

FinTech 2022

Areté | CAPITAL ASIA

THE SILENT REVOLUTION

The new year is always a good time to reflect on the state of the world and your position in that world. We write a note about one of the most powerful drivers of markets over recent years – today's tech companies. There are so many views about these companies – too powerful, a threat to many existing businesses, trading in our data that used to be private, vastly overpriced, but they have carried index performances to many all-time highs in the last year. More foreboding for many, in the words of Bezos 'Our target is your margin'.

Generally for the good, Tech companies are rapidly changing the world we live in and, as should be expected, money and influence also drive these changes. One of the biggest developing sectors in this new world is FinTech. The global financial establishment has, so far, largely been able to defend their business models. But many little battles are ahead before we can see the outcome of the war.

We hope you enjoy the read, and of course, we welcome your feedback welcome your interaction.

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We are a truly independent financial advisor. We channel our experience and resources to find innovative solutions that are incorporated into our client portfolios to provide good growth potential and simultaneously, have defensive qualities when the downturn comes.

At Arete Capital, we are sitting on our clients side of the table - we have the capability to offer the smarter solutions from numerous providers - we advise the solutions most suitable for our clients.

Take a look for yourself - www.arete-asia.com

The Team at Arete Capital Asia

POWERFUL COMPANIES

There have been several times in history when a particular sector becomes so dominant relative to the rest of the market. US examples include railroads, oil, telephone companies and internet stocks in 2001. This is not a phenomena in the US alone, Dutch tulips and Japanese banks come to mind. Many of these periods of inflated sector valuations were supported by the belief a new era was unfolding and the sector would be very well positioned to benefit from the changes that lie ahead. In today's world, tech companies in numerous countries are seen to be on the cusp of a redesign of the world's supply chains, online merchandising and the new era of big data.



Most of these companies have huge data that they have harvested and this data is used to manage operations, but most importantly, the data is used to attract, influence and pitch to end clients. Capturing client business has always been crucial, but these companies can do this and can customise a purchase experience with a personalised price - a price that they anticipate you will pay for a service or an item. These companies know so much about many individuals, that they are even able to influence some people's opinion. These companies hold a tremendous amount of power. As an example - FB, Google and Amazon are generating >USD50bill of profits each quarter, a tremendous sum of money, yet they produce nothing tangible! They are dealing in information and use this information in the sales process. Similarly, Tencent and Alibaba in China have held commanding positions in several sectors. They had become so powerful and wealthy, The Party decided to step in and dismantle the monopolistic positions that had painstakingly built.

POWERFUL COMPANIES continued

The purchase of items online is now standard practice. Few people hesitate on booking hotels, flights, standard groceries, meal deliveries, etc. In the developing world, through the likes of Grab, etc, these services have extended to mobile cleaning services, delivering medicines, handymen and a simply huge array of other services – delivered on the back of a motor bike! The single 'tech' sector that has not advanced so much in the last few years is the financial sector. We attribute this lack of progress down to the fact that FinTech has 'hit a wall'. Most finance activities are regulated and/or occupied by incumbents that have built strong moats and have great influence amongst officialdom and regulators to protect their businesses.

However, the proliferation of companies, apps and services in the FinTech space is huge and they are involved in nearly all parts of the financial landscape. The rewards are also very attractive. Crypto was initially criticised by banks that were wary of any new forms of money/exchange. But now several banks are seeking to work in the less than transparent markets where these instruments trade. Other FinTech's have cornered a lot of the payment/transfer landscape - remittance, foreign exchange, credit card inter-connector payments, trading, online statements..... and the list goes on. They still face barriers to entry, in particular on the regulatory side, but we believe these companies will soon be taking on the banks directly.

The FinTech space has only a few listed companies, but the numbers are growing quickly - it is a very lucrative sector for companies with technology to be a low cost, volume producer. As such, there are not so many opportunities to invest in this space – Tencent, Alphabet, Alibaba are a few. There are a few offerings in the private placement markets, but the names are not household names, so investments are really for the people who are familiar with the FinTech space. As such, we at Arete write a few pages explaining a little more detail about FinTech. We hope you enjoy the read.

