



FINTECH M&A

UNLOCKING THE BENEFITS OF DISRUPTIVE TECHNOLOGY

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BDO

INTRODUCTION ABOUT BDO

BDO: PROFILE AND POSITIONING

BDO is one of the world's leading auditing and consulting firms.

We are an entrepreneurial network and a professional partner for regional companies and global groups alike.

We aim to provide auditing and consulting services and support of the highest quality. We act with foresight, create added value and proactively approach our clients.

BDO FINANCIAL SERVICES

BDO's strategy is ambitious: To further expand its strong market position in the financial services industry.

Today, BDO's industry specialists provide consulting and auditing services to leading banks, investment managers and insurance companies.

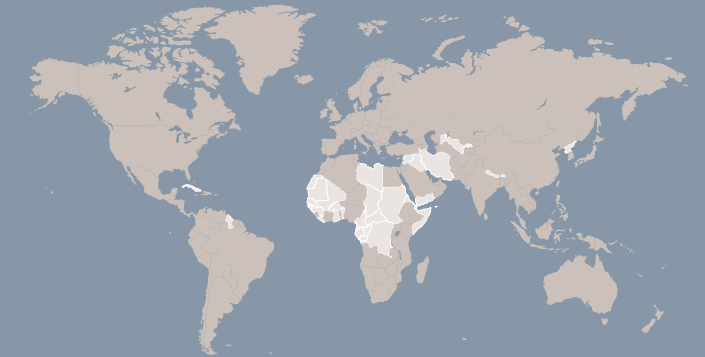
More than 1,000 employees focus on financial services, including auditors, tax consultants, lawyers and other specialists, for example in the fields of compliance, IT, M&A and business valuation.

High quality, strong motivation and independence serve as a benchmark for everything we do.

BDO INTERNATIONAL

US \$ 8.1 billion
2017 REVENUE

162 Countries
1,500 offices
73,850 Staff



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SEVEN CENTRAL THEMES OF FINTECH WITH RELEVANCE TO FINANCIAL SERVICES

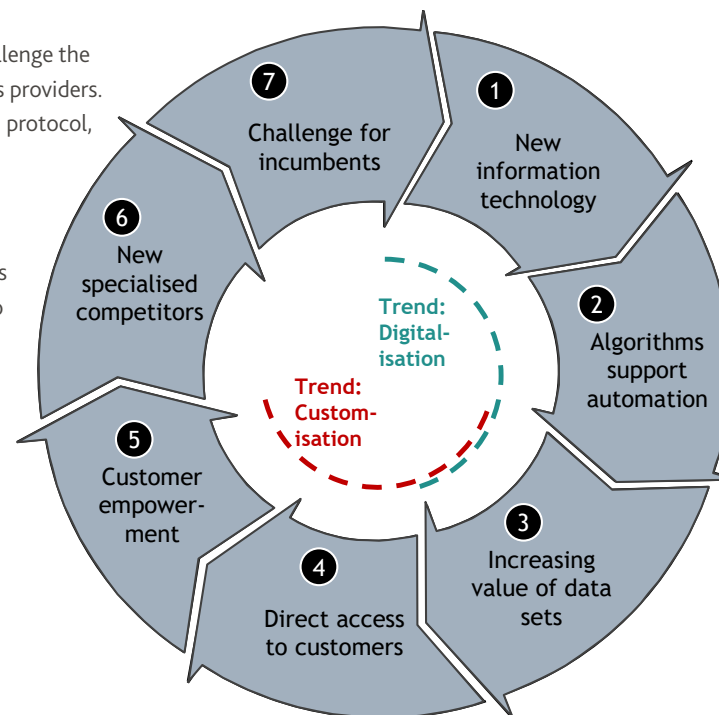
The term Fintech combines the words "financial services" and "technology". Fintech companies are commonly understood to be young, technology-based undertakings that provide specialised and customer-oriented financial services. Given the technology-driven background of Fintech companies, they promote the trend towards digitalisation and customisation.¹⁾ Fintech in the insurance sector is also called Insurtech.

