Venture Capital Porto Folio

Evaluating blockchan supply chain Industry

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Contents

Project Overview

The initiative of this project is to seek early-stage startups that are diving into the world where blockchain meets the supply chain industry. A particular focus is given to innovative projects that leverage blockchain technology to enhance supply chain transparency, product authentication, contract execution efficiency, quality control, and inventory management. With a focus on supporting visionary founders with a strong background in both blockchain and the supply chain, the investment criteria include demonstrable prototypes, scalable business models, and the potential for market disruption. The adoption of blockchain's transparency, security, and efficiency can revolutionize traditional supply chain practices, and startups passionate about reshaping the future of supply chain management will receive focused attention throughout the entire project.

Market Analysis

Market Size

The market size of the global blockchain supply chain was valued at USD 260.69 million in 2021 and is projected to grow at a CAGR of 54.34% through the forecast period, reaching USD 3523.14 million by 2027. The forecast period from 2023 to 2030 is expected to witness a significant increase in the Global Blockchain Supply Chain market. In 2022, the market is demonstrating steady growth, and with key players implementing various strategies, it is anticipated to continue its upward trajectory. The supply chain, encompassing support for components, intermediate products, and final products, extending from suppliers and manufacturers to distributors and end-users via sales networks, constitutes the fundamental structure of enterprises.

Customer Analysis

Customers in the global blockchain supply chain include various businesses and organizations that need to:

Enhance Security by Immutability

Blockchain technology boasts high-level security owing to its decentralized structure and reliance on cryptography. The immutability of data stands out as a key feature of blockchain technology. Through the utilization of distributed ledgers and cryptographic methods, information stored on a blockchain becomes permanently secured and resistant to changes over time. This inherent quality makes it exceedingly challenging for malicious entities to tamper with data on the blockchain or manipulate transaction histories. The immutability aspect also contributes to enhanced traceability within a supply chain, as all data remains unalterable and can be easily traced back to its origin. This, in turn, fosters increased trust among various parties in the supply chain and simplifies the task for companies to uphold accountability.

<u>Improve Traceability, Transparency and Trust</u>:

The primary attribute of blockchain lies in its clear and unchangeable record of every transaction within the supply chain. This capability enables the easy tracking of products from their source to their final destination, enhancing accountability and minimizing the likelihood of fraudulent activities. Additionally, it promotes increased transparency throughout the supply chain, enabling companies to monitor products and assess performance in real-time. As a result, trust between partners within the supply chain can be bolstered.

<u>Reduce Costs</u>

The integration of blockchain technology holds the potential to drive cost reduction throughout the entire supply chain by eliminating intermediaries and cutting down on administrative overheads. This impact spans from the initial development and planning phases to the manufacturing, delivery, and even the product return process. Taking the automotive industry as an example, substantial cost savings can be achieved by reducing the expenses associated with inventory tracking. Currently, this involves manual tasks like checking stock availability and updating records manually. Blockchain facilitates the automation of these processes, diminishing associated administrative burdens.

Furthermore, blockchain's capacity to securely store and share data across the entire product lifecycle enhances real-time accessibility for all stakeholders, including suppliers, manufacturers, and distributors. This not only reduces costs related to manual data entry and errors but also fosters improved collaboration among involved parties. The significant reduction in paperwork throughout the supply chain is another notable benefit. Additionally, blockchain contributes to lowering product development costs by offering a secure platform for tracking progress during the design phase, ensuring accurate change tracking. This minimizes delays and errors in development, ultimately enabling a faster time-to-market (TTM).

<u>Increase Efficiency leads to speed</u>

Blockchain supply management enhanced efficiency results in a fast process. Through the automation of numerous supply chain processes, blockchain technology can boost efficiency and cut down on expenses. This may involve automating payment procedures, monitoring inventory levels, or streamlining logistics operations. Furthermore, it sets the stage for another crucial aspect: the imperative for speed.

