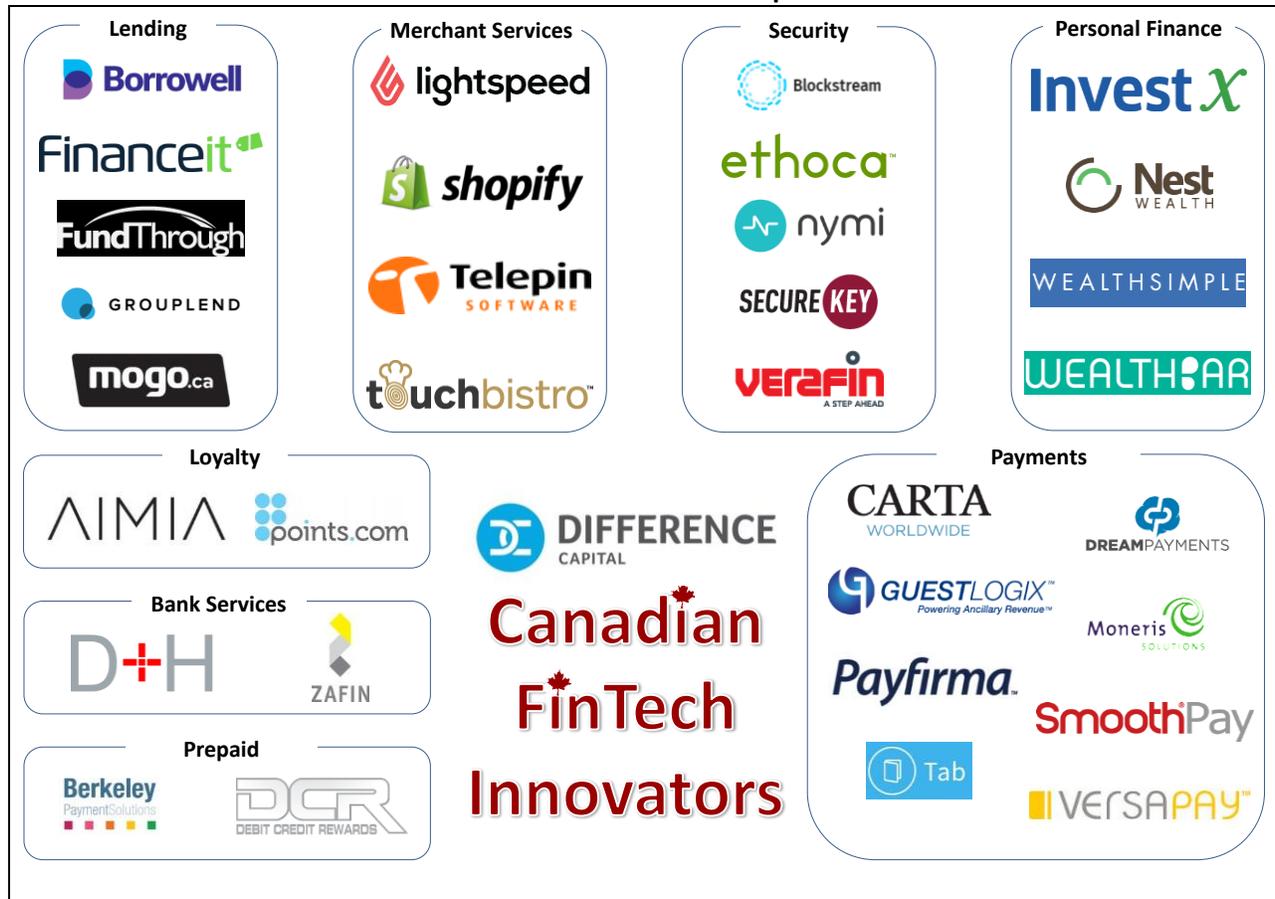


Making “Cents” of FinTech

Canadian FinTech Innovators Driving Global Change

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Canadian FinTech Landscape



It wasn't too long ago that innovation in the financial sector was said to involve only innovative fees and tweaks to banking hours. These days nimble organizations, both large and small, have begun to disrupt the Canadian financial landscape and unbundle (and improve) services that were traditionally the domain of only the largest financial institutions. We've seen this disruption story play out many times in recent years (Google - advertising, Netflix - broadcast, Amazon - retail, Airbnb - accommodations, Uber – transport, etc.) and are now seeing it take hold in FinTech.