Fintech is seen as being in competition with traditional, regulated financial services providers. However, Fintechs also supplement the services that these offer. The challenge for regulators is to ensure that Fintech develops in a way that maximises the opportunities and minimises the risks for society. For example, the German BaFin has established a new unit that concentrates on innovative financial technologies.

Fintech innovations carry the potential to challenge the business model of traditional financial services providers. Decentralised systems, such as the blockchain protocol, threaten the processes of incumbents.

Highly targeted financial products and services are offered by new market entrants, leading to increased competition, significant regulatory uncertainty and potentially to regulatory arbitrage.

Fintech innovations provide access to previously restricted assets and services. Higher visibility into services and control over choices empower customers.



Aggregation and analysis of information is organised in a new manner, improving connectivity and reducing the marginal costs. Platforms and decentralised technologies play an integral role of such approaches.

Algorithms and computing power support highly automated activities which were previously performed manually. Such new level of automation allows cheaper, faster and more scalable financial products and services.

Data sets are of increasing value as they allow customers and markets to be better understood. Access to such data may lead to competitive advantages in the relevant market.

Fintech innovations may streamline or even eliminate traditional intermediary functions and hence change industry structure, with customers potentially benefiting from lower prices or higher returns.

¹⁾ The Financial Stability Board (FSB) defines Fintech as technologically-enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services.

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HOW DOES FINTECH AFFECT THE FINANCIAL SERVICES SECTORS?

We have identified the most significant trends in banking, asset management, insurance and payment services.



BANKING

Technology plays an integral part in improving operations. Rather than enhancing credit underwriting by non-traditional metrics, banks first and foremost look to increase customer empowerment. In fact, consumer banking appears to be the most likely sector for disruption. Intuitive product design, easier and faster services and new services which are accessible 24/7 are expected to improve customer experience and contribute to an increased customer retention.



ASSET MANAGEMENT

Traditional asset managers are expected to invest in technologies that contribute to improved research tools for decision making and to enhanced operational efficiency. This includes investment decisions without a human investment adviser but based on algorithms which calculate the investment options that are then put forward to the customer as proposals. A plethora of robo advisory platforms are evolving, none of which has reached critical mass.



INSURANCE

For the insurance sector, data analytics to better identify, quantify and manage risk remains an important issue. The question is how insurers can benefit from innovative Fintech (Insurtech) solutions. Such solutions are also directed towards sophisticated customer services, not only in the consumer segment. In this context, technology disruption is an important challenge to the insurance sector and traditional insurers actively monitor and engage with Fintech (Insurtech) companies.



PAYMENT SERVICES

Payment companies are already investing in innovative technology to enhance data security (mobile and cyber security). Fintechs can play an important role to enhance payment services including increased service offerings and new payment options such as blockchain technology. It appears that payment transactions is an area where many consumers already conduct business with Fintech companies.

WAYS FOR INCUMBENT FS PROVIDERS AND FINTECHS TO INTERACT

There is no one-size-fits-all strategy for how traditional financial services firms should interact with Fintech companies. In fact, there are different ways to unlock the benefits of Fintech and make use of the trends towards digitalisation and customisation.

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Buying and integrating Fintechs

Fintech M&A deals will grow over the next years. However, deal sizes are expected to remain rather small as traditional financial services firms will avoid the risk to make large investments into a technology that itself may be disrupted or surpassed by a new technology. Also, enterprise values (EV) of Fintechs have increased over the last years. In 2017, EV/EBITDA multiples for US listed Insurance Technology Firms were as high as 17.8x, compared to 12.4x for the S&P 500 index.

Collaborating on industry platforms

Fintech will change the way financial services firms work together and compete in the market. Standardised industry platforms and technology will be established, with former competitors and Fintechs collaborating. A wave of rather complex M&A deals can be expected, with stakeholders (incumbents as well as Fintechs) jointly ensuring that new technologies can be used across the industry.