Customer Perception

Customer perceptions of blockchain in the supply chain exhibit variability, with some expressing concerns regarding the scalability of implementing blockchain within their supply chain systems. Companies contemplating the adoption of blockchain and its integration into their current systems may face challenges, particularly when dealing

with complex and time-consuming processes, especially if numerous legacy systems are in use. Consequently, most companies require dedicated time and resources to ensure seamless integration of their systems with blockchain technology.

Nevertheless, many customers perceive blockchain technology in the supply chain positively due to its potential to enhance transparency, traceability, and overall efficiency. Blockchain can provide consumers with access to detailed information about the origin, production, and journey of products, fostering trust and confidence. Customers increasingly value authenticity and ethical sourcing, and blockchain's ability to verify and secure this information aligns with these consumer preferences.

For example in 2019, the International Food Information Council conducted a survey and found out that 63% of Americans said they would pay up to a third more for products that are responsibly made and transparently sourced, and 94% of consumers surveyed said they would be more loyal to a brand that offers complete transparency.

Investor Perception

Investors have shown interest in blockchain supply chain solutions, recognizing the technology's capacity to address issues such as counterfeiting, fraud, and inefficiencies in traditional supply chain processes. Companies offering innovative blockchain solutions for supply chain management have attracted investment, reflecting a belief in the long-term potential and scalability of such technologies. However, like any emerging technology, there are challenges and uncertainties, and investor perceptions may vary based on factors such as regulatory developments, technology maturity, and market adoption.

Market Outlook and Trends

Market outlook

The Blockchain Supply Chain Market size is expected to grow from USD 0.56 billion in 2023 to USD 4.21 billion by 2028, at a CAGR of 49.87% during the forecast period (2023-2028) (Blockchain Supply Chain Market Insights, 2023). With the growing acknowledgment of the advantages offered by blockchain technology, we can expect to see greater adoption across the entire supply chain. This trend is poised to establish a more interconnected and efficient ecosystem, yielding benefits for all parties involved in the supply chain process.

Trends:

➢ Pharmaceutical Industries: A key factor propelling growth is the integration of blockchain in the pharmaceutical sector to address the issue of counterfeit drugs. Through authenticating the legitimacy of medications at every stage, the technology plays a crucial role in stopping the entry of fraudulent pharmaceuticals. This not only safeguards patient well-being but also contributes to the expansion of the market.

➢ Counterfeit sneakers: Approximately 40% of the estimated USD 600 billion global counterfeit fashion industry is attributed to fake sneakers. Conventional methods employed by manufacturers to ensure authenticity, such as seals

and certificates, are susceptible to counterfeiting themselves. However, retailers are now starting to integrate blockchain technology as a solution to address the issue of counterfeiting in the industry (Blockchain Supply Chain Market Insights, 2023).

➢ The automotive sector: Within the automotive industry, blockchain finds application in supply chains to establish a dependable record of a vehicle's history, encompassing details like parts replacements, repairs, and accidents. This transparency provides advantages for both buyers and sellers in the used vehicle market, contributing positively to the overall growth of the market. Additionally, the increasing demand for refurbished vehicles stands as another influential factor propelling the advancement of the blockchain supply chain market.

Blockchain Supply chain Deal

A. **Connecting Food raised €4M from Banca Patrimoni Sella & C. and European Innovation Council (1 May 2022)**:

Connecting Food offers digital solutions aimed at establishing transparency in the food supply chain, spanning from the origin to consumption. They serve major European grocery retailers and food brands. Among their offerings is LiveAudit, a continuous digital audit system ensuring compliance with product criteria (e.g., organic or GMO-free status) before recording on the blockchain. LiveEthic employs smart contracts to reward farmers based on their participation and the quality of their produce. Additionally, their smartphone app enables consumers to scan QR codes, accessing comprehensive information on the food supply chain and audit outcomes, fostering brand credibility and consumer trust.

In collaboration with IBM, Connecting Food is exploring a "network of networks" model, positioning Connecting Food as an upstream auditor for food supply chain data linked to the IBM Food Trust™ solution. This collaborative effort aims to enhance data accuracy on the blockchain and provide consumers with a user-friendly app, allowing them to track the journey of their food through the supply chain.

