2018 Crypto Retrospective Report Summary

Ria Mrinalini Bhutoria
@riabhutoria

January 2019
Four Key Themes in 2018

- YEAR OF THE BEAR MARKET
- UNDERPINNINGS OF PROGRESS
- DECLINING TOKEN SALES
- SHIFT TO TRADITIONAL FUNDING
Year of the Bear Market
Bear Market shakes out low-quality projects, resets expectations

While the 2018 bear market erased the euphoria of late-2017, it also cleared out low-quality projects and placed a renewed emphasis on building valuable crypto products and infrastructure.
Price and exchange volume feel the pressure throughout the year

Indexed Price

Indexed Exchange Volume

Source: coinmarketcap.com, coinmetrics.io/

Note: *Coinmarketcap might include exchanges that engage in wash trading, which could be inflating total exchange volume.
Bitcoin dominance rises to over 50% in flight to safety

Source: coinmarketcap.com

58%
peak on Dec 15
Underpinnings of Progress
Bitcoin & ethereum transaction fees drop over 90% incentivizing usage

-99% Change in average fee per transaction

-95% Change in average fee per transaction

Source: Underlying data from coinmetrics.io

Note: Coinmetrics highlights that UTXO networks like Bitcoin can batch multiple transactions into one. Just counting transactions for UTXO chains might not yield a reliable estimate of actual count.
Bitcoin Lightning Network sees meaningful growth

145x
Increase in total network value

24x
Increase in open channels

Source: p2sh.info/

Note: Elizabeth Stark has mentioned that the number of lightning nodes will become increasingly harder to measure as nodes/channels will be unadvertised by default for privacy preserving purposes.
Ethereum Dapps show sustained popularity, growing 9% a month

+ 118

Avg. new dapps created on Ethereum per month in 2018

Source: stateofthedapps.com/
Declining Token Sales
88% of ICO funds raised in first half of 2018, regulatory uncertainty persists

$12.6B

Total ICO funding in 2018

Source: Custom data provided by TokenData (tokendata.io)
Note: Excluding EOS, ICOs raised $631 million in June 2018.
ICO token treasuries decline placing downward pressure on ETH price

-40%

Change in ETH held in ICO treasuries between Jan 2018 & Dec 2018

Source: Custom underlying data provided by tokenanalyst.io
Note: As of 12/31/2018
Shift to Traditional Funding
Total Crypto Funds: 741
Total Crypto Fund Holdings: $10 billion
Investment in “Blockchain” Companies: +366% y/y
Merger & Acquisition Deals: +309%
(145 projected)

Note: Does not include data on crypto index funds.
Blockchain M&A activity takes off in 2018

Source: https://www.cnbc.com/, JMP Securities

Note: *Annualized based on deal count of 115 as of October 15, 2018.

Top M&A Activity

- Circle acquired Poloniex for $400 million.
- Coinbase acquired Paradex and Earn.com.
- Tron acquired Bitorrent for $126 million.
- Binance acquired Trust Wallet.
- Stellar acquired Chain.
- BK Global acquired Bithumb for $353 million.
- Bitmain acquired Telescope.
- Huobi acquired Pantronics Holdings for $70 million.

Projected y/y increase in blockchain M&A activity

300%+

Source: https://www.cnbc.com/
Crypto exchanges were popular M&A targets

Top M&A Activity

- Circle acquired Poloniex for $400 million.
- Coinbase acquired Paradex and Earn.com.
- Tron acquired Bitorrent for $126 million.
- Binance acquired Trust Wallet.
- Stellar acquired Chain.
- BK Global acquired Bithumb for $353 million.
- Bitmain acquired Telescope.
- Huobi acquired Pantronics Holdings for $70 million.