Seeding investment and growth capital

Large traditional financial services providers including BBVA, Commerzbank, Munich Re, Ping An, Santander and UniCredit have already set up Fintech funds and incubators. Such funds avoid the integration risk associated with direct investments in Fintechs. Also, from a diversification perspective, a fund model enables traditional financial institutions to spread their capital across a range of young, innovative businesses.

Jointly developing Fintech solutions

While collaboration on standardised industry platforms will be crucial, one can expect that established financial services providers will go further and effectively work together for Fintech solutions. By forming joint ventures and teaming up with peers and young Fintechs, innovative Fintech solutions will be developed jointly. Blockchain technology serves as an example for this approach.

BDO CASE STUDY 1

Client description: A leading European provider of mobile financial services in consumer banking. As a pioneer in the field of financial technology, the client has expanded operations to more than 20 countries since their formation.

Client objective: The client's objective was to successfully complete an IPO, with an intention to use the net proceeds to implement growth strategy and strengthen their equity position.

BDO solution: BDO assisted the Sole Global Arranger and Sole Bookrunner with the preparation of financial due diligence on historical financials, the business plan and regulatory matters. Subsequently, the Fintech was listed on the Frankfurt Stock Exchange with gross proceeds exceeding €100 million.

BDO CASE STUDY 2

Client description: A market leader in online securities business, offering brokerage, banking and advisory services to more than 2 million private customers. Today, the client operates a successful financial website, with approximately 200 million page impressions per month.

Client objective: In order to fuel additional growth and strengthen their position in the market, the client intended to acquire a competitor owning a fast growing finance portal.

BDO solution: BDO and BDO Legal assisted the client with financial, regulatory, tax and legal due diligence. Both BDO and BDO Legal teams supported the client throughout the process providing valuation, negotiation and SPA assistance. Following the closing of the transaction, the client further engaged BDO for post-deal integration support.

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USEFUL CONTACTS

- ▶ Fintech M&A and investment deals will grow substantially over the next few years.
- ▶ Case studies demonstrate how M&A deals can be used to add value to both incumbents and Fintechs. However, direct investments are not the only way to unlock the potential of Fintech.
- ▶ BDO's FS Corporate Finance practices assist both Fintech companies and traditional financial institutions throughout the M&A and investment process, encompassing services around:
 - Strategic advice
 - Advice on compliance with regulatory requirements
 - Buy-side and sell-side lead advisory
 - Valuation advice
 - Transaction services (financial, regulatory, tax, legal due diligence)
 - Contractual and negotiation support (SPA, financial, tax, regulatory)
 - Purchase price allocation (PPA)
 - Post deal integration, project management office
- ▶ Based on partnership agreements, BDO has also supported non profit associations that represent the early-stage investor community and connect investors to early-stage Fintechs, including :
 - EBAN, the European Business Angel Network (www.eban.org)
 - Swiss ICT Investor Club (www.sictic.ch)
 - Fintech Week Hamburg (www.fintechweek.de)

BDO CASE STUDY 3

Client description: An operator of professional digital platforms, which bring suppliers and users together. With the focus of its digital marketplaces on real estate and cars, the client is well-positioned as a market leader in several European countries.

Client objective: In order to accelerate the profitable growth of its automobile marketplace, the client intended to acquire a Fintech - a leading German B2C finance comparison site in the consumer finance sector that allows customers to compare different credit products.

BDO solution: BDO assisted the client with due diligence on the Fintech target including historical financials, the target's stand-alone business plan, regulatory and tax. The client purchased the Fintech for more than €250 million as one of the largest German Fintech acquisitions to date.

BDO CASE STUDY 4

Client description: A fast growing Fintech, operating unique financial technology in the securities transactions business. The client offers its white label banking technology to B2B customers, assisting startups and business models that require a banking license.

Client objective: In order to simplify the group structure consisting of multiple Fintech entities, the client had decided to merge two Fintechs by way of capital increase against contribution in kind.

BDO solution: The client engaged BDO to determine the contribution value. The report prepared by BDO's Fintech valuation experts confirmed that the value of the assets contributed was equal at least to the nominal value of the shares to be issued in exchange for the contribution.

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