



Outlier Ventures

Crossing the Chasm: 10 Green Shoots of Recovery

The State of Blockchains
January 2019

Lead Analyst: Joel John
Contributors: Jamie Burke & Lawrence Lundy-Bryan

Outlier Ventures[•]

10x Green Shoots

- 1 – Crypto markets bottom out
- 2 – What caused the crash? Not a ETH sell off
- 3 – VC consolidates as “Blue Chips” emerge
- 4 – Developer activity recovering
- 5 – Winner from the crash: Stablecoins
- 6 – Developers look for “Ethereum Killers”
- 7 – First “Killer App”: Brave
- 8 – Taming the wild west
- 9 – Private chains shine
- 10 – BATFAANGs go crypto

Outlier Ventures

A venture platform for
the decentralised future

We support tokenised
communities to build the
new decentralised
economy

Outlier Ventures is a venture platform focused on building the infrastructure for the next generation of data technologies. As the first European venture firm dedicated to blockchain technology, we've developed an industry-leading investment thesis, based on the convergence of decentralised technologies such as blockchains and distributed ledgers, with 'deep tech' such as artificial intelligence, robotics, the Internet of Things, and 3D printing.

We focus on early stage, seed and pre-seed projects where direct support to investee founders and creating value post-investment is integral to our business model. We have consistently proved our ability to identify exceptional projects, allowing us to constantly expand. Our team is 30 people strong, with a new office in the US, and with specialists in crypto-economics, research, legal, marketing, and tech, we bring a powerhouse of support to founders.

Investing in both equity and crypto-tokens we have invested and partnered with some of the most impressive projects in the decentralised space including, IOTA, Ocean Protocol, Fetch.AI, SEED, Sovrin and Haja Networks.

Engage with us

Our reputation has originated as a consequence of our deep commitment to open research and thought leadership in the decentralisation space broadly, and more specifically our Convergence Ecosystem thesis.

We engage regularly with start-ups, academia and the corporate ecosystem and are open to collaboration and consulting opportunities with the community. Current research themes are focused on smart cities, energy, mobility, connectivity, augmented reality, and “crossing the chasm” to mainstream decentralised technology adoption.

If you wish to discuss your project or initiative further, please contact Lawrence, Charlotte or Catherine.



