AUSTRALIAN FINTECH SURVEY REPORT

June 2022

KPMG Australia

CONTENTS

SECTION 1

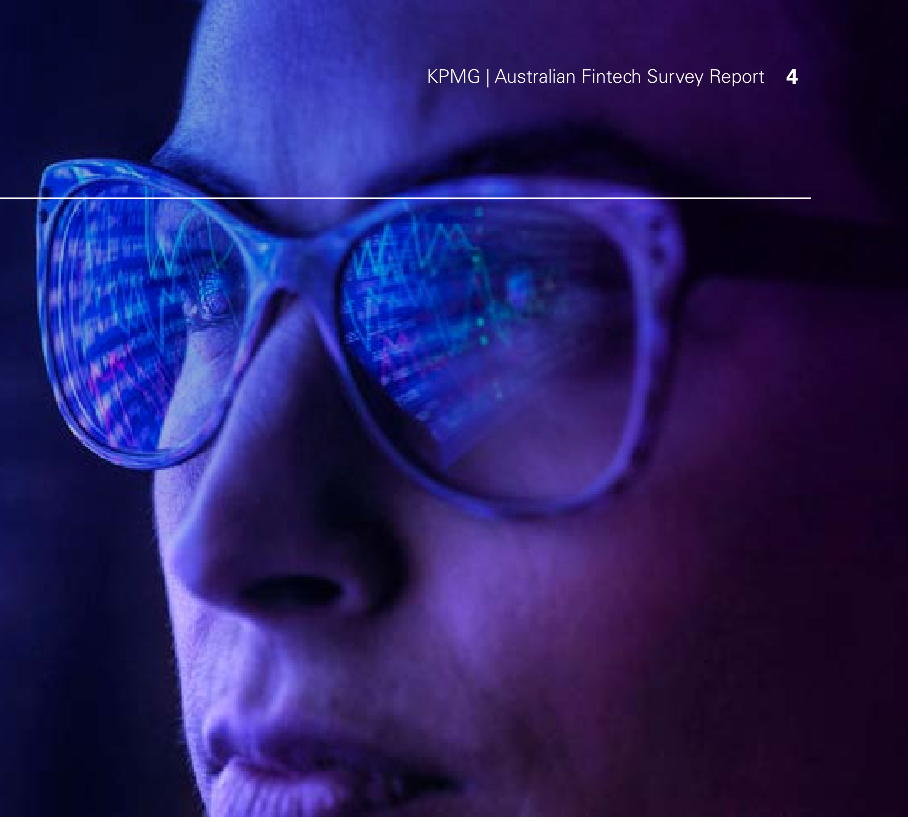
OPENING STATEMENT

Over the course of 2021, KPMG Australia surveyed over 70 leading Australian headquartered fintech firms across a range of topics including revenue, funding, resources and customers. The data collected has then been analysed to draw meaningful insights with the intent of highlighting key trends emerging from the Australian fintech sector.

With this report, KPMG Australia aims to bring attention to the current state of the Australian fintech ecosystem and share insights on the key trends set to drive future growth. The methodology used to detail our findings includes the analysis of both qualitative and quantitative data while leveraging the knowledge and experience of KPMG's subject matter experts and thought leaders.

"The Australian fintech sector really grew up in 2021. Whilst we continued to see early stage opportunities across the overall ecosystem, it was at the bigger end of town that things really stepped up – over the course of 2021 we saw record levels of corporate investment in the space, with transactions including NAB's acquisition of 86 400, Latitude's acquisition of Symple Loans and of course, the acquisition of Afterpay by the US headquartered Block (formerly Square) which completed earlier this year. To put this in perspective, the Afterpay transaction represents the largest ever takeover in Australian history and has put Australian fintech firmly on the global map."

Daniel Teper
Partner, Mergers & Acquisitions
and Head of Fintech (Australia)
KPMG Australia



SECTION 2

FINTECH LANDSCAPE AT A GLANCE

The traditional finance industry is experiencing considerable transformation with Australian fintechs challenging incumbents to have digital innovation at the forefront of their strategic priorities. Technological advances are empowering nimble and more specialised fintech businesses with disruptive data-driven business models to compete on operational efficiency and cost reduction.

Australia's capital cities are benefitting from several influential megatrends and becoming increasingly attractive hubs for talent and investment. Underpinned by digitally native generations coming of age, the development of fast-growing subsectors and an evolving regulatory environment, Australian fintech is experiencing a rapid rise in the creation of new companies, the volume and value of investments[1], and the demand and interest in tech-integrated solutions.

As Australia progressively recovers from the pandemic, the growth and rise of fintech innovation will only proliferate as start-ups mature and incumbents adapt. The strong collective fintech investment of AUD $3.6 billion in 2021, which nears the AUD $3.8 billion pre-COVID-19 levels, provides a sense of optimism for 2022 and beyond as Australian fintechs continue to gain traction and attract both local and international capital. Pandemic driven challenges have meaningfully accelerated the adoption of fintech products and services, and provided the foundation for consumers to assess their options and experiment with alternative financial services solutions.

Emerging B2B and B2C trends such as open banking and embedded finance are contributing to the development of new ecosystems and the evolution of business models. Digital technologies are allowing fintechs to provide services that focus on customer centricity through new and complementary offerings, enhanced online interactions and highly efficient operational capabilities that enable a desirable customer experience. Some of the core trends which KPMG believes Australian financial services providers and fintechs should be aware of and closely monitoring include:

EMBEDDED FINANCE/FINTECH

— Traditional finance providers are expected to continue the nascent trend of broadening their scope through embedded finance partnerships. To leverage existing customer databases and complement current offerings, non-financial businesses from an array of sectors are partnering with financial institutions to expand their products and services. Financial institutions are then applying embedded fintech to ensure their processes are highly efficient and digitally-sound, allowing them to best serve non-financial businesses. For both non-financial and financial institutions, the benefit is a more holistic customer experience with meaningful opportunity to expand the products and services they offer.

1. Across M&A, PE & VC

OPEN BANKING

— The big four banks – CBA, Westpac, NAB & ANZ – as of July 2020 are mandated to provide account and transaction data to customers to reduce friction when switching between providers. The Consumer Data Right (CDR) legislation is key to allowing the sharing of data to financial institutions, fintechs and other third parties. The CDR legislation reduces barriers to entry for smaller players, encourages competition and allows fintechs to provide specialised data-rich services reliant on secure APIs. On the 29th of March 2022, the Australian Government released the 2022-23 Budget, which included an allocation of AUD $38.4 million over 2022-23 and AUD $12.6 million per year ongoing from 2025-26 to implement the response to the Inquiry into the Future Directions for the CDR.[2] Australian neobank ubank, formerly known as 86 400, was one of the first Australian fintechs to leverage open banking product data to provide greater transparency in financial services. Their personalised mobile-focused banking experience enables a real-time comparison graph of savings interest rates amongst other offerings.[3]

DECENTRALISED FINANCE

— The disruptive potential of Decentralised Finance (DeFi) has caught the attention of fintech communities globally. While much of the development to date is speculative and considered high risk, there are numerous examples of protocols and projects successfully providing peer-to-peer financial services powered through blockchain technology. Despite being small relative to the US market, the Australian cryptocurrency community is fast-evolving. One notable example is Perth headquartered Powerledger, a software solution operating across 11 countries working towards the democratisation of power.[4] Their distributed trading platform allows people to transact energy, trade environmental commodities and invest in renewables to create a more flexible and resilient power system.[4]

— The addition of expected regulation of the sector, for example through risk management frameworks and operational requirements, is expected to further benefit the credibility and risk profile of this growing asset class. Engagement between industry and regulatory bodies is the linchpin to ensuring Australian crypto-focused fintechs remain competitive on the global stage.

