifies issues specific to fintechs.

The most common areas of R&D activity in fintechs are in areas of technology or software advancements that aim to add functionality, improve performance, or enhance data security for traditional financial services. These include:

- Artificial intelligence and machine learning capabilities
- Expansion into decentralised and blockchain-based cryptocurrencies
- Cybersecurity enhancements
- Diversification of the traditional retail bank into Open Banking
- Enhanced integration of consumers, vendors, and government regulators.

TAX INCENTIVES FOR AUSTRALIAN FINTECHS

R&D SELF-ASSESSMENT BEST PRACTICES

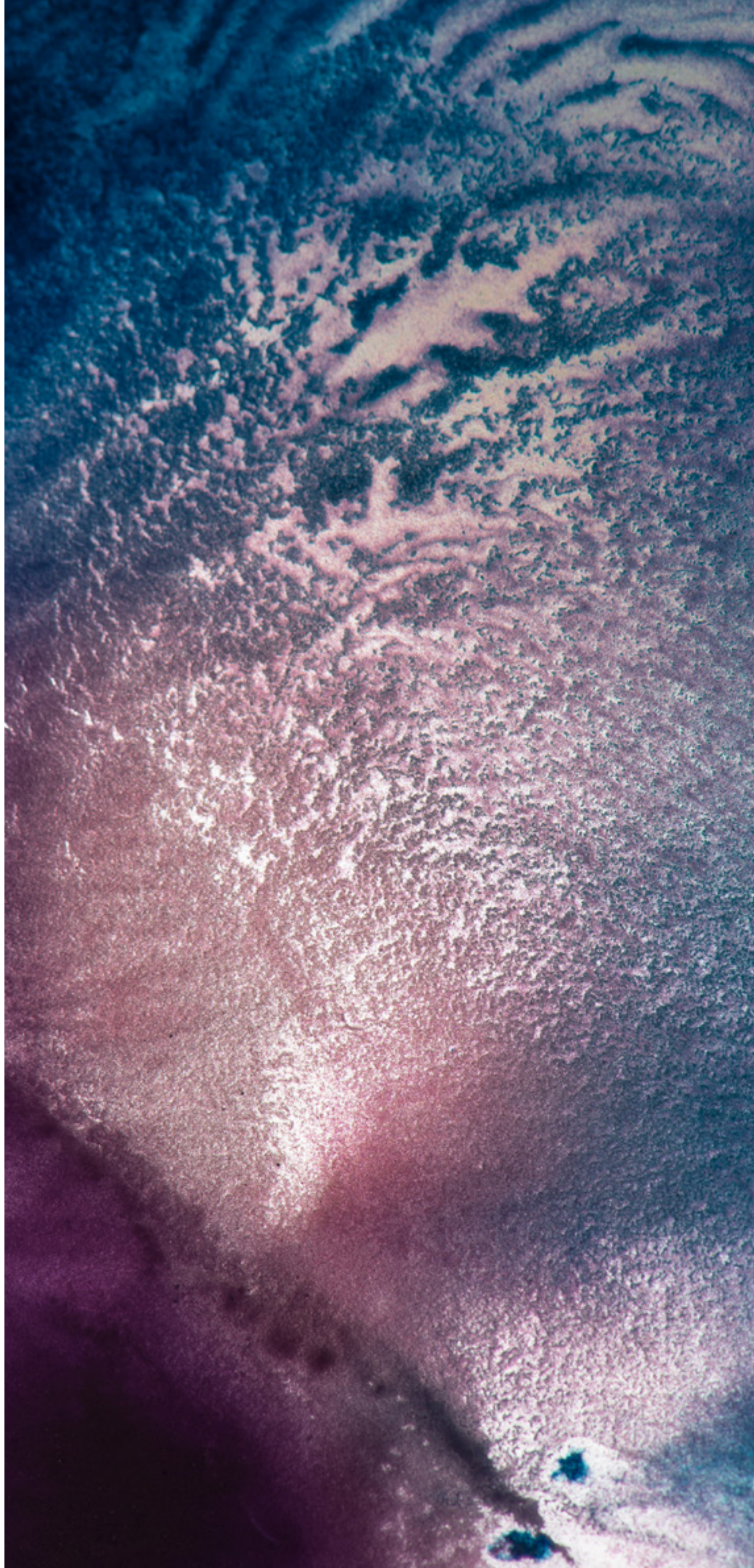
The R&D Tax Incentive is a program where a fintech must self-assess their entity's eligibility, as well as the eligibility of the registered R&D activities and associated R&D expenditure. It is critical to ensure that sufficient documentation is available to support the registration and claims.