B. **Provenance raised $5M from Angele Academe and others (7 Mar 2022):**

Provenance is establishing a ground-breaking global benchmark for consumer sustainability. The platform verifies and enhances sustainability credentials for consumer-packaged goods, empowering customers to discern genuine sustainability efforts and make informed, confident choices. Businesses can leverage provenance's platform to showcase transparency regarding their impact, spanning from product discovery to checkout. This empowers them to achieve their sustainability goals and secure their market share for the future.

C. Chronicled raised $8.3M from TGV and Fortune (17 Feb 2022)

Chronicled is a provider of AI and blockchain-driven solutions for supply chain management. The company offers a highly secure system to verify the authenticity of limited edition collectible sneakers and luxury goods. Addressing the significant issue of counterfeit luxury and consumer products, which now represents over 2% of global gross domestic product (GDP), Chronicled's platform utilizes NFC and blockchain technologies to establish an open, decentralized, and permanent public record for the authenticity and ownership of consumer products. This information is easily accessible through the company's mobile consumer app. Chronicled has plans to transition its registries onto blockchain-hosted systems within the next 12-36 months, aiming for completion by 2019. Additionally, the company provides Temptracker for temperature monitoring and CryptoSeal, offering cryptographic identity, sealing, and provenance solutions for products and packaging.

D. Dust identity raised $40M from Castle Island Ventures, Kleiner Perkins and others (05 Dec 2023).

The company specializes in providing security tags based on diamonds, ensuring they are unclonable. Their solution offers a robust and uncompromisable tracking system for authenticating hardware, utilizing blockchain technology. The Diamond Unclonable Security Tag (DUST) involves an invisible layer of minuscule diamonds, enabling manufacturers and enterprises to integrate high-security authentication with comprehensive lifecycle tracking down to the individual component level. The company provides an optical scanner and cloud-based infrastructure, offering an interface for object identity and provenance.

Key Players

1. IBM

In the corporate realm, the success of blockchain relies on the development and expansion of business networks. IBM has been at the forefront of this effort, pioneering the establishment of various emerging networks such as IBM Food Trust™ and TradeLens. While these blockchain networks are still in their early stages, they exhibit significant potential, presenting numerous opportunities to address use cases that are poised for enterprise adoption (IBM 2019).

Recognizing the potential in collaboration, IBM advocates for a winning strategy wherein corporations join forces with startups. To implement this strategy, IBM is systematically partnering with some of the best startups in the world through the new IBM Blockchain Accelerator program. Through this initiative, IBM aim to assist companies with proven traction in scaling their blockchain business networks. If executed successfully, the collective opportunity is immense – according to the World Trade Organization, blockchain has the potential to create economic value exceeding $3 trillion USD by the year 2030.

2. Microsoft Corporation

Microsoft has been actively involved in the blockchain space, including applications in supply chain management. Microsoft Azure, the cloud computing platform offered by Microsoft, provides various tools and services for building, deploying, and managing blockchain applications.

One of the notable initiatives is the Azure Blockchain Service, which enables users to deploy, manage, and govern blockchain networks. This service supports multiple blockchain protocols, and users can choose the one that best fits their requirements.

In terms of supply chain applications, Microsoft has been working on solutions that leverage blockchain technology to enhance transparency, traceability, and efficiency in supply chain processes. These solutions aim to address challenges such as counterfeit goods, provenance tracking, and the overall optimization of supply chain operations (Microsoft 2022).

3. Oracle

Oracle strategically introduced the Oracle Blockchain Platform Enterprise Edition (OBP EE), marking a pivotal moment that solidified its position as a key player in the blockchain supply chain industry. Leveraging its deep expertise in enterprise solutions, Oracle unveiled OBP EE to address the growing demand for scalable, secure, and seamlessly integrated blockchain technology. The platform's introduction was accompanied by a clear vision to revolutionize supply chain management, offering organizations advanced tools to build, deploy, and manage blockchain networks efficiently. OBP EE's emphasis on scalability and integration with existing enterprise systems positioned Oracle as a trailblazer in facilitating the adoption of blockchain within the complex landscape of supply chain operations. Through strategic initiatives and the continuous evolution of its blockchain solutions, Oracle has played a significant role in shaping the industry and empowering businesses with transformative capabilities for transparency and efficiency in supply chain processes.