TOTAL FINTECH INVESTMENTS (PE, VC, M&A) IN BILLIONS AUD[5,6]

3.6 billion AUD in **2021**

3.2 billion AUD in **2020**

3.8 billion AUD in **2019**

WHICH CATEGORY OF FINTECH BEST DESCRIBES YOUR FIRM?	%
Lending	16%
Payments	15%
Data & Analytics	11%
Insurtech	11%
regtech	10%
Middle & Back Office	7%
Wealthtech	7%
Capital Markets	5%
Personal Finance Manager	5%
Neobank	5%
Blockchain	4%
Crowdfunding	3%
Total	**100%**

2. bp1_2022-23.pdf (budget.gov.au)
3. 86 400 unveils Open Banking product (australianfintech.com.au)
4. Powerledger Energy Projects
5. The Pulse of fintech H2'21 - KPMG Australia (home.kpmg)
6. The Pulse of fintech H2'20 - KPMG Australia (home.kpmg)

PAYMENTS

— The payments sector is one of the largest fintech sectors with approximately 20 percent of all Australian headquartered fintech companies, according to KPMG's Australian Fintech Landscape 2021.[7] The risk of coronavirus transmission through cash payment intensified the adoption of electronic solutions during the pandemic. As a result, the nationwide New Payments Platform (NPP) scheme enabling 24/7 instantaneous funds transfers is seeing increased usage, in addition to growth in adoption of the PayID service which allows connection of payments through mobile numbers.

MIDDLE-AND-BACK OFFICE SOLUTIONS

— Representing 7 percent of survey respondents, businesses providing middle-and-back office solutions are seeing increased demand from banks and other financial services companies looking to enhance their customer experience through AI-backed smart processes. Customer facing applications such as intelligent chat interfaces and robo-advisors are being increasingly adopted, however these solutions are now maturing and as such, businesses are focusing on ensuring the underlying data is leveraged to optimise operational efficiency.

BUY-NOW-PAY-LATER

The buy-now-pay-later (BNPL) trend continues to penetrate Australian merchants with the generational transition between Baby Boomers and Millennials driving the rapid rise of e-commerce. Australian BNPL leader Afterpay is expanding their services by partnering with Westpac to leverage their banking-as-a-service (BaaS) solution and provide transaction and savings accounts initially with near-future ambitions involving personal finance management and mortgages. This initiative by Afterpay substantiates the rise in the embedded finance trend, predicted to be one of the most prominent fintech trends in the coming years.

DIGITAL NATIVE BANKS

The desire for a digital native banking experience is rising in popularity. The Australian Banking Association reports that more than 80 percent of Australians now prefer to transfer money, pay bills or check account balances online.[8] This brings into question the future of brick-and-mortar branches and ATMs as physical withdrawals have declined 65 percent since 2012 and over 90 percent of all of one of Australia's major bank's interactions are now digital.[9] With COVID-19 dramatically accelerating the shift to digital services, digital native banks are well-positioned for strong future growth with competitive advantages around operational costs, financial data analytical capabilities and advanced digital user experiences.

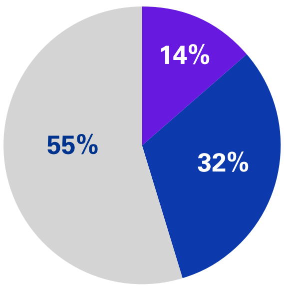
"Over the course of 2021 we saw significant investment and innovation in the payments space, with payments firms continuing to dominate the Australian fintech ecosystem being roughly 21 percent of all Australian headquartered fintechs. However, in the coming years we expect to see consolidation in areas where competition is intense and the number of firms is unsustainable; such as in the buy-now-pay-later sector.

Nonetheless, there remains a number of key opportunity areas that are likely to gain considerable traction in the coming years. These include firms focused on account-to-account payment capability, businesses leveraging the New Payments Platform (NPP) infrastructure and the adoption of embedded payments within the open banking model."

Brett Watson
Partner, Payments Advisory
KPMG Australia

7. KPMG Australian Fintech Landscape 2021
8. Data - Australian Banking Association (ausbanking.org.au)
9. Data - Australian Banking Association (ausbanking.org.au)

WHAT YEAR WAS YOUR COMPANY FOUNDED?

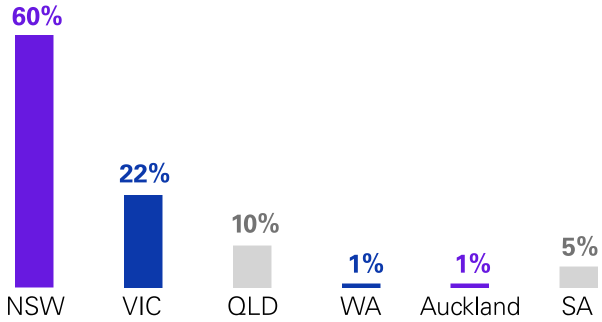


Before 2010 **14%**
Between 2010 and 2015 **32%**
After 2015 **55%**

The number of Australian fintechs has more than doubled between 2017 and 2021.

Survey results indicate over half of fintech companies in Australia have been created after 2015. Our research shows that the number of fintech companies in Australia has more than doubled between 2017 and 2021 suggesting that the creation of fintech companies is rapidly accelerating, likely coinciding with the simultaneous growth in technology and continued investment in the sector on the back of material success stories and realised growth.[10,11] Of the businesses surveyed, 68 percent were founded within the last 6 years and 97 percent were formed in the 21st century. The global pandemic and fast pace at which technology-driven financial services have spread amongst the younger generations have been key drivers in accelerating the growth of fintech companies. As Australian regulatory bodies such as APRA and ASIC continue to develop an innovation-friendly regulatory framework, we expect global institutional money to continue to flow to new and emerging sectors such as blockchain and digital assets, incentivising Australian entrepreneurs to take the plunge on materalising their ideas.

LOCATION OF HEADQUARTERS?