At Difference Capital, we closely monitor the financial technology sector and have invested in a number of companies in the sector, offering us a unique insight as to market trends. At this point we have over 10% of our deployed capital in this area. We remain very bullish on the sector and believe it is one of the areas where Canada has the potential to become a global leader. The purpose of this report is to

highlight a number of the key trends we feel are emerging in the sector. We plan to follow up this overview with a more detailed thought-piece on several of the segments below. The sector landscape map above outlines who we think has the potential to be the key movers and shakers in each area.

Bank Services

Major financial institutions are typically slower to adopt new technology. However, the current environment has banks looking to invest in some solutions to improve adherence to complex compliance regulations and better target their customer bases. The market for externally-developed services such as loan process automation (D+H; [TSX:DH]) and dynamic pricing functionality (Zafin) is increasing, but we believe this will take time given the cautious nature of big financial institutions.

Lending

This segment is poised to be extremely hot in 2015/2016, coming off of the very successful IPOs of US-based OnDeck [NYSE:ONDK] and Lending Club [NYSE:LC]. We expect the innovators above and other new entrants to benefit from the whitespace created by the exit of the US-based subprime lenders after the credit crisis (e.g. Wells Fargo, HSBC and GE) and improvement in consumer perception of the sector. DCF portfolio company Mogo (near-instant online personal loans of \$200-25,000) has been highlighted in the media as a potential high-profile IPO this year and Toronto-based Financeit recently announced the extension of \$75 million of financing. Online, data-driven customer acquisition strategies with real-time analytics should prove to be lower cost and more efficient in driving customer growth than physical store-based payday lenders and traditional bank loan departments.

Loyalty

Canada is home to some of the world’s leaders in loyalty currencies including Aimia [TSX:AIM] (operates Aeroplan) and Points International [NASDAQ: PCOM, TSX:PTS] (allows for management of 100+ loyalty programs). We believe that loyalty programs will be a key driver of mobile payment and electronic transaction growth. Imagine your Scotiabank mobile wallet giving you a targeted offer for Cineplex Scene points for purchasing a bottle of Coke at a Petro Canada station with your Android phone. Who will lead the loyalty push into new mobile markets remains to be seen. Expect some FinTech-related growth here in 2016.

Merchant Services

Local startups have dramatically changed how businesses both interact with and sell to consumers. The companies on the map above have transformed online inventory management, sales processing, restaurant management and mobile network revenue optimization. Ottawa-based Shopify has become a leading global online storefront platform and just announced its planned \$100m IPO on the NYSE and TSX. Difference Capital’s TouchBistro, an iPad restaurant POS platform, is the top grossing Food & Drink

app in 33 countries and just announced a \$6m round including a strategic investment from UK-based JustEat [LSE:JE]. The next 12-18 months should see some high-value IPOs and M&A situations with companies in this space.

Payments

The payments industry has been transformed over the last twelve months and we believe this is only the beginning of the change. NFC and similar payment technologies have been popularized by the launch of Apple Pay, but the innovation in the segment is much more wide-ranging, including card issuance and processing technology (e.g. tokenization), m-wallet offerings (e.g. Google Wallet) and merchant acceptance options. Global telecom powerhouse Vodafone recently announced that DCF portfolio company Carta Worldwide is powering its contactless payments platform. Vancouver-based Payfirma’s simplified payments platform is used by companies including Versace and 1-800-Got-Junk to process their payments and provide detailed business insights. We expect to see a continued flurry of activity in this fast-evolving segment this year and next.