4. Amazon

Amazon has introduced a new initiative called the Counterfeit Crimes Unit, with a specific focus on prosecuting counterfeiters attempting to introduce fraudulent products into its supply chain. The primary goal is to safeguard the Amazon store from instances of counterfeiting. In 2019, Amazon committed an investment of close to USD 500 million to combat abuse and fraud, particularly counterfeit activities. These efforts successfully thwarted almost 2.5 million suspected fake accounts, preventing any of their products from being made available for sale. The establishment of this unit enables the company to effectively pursue legal action through civil lawsuits against alleged offenders, assist law enforcement authorities, and collaborate closely with brands in both independent and joint investigations.

Startups Evaluation

Overview

Blockhead Technologies is a leading software company, that empowering clients with trusted and powerful data insights through blockchain-enabled solutions. Through STAMP & various other solutions, Blockhead provides the software that allows companies to access value in their data.

Blockhead Technologies offers highly customizable and interface-agnostic SaaS solutions for our clients in the fuel and mining sectors. Our open architecture is designed for easy integration and scalability.

Blockhead Technologies was founded in 2017 and has headquarters in both Vancouver, Canada, and Perth, Western Australia. BHT provides services for companies worldwide.

Market

- Market size: The Blockchain Supply Chain Market size is expected to grow from USD 0.56 billion in 2023 to USD 4.21 billion by 2028, at a CAGR of 49.87% during the forecast period (2023-2028).
- Competitors: Key player competitors are IBM, Gigter, and INT
- Market Trends: Increasing adoption of transparency in businesses, the need to reduce the high costs of inefficiencies plague in supply chains.

Product and Problem

- Problem: Visibility remains challenging in large supply chains involving complex transactions.
- Product: Blockhead offers businesses to empower their decisions with real-time data insights, tailor-made for those who value transparency, credibility, and trustworthiness. Their solutions, backed by blockchain and user-friendly design, offer unparalleled flexibility and performance, ensuring businesses to always have a step ahead.
- Competitive Advantage: Advance software solution with powerful data insight through blockchain coupled with real-time environmental accounting and high-level ESG insights, offering a comprehensive perspective on sustainable business performance across a multitude of ESG and financial metrics.

Team

- Founders: Greg Leach (CO-FOUNDER & CEO) and James Allen is the chief technology officer.
- Relevant Experience: Greg Leach is an ICT trailblazer with nearly 30 years of entrepreneurial spirit. Greg's vision and leadership have birthed multiple successful ventures, including ASX-listed companies like Empire Limited.

James Allen, a Ph.D. in Molecular Biology from the University of Western Australia, blends his expertise as a data scientist with his knowledge of blockchain and mining systems.

Metrics

- Revenue: In 2023, Blockhead Technologies revenue run rate hit $2.5M in revenue, with 5.2% YoY

P.S: Due to time, other metrics measurements were not obtained, an email was sent to the company to ask them for relevant metric measurements but unfortunately they could not reply to the email.

Overview

TE-Food is a company that focuses on providing end-to-end food traceability solutions, operating within the food safety and supply chain management sectors. The company offers a comprehensive suite of tools and solutions that enable complete supply chains to track and trace their products, thereby improving transparency and operational efficiency. TE-Food primarily serves the food industry. It was founded in 2016 and is based in Budapest, Hungary.

Market size

- Market size: The Global Blockchain In Agriculture And Food Supply Chain market size was valued at USD 147.71 million in 2022 and is expected to expand at a CAGR of 20.73% during the forecast period, reaching USD 457.33 million by 2028 (Market Growth Report, 2023).
- Competition: Key players are IBM Food Trust, Microsoft, Walmart, Provenance, Ambrosus and TagOne
- Market Trends: Increase demand of consumers for food transparency, food waste reduction and recall food faster and more efficiently to reduce illness and waste.