Of the businesses surveyed, 82 percent of them are headquartered in either New South Wales or Victoria. This reflects how highly concentrated fintech companies are to Australia's two largest states and the business environment that the NSW Government in particular is fostering to encourage innovation. An example of this is the establishment of Stone & Chalk, Asia Pacific's largest fintech hub which supports the growth of businesses involved in payments, capital markets and more.[12]

Both Victoria and New South Wales benefit from a range of competitive advantages relative to other states and cities across the world, including:

VICTORIA

Highly skilled workforce and strong talent pool

Victoria has more technology, commerce, science, engineering and IT graduates than any other Australian state.[13]

One of the most liveable cities in the world

Shared 1st ranking from 2002 to 2004, 1st ranked in 2005 to 2017, 2nd in 2018 to 2019 and 8th in 2021.[14]

Vibrant start-up culture

Home to a range of growing innovation hubs and co-working spaces such as Startmate, Inspire 9, AngelCube and Melbourne Hub.

NEW SOUTH WALES

Strong entrepreneurial community

With the Sydney Startup Hub, YBF Finch Hub and Stone & Chalk, Sydney ranks 5th in global fintech hubs.[15]

Robust current fintech ecosystem

60 percent of Australian fintechs are located in Sydney which receive the major share of VC investment – approximately AUD $171 million.[16]

Public-private regulation cooperation

Innovation friendly regulatory framework which prioritises global competitiveness and fosters economic growth through encouraging uptake of fintech solutions.

10. The Pulse of fintech H1'21 - KPMG Australia (home.kpmg)
11. fintech Australia
12. fintech - Invest NSW
13. https://global.vic.gov.au/__data/assets/pdf_file/0019/330616/Brochure_Melbourne-a-World-Class-Fintech-Ecosystem.pdf
14. https://www.melbourne.vic.gov.au/news-and-media/Pages/melbourne-named-worlds-most-liveable-city-record-seventh-consecutive-year.aspx
15. https://invest.nsw.gov.au/sector-opportunities/fintech
16. https://invest.nsw.gov.au/sector-opportunities/fintech

SECTION 3

REVENUE AND FUNDING

"Successful fintechs in recent years have paved the way for the current generation of businesses that are in their early fundraising rounds. There continues to be very high levels of demand from both global and domestic equity and debt investors for those promising fintechs with a clear vision, a strong team, high growth prospects and a sustainable revenue and profit model.

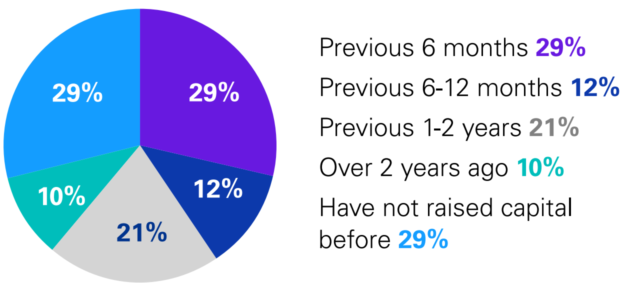
"For instance, there are plenty of examples of successful new mortgage and business lenders at various stages of maturity and scale that have been able to raise significant amounts of equity and (warehouse) debt funding capacity on good terms. Fintechs that are fundraising with a convincing pitch can really afford to be selective, and work with those funders that offer the best financial and non-financial terms alike.

Hessel Verbeek
Partner, KPMG Strategy
KPMG Australia

WHAT IS YOUR CURRENT ANNUAL REVENUE? AUD	%
<$1,000,000	33%
$1,000,000 – $4,999,999	25%
$5,000,000 – $9,999,999	8%
$10,000,000 – $24,999,999	15%
$25,000,000 – $49,999,999	3%
> $50,000,000	4%
Not Applicable – Business is pre-revenue	4%
Prefer not to say	8%
Total	**100%**

33 percent of businesses surveyed reported an annual revenue of less than AUD $1 million, followed by 25 percent between AUD $1,000,000 and AUD $4,999,999. These insights are in line with 55 percent of respondents having founded their business post-2015, suggesting the majority of Australian fintechs remain at early stages of development. Despite the impact of the pandemic on the broader economy, the Australian fintech market continues to mature as early-stage businesses gradually scale operations. This growth is expected to flow to the top-line revenue as start-ups expand globally to collaborate or attempt to displace incumbent financial services businesses.

WHEN WAS YOUR LAST CAPITAL RAISE?



WHEN WAS YOUR LAST CAPITAL RAISE?	%
In the previous 6 months	29%
In the previous 6 – 12 months	12%
In the previous 1 – 2 years	21%
Over 2 years ago	10%
Have not raised capital before	29%
Total	**100%**

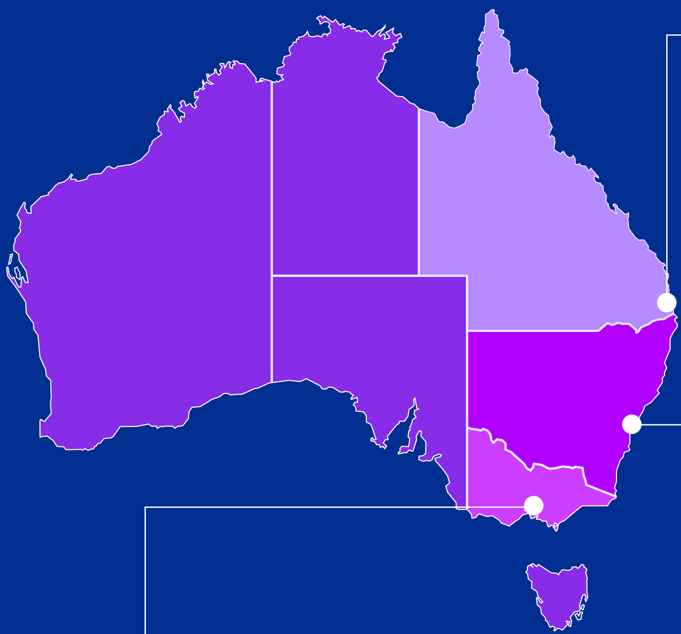
With Australian fintech related deals rising 225 percent in 2021, 41 percent of survey respondents indicated their most recent capital raise was in the previous 12 months. In the current low-rate environment, ubiquitous funding is helping fintechs deploy capital in resourcing, marketing and operations to scale at pace and implement their go-to-market strategy at a time where consumers are inclined to switch to tech-centred solutions.[17,18] However, 29 percent of respondents not having previously raised capital substantiates a high proportion of Australian fintechs remain at an early stage of development and are instead focusing on building a product fit to compete with traditional finance providers.

While some fintechs are threatening to disrupt and disintermediate, others are taking more of a collaborative route. Tic:Toc for example recently announced a seven-year extension to their strategic partnership with Bendigo and Adelaide Bank. The 2021 deal secures access to an additional AUD $25 billion in funding, giving the digital lender capacity to increase monthly volumes by over 300 percent and fund up to AUD $3.6 billion worth of mortgages annually.[19,20] The decision by Tic:Toc to not be an ADI (Authorised Deposit-taking Institution) and to instead operate as a platform company rather than a finance company is a growing trend explored in KPMG's 2021 report 'Major Australian Banks – Australian banking in transition'.

