



ARCHITECT PARTNERS
Driving Premium-Value M&A and Strategic Financings

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AP | ECOSYSTEM THOUGHTS

Crypto Exchanges

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Changes are accelerating

The crypto trading environment is rapidly expanding

But the crypto ecosystem is a fraction of traditional equity assets

Capital is freely available for new and growing firms

Merger & Acquisitions (M&A) current focus is on product expansion

M&A activity will overlap with upcoming consolidation cycle

Firms need to plan now in order to control their future

Frames of reference

Crypto is the newest asset class. Defining it leads to a search for frames of reference.

Is it like stocks? Is it like FX? Is it like commodities?

Short answer is all of the above due to fragmented nature of regulations. For our research we have two broad definitions.

Two main attributes

Trading

Where trades are matched and executed

Includes well known crypto assets such as Bitcoin, Ethereum, stablecoins and the many other tokens issued

Excludes new items such as Non-Fungible Tokens (NFTs) for the moment

Accounts

Owns the client relationship

Does the onboarding of clients which may include Know Your Customer (KYC) processes

Includes retail and institutional segments

There are two fundamental types of exchanges



Centralized Exchanges

Trading is intermediated by the exchange

Custody is held at the exchange

Clients undergo full KYC/AML checks



Decentralized Exchanges

Trading is peer to peer

Custody is held by client

KYC/AML can be non-existent

Crypto exchanges can participate in the full value chain

Major activities include:

Client Relationship



Onboard clients & own relationships

Commissions



Charge commissions on agency trades

Market Making



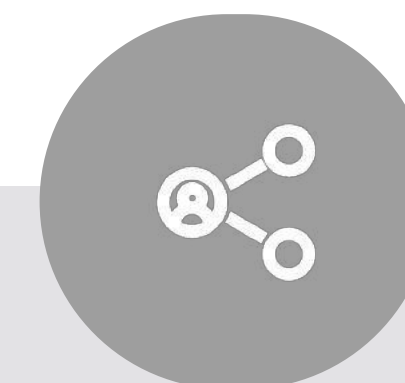
Capture spread and provide liquidity

Custody



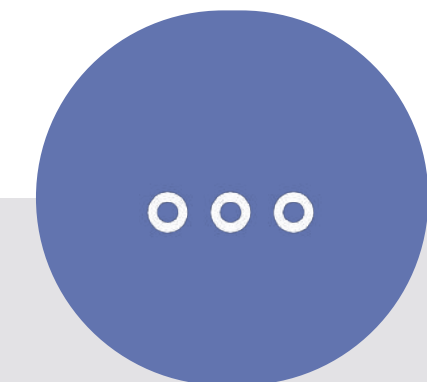
Charge fees on custody assets held

Staking



Realize Lending and staking revenues

Additional Revenue



Sell Market data, Charge Listing fees

Exchanges are easy to launch...