Examples of what AusIndustry and the ATO expect from an R&D claimant include:

- A robust internal governance process that identifies and separates R&D activity from non-experimental development activity
- Preparation of evidence, recorded at the time the R&D activities are conducted, to prove that the registered activities took place and how the eligibility criteria have been met, such as:
    - Competitor/technology analysis
    - Development tickets/logs
    - Functional and non-functional test results.
- Documented methodologies and evidence to prove linkages between registered R&D activities and claimed R&D expenditure, such as:
    - Timesheets tracked to a detailed activity-level
    - Detailed descriptions of tasks carried out by external contractors
    - Detailed analysis of aggregated turnover (applicable where R&D claimants are accessing the refundable tax offset).

The Australian Government's R&D Tax Incentive enables fintechs to receive financial support in their development activities and is one of few remaining government initiatives that supports the technology sector. While the past few years has seen the introduction of new grants, programs, and incentives for technology businesses broadly, it has also seen the equally rapid shuttering of these programs at the local and state level as the economy continues to contract and local governments look for ways to preserve their budgets.

Fintechs with strong R&D activity and unique innovations should utilise any government incentives available to support their cash flow while developing their products and services.



FINTECH'S FUTURE IN AUSTRALIA

Central banks, governments and media across the world have been warning of the likelihood of a recession for some months now. Australia is of no exception, with some of the largest banks across the country predicting a 'consumer recession' in 2023. The probability of Australia slipping into a recession continues to rise as Australia's central bank, the RBA, continues to hike the cash rate.

It is hoped that if Australia slips into a recession, it will be a 'technical recession' – defined as two consecutive quarters of negative growth. According to Australia and New Zealand Banking Group (ANZ), a consumer recession would result in a wider pullback in spending, including on services, and will limit household consumption growth.

As with any recession, some businesses will struggle to weather the economic storm, and others will find new opportunities and ways to adapt. Some fintech players may fold, leaving gaps in the market for new entrants, or there may be new merger or acquisition opportunities that would otherwise be off the table.

Ultimately, preparation is the key to getting through a potential recession. Understanding the operations, strategic plans, risk mitigation, and cash flow of a fintech, has never been more vital than it is now. As the capital markets also undergo a correction and funding options are increasingly limited, fintechs must preserve their cash flow and stretch their runway where possible.

BDO'S SERVICES FOR FINTECHS

BDO in Australia has a team of dedicated fintech experts to help you navigate the current economic uncertainty and prepare for a recession. Our specialists provide support at every stage of the business lifecycle and provide consultation in areas such as business restructuring, growth strategy and planning, as well as capital raising, R&D assistance and more.

Contact our team to hear more about our services and how we can assist you.

ABOUT BDO

BDO IN AUSTRALIA

BDO was established as an association of firms in Australia in 1975. Today, we are one of Australia's largest accounting, audit and advisory organisations, with offices in New South Wales, Northern Territory, Queensland, South Australia, Tasmania, Victoria, and Western Australia.

We support clients of all types and sizes, from large corporate organisations to private businesses, start-ups, entrepreneurs, and individuals across an array of industries and sectors.

We're working towards a strong future as a global organisation built on local relationships and exceptional client service.

OUR GLOBAL PRESENCE

BDO's global network extends across 164 countries and territories, with over 111,300 people working out of 1,803 offices.
We're all working towards one goal: to provide you with exceptional client service. That means local resources who understand your business and industry, backed by a truly global network.

No matter where you do business, we have people who know your business.

IDEAS | PEOPLE | TRUST

CONTACTS

TIM AMAN
Global Leader, Fintech
National Leader, Financial Services
T: +61 2 8264 6537
Tim.Aman@bdo.com.au

ALLY FLINT
Partner, Project & Infrastructure Advisory
T: +61 7 3173 5443
Ally.Flint@bdo.com.au

ANDREW SALLWAY
National Leader,
Business Restructuring
T: +61 403 380 382
Andrew.Sallway@bdo.com.au

SEBASTIAN STEVENS
National Leader, Private Equity
Partner, Corporate Finance
T: +61 2 9240 9725
Sebastian.Stevens@bdo.com.au

NICHOLAS PARRY
Partner, Government Incentives and Indirect Taxes
T: +61 2 9240 9757
Nicholas.Parry@bdo.com.au

JAMES AINSWORTH
Partner, Business Services
T: +61 2 8264 6531
James.Ainsworth@bdo.com.au

1300 138 991

www.bdo.com.au

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