17. The Pulse of fintech H2'21 - KPMG Australia (home.kpmg)
18. The Pulse of fintech H2'20 - KPMG Australia (home.kpmg)
19. fintech Tic:Toc strikes major funding deal with Bendigo and Adelaide Bank - Australian fintech
20. Tic:toc secures $25b in home loan funding (afr.com)

SOURCE OF AUSTRALIAN FINTECH INVESTMENTS IN 2021

The source of Australian fintech Investment in 2021 remained broad across VC, PE and M&A, as illustrated below.



BRISBANE, QLD

FIN-PAY
Investment from high net worth individuals and family offices (AUD $10 million) – VC

SYDNEY, NSW

AFTERPAY
Acquired by Block (AUD $39 billion) – M&A

86 400
Acquired by NAB (AUD $220 Million) – M&A

TILL PAYMENTS
Investment from Avenir Growth, Woodson Capital, and Akuna Capital (AUD $110 million) – PE

ZESTMONEY
Acquisition by Zip (Sydney, NSW) (AUD $70 million) – M&A

STAKE
Global and DST Global (AUD $40 million) – PE

Spriggy
NAB ventures investment (AUD $35 million) – VC

MELBOURNE, VIC

TIMELIO
Investment from Goldman Sachs (AUD $270 million) – VC / Funding

SYMPLE
Acquired by Latitude Group (AUD $200 million) – M&A

AIRWALLEX
Investment from Lone Pine Capital and 1835i Ventures (AUD $100 million) – VC

VC – Venture Capital
PE – Private Equity
M&A – Mergers and Acquisitions

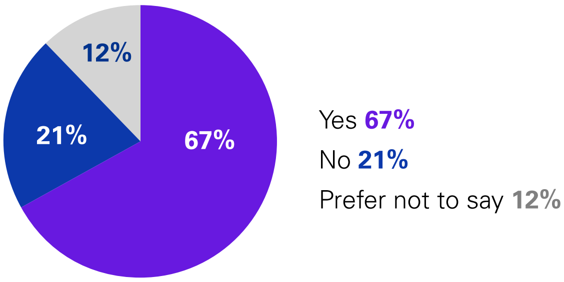
"The rise of regtech as a part of the broader fintech community continues to grow at pace. Significant amounts of regulatory change, greater adoption of emerging technologies and an overall need to reduce the growing compliance burden has led to the continued adoption of regtech solutions. This pace will continue to grow as we move out of regulatory remediation mode into a more stable BAU environment that will allow organisations to become more strategic in their thinking as they look to automate and increase the accuracy of risk and regulatory tasks.

In the meantime, regtech plays an important role in assisting with these remediation activities by enhancing current processes and providing comfort to institutions and regulators alike that erroneous activities are being rectified in an efficient and effective manner. As the results of this survey show, regtech is a significant part of the fintech ecosystem and Australia is carving out a reputation globally as a leader in this space."

Craig Davis
Partner, Risk Strategy & Technology – Head of regtech
KPMG Australia

WHAT IS THE LAST FUNDING ROUND YOU COMPLETED? FUNDING ROUND	%
Family and friends	5%
Seed	21%
Series A	21%
Series B	10%
Series C	4%
Series D	1%
Series E and more	3%
IPO	1%
Acquisition	4%
N/A	30%
Total	**100%**

DO YOU EXPECT TO RAISE CAPITAL OVER THE NEXT 12 MONTHS?

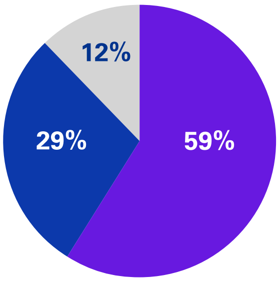


The majority of the Australian fintech businesses surveyed (57 percent) most recently completed funding up to Series B or prior. The data also suggests Australian fintechs willing to expand internationally are typically at Seed stage or Series A / B, whereas those who have reached Series C or further have indicated that they are not planning global expansion in the near-term. This highlights the surging interest from different jurisdictions in early stage fast-growing Australian fintechs. While now at post-IPO stage, Afterpay headlines the global interest in Australian fintechs with the recently completed acquisition by Block, formerly Square, for AUD $39 billion; the largest takeover deal in Australian corporate history.

The second half of 2021 recorded over AUD $1.5 billion in fintech investment, amounting to 67 percent of total fintech investment for the year. However, with 67 percent of surveyed businesses expecting to raise capital over the next 12 months, 2022 is anticipated to continue the strong investment seen in 2021.

Of the fintechs at seed stage or Series A / B, the regtech sector was the second most prominent with 11 percent of respondents. The rise in regtech businesses aligns with the investor demand highlighted in KPMG's Major Australian Banks Half Year 2021 Results Analysis report where nearly 50 percent of all investment spend was on regulatory and compliance activities. Adoption of regtech is expected to continue as banks desire enhanced surveillance and compliance capability to address the complexity and rising volume of regulations.

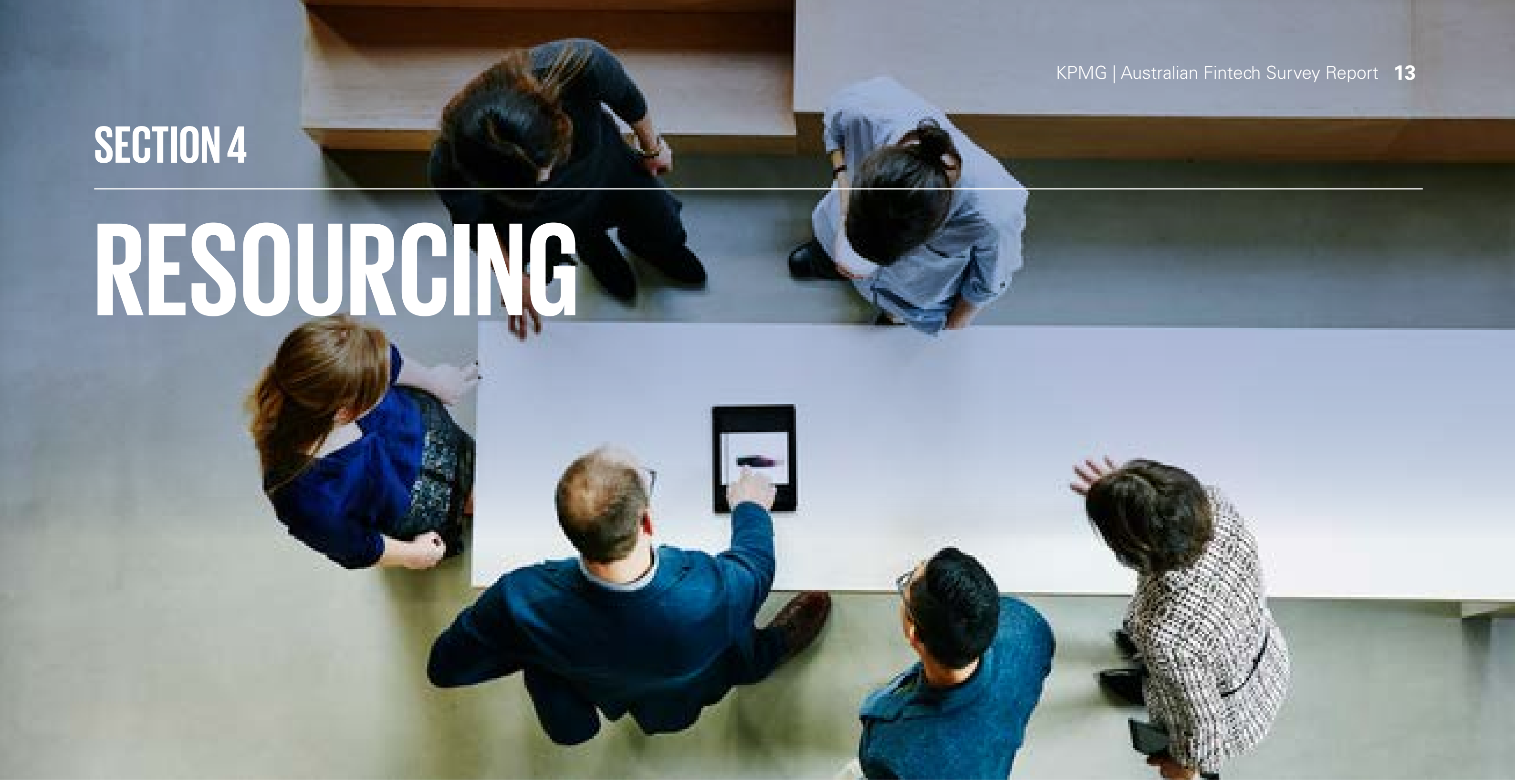
DO YOU CURRENTLY CLAIM R&D TAX INCENTIVE??