Research enquiries

Lawrence Lundy-Bryan
lawrence@outlierventures.io



Media and communication enquiries

Charlotte Baker
charlotte@outlierventures.io



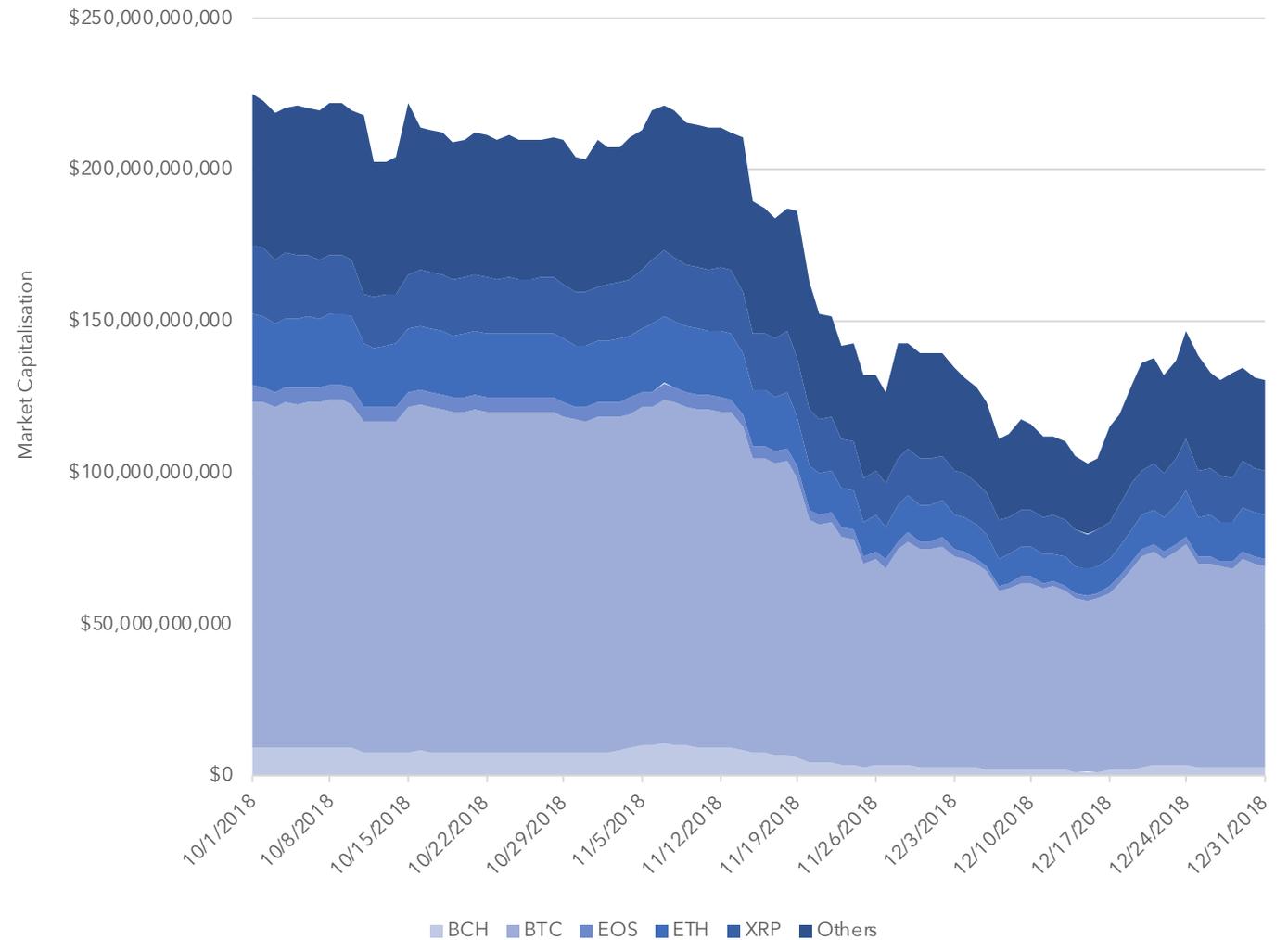
Corporate partnership enquiries

Catherine Thomas
catherine@outlierventures.io

Crypto market bottoms out

- Hash wars involving Bitcoin Cash SV and Bitcoin Cash ABC rocked confidence in the markets and drove total market capitalization to a low of \$125 billion in mid December.
- The postponement of Bakkt's futures launch due to the US Government's shut down added to concerns about a short term recovery.
- Market recovery during the latter end of the quarter seems to have stemmed around buzz around the Ethereum Constantinople upgrade (now delayed).