Launching a crypto exchange is a (relatively) easy process

Options to build and offer exchange services are readily accessible

Technology is available

Either purchased or white labelled, the technology can be purchased quickly

Infrastructure is available

Solutions are widely available to provide connections to trading infrastructure

Regulatory capital can be small

Generally, are not capital intensive

456

TOTAL ACTIVE EXCHANGES

313

Centralized Exchanges

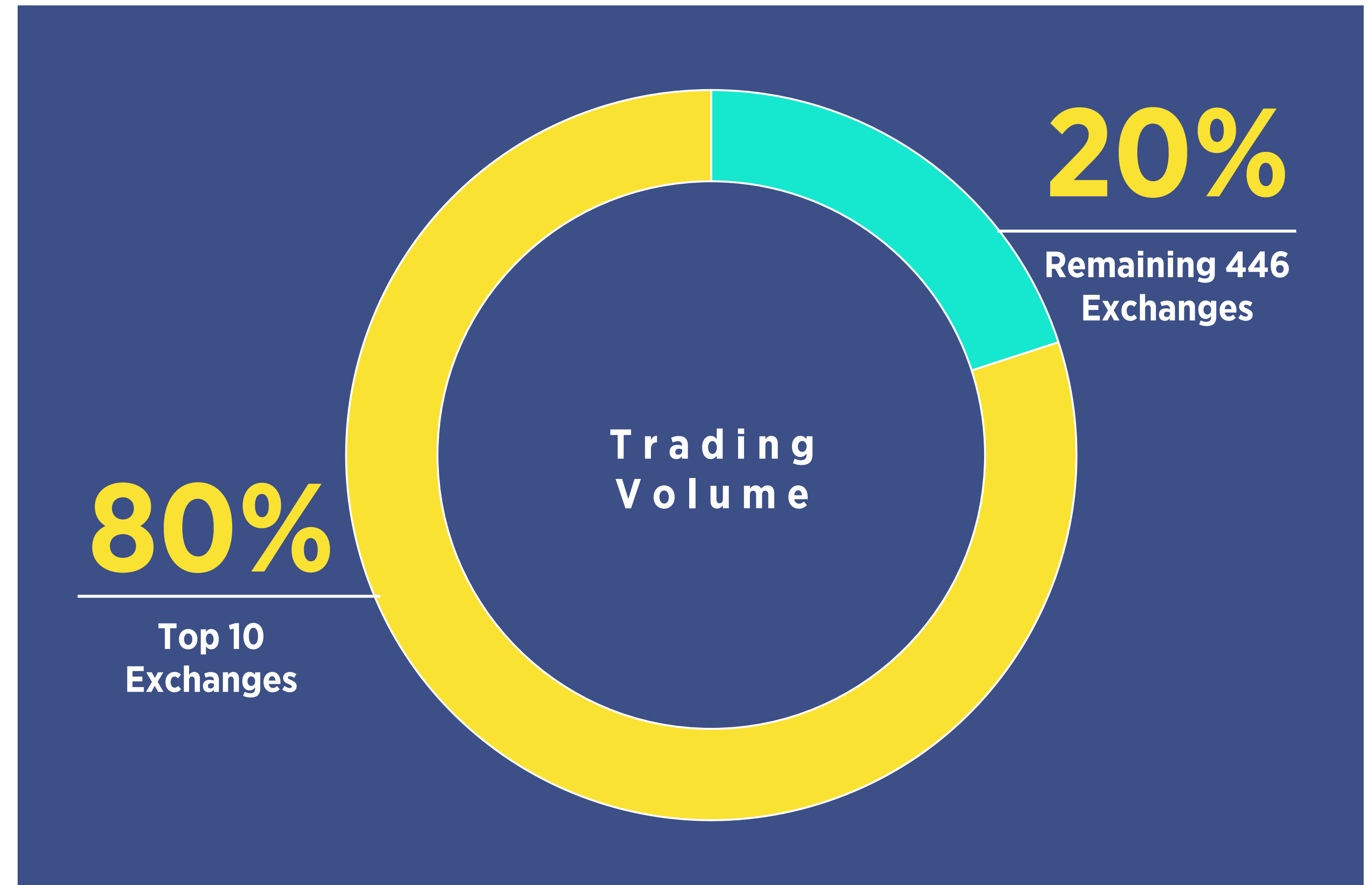
143

Decentralized Exchanges

Exchanges live and die by activity, both in trading and number of accounts





























































