

Crypto Funding Models and the Future of Venture Capital

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About Me



Jehan Chu

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Issues in Funding Startups

- Access to funding (in-crowd or out)
- Cost of funding (fundraising process cost)
- Timing of funding (speed of funds)
- Quality of funding (smart vs. dumb money)
- Longevity of funding (funding rounds)

Traditional Venture Capital Process

Pro's:

- Familiar, mature ecosystem and funding process
- Regulated, predictable, global
- Low risk for execution

Con's:

- Slow Process; 6-18 month process to complete a funding round
- Poor return on revenue for time spent as Angel and Seed round is typically quite small (\$100-1mil)
- Resource intensive; requires travel and time expenses due to tradition/etiquette of industry

“Traditional” Token Sale/ICO Process

Process:

1. Ready your structures: Legal/Tax jurisdiction, legal opinions, governance structures (ie. Foundation)
2. Ready materials: Business plan, Whitepaper/Technical paper, Pitch Deck, Github and/or beta version of software
3. Community building, marketing, press
4. Presale/book building process
5. Execute ICO, distribute tokens
6. Exchange listings

“Traditional” Token Sale/ICO Process

Pro's:

1. Low barrier to entry (cost, regulation, technology, accessibility, familiar ex. Kickstarter)
2. Economic incentives of ICO format kickstarts network effect
3. Aligns interests of Investors and Users (token holders are customers)

Con's:

1. Unclear regulatory framework
2. Unsophisticated money – inexperienced investors can influence perception (hype factor)
3. May not align interests over time if too much attention stays on price-driven events rather than functionality

Alternative Funding Suggestions

1. Token/Equity Hybrids
2. - ICO Seed Rounds
3. - SAFTE Rounds
4. Continuous Token Issuance
5. Crowd Micro-VC

Hybrid: SAFTE Round

1. Process: Equity note will convert to tokens upon token sale
2. Pro's:
 - Provides sophisticated investors ability to invest in a format that they are familiar AND have mandate to do
 - Aligns interests across investment mediums (equity holders aligned w/ Token holders medium/long-term)
1. Con's:
 - Does not allow for further funding of the startup

Hybrid: ICO Seed Round

1. Process: Use an ICO to fund the seed round and then issue Equity in later rounds
2. - long-term lockup for founders
3. Pro's:
4. - Bootstraps network with users
5. - Provides 2-3 years runway for product development with ability to raise funds for later development
6. - Effectively segments the particular benefits of both types of investors (crowd and professional)
7. - Allows value of company to be effectively split between not only the network value of the token holders, but also the equity holders

Others

1. Micro Crowd VC
2. Continuous Token Issuance