Combined Market Capitalisation - Q4



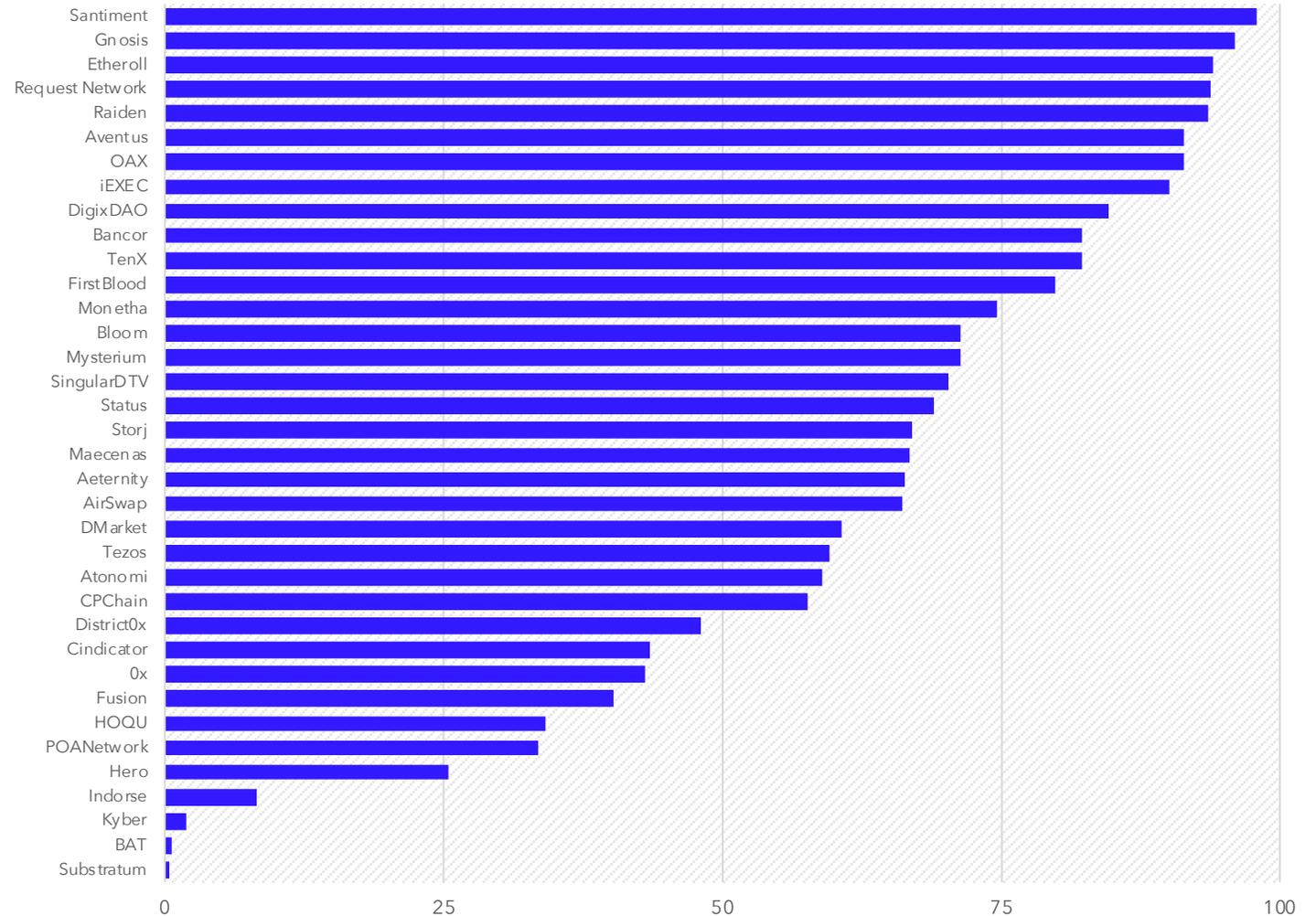
2

What caused the crash? Not an ETH sell off

Sell pressure may continue until the moon

- Although it is believed that ICO wallets offloading their token holdings was a key reason for the ETH price decline, a high number of projects held on to their ETH.
- An analysis of 40 prominent ICOs showed that roughly 2.7% of Ethereum's supply continues to be locked up in ICO wallets. By as late as September 2018, roughly 3.7% of all Ethereum was locked up in ICO wallets.
- On average, ICO wallets held roughly 37% of their token's raise in Ethereum. It is likely that any recovery of the token's price will be affected by sell side pressure from tokens that continue to hold on to their Ethereum.
- The key drivers for the Ethereum price crash seem to have been a combination of declining interest in ICOs, lack of demand for dApps and shorting opportunities enabled by exchanges like BitMEX.

Percentage of Raised Tokens In Wallet



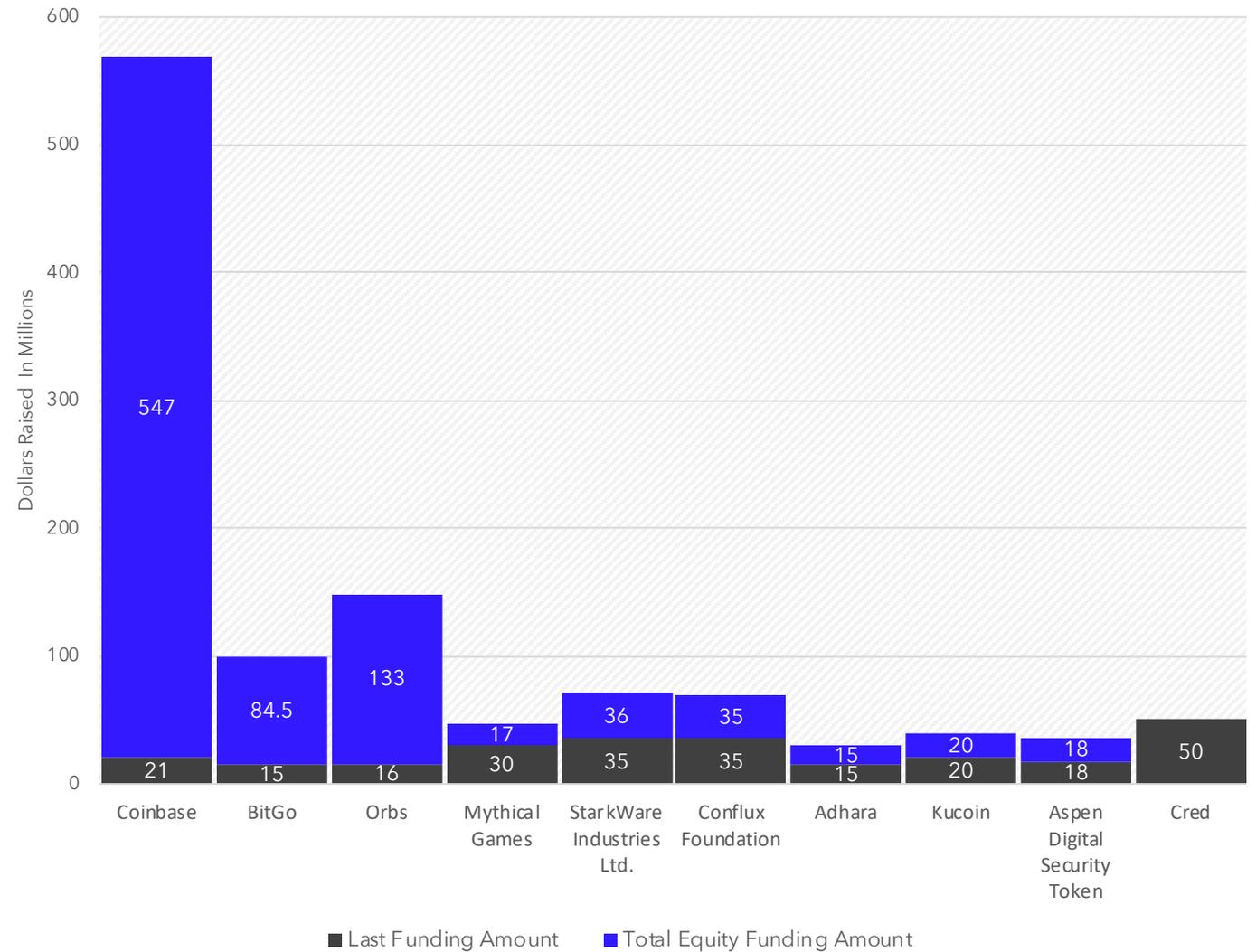
3

VC consolidates as 'Blue Chips' to emerge

A swing back to being conservative

- Venture capital investments have begun concentrating increasingly in equity follow-on rounds. A total of over \$550 million was raised through 147 deals in the last quarter of 2018, but roughly 70% of it was captured by just 20 deals. Conservative investing has become the norm.
- An emergent trend has been to invest larger sums into late stage ventures that have demonstrated traction and some sort of product-market fit. The Coinbase recent \$21 million F round is an example. Expect to see more money consolidating around a few clear winners in different segments of the market.
- The recent crash in the broader equities markets would have also pushed investments toward more conservative bets.