It is no coincidence that Arete Capital currently offers access to a private placement in a Korean FinTech company that is our third Korean FinTech company to be offered as a direct deal - Toss.

MANY THREADS OF FINTECH

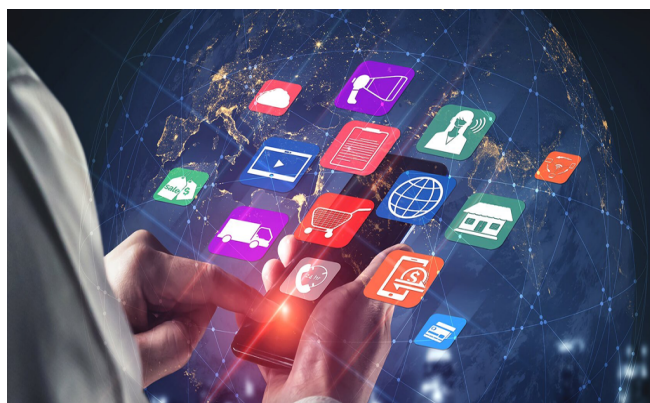
- **Crypto:** The legendary (and secretive) Satoshi Nakamoto invented Bitcoin, the original crypto currency. Started as methods of exchange outside traditional currencies (fiat money being devalued by central banks). Interest is widening, but landscape marred by many superfluous coins.
- **Blockchain:** Decentralized transaction and transfer process (distributed ledger). Computer memory intensive but rapidly improving. Several equivalents exist like Ripple and Ethereum.
- **Investing online:** Clients can buy and invest in securities online
- **Credit:** Fintechs are offering loans to clients. Traditionally a service that is regulated and can only be performed by banks. Some fintechs perform credit assessments far more effectively than traditional methods. A bank license still required, but this activity is undermining traditional retail lending businesses.
- **Defi:** Decentralized finance offers financial instruments without intermediaries (brokers, banks) using smart contract based on blockchain or equivalent.
- **Digital banking:** Providing banking services online.
- **Payments & Wallets:** Blockchain or equivalents, can quickly move money, including cross border and FX transactions
- **Embedded finance:** Traditional retailers are partnering with FinTech companies to provide holistic and complimentary offerings.
- **Distribution:** FinTech companies are also receptive to working with traditional finance institutions for mutual market share gain.
- **EInsurance:** Many basic insurance products are available online.
- **Wealthtech:** Including robo-advisers, asset managers and online brokerages. More on page 5.



FINTECH TRENDS & OPPORTUNITIES IN 2022

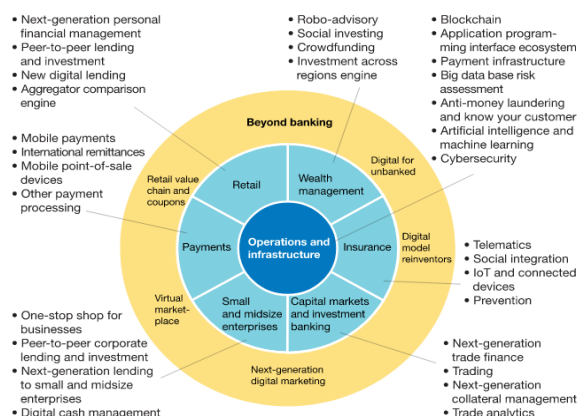
RISE OF SUPER APPS

- FinTech companies are naturally evolving to provide integrated solution for customers – developing into FinTech platforms or super apps. The benefits of extending services to an existing client base are compelling.
- Super Apps are particularly prevalent in developing markets, where the largest and well-funded companies can extend services with ease.
- In developing markets, these platforms are also servicing clients via a mobile phone. These same clients were considered un-bankable a few years ago. New clients for the FinTech's with no competition from the established financial sector
- In a competitive environment, in the race to scale, FinTech's are even subsidizing client purchases to encourage new users onto their platform. Some in positions where they have not yet generated any profits
- Those FinTech companies with a good handle on logistics are expanding beyond finance to delivery of merchandise and services. Low costs of labour make this an attractive proposition in the developing world.