Yes **59%**
No **29%**
Prefer not to say **12%**

Research and development (R&D) is critical to the success of Australian fintechs. The intention of the tax incentive is to encourage Australian businesses with an aggregated turnover of less than AUD $20 million per annum to undertake R&D activities. Specifically, it is focused on the encouragement of conducting R&D that may have otherwise not have been pursued.[21] 59 percent of survey respondents indicated they did claim the incentive, implying Australian fintechs are increasingly undertaking the necessary activities to improve productivity, increase competitiveness and importantly, to innovate. Of those who did not claim the R&D tax incentive, 29 percent advised they are ineligible due to being either pre-revenue or in a revenue bracket which does or may exceed AUD $20 million in annual revenue.

21. About the program | Australian Taxation Office (ato.gov.au)



SECTION 4

RESOURCING

> **"Australia's startup sector has rapidly expanded over the past 10 years, and one of the shining lights of this growth has been the fintech ecosystem. Fintech and enterprise software accounted for 35 percent of total VC funding in APAC in 2022 – demonstrating the influx of capital available to fuel the growth of the sector. "**

The emergence of startups like Afterpay and Airwallex have proven the potential of Australian ventures to create entire new categories within the finance sector, and build major global organisations valued at billions of dollars.

Australia has the founders. It has the funding pools available to start and scale up the right businesses. It also has a host of large incumbent organisations actively looking to foster the growth of new fintechs. However, there is one barrier that has become increasingly prevalent – the struggle to find and retain talent.

Whilst it is common knowledge that technology skills are always in demand, Founders are feeling the pinch more than most – with finding talent consistently ranking amongst the top challenges faced in KPMG High Growth Ventures Founder's Report. The talent-crunch has been accelerated by the macro-environment. Shortages of skilled employees, restrictions on international travel, and the escalation of the Gig Economy have all resulted in an unprecedented demand for talent across all sectors of the economy.

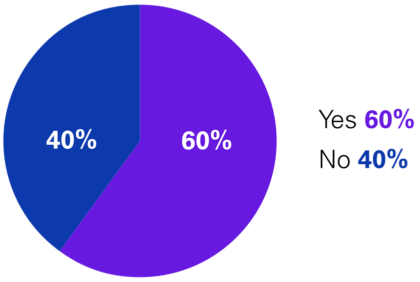
For Founders and all fintech businesses, the question becomes how to find the balance between accessing the talent needed for growth and rewarding talent in a sustainable manner. They must be innovative in how they approach talent. As a result, we are seeing scale-up businesses boosting their ESOP schemes, embracing flexible or hybrid working policies, and in turn becoming increasingly people-centric in their values.

Amanda Price
Head of High Growth Ventures
KPMG Australia

WHAT'S YOUR CURRENT NUMBER OF FULL-TIME EMPLOYEES?	%
1 – 5	15%
6 – 10	23%
11 – 25	23%
26 – 50	18%
51 – 100	10%
101 – 250	8%
251 – 500	3%
Total	**100%**

Of the businesses surveyed, 89 percent have less than 100 full time employees (FTE). Whilst this may be a startling fact compared to other industries and sectors, this number is representative of the high scalability of technology which enables fintech firms to employ a relatively small number of employees while still achieving remarkable turnovers. For instance, 33 percent of the entities that have been surveyed registered annual revenues between AUD $1,000,000 and $9,999,999, despite small FTE counts and all respondents in these categories having been in operation for a little over a decade. The nimble nature of fintech companies allows them to quickly pivot, adapt and deploy new technological solutions to cater to new or emerging customer segments. Further to that, not having legacy systems or a large employees base, enables these highly adaptable companies to keep costs low while at the same time reaching a wide customer base thanks to their technology-driven value propositions.

DO YOU HAVE TEAMS OVERSEAS?

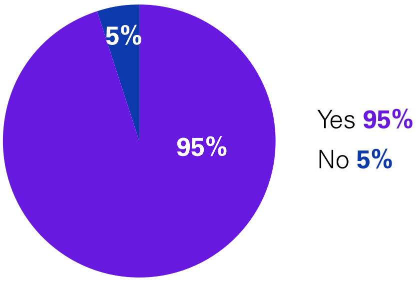


60 percent of the fintech companies that have been surveyed have communicated that they employ teams overseas. This conveys how Australian fintechs are open to leveraging offshore resources to support their growth locally in Australia. The presence overseas is also an indicator that fintechs are happy to leverage resources from geographies where the cost of staff is likely to be more accessible than in Australia.

WHICH OF YOUR TEAMS ARE LOCATED OVERSEAS?	%
Engineering	34%
Sales/Marketing	23%
Both Engineering and Sales/Marketing	23%
Operations	9%
Other	11%
Total	**100%**

Moreover, from the survey results it emerges that engineering teams are outsourced in 34 percent of the cases – this is a key insight given the importance of engineers within fintech firms. The other category of teams that is offshored in a relevant proportion is sales/marketing, with 23 percent of such teams being located overseas. This is another critical function for fintech firms given they are high-growth business which in order to scale and attract funding they must aggressively market themselves and report high sales.

DO YOU PLAN ON HIRING IN AUSTRALIA IN THE NEXT 12 MONTHS??