Q4 Venture Capital Financing



Source : Kraken Transparency Report

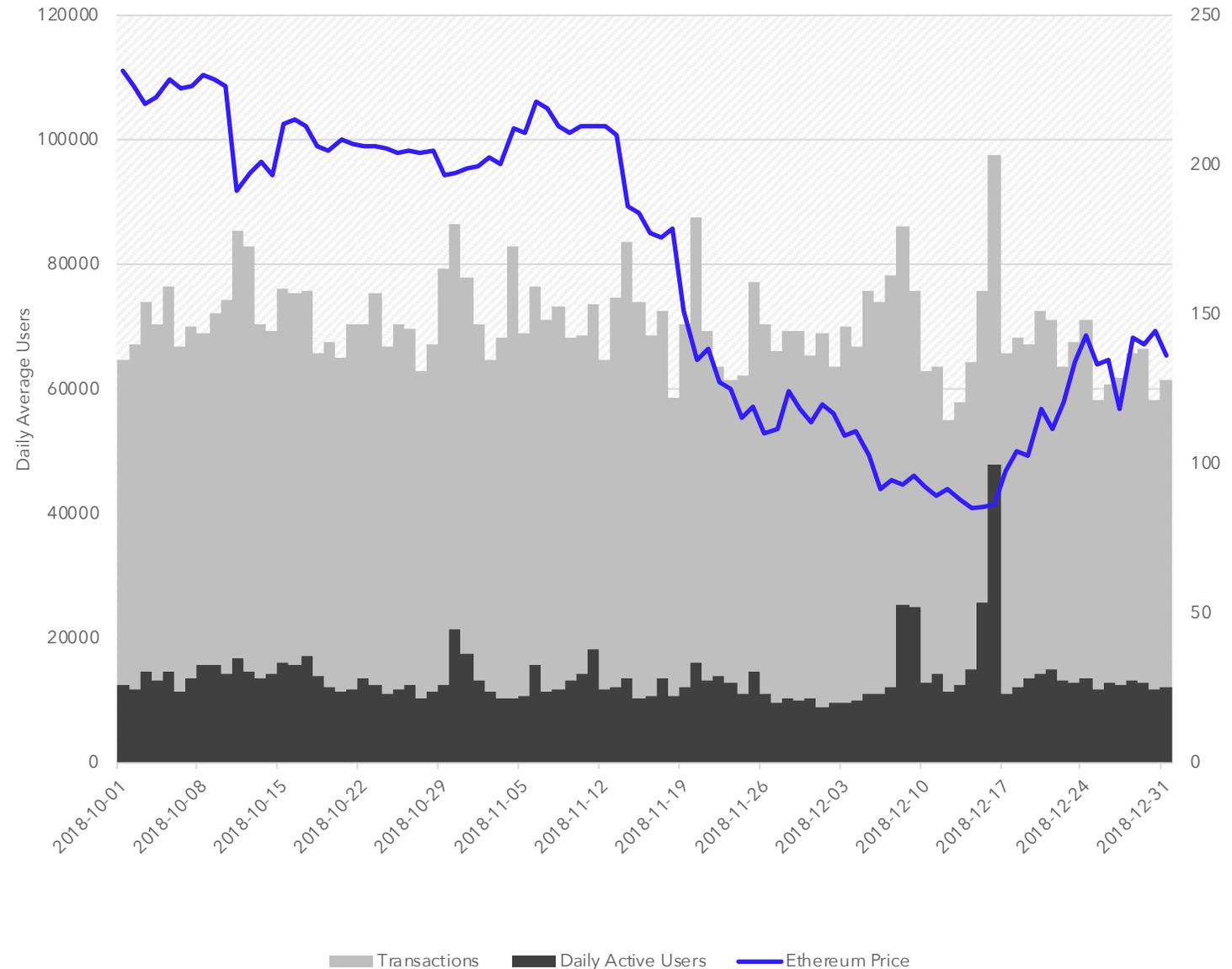
4

Developers activity recovering

Developers weather the storm

- Ethereum's price decline laid out an interesting scenario to test two key themes this quarter. One, that a substantial price dip would not affect niche users that use decentralised applications currently. Two, that a dip in gas prices do not necessarily contribute to an increase in daily average users.
- We are currently in a phase where early stage, organic adopters display high stickiness to a few apps they prefer using routinely.
- With major browsers like Opera integrating tokens into their mobile applications, it is likely that we will soon see a decentralised application seeing substantial scale very soon.