ACQUIRER | DATE   | TARGET
---       | ---    | ---
Circle    | Feb-2018 | Poloniex
Monex    | Apr-2018 | Coincheck
Rakuten  | Aug-2018 | Everybody’s Bitcoin
BK Global | Oct-2018 | Bithumb
NXMH     | Oct-2018 | Bitstamp

Source: dealroom.co
Three Key Crypto Trends for 2019
Stablecoin mania marches on in 2019

**Fiat collateralized**
- Tether, USD Coin (USDC), Gemini Dollar, PAX, TrueUSD

**Crypto collateralized**
- MakerDAO (DAI), Havven, Boreal, Reserve

**Seigniorage shares**
- Steem Dollar, Fragments (USD Fragment), Kowala (kCoin)

Source: coinmarketcap.com

Note: *Tether still holds the greatest share of stablecoin volume.*
Stablecoin trends to watch in 2019

**Use expands beyond trading**

Stablecoins expand beyond trading use case to payments and smart contract-based insurance policies

**Remittances**

Increased use of stablecoins for cross-border payments and remittances

**Alternative to crypto for raising funds**

More projects use stablecoins for fundraising to better manage their treasuries
Focus shifts from ICOs to Security Tokens (STOs)

**Benefits**
- Lower issuance fees
- Faster deal execution
- Increased Transparency

**Challenges**
- Regulation
- Limited market exposure
- Increased issuer responsibility
- Compliance

**SECURITY TOKEN ECOSYSTEM**

- **Underlying platform**
  - Ethereum

- **Compliance/Issuance platforms**
  - Polymath, Harbor, Securitize, Templum

- **Secondary markets**
  - Templum, Securrency, tZero, Open Finance Network

- **Examples**
  - BCAP, SCI, tZero, SPICE VC
Security Token trends to watch in 2019

**Infrastructure continues to mature**

Traditional financial services providers will retool to provide solutions catering to security token offerings.

**More issuance**

Issuance will increase as regulators offer more clarity and providers roll out solutions to address the barriers to entry.

**Increased tokenization**

Tokenization has the potential to re-engineer and expand existing public and private markets.
Institutional crypto comes into its own

**Derivatives, Indices, Trusts**

**Existing:** CME/CBOE Futures, Citi DAR, GBTC Trust, Bitwise Hold 10 Index, HODL ETP

**Pending:** Nasdaq, Bakkt (ICE), ErisX, CoinFLEX BTC futures

**ETF Proposals**

Van Eck/SolidX, Bitwise

**Custody**

Fidelity Digital Assets, Coinbase Custody, Kingdom Trust, BitGo

**Endowments**

Harvard, Yale, MIT, Dartmouth, Stanford, UNC
Potential barriers to institutional crypto adoption

**Lack of transparency**
Crypto ecosystem is opaque as users are identified by a long string of characters rather than an account and profile.

**Overlapping regulators**
Crypto assets have overlapping classifications and fall under the jurisdiction of multiple regulatory agencies.

**Education**
Before institutions can invest in the space, they need to create a strategy for investing in crypto.
Connect with Circle Research

Email research@circle.com

Twitter @ResearchCircle
@RiaBhutoria

Get the full report and subscribe for free at circle.com/research
Reports, market insights, and other information ("Information") provided by Circle Internet Financial Limited ("Circle") or its affiliates have been prepared solely for informative purposes and should not be the basis for making investment decisions or be construed as a recommendation to engage in investment transactions or be taken to suggest an investment strategy in respect of any financial instruments or the issuers thereof. Information has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research under the Market Abuse Regulation (EU) No 596/2014. Information provided is not related to the provision of advisory services regarding investment, tax, legal, financial, accounting, consulting or any other related services and is not a recommendation to buy, sell, or hold any asset. Information is based on sources considered to be reliable, but not guaranteed, to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of the date of publication, and are subject to change without notice. Trading and investing in digital assets involves significant risks including price volatility and illiquidity and may not be suitable for all investors. Circle and its affiliates trade and hold positions in digital assets and may now or in the future trade or hold a position in an asset that is the subject of Information provided. As a result, Circle or its affiliates may be subject to certain conflicts of interest in connection with the provision of Information. Circle will not be liable whatsoever for any direct or consequential loss arising from the use of this Information.