The overwhelming majority (95 percent) of surveyed businesses acknowledged they are looking to hire in Australia over the next 12 months. This demonstrates that the Australian fintech ecosystem is healthy, growing, and looking to attract talent despite the multiple challenges linked to sourcing skilled staff within the Australian borders over the past two years. The Australian Government's announcement to open borders to eligible visa holders (including skilled migrants) in December of 2021 was welcomed as it will benefit fintechs across the country through providing greater access to skilled resources. As described in the KPMG article KPMG's response to the Prime Minister's migration announcement opening the national borders to skilled migrants should have a positive impact on Australia's GDP going forward. Furthermore, the impact of an additional 40,000 skilled working-age migrants showed Australia's GDP would be boosted by up to AUD $4.7 billion by the end of the decade.

WHICH FUNCTIONS ARE THE HIGHEST PRIORITY OF RECRUITMENT?	%
Engineering/Tech	53%
C-Suite	3%
Customer Service	1%
Data	1%
Mix of engineering and compliance analysts	14%
Product	1%
Sales	1%
Sales/Marketing	25%
Total	**100%**

Naturally as fintech businesses, STEM[22] degrees are the highest priority for more than half of the companies surveyed. More specifically, 53 percent of fintechs stated that engineering is of top priority for hiring, followed by sales and marketing at 25 percent. This is interesting especially if compared to the responses on overseas teams in that over 34 percent of fintechs affirmed that their engineering teams are based offshore, however these are still the top priority when it comes to hiring. This demonstrates that fintech companies are comfortable offshoring critical functions due to their flexibility and their remote work friendly culture.

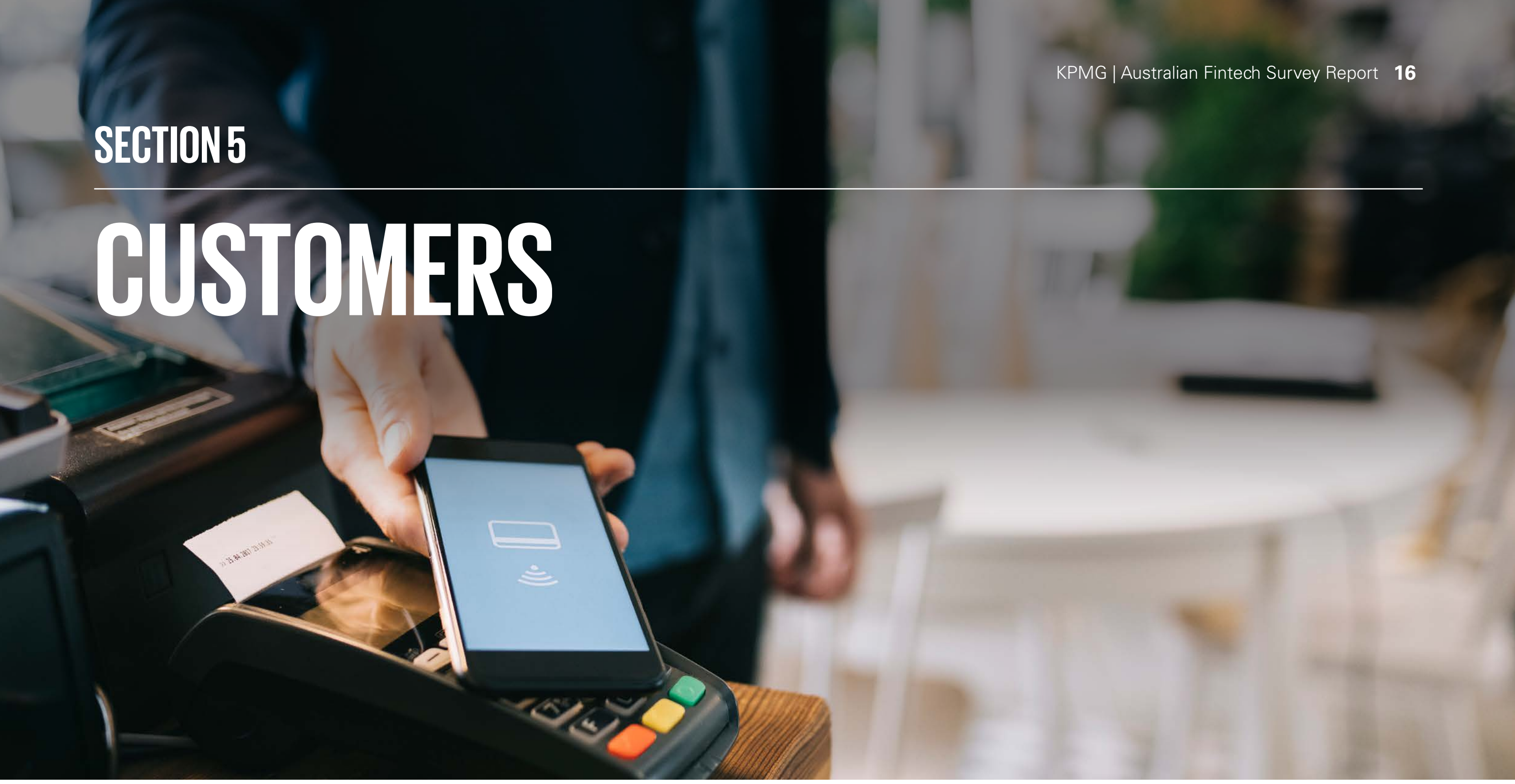
HOW SATISFIED ARE YOU WITH YOUR ABILITY TO RECRUIT IN THIS AREA?	%
Completely Satisfied	4%
Very Satisfied	27%
Somewhat Satisfied	55%
Not at all	14%
Total	**100%**

The results provided reflect a general wariness and uncertainty regarding the potential for appropriate recruitment. With only 4 percent of those surveyed completely satisfied with their ability to recruit in their required area, concerns about a lacking labour market with shortages most certainly poses a threat to the growth of emerging fintech businesses. In addition, concerns about international recruitment and general economic performance due to COVID-19 may also be hindering business confidence. A contributing factor to the dissatisfaction of Australian fintechs when hiring locally (68 percent of surveyed firms are either "somewhat satisfied" or "not at all satisfied" with their ability to recruit locally) has been the prolonged period in which the Australian borders have been closed to skilled migrants. As evidenced in KPMG's article on how to address Australia's labour shortage, Australian businesses are feeling acute labour shortages in areas historically filled by temporary visa holders that have been restricted from entry due to border closures. This, as shown in previous charts, has pushed fintechs to seek to grow by hiring teams overseas.

22. STEM - Science, Technology, Engineering, and Mathematics.

SECTION 5

CUSTOMERS



"Evolving business models, regulatory initiatives, and changing external environments continue to drive the adoption of technology to automate, enhance risk management and accelerate consistent compliance outcomes.

