

Initial Coin Offerings

The year of the token

The cryptocurrency boom awakens memories of the dotcom euphoria – but everything is going much faster. **Jost Dubacher**

The market capitalisation of bitcoin, the best-known blockchain-based currency, grew from \$ 15.6 billion to \$ 226.6 billion last year. Even more extreme was the rise in the second largest virtual currency, the ether: it increased within a year from \$ 8 to more than \$ 1,000.

Initial Coin Offerings (ICO) were the most important drivers for the ether, since it is more than a currency. The Zug-based Ethereum Foundation operates a platform on which a company can build a token. In simple terms, this is a digital contract that contains an agreement between two parties – this may be a

Start-up SingularityNET

took \$ 36 million in just
60 seconds

privilege, such as access to a cloud service, or a promise to pay, which can be redeemed in ether.

As part of an ICO, a company offers self-created tokens for sale. If this is successful, it has the opportunity to list the token on a trading platform, such as lykke.com, and thus create a secondary market.

In 2017, digital crowdfunding via the issuance of tokens exploded. According to icowatchlist.com, issuers of tokens in 2016 generated just CHF 62.8 million worldwide; in 2017, it had grown to \$ 2.2 billion. For example, the Swiss-based AI start-up SingularityNET took \$ 36 million in 60 seconds in December, and even the provider of a 'Useless Ethereum Token' collected some \$ 10,000.

"Sure, we're dealing with a bubble," comments Tom Lyons from the Crypto Valley Association (CVA). And Wolfgang Müller of Zurich law firm Meyerlustenberger Lachenal, which has already ac-

companied various ICOs, says: "The question is not whether, but when the boom will come to an end."

And yet no expert or market participant doubts that the crypto technologies have disruptive potential. A crash, according to Lyons, will not stop their breakthrough. He draws an analogy with the internet: "Online giants such as Google and Amazon broke through only after the dotcom bubble burst; others, like Facebook, were founded after that."

So what will remain of the ICO euphoria? And what does it mean for local investors, founders and entrepreneurs? We venture a prediction:

- **Locational advantage.** In the US, several authorities are busy creating new regulations for cryptocurrencies and ICOs. Not so in Switzerland: "We have tried to come to terms with this new phenomenon within the existing laws," says Müller. This hands-off policy has made Switzerland a global crypto hotspot. Resident companies and foundations have so far generated well over \$ 800 million. In comparison, Germany has generated just \$ 106 million.
- **Alternative financing models.** A token bundles a contract and a financial transaction, and a transfer requires no legal or financial intermediaries. The crowd of small investors thus gains practically unlimited access to over-the-counter corporate financing. The long-term impact of this is unclear, but the fact is that the total volume of VC deals with crypto companies has been falling since the peak in 2015. As Lyons says: "That's an effect of the many successful ICOs."

Still, most companies and foundations that issue tokens are themselves active in the crypto business. Either they will continue to develop the basic technology or offer services related to bitcoin, ether, etc.

Working for logistics too

And the circle of candidates is widening. Zurich University spin-off Modum, founded in 2016, helps pharmaceutical companies comply with their statutory documentation requirements for the storage and transport of medicines. "Blockchain is just a means to an end for us," says co-founder Marc Degen. It enables construction of a transparent, tamper-proof database for all authorised persons.

Last summer, Modum was in the midst of a financing round: "We talked to corporates and VCs," says Degen. But as the talks faltered, he quickly decided to go for a digital crowdfunding. He agreed a long-term dividend waiver with the company's shareholders and set up an Ethereum-based Smart Contract, which in addition to certain participation rights entitles it to Modum's future profit distributions.

The sale of 'Mod Tokens' began on Friday, 1 September 2017 at 12 pm. After five hours, more than \$10 million of bitcoin and ether was in the kitty.