- Tencent and Alibaba, the two predominant apps in China, are good examples of big platforms becoming national enterprises in retailing, logistics, gaming, financial services. The party has since limited some of their perceived excesses, but they will now expand in a similar manner in Asia.
- Other examples in Asia include:
 - **Gopay** in Indonesia
 - South Korea's **Toss** (Neobank, consumer loans & credit monitoring, payment, securities trading).
 - India's **PineLabs** & **RazorPay** (merchant/e-commerce & payments).

Key fintech trends



McKinsey&Company | Source: Panorama by McKinsey

DYNAMICS OF THE FINTECH INDUSTRY

The prizes for the winners are compelling so the FinTech companies will relentlessly continue their pursuit. Some examples of the progress and challenges

- Fast growing: Global FinTech investment surged to **\$98 billion** by 3Q21, up 173% from 3Q20.
- FinTech companies will find ways to interface to the financial services ecosystem in each market, despite numerous regulatory and technological hurdles.
- Some finance processes have clearly been improved by the tech companies, including
 - KYC over the internet.
 - Fraud prevention.
 - Credit scoring.
 - Financing the retail value chain less the paperwork.
 - Payments settled in minutes.
- FinTech companies have tended to be surprisingly capital efficient
- This is a stark contrast to many Consumer Internet and Application companies, who are engaged in a "Capital Warfare" style of competition.

MORE TO COME BEYOND 2021

- **Disintermediation:** The tech companies can source directly and cut out intermediaries across many business lines. (A16z)
- **New distribution channels** can be created to acquire and engage customers: challenging Facebook (& Instagram), insurance agents, Google, BAT, etc.
- **Extension of services:** With an active client base, tech companies can easily expand services.

DEALS BY REGION - APAC

- In the **Asia-Pacific region**, FinTech investment rose considerably between 2020 and 2021, yet **quite diverse and scattered** within the region.
- There is an **opportunity to tackle investments in APAC**, due to its demographics and growth trajectory.

TOP ASIA PACIFIC DEALS IN 2021

Company	Country	Sector(s)	Funding	Valuation
Pine Labs	India	Payments/ e-commerce	USD 700M (IPO)	USD 3.5B
Toss	South Korea	NeoBank	USD 410M Later Stage	USD 7.4B
Razorpay	India	Payments	USD 375M Series F	USD 7.5B
Mynt	Philippines	Payments	USD 300M Later Stage	USD +2B
Gojek	Indonesia	Payments	USD 300M (M&A)	USD +18B
CRED	India	Financial Software	USD 251M Series D	USD +4B
Voyager Innovations	Philippines	Payments	USD 167M PE Growth	N/A

SOURCE: KPMG, Pitchbook, Techcrunch

DEALS BY REGION - AMERICAS

- FinTech valuations remained high** in 2021 as investors continued to see the space as attractive and well-performing.
- This likely drove the explosion of unicorn births, but it is **increasingly difficult to justify lofty valuations using revenue and growth metrics**.
- However, this phenomenon is seen across all sectors in Technology, both in the private and public markets.

TOP DEALS IN THE AMERICAS - 2021

Company	Country	Sector(s)	Funding	Valuation
RobinHood	US	Wealth Mgmt	USD 2.1B (IPO)	USD 29B (IPO- EOD)
Verafin	Canada	B2B / Institutional	USD 2.75B M&A	USD 2.75B
Divvy	US	Payments	USD 2.5B (M&A)	USD 2.5B
SoFi	US	Lending	USD 2.4B (SPAC)	USD +6B
NuBank	Brazil	Banking	USD 2.6B (IPO)	USD +41B

SOURCE: KPMG, Pitchbook, Techcrunch, Barrons

STRONG PERFORMANCE POST IPO

- FinTech companies are well understood, with extensive coverage by the finance and analyst communities.
- There is a performance-relationship over a period after listing in the most well-named FinTech IPO's.
 - Median % increase of **83%** in 6 months, and **195%** over 1 year Post IPO period.

Mean (average) of **156%** in 6 months, and **285%** over 1 year Post IPO period.