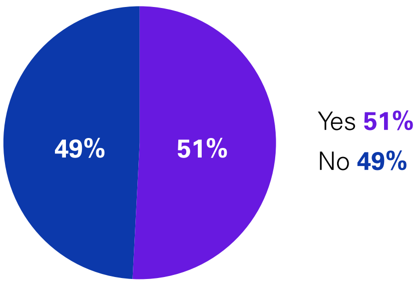
To achieve these outcomes, talent acquisition and skill development continues to be a priority for traditional players and start-ups alike. While technology skill development is a key focus, organisations recognise that non-technology skills also play a critical role in enabling fintech and regtech adoption. There is wide spread recognition that successful digital transformation requires multidisciplinary skills including behavioural skills rather than simply technology skills. Investments are being made to develop soft skills, business skills and technology/data skills, with regtech providers focusing on compliance skills as the priority development area. This is reflective of the current gap finding talent that possess the right combination of local regulatory knowledge, required technology and data analytics skills, and the enabling business and soft skills to interpret and apply insights".

Peter Outridge
Partner,
People & Change

WHICH OF THE FOLLOWING BEST DESCRIBES YOUR PRIMARY CUSTOMERS?	%
Corporates	23%
SMEs	30%
Individuals/Consumers	22%
Banks	14%
Other	10%
Insurance	1%
Total	**100%**

When it comes to the nature of the primary customers of Australian fintech companies, as evidenced in this KPMG article on opportunities for growth in the Australia fintech landscape, the majority of customers fall within the category of Small and Medium Enterprises (SMEs). This is due to the fact that, within the Australian fintech ecosystem, approximately 1 in 4 SMEs find it difficult to obtain access to credit from the mainstream banks, thus creating a gap in the market which is being filled by fintechs providing technology-driven value propositions in the lending space specifically designed to cater to SMEs. Another interesting insight that emerges from the survey data is that Business to Consumer (B2C) customers represent only 22 percent of the total target customers, while 78 percent of respondents declared they operate in the Business to Business space (B2B).

DO YOU HAVE CUSTOMERS OUTSIDE OF AUSTRALIA?



Over 51 percent of respondents have customers outside of Australia, with 49 percent indicating that they only conduct business within the Australian borders. This is a fairly even split, indicating that a large number of Australian fintech firms are not yet in a position, or are not planning, to expand overseas and acquire new customers beyond national borders.

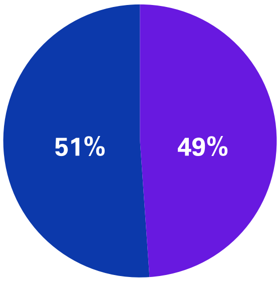
However, when comparing this to the data from the "Do you have teams overseas?" question, we can determine that out of the fintech firms that do not employ teams overseas only 24 percent have customers outside Australia. Similarly, out of the firms that do have teams overseas, 68 percent have customers outside of Australia. This is a strong indicator that suggests that when Australian fintechs go ahead and employ staff located in other jurisdictions, they do that also with the intent of supporting their growth beyond the Australian borders.

IF YOU HAVE CUSTOMERS OUTSIDE AUSTRALIA, SELECT THOSE THAT APPLY	%
UK	21%
Other	21%
USA	17%
Singapore	11%
Canada	10%
EU	9%
Japan	3%
South Africa	3%
India	2%
China	1%
Total	**100%**

With regards to Australian fintech conducting business overseas, it is possible to observe a few interesting trends in relation to the breakdown of countries in which fintechs possess most of their customers. While most of Australian fintechs conduct business in the UK and USA (38 percent of total respondents) it is remarkable to see how China, which is Australia's largest trading partner in terms of both exports and imports, represents only 1 percent of customers for the local Australian firms. On the other hand, the UK and the USA are respectively the seventh and the third largest trading partners, however they are both very well represented amongst the Australian fintechs' customer base. This demonstrated that Australian fintechs find it easier to reach customers located in countries that have similar cultural, regulatory and economic models and without language barriers as opposed to attempting to enter the complex and often challenging Chinese financial services market. Another trend to note is that 21 percent of Australian fintech companies conduct business in either Singapore or Canada (11 and 10 percent respectively).

This confirms the previously denoted trend that fintech firms in Australia find it easier to expand in countries where there are low language barriers as well as a comparable regulatory environment and overall financial services system. On the other hand, a country like Japan, while being Australia's second largest trading partner, only represents 3 percent of customers for Australian fintech firms. Continental Europe instead, features as the sixth most relevant market in which Australian fintechs have customers with 9 percent of respondents indicating they currently conduct business in the EU region. South Africa, India and China combined are only amounting to 6 percent of the total customers for Australia.

DO YOU PLAN TO START/CONTINUE INTERNATIONAL EXPANSION IN THE NEXT 6 MONTHS?



Yes **49%**
No **51%**

IF YOU PLAN TO START/CONTINUE INTERNATIONAL EXPANSION IN THE NEXT 6 MONTHS, SELECT THOSE THAT APPLY	%
USA	23%
UK	22%
Canada	14%
Singapore	11%
EU	10%
New Zealand	5%
Southeast Asia	4%
Other	3%
China	3%
India	2%
Japan	1%
South Africa	1%
Total	**100%**

Finally, it is possible to observe how there is an even split between the companies that are planning to expand (or continue to expand) internationally (51 percent of respondents) relative to those that are not planning to expand beyond the Australian borders (49 percent of respondents).

Out of those that are planning to expand internationally, the respondents have indicated in 23 percent of cases they intend to expand to the US market, closely followed by the UK market with 22 percent of the cases. Furthermore, our internal data shows that 13 percent of respondents have indicated they are planning to expand to both the US and the UK as part of their international expansion plans, showing these two markets are of the highest priority for Australian fintechs.

Canada and Singapore also feature prominently in the respondents' preferences as a market in which to expand to next, with 14 and 11 percent of the preferences respectively.

It's worth noting that Australian fintech firms that have completed a Series C funding round or beyond have not planned to expand internationally, meaning they they are able to scale and sustain their growth without needing to acquire customers overseas.

SECTION 6

FINAL REMARKS

"The KPMG Australia fintech Survey highlights the key trends faced by the leadership teams of some of Australia's most prominent fintech firms.

The report's findings evidence the Australian fintech sector's resilience and continued growth, with innovation and rising investment occurring across a range of sub-sectors, and as start-ups mature, incumbents adapt and business models evolve, we predict successful Australian fintechs can and will continue to attract the interest of international investors and highly skilled resources alike.

As we look to the remainder of 2022, we are however starting to see some headwinds develop as the market dynamics shift, and whilst we believe this presents an opportunity for fintechs to flourish, the ability to raise capital, maintain and hire key talent, and quickly establish a sustainable business model will become more critical than ever."

Daniel Teper
Partner, Mergers & Acquisitions
and Head of Fintech (Australia)
KPMG Australia

CAPABILITY STATEMENT

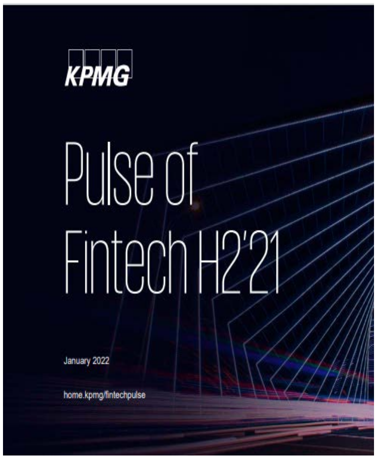
The financial services industry is transforming with the emergence of innovative new products, channels and business models. This wave of change is driven primarily by evolving customer expectations, digitalisation as well as continued regulatory and cost pressures. KPMG firms are passionate about supporting clients to successfully navigate this transformation, mitigating the threats and capitalising on the opportunities. KPMG fintech professionals include partners and staff in over 50 fintech hubs around the world, working closely with financial institutions and fintech companies to help them understand the signals of change, identify the growth opportunities and to develop and execute their strategic plans.

