

ALEXANDRE SCHMIDT | SEPTEMBER 2021

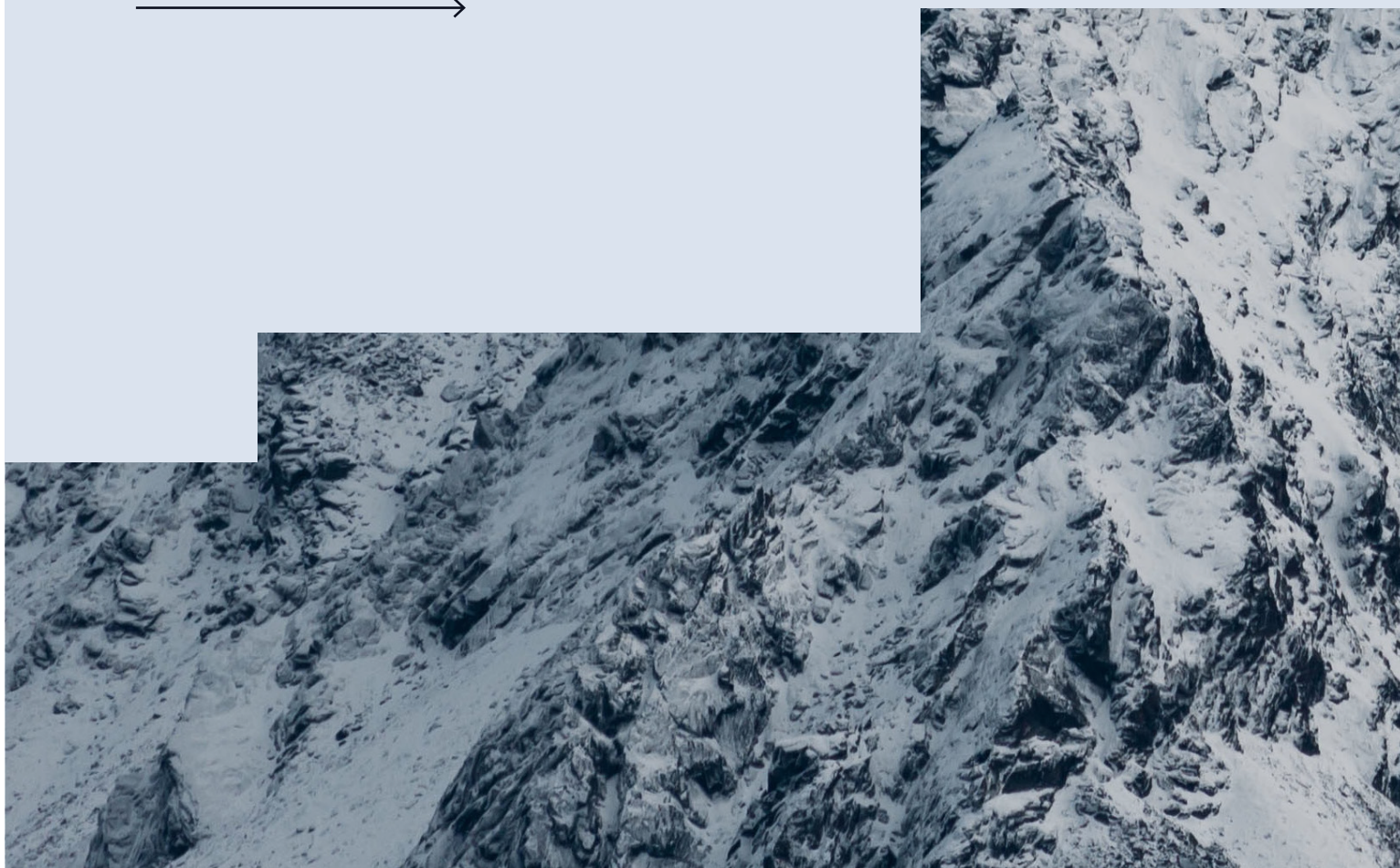
THE ARRIVAL OF CRYPTOCURRENCY STOCKS

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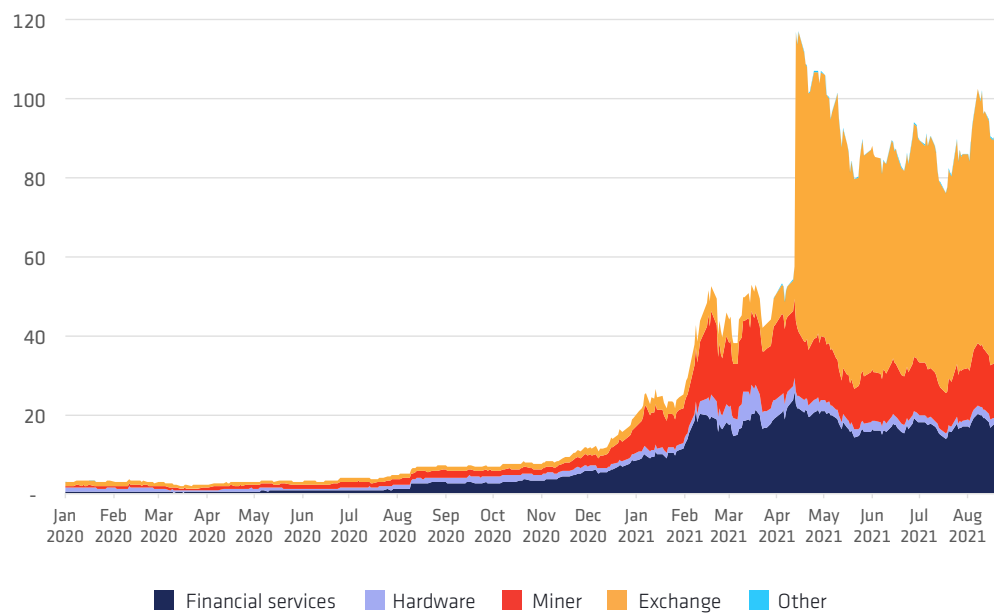




KEY FIGURES

- As at August 2021, there are currently **57** listed cryptocurrency pure play companies
- These companies have a combined market capitalisation of almost **\$100bn**
- In 2021, **16** companies were added to the list

AGGREGATE CRYPTOCURRENCY PURE PLAY MARKET CAP BY SUB SECTOR (US\$BN)



Source: Bloomberg, CoinShares



INTRODUCTION

In the past couple of years, there has been a dramatic increase in the number of cryptocurrency pure play companies listed on public markets. Investors went from having very limited options to being able to gain exposure into businesses as diverse as cryptocurrency miners, exchanges, financial services and mining hardware companies. The first eight months of 2021 saw almost as many companies come to the market as 2019 and 2020 combined, including the IPO of the first true large cap pure play in this sector, Coinbase. In this report, we show how, when and where these companies became listed and try to shed some light on a sector which has limited coverage from brokers and investment banks.

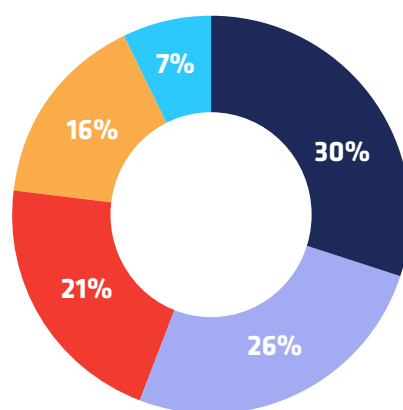
ROUTES TO MARKET

While it is true that many blockchain pure play companies are at nascent stages, this space has flourished with new entrants over the last few years. Investor hesitance and elevated risk has led to companies choosing the most varied ways to go public, from asset acquisitions, to reversing into already listed names and, of course, the traditional initial public offering process.