APAC UNICORN SPOLIGHT



TOSS FINANCIAL

- Based in Seoul, Toss is a **Financial Super App** geared toward a mobile-first, internet-first bank (Neobank) for South Koreans, while offering select services internationally (e.g., Vietnam).
- With these services, Toss has amassed a user base of over **20 million people**, representing **one-third** of the entire population of the country.
- The South Korean government provided more legislature to encourage an **open banking** model.

EUROPEAN UNICORN SPOLIGHT

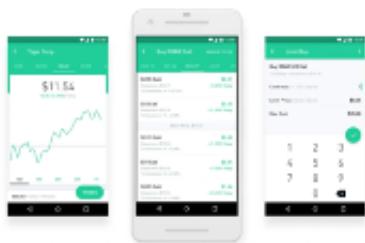


N26 BANK

- Based in Berlin, N26 is an online bank that is headquartered in Germany, operating in the EU.
- N26 has amassed over **7 million customers** across 22 different jurisdictions which it operates within the European Union.
- Their main product offering is an **online bank account**, with a **physical debit card** serviced by MasterCard, and select markets-Maestro Card.

AMERICAS UNICORN SPOTLIGHT

Robinhood



ROBINHOOD

- Based in Menlo Park, California, Robinhood is a US-focused **online trading platform** for securities, exchange-traded funds, and cryptocurrencies.
- They were one of the pioneers in implementing **zero commission trade services** for **retail investors** with a lower capital base, which subsequently changed the US securities brokerage industry for fees.
- In 2021, Robinhood boasted a user base of over **20 million**.
- It also obtained a banking license to accept cash deposits and is FDIC insured for the protection of consumers in the United States.
- Robinhood's story was a technology company upending the traditional banking model and established institutions in the United States.

SECTOR HIGHLIGHT- WEALTHTECH

- Global investment in WealthTech is booming and we believe this continues. Financial companies have been active and need to respond to the array of offerings from these low cost providers.
 - Well-established financial companies need to build an online offering – not only to lower client coverage costs and respond to client requirements – but to not be overrun by the FinTech companies.
 - Acquisitions will speed this process. JP Morgan recently purchased UK Robo-advisor Nutmeg.
- Investment offerings are maturing - more sophisticated offerings are being offered with low cost services for basic customers.
 - Investment services now include complex products (PE, hedge funds) and can even incorporate tax losses into a strategy. Robo's include Wealthsimple, SoFi, and Betterment.
 - Client interaction is all digital including onboarding, they bulk purchase product to keep costs down.

SECTOR HIGHLIGHT- PAYMENTS

- FinTech payments were incredibly active in 2021.
- Exits got a significant amount of attention in the US:
 - Alternative lender **Affirm** raised \$1.2 billion in its IPO (valuation of \$11.9 billion).
 - Deluxe acquired **First American Payments** for \$960 million.
- VC funding in the payments space was notable in Latin America.
 - Brazil-based **Nubank** raised \$2.5 billion (valuation of \$41 billion).

EMERGING EXPONENTIAL GROWTH OF "BUY NOW, PAY LATER."

- The **'buy now, pay later'** model is considered to be one of the **fastest-growing areas of FinTech**.
- We have seen massive inflows of investment into this space of **credit facility & lending** companies in both APAC and Europe.
- E.g. **Klarna** – a Sweden-based 'Buy now, Pay later' FinTech giant was valued around USD 46bill in 2021.
- Another example is **Toss Bank**, which has the user base/**data analytics** to run a **credit risk profile** to enable more people to access credit facilities, traditionally overlooked by larger and established financial institutions.

CONSUMER CREDIT & LENDING

- 'Buy now, pay later'** offerings and 'pay by bank' services have been extremely active and in-demand.

OPEN BANKING SYSTEM

- More countries and their central banks are open to **improving efficiency** in the finance sector, although regulations take time to affect the business and consumer landscape in each market.

THE LARGEST PLAYERS ARE GETTING LARGER

- M&A** activity **will continue** to surge globally.
- B2B services** may gain attention across FinTech subsectors, which previously focused on B2C.