The first movers have taken the dominant positions

Top heavy volume stratification
















Illustrative list of the largest exchanges and supporting players

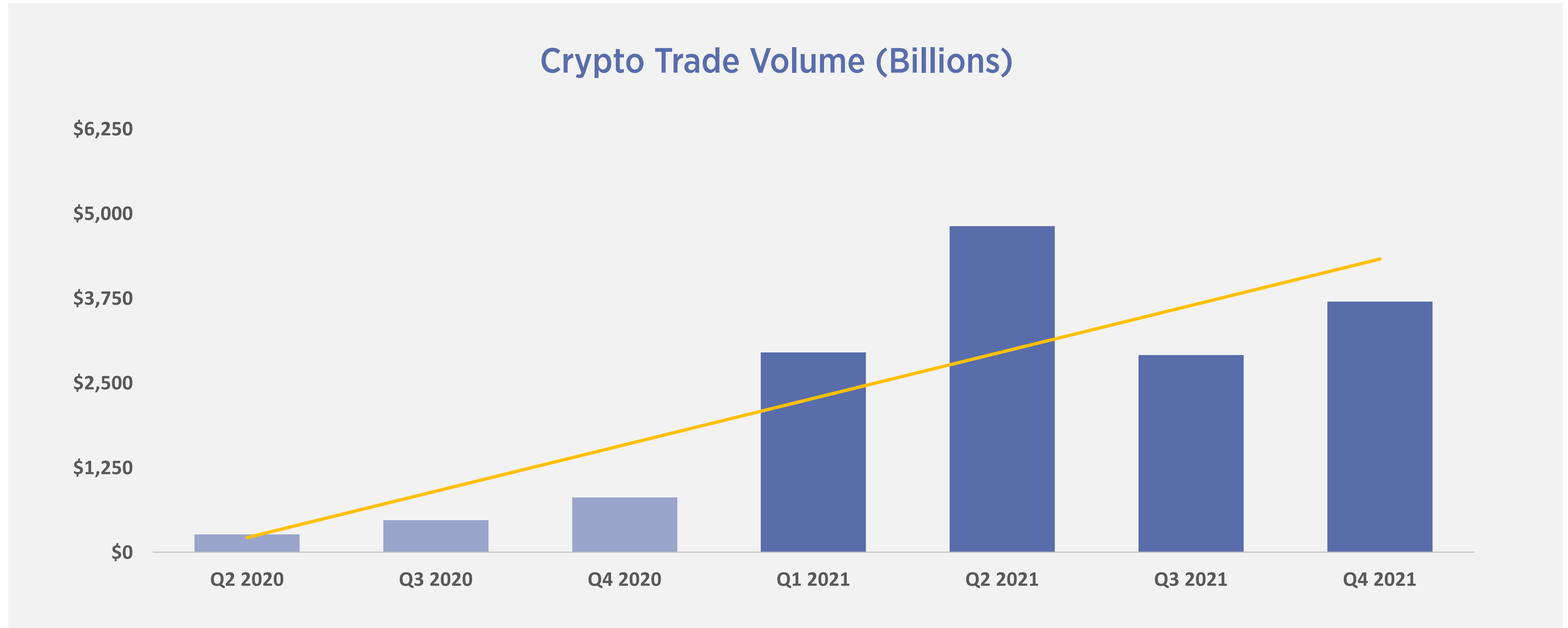
Exchanges

Equity Brokers with Crypto Divisions	Centralized Crypto-Native Exchanges (Partial List)	Decentralized Exchanges
      	                                               	       

Supporting Infrastructure

Pre-Trade		Trade Execution			Post-Trade		
Compliance	Trading Data	Order Routing & Liquidity			Execution & Post-Trade	Post-Trade	
     	    	     	    	    	   	     	        

Total crypto market is growing...



