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INVESTMENT BANKERS

# The Disruptive Potential of Blockchain

White Paper

## Introduction

2017 has been a significant year for cryptocurrencies, particularly bitcoin and ethereum. As of October 31st, the price of bitcoin year-to-date has risen more than 400 percent while ethereum has increased more than 3,700 percent. The current market capitalization of bitcoin is about \$102 billion, up from \$11 billion in October of 2016. Ethereum has a current market capitalization of about \$29 billion, compared to less than \$1 billion in October of 2016.<sup>[1]</sup>

Although the skyrocketing prices of certain cryptocurrencies have been drawing the attention of retail and institutional investors, the primary focus should reside on the corresponding technology and infrastructure.

## The Evolving Blockchain Landscape

In addition to being used as a store of value, the blockchain technology that underlies these cryptocurrencies holds significant promise to transform a multitude of industries. Blockchain at its core is a distributed ledger of transactions in a peer-to-peer network. Information cannot be erased and online transactions are verifiable without the security or privacy of the parties involved being compromised. Possible uses of blockchain include smart contracts, identity management, copyright protection and licensing of intellectual property, payments, and many others. Smart contracts written on the ethereum blockchain are pre-programmed and self-executing, whereby the buyer and seller write the terms of the contract into the line of code.<sup>[2]</sup>

Whether it's finance, healthcare, real estate, or any other sector, the decentralized and transparent nature of blockchain has the potential to change how these markets operate. For instance in the financial sector, immediate settlements using blockchain technology could supplant clearinghouses and other intermediaries. In the healthcare sector, pharmaceutical companies could use the blockchain to prevent prescription abuse and better monitor medicines along the supply chain. In the real estate sector, home ownership information could be stored and shared on the blockchain, leading to more accurate recordkeeping.<sup>[3]</sup>

Public, private, and hybrid blockchains are being explored by a wide variety of companies. Some of the world's leading businesses have also been investing resources into developing blockchain solutions. One of the best examples

is the Enterprise Ethereum Alliance (EEA), an open-source blockchain initiative that consists of more than 200 members. Notable members include Microsoft, JP Morgan, Mastercard, Cisco, and Intel.<sup>[4]</sup>

## Related M&A and Investment Activity

Blockchain technology has become a driver of merger and acquisition (M&A) activity, due to many of the factors discussed so far. Examples of notable related M&A transactions over the past 18 months include:

- Digital asset exchange Kraken's acquisitions of Cryptograph, a charting and trading platform; and Glidera, a wallet funding service;
- Digital music streaming service Spotify's acquisition of Mediachain, a blockchain startup; and
- Online home rental marketplace Airbnb's acqui-hire of ChangeCoin, a startup that runs a bitcoin-based micropayments service.

There has also been a rise in the number of VC firms focused on blockchain, such as Pantera Capital, Lightspeed Ventures, Khosla Ventures, Blockchain Capital, and Digital Currency Group. Examples of notable related investments over the past 18 months include:<sup>[5]</sup>











- Coinbase's \$100 million Series D funding led by IVP, with participation from Spark Capital, Greylock Partners, Battery Ventures, Section 32 and Draper Associates (bringing its total disclosed funding to \$217 million);
- Circle's \$60 million Series D funding led by IDG Capital Partners, with participation from Breyer Capital and General Catalyst Partners (bringing its total disclosed funding to \$136 million); and
- Ripple's \$55 million Series B funding from Standard Chartered, Accenture, SCB Digital Ventures, Santander InnoVentures, the venture arms of CME Group and Seagate Technology, and others (bringing its total disclosed funding to \$94 million).

One recent development is that Initial Coin Offerings (ICOs) have been supplanting traditional seed equity funding in some instances. Given the spike in ICO activity, there has also been some concern about the lack of regulations and proliferation of questionable development projects.