Personal Finance

2014 and 2015 have seen major advances in the personal wealth management space with the launch of compelling low-cost Canadian “robo-advisors” and the emergence of crowdfunding. The two most prominent names include WealthSimple (recently announced \$30m transaction with Power Financial) and Nest Wealth. We’ve also seen a lot of interest in crowdfunding, which, while still in its very early-days relative to the US, is seeing some local businesses take root (e.g. Vancouver-based InvestX). While these have garnered a lot of attention in the media, it is our view that the overall take-up and investor participation has been limited thus far (but growing). It could several years for these companies to develop sustainable market positions and achieve profitability given the size of the Canadian market, a highly competitive market and significant regulatory requirements.

Prepaid

Prepaid debit/credit cards have long had a reputation of having notoriously high fees and dodgy terms and conditions (similar to the lending sector). The segment has seen growth in recent years by focusing on loyalty/promotional cards as well as compensation/rebates that replace cheques with a simplified and cost-effective solution. Toronto-based DCR Strategies is a market leader in the prepaid card and loyalty solution space. This sector should benefit significantly from the shift towards mobile wallets and electronic payment offerings. Watch for increased usage from the lending sector as well.

Security / Fraud Prevention

Seemingly every week there is a major news story about another organization being hacked or a set of credit card numbers being compromised. Experts claim that the fraud rate for Apple Pay, a platform

which was pitched as one of the most secure payments platforms out there, is as high as 6%. Large financial institutions and startups alike are aware of these fraud concerns and the industry is seeing major innovation. Canadian companies have developed technologies including cryptocurrency security platforms, merchant-issuer fraud data sharing (DCF portfolio company Ethoca Solutions), heartbeat authentication (Nymi) and multi-agency trusted identity networks. This segment should experience strong growth to support advances in other FinTech segments.

About the Authors

Jordan Udaskin, Vice President, Difference Capital

Mr. Udaskin focuses on evaluation and execution of pre-IPO direct investments in a broad range of FinTech, eCommerce, Media and MediaTech companies. Prior to joining Difference, Jordan worked at Onex Corporation in Toronto and Credit Suisse in London, UK. In these roles, he both advised and executed on transactions involving companies in the consumer, industrial and telecom sectors. Jordan has worked on investment strategies and executions with internationally known companies including Heineken, Rio Tinto and several global telecommunications firms.

Jordan is a graduate from the Richard Ivey School of Business at Western University and serves as an advisor to the Digital Media Zone (Ryerson), Canada’s top university business incubator.

Tom Liston, CFA, Managing Partner, Difference Capital

Mr. Liston has over 14 years of experience in technology research. Prior to joining Difference Capital, he worked at Yorkton Securities as a Research Analyst covering Software and IT Services companies. In early 2003, he joined Versant Partners in the same role and was promoted to Director of Research while maintaining his coverage of technology companies. In late August of 2012, Versant Partners’ team was acquired by Cantor Fitzgerald. At Cantor, Mr. Liston served as Director of Canadian Research and covered the technology sector.

As a technology analyst, Mr. Liston has been consistently ranked among the top technology analysts in several surveys, including: StarMine, Brendan Wood, Greenwich Associates and Reuters. He has received more StarMine stock picking awards than any other technology analyst. Mr. Liston is a CFA charterholder, completed a Bachelor of Business Administration degree in Finance from the University of New Brunswick in 1996 and a Master of Arts in Economics and Finance from Queen’s University in 1998.

About Difference Capital Financial Inc.

Difference Capital Financial Inc. invests in and advises growth companies. We leverage our capital market expertise to help unlock the value in technology, media and healthcare companies as they approach important milestones in their business lifecycle. Difference Capital Financial Inc. is traded under the Toronto Stock Exchange under the symbol “DCF”. www.differencecapital.com

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