Ethereum Activity Vs Price



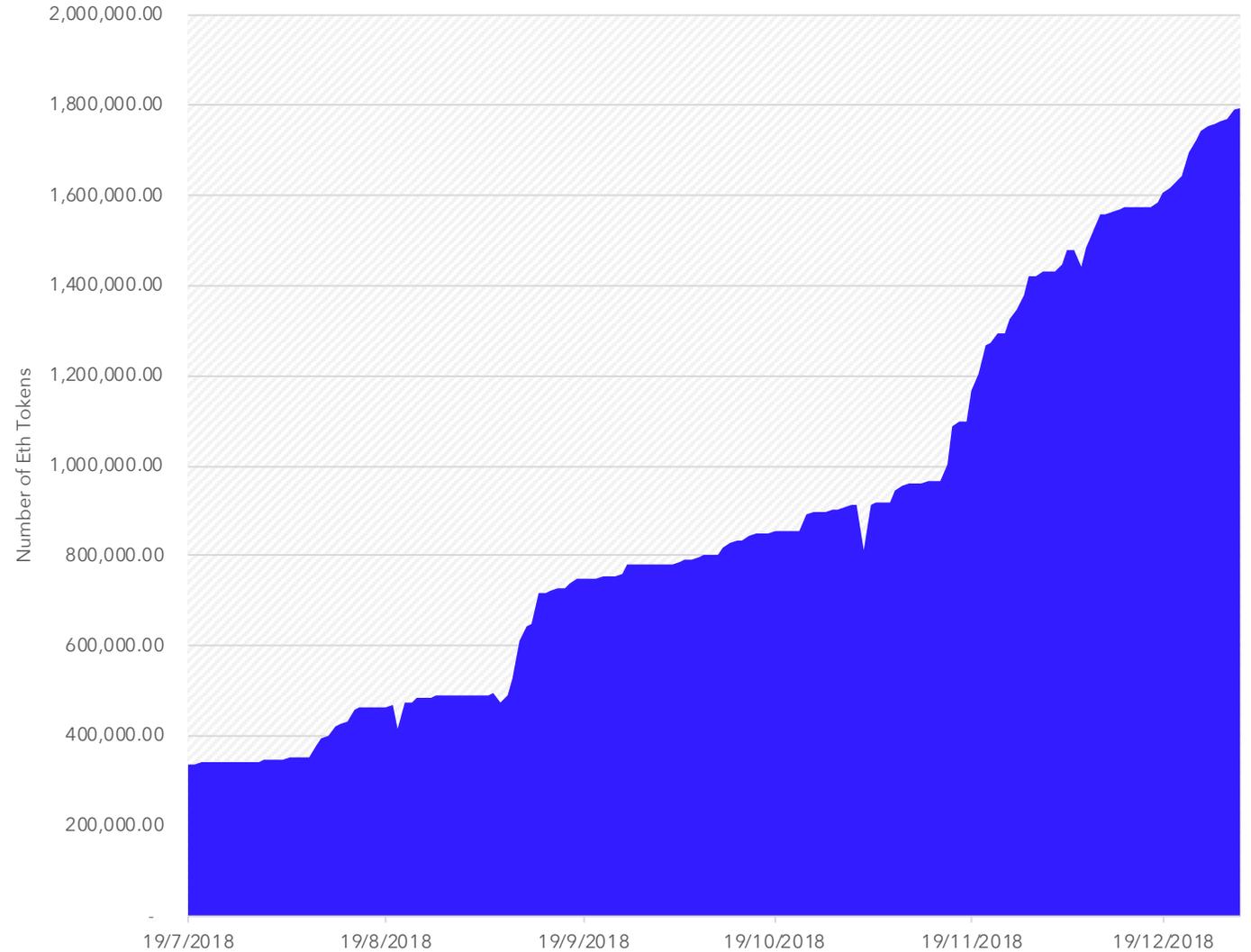
5

Winner from the crash: Stablecoins

Decentralised finance needs stability

- Ethereum's substantial crash over the course of the year meant ecosystem stakeholders required an alternative to hedge their tokens. The same resulted in a stablecoin boom.
- MakerDAO's ability to give a non-banking based alternative for entrepreneurs to build trading (derivatives, margin trading) and lending based products have been another key driver of its adoption.
- With large players like Basis shutting down due to government scrutiny, it is likely that MakerDAO maintains its leadership as a decentralised stable token alternative.