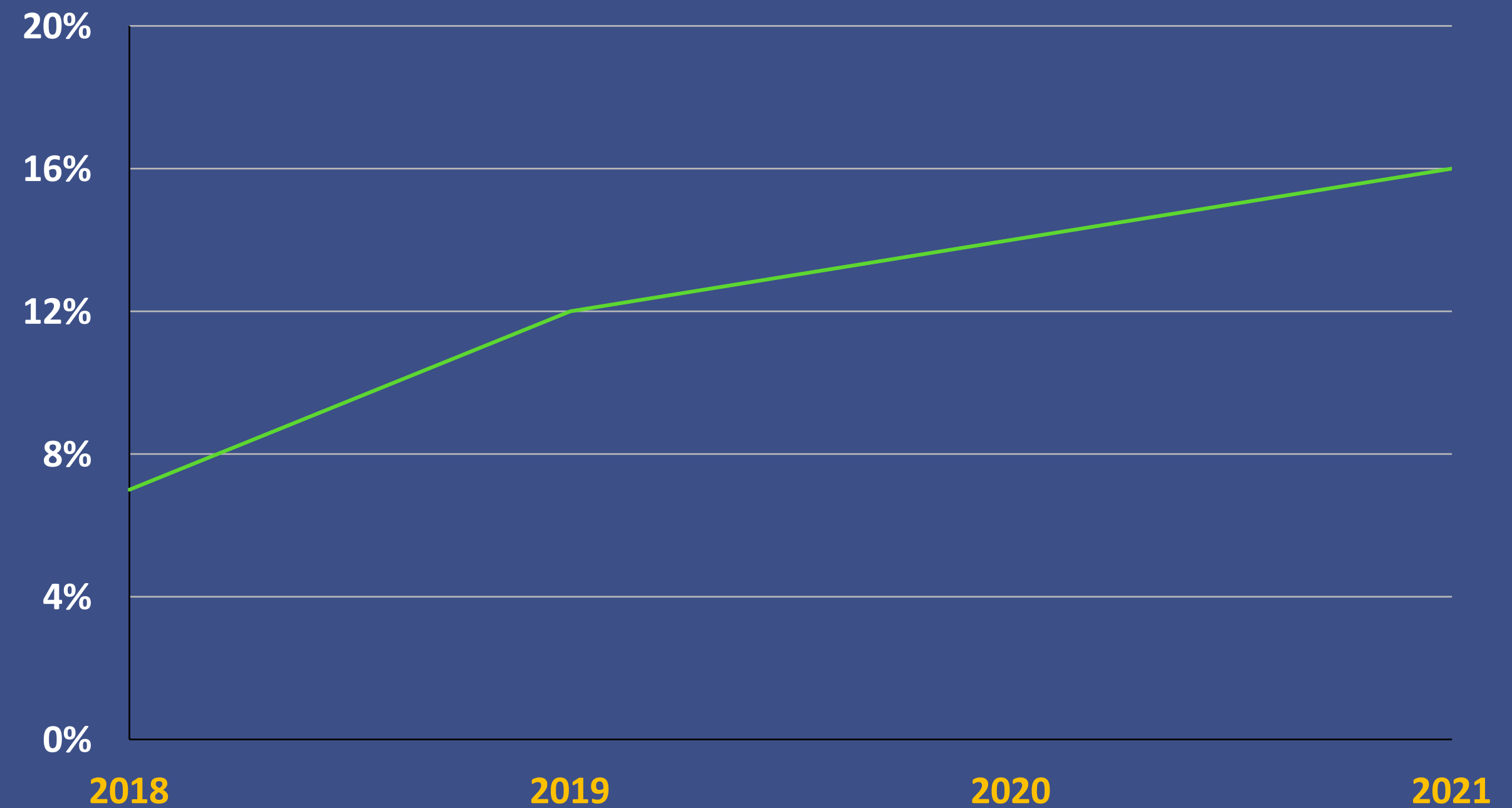
16%

Percent of US adults that have invested in crypto

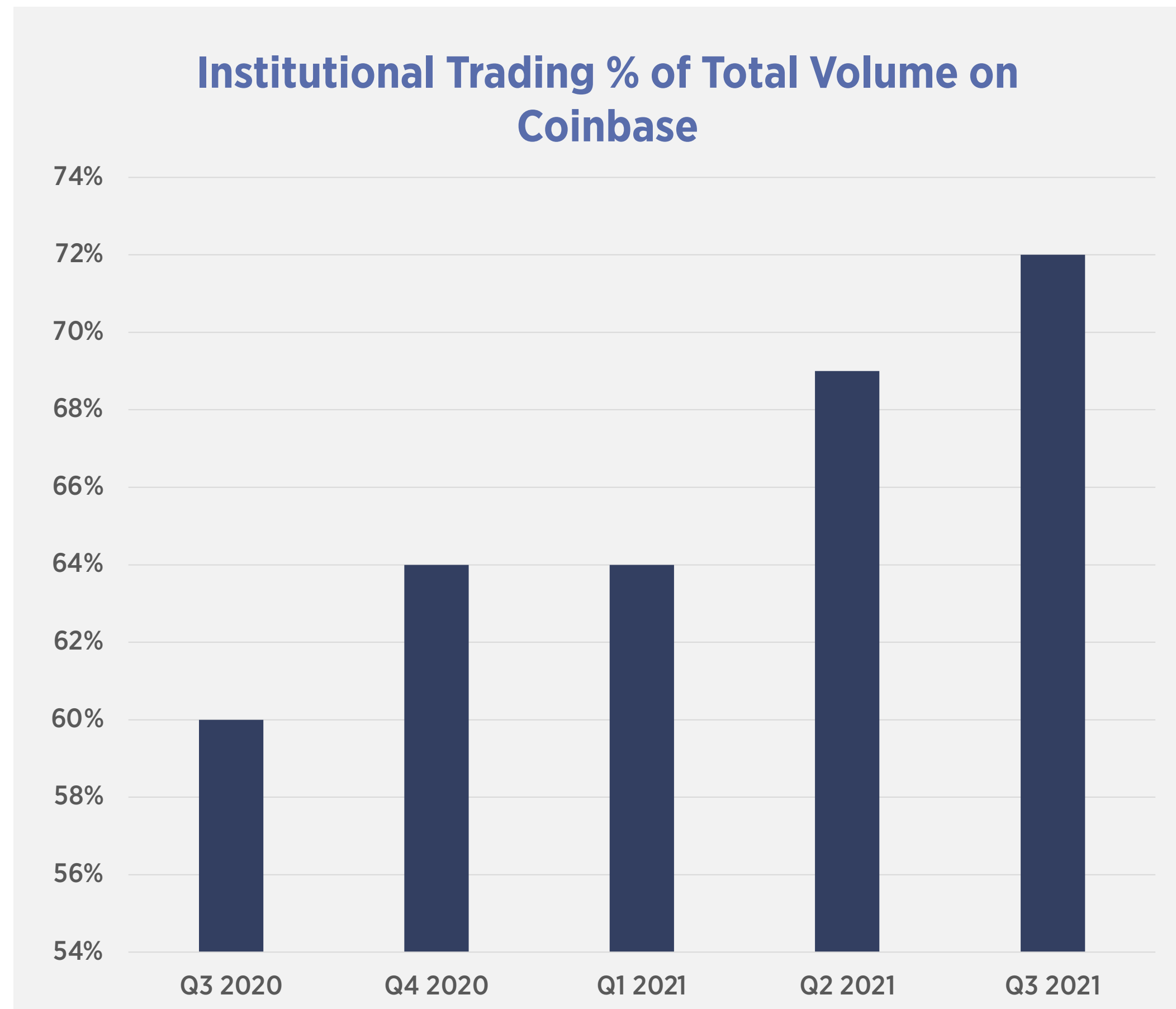
40,000,000

Estimated number of US crypto accounts

% Of US Adults Holding Crypto



...and exploding institutional adoption...



556%

Increase in Coinbase Institutional Volume YoY

Institutions are increasing trading, due to regulatory clarity and products built specifically for their needs such as:

Deep Liquidity

Middle Layer Technology

Prime Brokerage

Smart Order Routing

Institutional-Grade Custody & Security

Stable Trading Venues

Algo Trading Connections

Stablecoins as a new product gained quick adoption:

\$155B

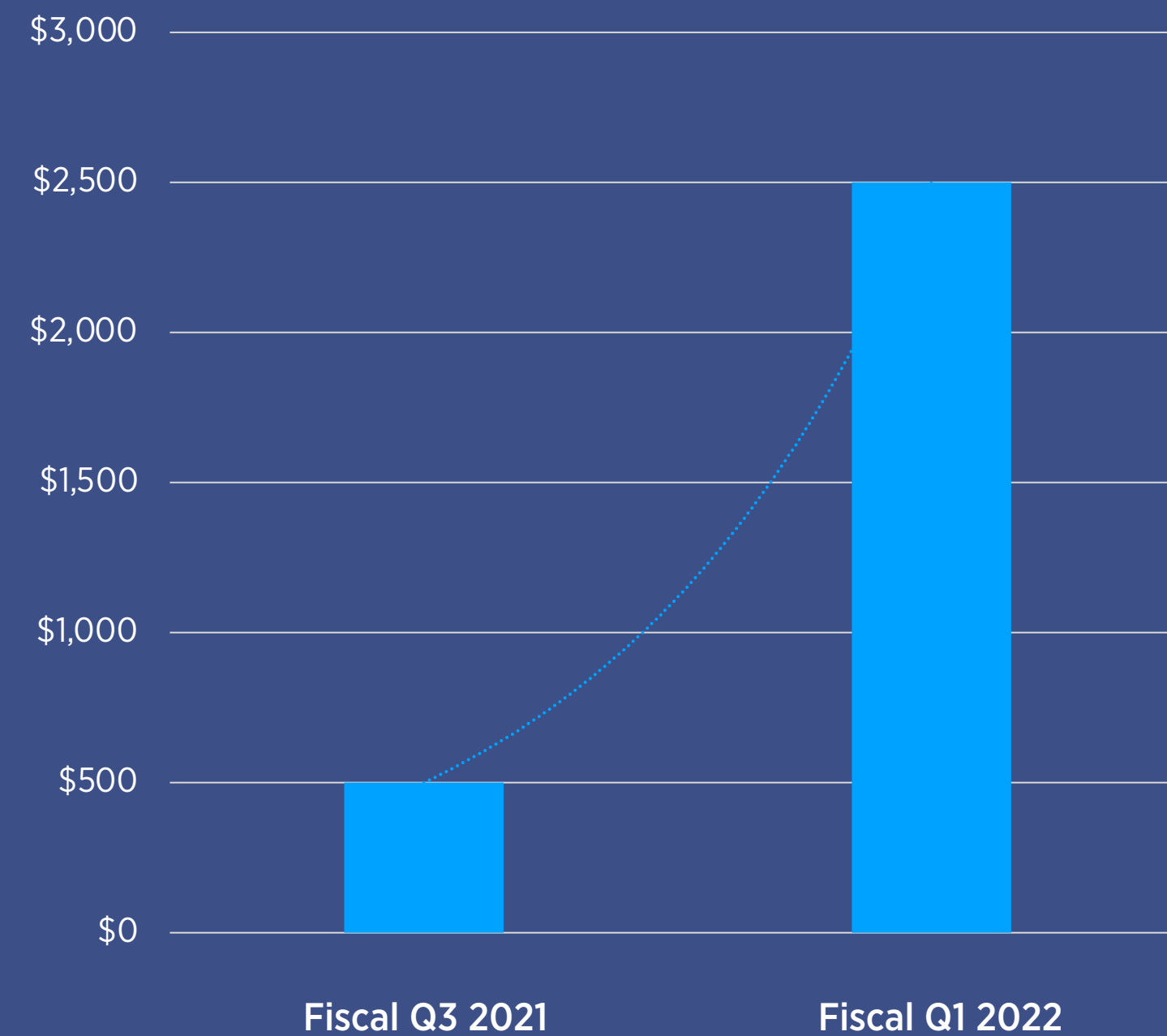
Dec 2021 value of stablecoins

445%

YoY growth in stablecoin market

Growing merchant acceptance of crypto as payment:

Visa Crypto Volume (in MM's)



Future regulatory edicts will move new products to exchanges

Non-Fungible Tokens (NFTs) have rapidly grown and are expected to move from marketplaces to exchanges once regulations are applied

Music rights, collectibles, and fractional ownership are future items that will move to exchange frameworks

But the crypto market cap is still only a fraction of the equity market



Traditional Equity Market

Crypto Market

\$125 trillion

Market Cap of Global Equities

\$2.3 trillion

Market Cap of Global Crypto Assets

140 million

Traditional Stock Brokerage Accounts
in the United States






40 million

Crypto Accounts in the United States








Revenue multiples of select crypto exchanges lags traditional exchanges AP

Crypto Exchanges

Firm	Enterprise Value (EV)	EV / TTM Revenue
 coinbase	\$38.2B	35.5X
 VOYAGER	\$1.2B	15.6X
 bakkt	\$1.7B	23.9X
 FTX	\$32B	
 kraken	\$10B	

Traditional Exchanges

Firm	Enterprise Value (EV)	EV / TTM Revenue
 Nasdaq	\$34.4B	27.9X
 ICE	\$82B	38.9X
 CME Group	\$85.5B	73.2X
 Deutsche Börse Group	\$32.8B	56X
 HKEX 香港交易所	\$22B	49.6X

Leading strategic & financial firms are investing in this group today



Crypto Investors				Legacy Investors			
Strategic		Financial		Strategic		Financial	