In our analysis, we identified that changing business activity was the most common way pure play cryptocurrency companies became available to public market investors. Generally, these would be companies that already had a blockchain-related business area and decided to focus exclusively on it. However, there are also companies that decided for a more radical shift, hiring new boards and management teams to oversee completely new operations. Examples include Marathon, Northern Data and BC Technology Group.

IPOs were the second most popular option, and preferred route by 15 companies. These companies became listed already as pure plays and include well-known and large names such as Coinbase, Silvergate and Canaan, although smaller businesses, including Argo Blockchain and Ebang have also chosen the IPO route.

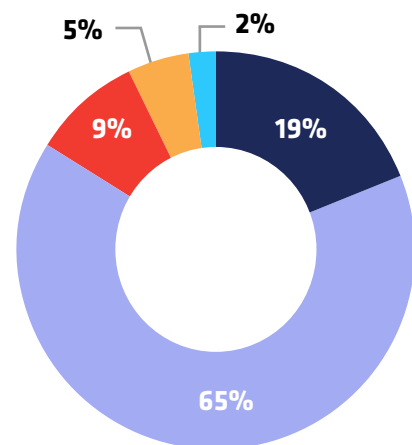
COMPANIES BY ROUTE TO MARKET



- Change in activity
- IPO
- RTO
- SPAC
- Asset acquisition

Source: Bloomberg, CoinShares

MARKET CAP BY ROUTE TO MARKET



- Change in activity
- IPO
- RTO
- SPAC
- Asset acquisition

Source: Bloomberg, CoinShares



As it would be expected, there is no clear correlation between route to market and performance. Year-to-date, companies which have done reverse takeovers, used SPACs, IPO-ed or switched activities, on average, went up between 70% and 93%. Businesses which have become pure plays through asset acquisitions are outliers, and went up by 352% this year. However, with the exception of Hive Blockchain, the remaining two businesses are on the smaller end of the size spectrum and, hence, are prone to more volatile performance.

