

## IR CONSULT expects a new ICO / STO boom

**After the BaFin approved a first German STO (Security Token Offering) last week, the market is now open for further, now regulated ICOs. This would allow company tokens to finally establish themselves in the international capital markets, as professional investors in particular are very interested in promising projects and start-ups. IR CONSULT, since 25 years specialist for IPOs and Investor Relations, has worked out six essential reasons for it. In the best case, we are facing a new boom in token offerings, as the issue of securities via the blockchain can be carried out much faster, cheaper and safer.**

Between 2015 and 2017, the ICO (Initial Coin Offering) market was booming worldwide. Many start-ups - mostly with blockchain projects - collected billions worldwide to finance themselves. The gold-rush mood reached its peak at the beginning of 2018, as evidenced by the fact that many ICOs were able to place their coins within a very short space of time and that these coins, if traded on crypto exchanges, achieved strongly rising prices.

However, from the 2nd quarter of 2018, the boom was suddenly over. Financial market regulators around the world issued buy warnings and introduced a notification requirement as the number of allegedly fraudulent ICOs accelerated sharply. Some countries - such as China or South Korea - even banned ICOs completely. On the other hand, Bitcoin, the best-known crypto currency, slipped dramatically with the result that 'investors' suddenly lost money. Here the question arises whether one should really speak of investors or speculators?

This was also the beginning when business models were viewed more critically, which meant that many companies could no longer place their coins. This in turn had the effect that projects could not be completed and were therefore not successful with the result that many companies had to file for bankruptcy. The money invested until then was lost.

However, one should bear in mind that an investment in an ICO is an investment in a start-up, i.e. venture capital. With VC, the professionals expect an average of 6 bankruptcies for 10 investments, 3 OK investments and 1 highflyer in the best-case scenario. However, the press and the injured investors often regarded this loss of money simply as fraud, which did not necessarily have to be the case right from the start.

A few words on Europe, where the initial boom was completely overslept. It was not until the second half of 2017 that the first companies started their ICOs. At a time when the peak of the market was already approaching. Nevertheless, some managed to collect 2-digit million euro amounts. From April 2018, however, no company made it. Fortunately, in the meantime a lot has been done in Europe towards pro-crypto applications.

## What is the next step for the ICO market?

We will certainly no longer experience an ICO boom like the one we have experienced in recent years. Nevertheless, we expect a significant revival in the crypto- / blockchain sector in the following years, with the difference that the quality will increase and that companies will carry out a targeted STO or Equity Token Offering (ETO); these are subject to similar regulations, as we know it today from securities (shares, bonds, etc.). We see great opportunities for Europe in particular and there are a number of strongly supportive reasons for this:

### 1. Projects will be more realistic

The vast majority of past ICOs had really great ideas and aimed to make the world a better place by using blockchain technology. Many of these companies did not have a finished product. However, especially in the development and implementation phase, it is well known that there are always delays and even complete discontinuations. And the companies that finally managed to do so then struggled with regulations, a successful market launch and production expansion, which represent further, very expensive and protracted hurdles.

Today, however, most companies distance themselves from fast money by means of an ICO. The focus is now on a functioning product and real value with an attractive deal for investment through an STO. So the risks have become significantly lower. In addition, companies from non-blockchain sectors are also increasingly interested in token offerings as financial alternatives, e.g. from the consumer sector, mechanical engineering, renewable energies, etc. The products are thus also much better understood by the investors addressed, which accelerates their decision-making.

### 2. Management more experienced

In the past, 2-3 programmers often teamed up to develop an idea, which was then funded by an ICO. Together with some more or less experienced 'advisors' they formed the team - the heart of the company. Often, however, they did not work entirely for the company or only gave their name in order to gain the trust of investors and receive free coins in return. Isn't it clear, then, that such management ultimately had to fail?

Today, the founders know that financing is one of the central topics and that one has to have very special expertise for this. This means that a financial expert is involved at a very early stage, who informs the founders, among other things, what information financiers who invest in tokens want. This procedure replaces ICOs and finally makes STOs capital marketable.