Capital Raised for Crypto Trading/Market Infrastructure



14 crypto exchanges have become unicorns or decacorns



\$32B Valuation
\$400M Raised
Last round Jan 2022



\$8.9B Valuation
\$700M Raised
Last round May 2021



\$12.8B Valuation
\$575M Raised
Last round Nov 2021



\$4.1B Valuation
\$545M Raised
Last round Aug 2021



\$2.4B Valuation
\$538M Raised
Last round Apr 2021



\$1.4B Valuation
IPO
February 2019



\$297M Valuation
Reverse Merger
September 2019



\$1.2B Valuation
\$200M Raised
Last round Apr 2019



\$5.2B Valuation
\$488M Raised
Last round Nov 2021



\$7.1B Valuation
\$400M Raised
Last round Nov 2021



\$2.2B Valuation
\$332M Raised
Last round May 2021



\$3.8B Valuation
\$277M Raised
Last round Aug 2021



\$10.3B Valuation
\$140M Raised
Last round Apr 2021



\$40.8B Valuation
Direct Listing
April 2021

*All valuations are post-money from most recent financing round, public companies are valued based February 8th closing prices

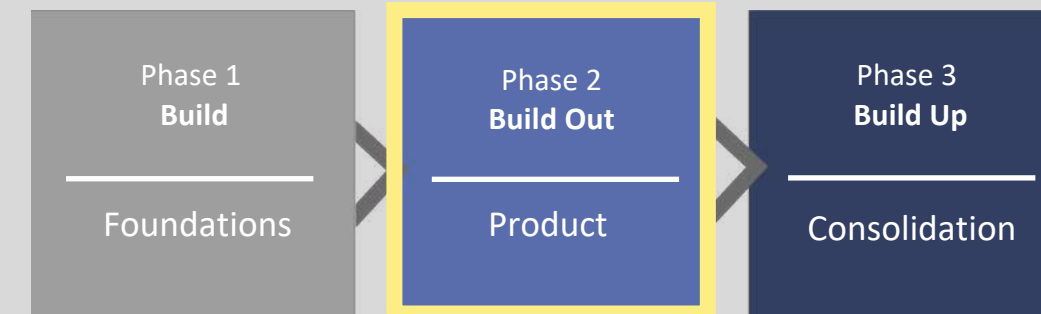


Exchanges have gone through M&A cycles akin to other segments:



View on current M&A cycle

We're in the "Acquiring Products" M&A cycle:



Product expansion on several fronts



Business Lines

Launch new client segments
Coinbase acquired Tagomi & launched Coinbase Institutional



Products

Adding complementary products to bolt on
Binance acquired Trust Wallet to add wallet product



Regulatory Frameworks

Buy regulatory frameworks & future proof activities
FTX acquires LedgerX to offer CFTC licensed products



Geographic Footprint

Expand global reach
Voyager acquired Coinify to expand geographies and products

Fueled by healthy business and capital formation



Venture Funding

Funding allows firms to grow and realize their vision



Innovation in Use Cases









DeFi, Stablecoins, NFTs are innovative ways to apply technology




New Firms Become Product Incubators

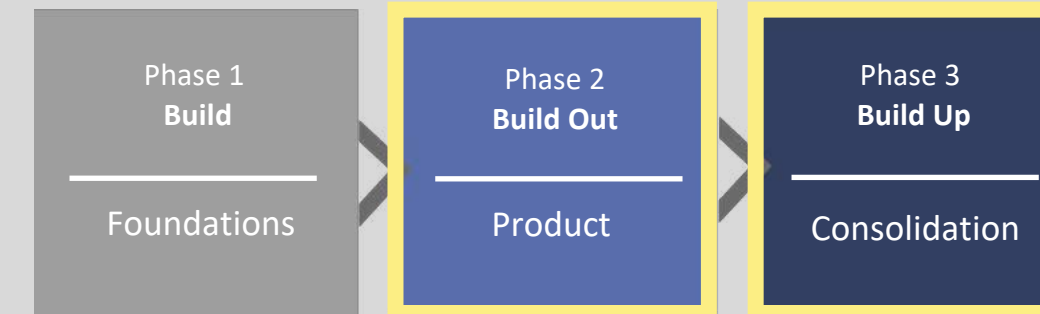
As new firms gain traction & funding, their product solutions are acquired by larger firms