Product and Problem

- Problem: Contaminated or unsafe food products pose serious health risks. In the event of a foodborne illness outbreak, it is often challenging to quickly identify and remove the affected products.
- Product: TE-FOOD is a company that utilizes blockchain technology for food traceability and supply chain management.
- Competitive Advantage: The competitive advantages of TE-FOOD in the food supply chain industry include:

1. Blockchain-based Traceability:
   TE-FOOD leverages blockchain to provide a transparent and immutable record of the entire food supply chain. This ensures that stakeholders can

trace the journey of food products from farm to table, enhancing transparency and authenticity.

2. Real-time Monitoring:
   The platform enables real-time monitoring of the supply chain, allowing for immediate identification of issues such as contamination or spoilage. This proactive approach enhances food safety and helps in minimizing risks.

3. Cost-Efficiency:
   By automating and streamlining supply chain processes, TE-FOOD contributes to cost savings for participants. The reduction in manual record-keeping and paperwork, as well as improved efficiency, can lead to overall cost-effectiveness.

4. Global Reach:
   TE-FOOD has a global presence, providing its traceability solutions to various regions and industries. This global reach positions the company as a comprehensive solution for international supply chain needs.

5. Integration of Emerging Technologies:
   TE-FOOD may integrate other emerging technologies, such as Internet of Things (IoT) devices, to enhance data collection and monitoring capabilities. This forward-looking approach ensures the platform's adaptability to evolving industry trends.

6. User-Friendly Interface:
   The platform is designed to be user-friendly, making it accessible for various stakeholders in the supply chain. This ease of use contributes to higher adoption rates among participants.

7. Compliance and Standards:
   TE-FOOD may facilitate compliance with regulatory requirements and industry standards through its blockchain-based solutions. Automated compliance checks and adherence to established standards can be a significant advantage for participants in the food industry.
   TE-Food's primary focus is livestock and fresh-food traceability, with emerging countries as potential markets, and beside logistics data, TE-FOOD focuses on food quality data as well.

Team

- Founder and Management: Erik Arokszallasi (CEO), Trung Dao Ha (Chairman), Marton Ven (CMO), Sandor Miskey (CTO).
- Relevant Experience:
  - The founder has a strong experience in entrepreneurial, he is a leader of two successful corporate IT development companies in Hungary and he has 23 years of leadership, and IT project management experience.
  - The rest of the team have at least 20 years of experience in marketing, sales experience, IT development, security, and project management.

Metrics

- Customer Traction: Te-food is used by:
  - 3100 Farms
  - 25 veterinary companies

- 3400 livestock agents
- 70 slaughterhouses
- 35 food producers

- 30 wholesale markets
- 190 wholesale distributors
- 2600 retailers and markets

Te-Food has acquired more than 6000 business customers and is currently serving 150 million people with fresh food traceability information.

- Revenue: Te-Food had $4M revenue in 2021, in 2022 Te-Food ended with $12 million as a year revenue (200% YoY growth rate).

- Customer Feedback Positive reviews for ease of use, and compatibility. It is rated above 4.0 average by most credible ICO review websites plus the self-service terminal solution helps consumers without mobile phones read QR codes

Overview

Konexial develops advanced technology aimed at enhancing carriers' profitability by employing edge computing telematics, video safety solutions powered by artificial intelligence, and real-time visibility into the supply chain. The company offers its technology to the transportation sector using a Platform as a Service (PaaS) model, encompassing fleet management, video and safety management, asset tracking, and programs focused on fuel savings.