Pooled Eth In MakerDai Contract



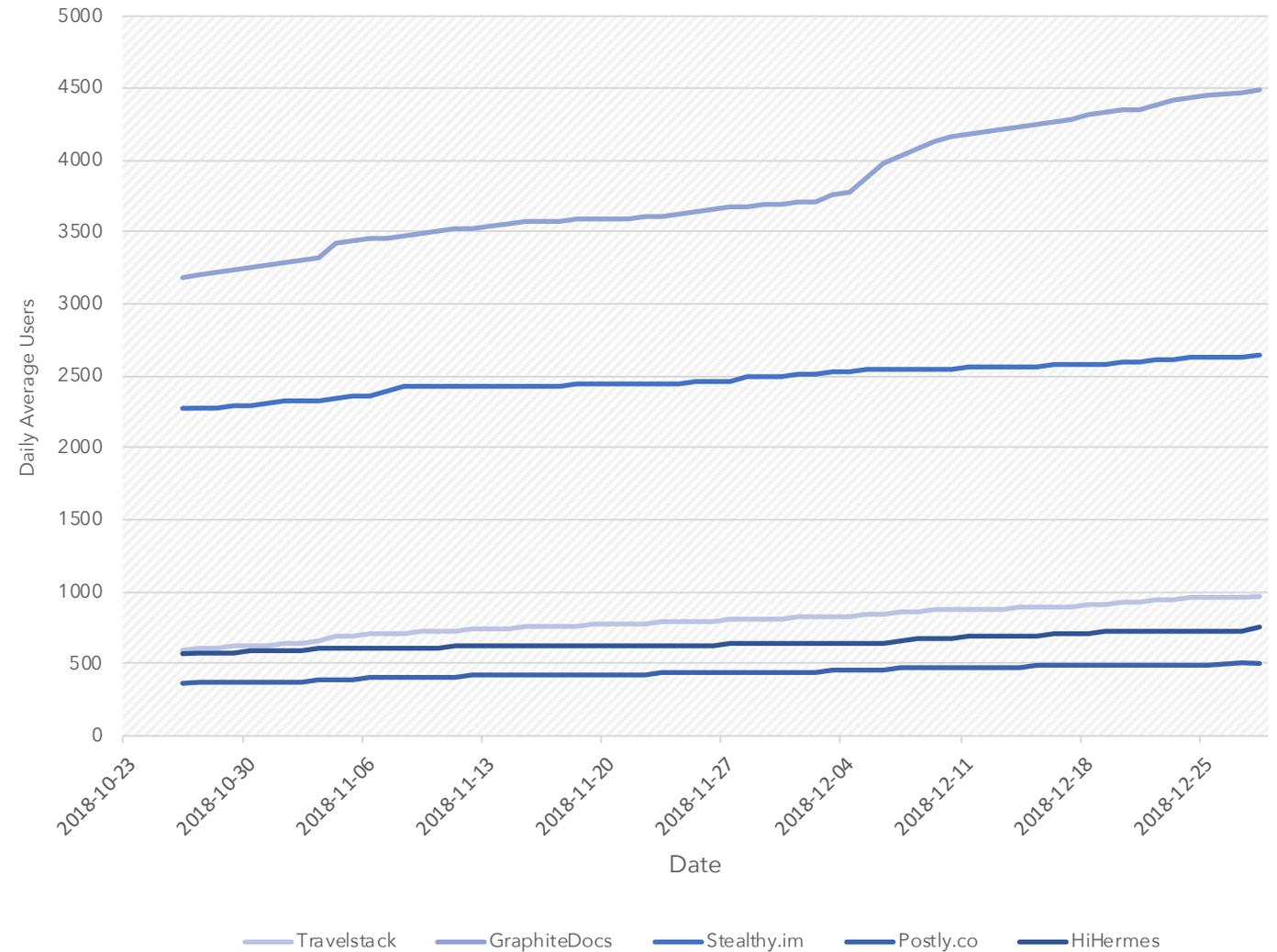
6

Developers look for 'Ethereum Killers'

Slow, steady and healthy

- The Blockstack team's focus on incentivising developers is beginning to pay off as a healthy range of apps that solve genuine problems for early adopters being deploying.
- Unlike EOS or Ethereum's dApp ecosystem, the bulk of Blockstack's growth seems to be emerging from productivity suites (Graphite docs), messaging apps and alternatives to social networks.
- Blockstack has also invested in an app mining initiative that currently pays developers on basis of the quality of their apps. The same solves issues around helping developers monetise before a large enough user base is onboarded to the ecosystem.

Blockstack DAU Growth - Q4 2018

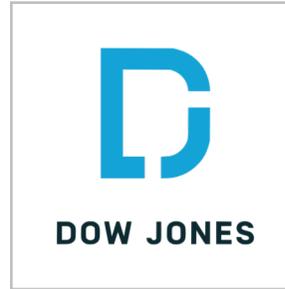


First 'Killer App': Brave?

As Brave stands at the intersection of the current form of the web and what a decentralised web would look like, its traction is an indicator of the fact that a well built product that is aimed at a large enough user base will see little struggle in seeing adoption.

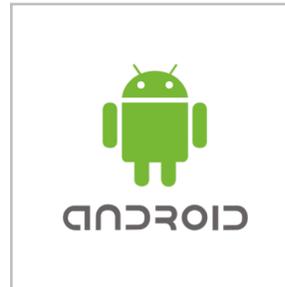
While still in the early stages of growth, Brave has seen 28,000 new publishes on the platform, 10 million Android App downloads, and 5.5 million monthly average users. We still have a long way to go to reach Google Chrome's 1 billion monthly average users but it's certainly a start.

With other browsers like Opera imitating integration of wallets into their browsers, a new influx of users that can readily store coins in their browsers will enter the dApp ecosystem. With Apple's strategic focus on privacy as a human right, do not be surprised to see Safari exploring the use of decentralized features being pioneered by Brave.