Recent strategic M&A

<p>~\$400mm</p> <p>Cboe  ErisX</p> <p>Increases Product Capabilities (Derivatives)</p>	<p>~\$100mm</p> <p>coinbase  TAGOMI</p> <p>Basis for launching Coinbase Institutional (Institutional Infrastructure)</p>	<p>\$216mm</p> <p>crypto.com  NADEX the SMALL exchange®</p> <p>Increases Product Capabilities & Regulatory Licensure (Derivatives)</p>	<p>\$185mm</p> <p>ICOA  iBG</p> <p>Increases Product Capabilities (DeFi Wealth Management)</p>
<p>ND</p> <p>FTX  LedgerX</p> <p>Expands User Base & Regulatory Licensure (Created FTX US Derivatives)</p>	<p>\$108mm</p> <p>DEUTSCHE BÖRSE GROUP  CRYPTO FINANCE</p> <p>Increases Product Capabilities (Crypto Trading)</p>	<p>ND</p> <p>coinbase  FairX</p> <p>Increases Product Capabilities & Regulatory Licensure (Derivatives)</p>	<p>\$99mm</p> <p>VOYAGER  Coinify</p> <p>Increases Product Capabilities & International Presence (Payments Infrastructure)</p>

 = Acquired

How We See the Next 12-24 Months Playing Out:



Product-Based Acquisitions Will Continue

A focus on acquiring regulatory licenses

- Future-proofing for future regulatory changes
- Equity broker/dealers have been discussed as key, short term targets
- Potential trust & banking licenses to allow stablecoin issuance and payment frameworks

New products will be created, driving additional acquisitions

- DeFi products will be created as use cases grow
- Stablecoins will drive volumes
- Use cases in metaverse will become clearer

Consolidation Will Begin

Beginning a race to scale

We expect consolidation to be rapid, as one relatively large deal prompts others to catch up

M&A valuations will have a new primary measure

Account-based measures such as number & activity of accounts will be a new yardstick for valuations

Several flavors of consolidation

- Gobbling small firms - with over 400 active exchanges, there's plenty of ripe picking to acquire accounts by buying smaller firms
- Mergers of equals - same size firms joining to compete with the largest players
- Traditional firms buying crypto native firms and vice versa

1 We are at a unique point in time where major trends overlap

Race to product expansion coincides with race to scale

More deals will be pure consolidation plays as product plays continue pace

As the two M&A foci overlap, activity will spike

We expect this overlap to become prominent in 2022 and 2023 with a few potentially large deals spurring even more activity

2 Further merging of traditional & crypto native exchanges - a two-way street

Per several crypto exchange CEOs, there is a strong desire to expand into other financial arenas, namely stock trading

Similarly, conversations with traditional stockbrokers have echoed a desire to launch crypto trading divisions, preferably through acquisition

There remains a real possibility of a large-scale merger. The large banks/brokerages buying crypto firms or a large crypto player buying a large equity broker remains within realm of possibility

We expect exchanges to further their visions of becoming full service financial services providers. This will expand the targets to firms such as neo-banks and wealth management offerings

3 Risk to the system - regulatory changes

Regulatory changes can have outsized impact on exchanges

The Securities & Exchange Commission (SEC)'s January 26, 2022, proposal will define almost anything as an exchange, requiring firms to register as Broker/Dealers and as an Exchange or Alternative Trading System (ATS)

If the full regulatory framework of securities is applied, it will significantly impact business models

This may cause firms to split their brokerage (owning client relationships) from their exchange (matching orders) functions

This change would also force direct competition with existing brokers like Charles Schwab, making a competitive environment even more competitive

This will spur more M&A activity as firms fill the regulatory gap

4 Firms that don't participate risk being left behind

After the first consolidation moves happen, the middle wave of activity will happen quickly

Firms need to plan for this eventuality to ensure ability to set their own terms and paths

For acquirers, it means setting target firms and approach plan

For acquirees, it means planning to "acquire your acquirer"

Plan ahead and approach partners that fit

AP INSIGHTS

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