Market Size

- Market size: The global blockchain in transportation and logistics market accounted for US$ 22.5 million in 2019 and is estimated to be US$ 765.5 million by 2025 and is anticipated to register a CAGR of 80.0% ((Prophecy Market Insights, 2023).
- Competition: KeepTruckin, Verizon Connect, Oracle, Bitfury, Cegeka, Earthport, Guardtime, Digital Asset Holdings, Chain, and Huawei.
- Market Trends: The development and adoption of industry standards for blockchain interoperability are becoming essential. Standardisation helps different stakeholders within the transportation network to seamlessly connect their blockchain systems, fostering collaboration and data sharing. Furthermore, the adoption of blockchain to support sustainability initiatives in transportation, such as verifying the authenticity of carbon credits and promoting green logistics practices contributes to reducing the environmental impact of transportation operations.

Product and Problem

- Problem: The inefficiency of logistic in the freight industry, such a delay and provenance.
- Product: Konexial offers My20 ELD (Electronic Logging Device), which primarily focuses on compliance and fleet management in the transportation industry and uses blockchain to assure provenance, traceability, and identify predictable delays.
- Competitive advantage: The integration of Dynamic Load Matching (DLM) and blockchain technology is a strategic initiative aimed at optimizing resource allocation. DLM, by dynamically matching available truck capacity with the real-time demand for shipments, enhances the transparency, security, and automation of the tracking and transport processes. This heightened efficiency in resource utilization serves as a key competitive advantage for Konexial within the transportation sector.

Team

- Founders: Ken Evans (founder & CEO) and Andy Dishner (Co-founder & CTT)
- Relevant Experience: In overall, the team has strong relevant experience within the blockchain sector. The founder has 30 years of experience in the logistics and supply chain industry and the co-founder has 25 years' of leadership experience in multiple areas of the Supply Chain Industry. Leadership student driving organizational change and explosive growth.

Metrics

- Customer traction: Konexial has been established for 7 years and has served more than 55000 drivers
- Revenue: In 2023, Konexial revenue run rate hit $1.2M in revenue, with 28.6% YoY.
- Customer service: The overall customer service is excellent, with 98.5% of customer satisfaction.

Pitch Desk Evaluation

Startups Ranking

Company Name	Rank
Te-Food	1
Konexial	2
BlockHead Technologies	3

Evaluation

- ➢ Te-Food's ranked 1st because of its unique approach to use blockchain for food traceability which provides a distinctive edge in the market with a significant growth potential, especially with a long-term perspective view. The fact that Te-food focuses on food traceability, including quality as well, the food supply chain sector is being renovated by solving issues where contaminated or unsafe food products pose serious health risks more precisely in the event of a foodborne illness outbreak in emerging countries. Other facts that make Te-food attractive are the flexibility of the business model, which can be implemented by a government or institution in a B2G model, or by companies (e.g. food producers) in a B2B model, the Flexible financing model of Te-Food is implemented in a PPP (Public Private Partnership) model, which requires minimal investment.
- ➢ Konexial is ranked 2nd because it integrates Dynamic Load Matching (DLM) and blockchain technology which aim to optimise resource allocation which increases efficiency, improves traceability, and identifies predictable delays and security.
- ➢ BlockHead Technologies is ranked 3rd because of a good track record revenues and demonstrated expertise in delivering blockchain solutions in a market where the implementation of blockchain within enterprises can be difficult due to the fact blockchain is still an emerging technology.

Personal Note

I would recommend Te-food to my team because of the significant potential growth within the food supply chain and Te-food solves the critical problem of foodborne diseases by reducing its effect around the world due to the traceability which allows us to be knowledgeable about the origin of the disease. Moreover, Te-food is designed to cater to emerging markets. Despite leveraging modern technology, it stands out as the most cost-effective solution, requiring no specialized equipment. The business model aligns well with the characteristics of emerging countries, positioning it as a lucrative venture. The comprehensive and pragmatic implementation guide ensures scalability when expanding into other countries.

Unfortunately for Blockhead technologies, I am skeptical about recommending it to my team at the current moment because I was not able to obtain relevant up to date metric data especially about the customer traction and satisfaction.

To strengthen my confidence, regarding blockhead Technologies, I would conduct several researches to gather up-to-date information on customers that have been interacting with blockhead technologies regarding their satisfaction. Additionally, if possible, I would be glad to have a look at their income statements over the past few operational years.