28,000 New Publishers

Brave browser currently features over 28,000 verified publishers including prominent players such as Dow Jones Media.



10 million Android App Downloads

In addition to the substantial growth in mobile app users (80% of their userbase), the project has partnered with HTC to integrate the browser as a default installation.



5.5 Million Monthly Average Users

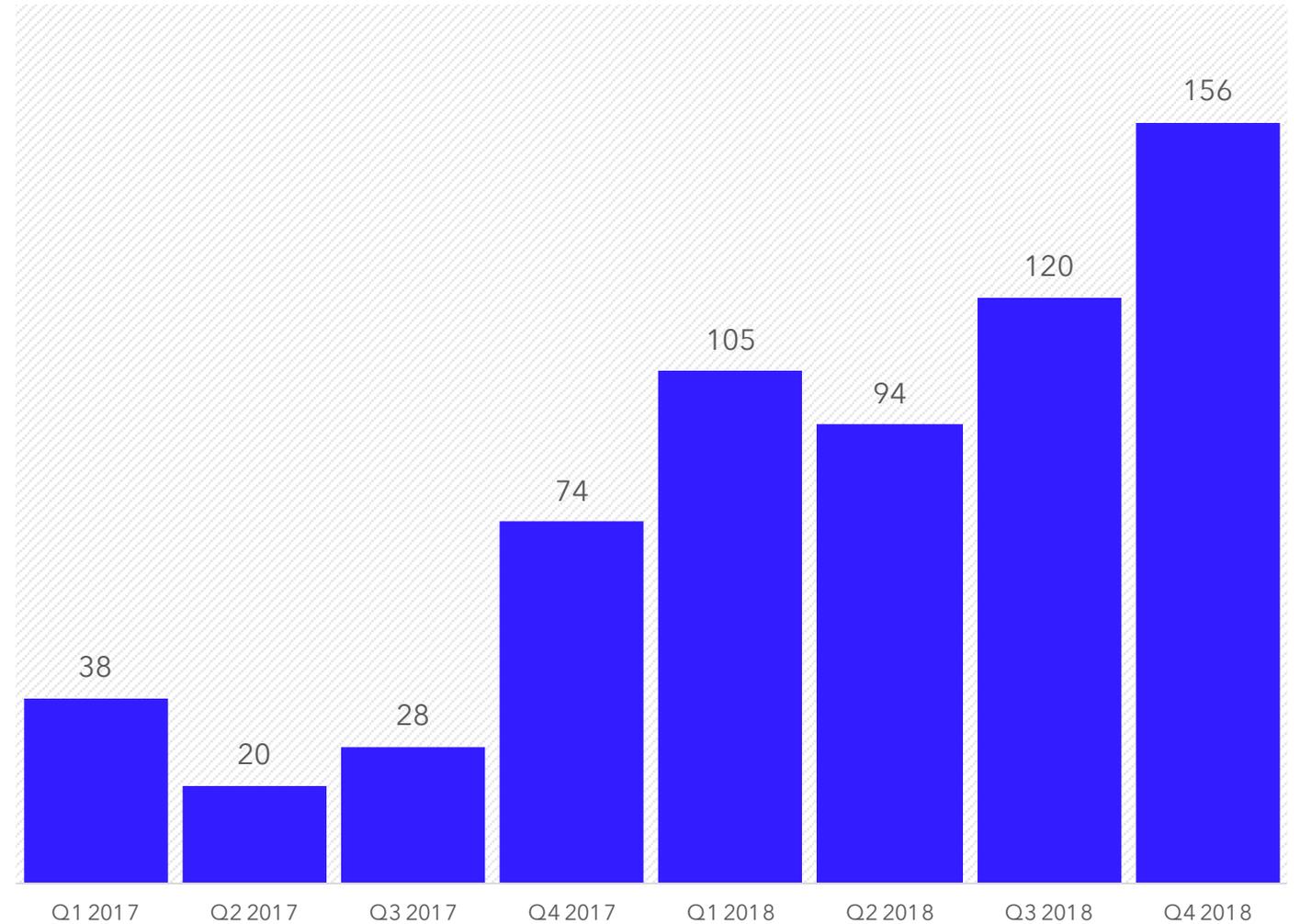
The project claims to currently have over 5.5 million monthly average users. The initial hook for most new users is the ad free environment combined with a better browsing experience when compared to incumbents like Chrome.

Taming the wild west

Decentralised ecosystems need approval from centralised bodies

- The token ecosystem learned a quick lesson on the need to comply with the law when Etherdelta's (a decentralised exchange) founder was arrested over trading of unregistered securities.
- The number of lawsuits filed within the ecosystem, law enforcement requests at exchanges and government expenditure on chain-analysis solutions have seen substantial increase over the course of the year.
- The rise in law enforcement requests is a proxy for the extent to which agencies have begun scrutinising the industry. As the ecosystem institutionalises, ensuring compliance will become a key component of operations.