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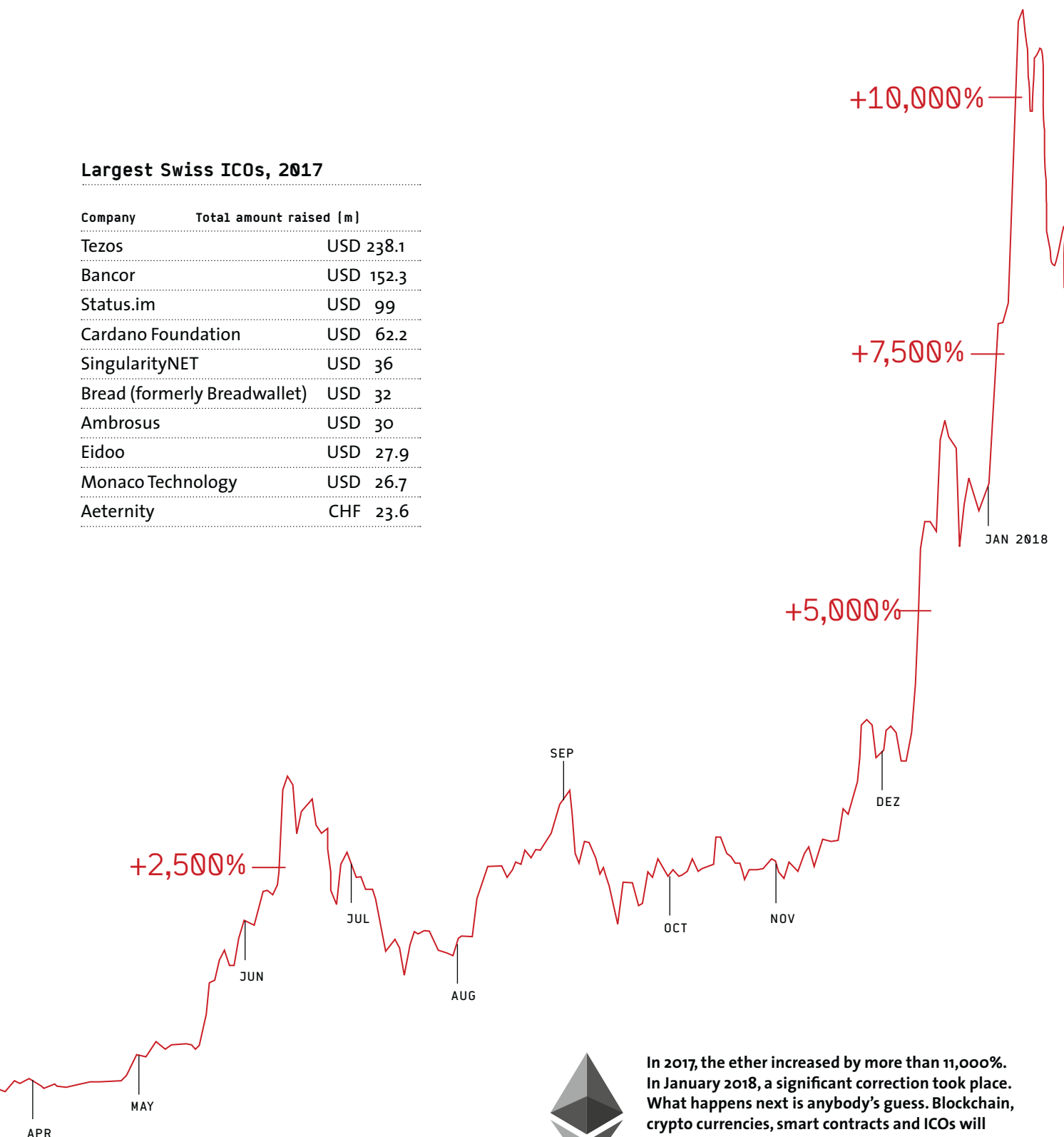
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Largest Swiss ICOs, 2017

Company	Total amount raised (m)
Tezos	USD 238.1
Bancor	USD 152.3
Status.im	USD 99
Cardano Foundation	USD 62.2
SingularityNET	USD 36
Bread (formerly Breadwallet)	USD 32
Ambrosus	USD 30
Eidoo	USD 27.9
Monaco Technology	USD 26.7
Aeternity	CHF 23.6



In 2017, the ether increased by more than 11,000%. In January 2018, a significant correction took place. What happens next is anybody's guess. Blockchain, crypto currencies, smart contracts and ICOs will probably be like the internet – over-estimated in the short term, under-estimated over the long term.