HOW KPMG CAN HELP FINTECHS

We off a suite of advisory services including:

- Strategic review and funding advice
- Advice on risk, regulatory and compliance matters
- Tax services, including R&D incentives
- Remuneration and reward advisory
- External and internal audit services
- Actuarial services (insurance risk, claims, underwriting)
- Environmental, social and governance (ESG) advisory
- Business, operational and tech transformation advisory

RECENT KPMG FINTECH THOUGHT LEADERSHIP PUBLICATIONS



Pulse of fintech H2'21

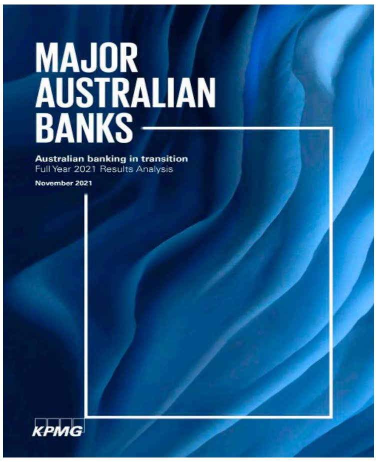
Overview of key global and Australian fintech investment trends and highlights in H2'21

KPMG Submission to Senate

KPMG's submission for a vibrant Fintech and regtech sector

High growth Ventures Founder Survey

Report on sustained high performance, health and wellbeing of others



Major Australian Banks

How the Australian banks and financial services are taking advantage of the latest fintech trends

Fintech 100

Annual survey of the leading and emerging global fintech companies (2019)

Fintech Landscape

Locate fintechs by sector using KPMG's interactive Australian fintech directory

Appendix

OUR THOUGHT LEADERS

Daniel Teper
Partner, Mergers & Acquisitions and Head of fintech (Australia)

Daniel is an experienced M&A advisor with extensive credentials in the provision of M&A advisory and strategic services, with a focus in the Financial Services and TMT (Technology, Media and Telecommunications) sectors. During his career Dan has completed in excess of 50 transactions, working across ASPAC, Europe, the Americas and beyond for a variety of public and private clients.

In addition, Daniel is Head of fintech for KPMG Australia, representing the firms capabilities across the full fintech landscape including working with fintechs, incumbent financial services providers looking to engage with the sector and industry association and government bodies supporting the wider ecosystem.

Amanda Price
Head of High Growth Ventures

At the forefront of the nascent Australian startup world back in the 2000s in a number of senior sales, marketing and business development roles, Amanda was appointed CEO of AirWORKS Media in 2003, before relocating to Los Angeles to become EYE Corp's Vice President of Business Development, Partner Relations and Operations.

Amanda founded Ausemerge in 2010 representing Australian-based ventures into the US.

"I have worked with over 80 high growth technology-enabled companies to accelerate their entry into the US, providing access to in-market expertise and an established network of Australian and US entrepreneurs, investors, advisors and potential customers."

Along with Advance, Amanda developed the elevate accelerator and ran it for 3 years before joining KPMG as the Head of High Growth Ventures in late 2016.

Craig Davis
Partner, Risk Strategy & Technology – Head of regtech

Craig Davis is a Partner in KPMG's Risk Consulting practice with responsibilities relating to Risk and regtech, he leads the sector and business, co-ordinating and/or running related engagements in this field. In addition, Craig is the lead for the KPMG Risk as a Service solution and through this participates in global competency teams.

Craig has extensive experience in both traded and non- traded risk management regulations and practices, and the independent development and validation of risk models. This has been gained through his time in consultancy, with APRA and in various industry roles within Australia, UK and Europe.

Craig joined KPMG from APRA where he was a member of the Balance Sheet and Market Risk Oversight team, responsible for the review of traded and non-traded market risk management at a range of financial institutions. Prior to this he held senior market risk roles at major institutions in Australia and the UK with involvement in trading oversight, systems implementation and regulatory requirements.

Appendix

OUR THOUGHT LEADERS

Brett Watson
Partner, Payments Advisory

Brett leads KPMG's Payments Advisory practice and is passionate about the payments business and the continuing innovation in the payments space.

The constant evolution of the payments space driven by changing customer preferences, digitisation, regulation, new platform models and emerging competitors is what makes payments so interesting.

Brett has a unique perspective on the payments business. He has more than 10 years' consulting experience across Australia, the US and Europe, and he held senior payments, technology and digital roles with two of Australia's major banks.

Brett has more than 25 years' experience in financial services and consulting providing advice on all elements of transaction banking, working capital and payments for both emerging and traditional service providers as well as major users of payments such as large corporate and government. This includes payments strategy, product design and development, project execution, operating model design, risk

Hessel Verbeek
Partner, KPMG Strategy

Hessel is a Partner at KPMG Strategy who leads the banking strategy practice nationally. He is also the National Leader for Mutual Banks in Australia and is one of the two Global Co-Leaders for Cost Transformation in Banking & Capital Markets. Hessel supports his various banking clients with strategy and transformation.

His focus is to support his clients to make the necessary but difficult choices required to remain competitive in today's rapidly changing industry. He believes that the sector needs to focus on simplification of its strategies and operations in order to best serve its customers.

Born and raised in the Netherlands, Hessel came to Australia in 2001 in search of adventure and a new lifestyle. He has worked for a number of local strategy consulting firms – both boutique and larger firms – with a strong focus on banking and financial services. He joined KPMG in 2018, and continues to be excited by the calibre of the team and its ability to make a real impact for clients.

Peter Outridge
Partner, People & Change

Peter is an accomplished people leader and consultant, with a proven track record of building strong and enduring relationships across multiple regions and cultures.

He has a pragmatic approach to developing tailored solutions to meet the needs and objectives of diverse stakeholders, ensuring that business results are delivered through people initiatives in a transformation environment. He works to ensure the role of people as key organisational assets is understood and enabled through targeted people programs embedded in business strategy.

As a Partner within the People & Change practice, he is passionate about the changing role of people in organisations, and embracing the opportunities organisations face in the digital era. He is a frequent speaker on panels discussing the "Workforce Transformation" and the "Business Case for Diversity and Inclusion".

Contact us

Daniel Teper
Partner,
Mergers & Acquisitions and Head of fintech (Australia)

E: danteper@kpmg.com.au

Matteo Musso
Associate Director,
Banking & Capital Markets

E: mmusso.kpmg.com.au

James Tedesco
Senior Consultant,
Operations Advisory and Access Asia

E: jtedesco1@kpmg.com.au

KPMG.com.au

June 2022. 877476197FS