Number of Law Enforcement Requests Received QoQ Kraken



Private chains shine

As public chains like Bitcoin and Ethereum continue performance, privacy and security enhancements, companies are looking for solutions that are ready for real-world use cases today.

This has led to an increased interest in private chains which don't offer the full permission-less innovation and censorship resistance features of public chains but make different technical design trade-offs to meet specific business and market requirements.



SBI Holdings partners with R3

Japanese banking behemoth SBI holdings has agreed to a joint partnership with R3. In addition to a capital commitment, the collaboration will see the bank helping R3 expand their presence in Asia.



CULedger joins R3 consortium

Denver based CULedger joined the list of 200 organisations currently in R3's consortium. CULedger works towards disrupting the lending space with the help of DLTs. They are currently in the process of launching a DLT based self sovereign identity solution for credit union members.



The Juncker Plan

The Juncker Plan is an initiative by the European commission to enable the transfer of EUR 360 Million to Spanish SMEs by the European Investment Bank and BBVA. Hyperledger is being used to record all negotiations by multiple parties involved.



Waves Raises \$120 million

Waves joined the league of public blockchains offering private implementations in December. The team raised \$120 million in December with London based financial firm Dolphin Investments leading the round.



ConsenSys partners with AMD

ConsenSys partnered with Halo Holdings on W3BCLOUD, a custom blockchain implementation built around AMDs hardware offerings. An early instance of hardware and software experts combining skills to create better implementations.

BATFAANGs go crypto

The digital behemoths that dominate the Web are beginning to make moves in the blockchain space.

They are increasingly coming to realise that blockchains and decentralised systems have the potential to offer new business models. They are using their brand and large user bases to offer their own blockchain variants. For the end user we can expect to see better user experiences and much of the complexity involved in interacting with today's blockchain-based systems to be abstracted away and hidden from the user.

For example, a stable coin implementation in WhatsApp would bring the advantages of stable tokens to the average user without the need to set up a new wallet or sign up with external, third party services. We can expect heated discussions about the BATFANNNGs not being truly committed to decentralization.

But as the industry looks to cross the chasm, the time is now for the giants to entry the fray.



Facebook May Launch Stable Token

Facebook went from issuing a complete ban on token related ads to developing its own stablecoin over the course of the year. While it has not been confirmed yet, the key focus of the token may be to enable remittance to and from developing nations with an integration into messenger and WhatsApp



Tencent Collaborates With Chinese Government

The Chinese government has partnered with Tencent on creating a blockchain security alliance along with 20 other public and private institutions to reduce occurrences of fraud, pyramid schemes and illicit financing in the blockchain space.



AWS Launches Own BaaS Implementations

AWS announced the launch of Quantum ledger services and managed blockchain implementations. The system currently offers one click solutions for launching private implementations of Ethereum and Hyperledger.

Disclaimer

This document (the “Document”) has been prepared by Outlier Ventures Operations Limited (“Outlier Ventures”). Outlier Ventures Operations Limited is registered in England and Wales, company registration number 10722638. Outlier Ventures Operations Limited is an appointed representative of Sapia Partners LLP (“Sapia”) which is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 550103). No undertaking, warranty or other assurance is given, and none should be implied, as to, and no reliance should be placed on, the accuracy, completeness or fairness of the information or opinions contained in this Document. The information contained in the Document is not subject to completion, alteration and verification nor should it be assumed that the information in the Document will be updated. The information contained in the Document has not been verified by Sapia, Outlier Ventures or any of its associates or affiliates. The Document should not be considered a recommendation by Sapia, Outlier Ventures or any of its directors, officers, employees, agents or advisers in connection with any purchase of or subscription for securities. Recipients should not construe the contents of this Document as legal, tax, regulatory, financial or

accounting advice and are urged to consult with their own advisers in relation to such matters. The information contained in the Document has been prepared purely for informational purposes. In all cases persons should conduct their own investigation and analysis of the data in the Document. The information contained in the Document has not been approved by the Financial Conduct Authority. This Document does not constitute, or form part of, any offer of, or invitation to apply for, securities nor shall it, or the fact of its distribution, form the basis of or be relied upon in connection with any contract or commitment to acquire any securities. Any forecasts, opinions, estimates and projections contained in the Document constitute the judgement of Outlier Ventures and are provided for illustrative purposes only. Such forecasts, opinions, estimates and projections involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forecasts, opinions, estimates and projections. Accordingly no warranty (express or implied) is or will be made or given in relation to, and (except in the case of wilful fraud) no

responsibility or liability is or will be accepted by Sapia, Outlier Ventures or any of its directors, officers, employees, agents or advisers in respect of, such forecasts, opinions, estimates and projections or their achievement or reasonableness. Recipients of the Document must determine for themselves the reliance (if any) that they should place on such forecasts, opinions, estimates and projections. Information contained in the Document may not be distributed, published or reproduced in whole or in part or disclosed to any other person. The distribution of any document provided at or in connection with the Document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession any such documents may come should inform themselves about and observe any such restrictions.

ov [weekly]

Sign up to our weekly briefing

A weekly summary of news on the convergence of technologies,
market trends and updates from Outlier Ventures

[Click here to sign up](#)



www.outlierventures.io