## SELECT BLOCKCHAIN M&A AND INVESTMENT HIGHLIGHTS






### SELECT M&A HIGHLIGHTS

#### Blockchain Related Transactions

	Acquirer	Target	Summary
May 2017	 Kraken	 Cryptowatch	Kraken, the global digital asset exchange, has acquired charting and trading platform Cryptowatch, which is used by thousands of traders to chart over 150 markets in real-time and trade digital assets.
April 2017	 Spotify	 mediachain	Spotify, the digital streaming music service, has acquired Mediachain Labs, a blockchain startup that allows registering, identifying, and tracking of properly referenced and licensed use of digital creative works online.
Jan 2017	 CoinDesk		CoinDesk, the media and events business in the bitcoin and blockchain industry, has acquired Lawnmower, a blockchain data and research platform.
April 2016	 airbnb		Airbnb, the online home rental marketplace, has acquired ChangeCoin, a bitcoin-based micropayments service. ChangeCoin lets users send small amounts of money, or tips, over social networks.
Dec 2016	 Kraken	 Glidera	Kraken, the global digital asset exchange, has acquired Glidera, which enables secure one-click buying and selling of bitcoin straight from bitcoin wallets via ACH bank transfers.

### SELECT INVESTMENT HIGHLIGHTS

#### Blockchain Related Investments

	Company	Round	Summary
Aug 2017	 coinbase	\$100 MM Series D	Coinbase is a digital currency exchange. Investors include IVP, Spark Capital, Greylock Partners, Battery Ventures, Section 32 and Draper Associates.
June 2016	 CIRCLE	\$60 MM Series D	Circle is a peer-to-peer payments technology company. Investors include DG Capital Partners, Breyer Capital, and General Catalyst Partners.
Sept 2016	 ripple	\$55 MM Series B	Ripple provides global financial settlement solutions. Investors include Standard Chartered, Accenture, SCB Digital Ventures, and Santander InnoVentures.
May 2017	 Canaan	\$43 MM Series A	Canaan produces blockchain servers and designs microprocessor solutions. Investors include Tunlan Management and Baopu Asset Management.
Jan 2017	 BitFury	\$30 MM Series C	Bitfury is an integrated bitcoin blockchain security and infrastructure provider. Investors include Blockchain Capital, Queensbridge Venture Partners, and Binary Capital.

**Conclusion**

When examined in totality, blockchain is still in its early days. According to a survey by Deloitte, 42 percent of executives who claimed some knowledge of blockchain believe it will disrupt their industry. 55 percent said their company would be at a competitive disadvantage if they failed to adopt blockchain technology.<sup>[6]</sup> Despite the dramatic short-term fluctuations in cryptocurrency prices, the adoption of blockchain technology and its potential impact remains encouraging over the long run. Blockchain offers substantial promise to revolutionize countless industries and companies in this space should continue to garner strong interest from both strategic and financial acquirers.

**About Berkery Noyes**

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries.

**About Peter Ognibene**

Peter Ognibene is a Managing Director in the Business Software/Services and Financial Technology Groups at Berkery Noyes. He has managed hundreds of both sell-side

and buy-side transactions during his career. Peter holds a BA from Syracuse University and an MBA from New York University. Whether you're considering growth through acquisition, the sale of a business, or a timely exit strategy, contact Peter by phone at 646.442.7992 or email him at peter.ognibene@berkerynoyes.com.

**Footnotes**

- [1] CoinMarketCap. <https://coinmarketcap.com/>
- [2] Blockchain Technologies. "Smart Contracts Explained." <http://www.blockchaintechnologies.com/blockchain-smart-contracts>
- [3] Ravid, Barak. "Blockchain's power revolutionizes M&A." EY Parthenon. <http://parthenon.ey.com/po/en/perspectives/blockchains-power-revolutionizes-m-and-a>
- [4] Enterprise Ethereum Alliance. <https://entethalliance.org/>
- [5] "Blockchain Investment Trends In Review." CB Insights. <https://www.cbinsights.com/research/report/blockchain-trends-opportunities/>
- [6] Deloitte Blockchain Survey 2017. <https://www2.deloitte.com/us/en/pages/about-deloitte/articles/innovation-blockchain-survey.html>

**SELECT BUSINESS SOFTWARE/SERVICES  
AND FINANCIAL TECHNOLOGY TRANSACTIONS**

  
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