Due Diligence Recommendations

Business failures are not always prominently reported, and information about unsuccessful ventures may not be as readily accessible as success stories, especially in the blockchain supply chain sector which is an emerging industry.

After reading a couple of articles, common reasons that cause businesses to fail in the blockchain supply chain sector are the following:

➤ Blockchain applications employed in supply chains exhibit greater efficiency than currencies like bitcoin; however, they still demand increased computing resources, or overhead, in comparison to conventional databases. Consequently, certain operations within these applications, such as reading from the blockchain, might experience notable delays when compared to equivalent operations in traditional databases (Lawton, 2019).

➤ Lack of Adoption: One major challenge is the resistance or slow adoption of blockchain technology within the supply chain industry. If key stakeholders, such as suppliers or partners, are not willing to adopt blockchain solutions, it can hinder the effectiveness of the technology.

➤ Complexity and Integration Issues: Implementing blockchain solutions can be complex, especially when integrating with existing systems and processes. Businesses may face difficulties in seamlessly integrating blockchain into their supply chain operations, leading to disruptions and inefficiencies.

➤ Education and Awareness: Limited understanding of blockchain technology and its potential benefits may hinder adoption. Lack of awareness and education among stakeholders can result in skepticism and resistance to change.

➤ Insufficient Business Model Innovation: Businesses may fail if they do not innovate their business models to fully leverage the capabilities of blockchain technology. Merely applying blockchain without rethinking traditional business processes may limit the potential benefits.

➤ Regulatory Uncertainty: The regulatory landscape for blockchain technology is still evolving. Businesses operating in the blockchain supply chain may face uncertainty about compliance with existing and future regulations, potentially leading to legal challenges and setbacks.

Term Sheet Analysis

1. What is the name of the section and what is its purpose? Explain it briefly in a sentence or two.
   1. Liquidity preferences dictate the sequence in which funds are withdrawn from a company during a liquidation event, such as the startup being acquired, going public (IPO), or undergoing bankruptcy.
   2. Pay-to-Play: In venture capital, there's a practice that entails compelling investors to pledge further investments in a company to preserve their ownership stake or voting privileges.

3. Board of Directors: Group of people who are supervising the company's management and operations usually consists of a blend of individuals representing both the venture capital firm and the company.

2. What rights or obligations does each section outline for the involved parties (e.g., investors, founders)? Describe them clearly.
    1. Liquidity preference: Liquidity preferences in venture capital agreements establish rights and obligations for investors and founders. Investors often have priority in receiving their initial investment before others, while founders may benefit from anti-dilution protection and acceleration clauses in certain situations. These provisions aim to balance interests in various exit scenarios like acquisitions or IPOs. Understanding and negotiating these terms is crucial for aligning expectations among all parties.
    2. Pay-to-Play: In a "pay-to-play" provision, investors are obligated to participate in subsequent funding rounds to maintain their ownership, preventing significant dilution for founders. This mechanism aims to ensure ongoing investor commitment and a balanced relationship with founders.
    3. Board of Directors: In venture capital agreements, investors typically gain board representation and voting rights, while founders retain seats for representation and maintain operational control. These provisions establish a balanced governance structure with investors influencing strategic decisions and founders overseeing day-to-day operations.

3. How might these sections influence the relationship between the parties involved in the venture financing deal?
    ➢ Liquidity preference: liquidity preference section plays a pivotal role in shaping the dynamics between investors and founders in a venture financing deal. While it provides protection for investors, the negotiation and implementation of these terms require a delicate balance to foster a healthy and collaborative relationship between the parties involved.
    ➢ Pay-to-Play: the "pay-to-play" provision plays a crucial role in shaping the relationship between investors and founders in venture financing deals. It promotes ongoing commitment, aligns interests, and provides a mechanism for protecting against dilution, contributing to a more stable and mutually beneficial partnership.
    ➢ Board of Directors: The board of directors in venture financing deals shapes the power structure and decision-making processes within a company. The composition of the board influences the relationship dynamics between investors and founders, requiring effective communication, collaboration, and a shared vision for the company's success.

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