### 3. **Wider acceptance for blockchain and crypto**

A few years ago, only insiders knew what a blockchain was and what you could do with it. In the meantime, however, one is overwhelmed by invitations to blockchain events, many of which have already been issued by the Ministry of Economic Affairs and state start-up sponsors. The company's own training courses, job applications from large companies and a large amount of literature round off the greatly increased interest in this technology and its possible applications.

Interestingly, both the ECB, BaFin and FINMA now see the great potential of blockchain technology, particularly in the financial sector. Major banks and companies founded their own departments and have already placed their first bonds via the blockchain. Finally, the BaFin has just approved the first STO of a German company.

The now realistic view of blockchain and crypto applications sustainably supports confidence in token offerings as well.

### 4. **Regulators demand professional information**

In the past, utility tokens were usually issued under the term ICO in order to avoid classification as securities. Nevertheless, a kind of profit sharing was often promised, similar to a share. At that time, the supervisory authorities did not intervene against this.

For almost a year now, however, the regulatory authorities have taken a different view: first of all, a company token is always a security, unless you prove to them that it is after all a utility - a kind of shopping voucher or membership.

This means that the issuer of the token must have a securities prospectus prepared and approved by a regulator. This of course makes the raising of money more time-consuming and expensive, but on the other hand, the issuer may now also make a public offer and has extensive documents necessary for the capital market. The advantages outweigh thus clearly!

### 5. **Much more professional investors**

The ICO buyers of the past often only had the short-term success in mind: the price increase of the coins. These so-called 'pump-and-dump investors' were not interested in the medium to long-term well-being of the issuing company. However, as these companies needed money for their growth over a longer period, they naturally no longer found any investors when the prices of the coins fell sharply, although there were still interesting projects at that time. In addition, the token buyers were mostly private investors with small volumes and not professional investors.

According to an analysis by IR CONSULT, there were only a handful of institutional investors in Europe at the beginning of 2018 who accompanied ICO/ITO companies on a longer-term basis as they recognized the growth potential. Also because of the now favored security token with capital market usual documentations and follow-up obligations, the number of the professional investors has clearly increased: currently IR CONSULT counts at least 30 in Europe.

With the introduction of regulated crypto exchanges this year (e.g. Switzerland, Stuttgart), the acceptance of tokens will continue to increase. Interestingly, venture capital companies are also increasingly interested in start-up investments in STO candidates, as these results in a risk reduction.

## 6. **Security Token will boom**

BaFin has just (mid-February 2019) given its OK to a first German STO.

In our view, this is the starting signal for a number of further offers; because raising money via the blockchain and the internet makes the entire issuing process simpler, faster and cheaper, so that in the medium term normal IPOs will probably also be carried out in this way.

Where else does a company have the opportunity to appeal to interested investors worldwide and win them over? Where else does it have the opportunity to collect growth capital without voting rights and any collateral? Where else can it be so flexible in the economy of the tokens with interest or dividend payments?

**As a conclusion, we expect a new boom with STOs in the near future.** The environment is now much more positive about blockchain and crypto opportunities, regulators are now allowing this innovative type of corporate financing and start-ups are becoming more professional. There are plenty of exciting ideas and start-ups; the only thing missing is financing. STOs offer an ideal opportunity for companies and new projects to expand their financing options faster and cheaper than many other sources of capital. However, a more intensive and professional preparation is required, which should not be a big hurdle if you have found the right partners with crypto and capital market experience. Some well-known and successful STOs in the near future would have an accelerating effect.

### **About Alexander Vollet and IR CONSULT:**

Alexander Vollet holds a degree in industrial engineering and worked for 8 years as an equity analyst at Deutsche Bank, UBS and SEB-Bank. He holds the DVFA award as 'Investment Analyst' and the bdvb certification as 'Independent Management Consultant'.

25 years ago, he founded **IR CONSULT** ([www.ir-consult.de](http://www.ir-consult.de)) as a specialized consulting firm for IPOs and fundamental investor relations. The highly experienced IRC team has realized nearly 100 IPOs and has managed more than 100 investor relations mandates. IRC is an active member of the DVFA and the bdvb and has established an international cooperation network. Since 2017, he also supports ICO candidates to successfully implement their ICO/STO ([www.ico-ipo.de](http://www.ico-ipo.de)). Overall, IR CONSULT improves the chances of realization of capital market transactions and accelerate the decision-making process of investors.

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