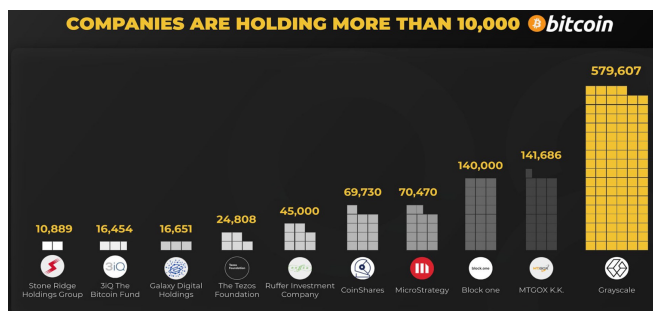
Record Setting Private Deals in 2021

Company	FinTech Sector	Country	Funding / Valuation (USD)
Robinhood	WealthTech	US	3.4 Billion / 17 Billion (IPO)
NuBank	NeoBank/Payments	Brazil	1.5 Billion/41.5 Billion
N26	NeoBank	Germany	900 Million/9 Billion
Klarna	Consumer Loans	Sweden	639 Million/45.6 Billion
Toss	NeoBank, Credit & Loans	South Korea	410 Million/7.4Billion

SOURCE: Pitchbook, Altfi

SECTOR HIGHLIGHT- BLOCKCHAIN & CRYPTOCURRENCY

- **Record setting investment** in blockchain and cryptocurrencies occurred in **2021 (c. USD 30 billion)**, **soaring past** the previous annual record high set in **2018 of USD 8 billion**.
- VC Investment - Numerous companies valued at over USD 2 billion raised \$100 million+ funding rounds, including:
 - **BlockFi** (\$350 million).
 - **Paxos** (\$300 million).
 - **Blockchain.com** (\$300 million).
 - **Bitso** (\$250 million).
- Corporates also invested in the crypto space.
 - PayPal –acquired crypto-security firm **Curv** in H1'21 following its announcement of a partnership with Paxos in late 2020.
 - Facebook, through the **Diem Association**, also continued to move forward with its plans to launch a US dollar stable coin.
- **Jurisdictions are taking very different approaches** to crypto.
 - Across the **Asia-Pacific region**, countries continued to take very different approaches to cryptocurrencies and crypto exchanges.
 - **China banned** banks from providing cryptocurrency-related services.
 - **Hong Kong's** Financial Services and the Treasury Bureau **recommended** all virtual asset exchanges in Hong Kong (SAR, China) be licensed and limited with professional investors.
- **Asset Diversification:** the evolving nature of investors.
 - More **institutional money** flowed into the crypto space once seen only by retail investors/speculators.
 - Asset Managers have followed the market in recommending a small percentage of portfolio allocation to cryptocurrencies.
 - The **operational and procedural** side of crypto is **maturing** – from custody and storage to storekeeping and the competitiveness of service providers,
- The emerging focus on **Non-Fungible Tokens (NFTs)**
 - Interest in non-fungible tokens is beginning to gain more traction, with interest in a whole range of new types of assets, ranging from professional real estate to more fragile assets which can be tokenized or fractionalized.
 - The rise of digital art and ownership interest has fuelled activity in the space.



SOURCE: Coin98 Analytics, BitcoinTREASURIES.org

A WORD OF CAUTION REMAINS....

- Blockchain technology remains an **esoteric asset class** - understood by a smaller technical community in relation to the number of its investors.
- When translated to the real world, blockchain faces constraints of conventional systems and processes set in place. "While there are benefits to a decentralized system of record-keeping, **not everything can, and should be** placed on its own blockchain."
- However, awareness and knowledge of the sector is growing, and investors have a better understanding of crypto assets, and the blockchain technologies behind them.
- It is broadly speculated that **"crypto whales"** affect the sentiment on various cryptocurrencies as they move the prices when selling or buying large chunks of digital currencies.
- Market corrections in the sector may be **more frequent and sharp** compared with the established securities market, but also presents opportunities.

SOURCES CITED

- KPMG, McKinsey, [Boston Consulting Group](#), Andreessen Horowitz (a16z), [Business Insider](#), Pitchbook, Coin98 Analytics, BitcoinTREASURIES.org, and ACAL thought leadership based on research and trend observations.
- Unless otherwise stated, all dollar amounts are quoted in USD.

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