Route to market	Companies	Market Cap (\$m)	2021 YTD performance*
Change in activity	17	18,765	68%
IPO	15	60,508	70%
RTO	12	9,087	83%
SPAC	9	4,619	93%
Asset acquisition	4	1,568	352%
Total	57	94,547	88%

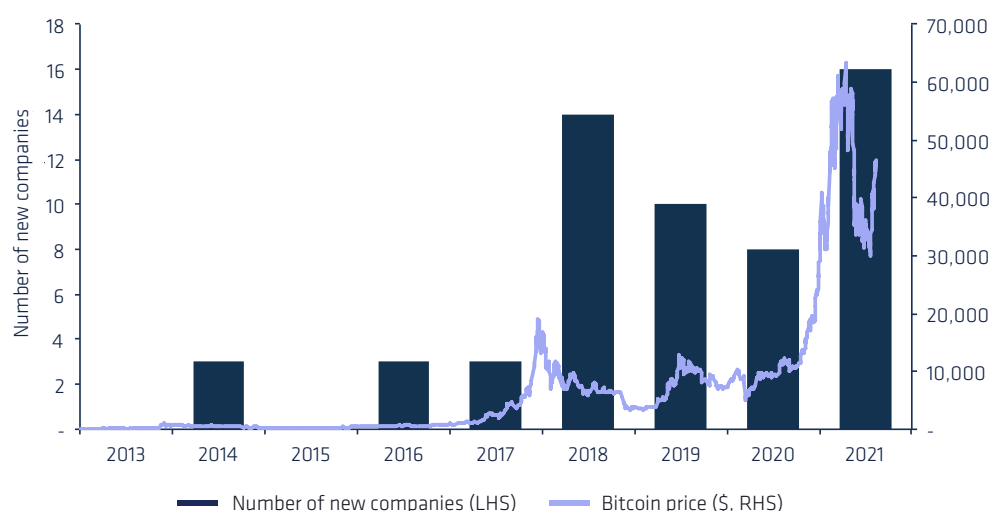
Source: Bloomberg, CoinShares, company data, as of 17 Aug 2021

* YTD performances based on average for each name, excludes names listed in 2021

TIMING

Looking at the times at which these companies went public or became pure plays, it becomes clear that there is a correlation between cryptocurrency prices spikes and new blockchain-focused businesses.

NEW CRYPTOCURRENCY BUSINESSES AGAINST BITCOIN PRICE



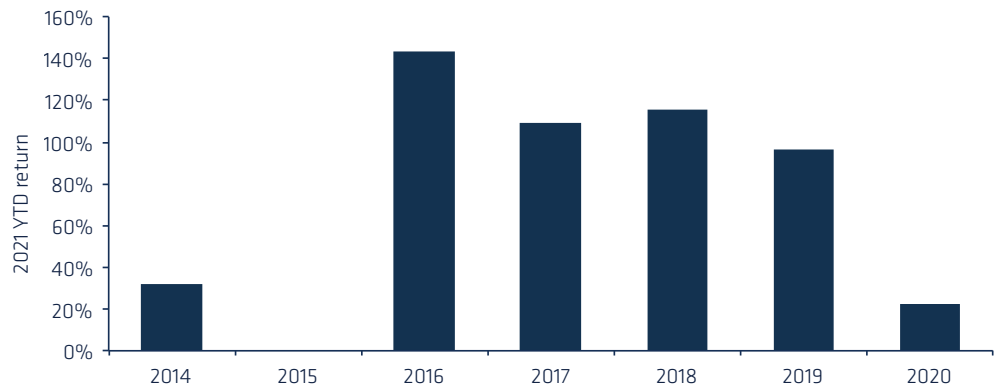
Source: Bloomberg, CoinShares



We have identified that the vast majority of the currently listed pure play companies became so within the last four years, with 2018 and 2021 being the most active in terms of newcomers into public markets.

Breaking down into 'vintages', the average market cap for 2021 pure plays is \$3.8bn, significantly higher than previous years', which hovered around \$1.1bn for 2019 and 2020. However, in terms of year-to-date performance, older companies have offered better returns, with the 2016-2018 vintages averaging over 100% returns this year so far.

AVERAGE YTD PERFORMANCE BY LISTING YEAR

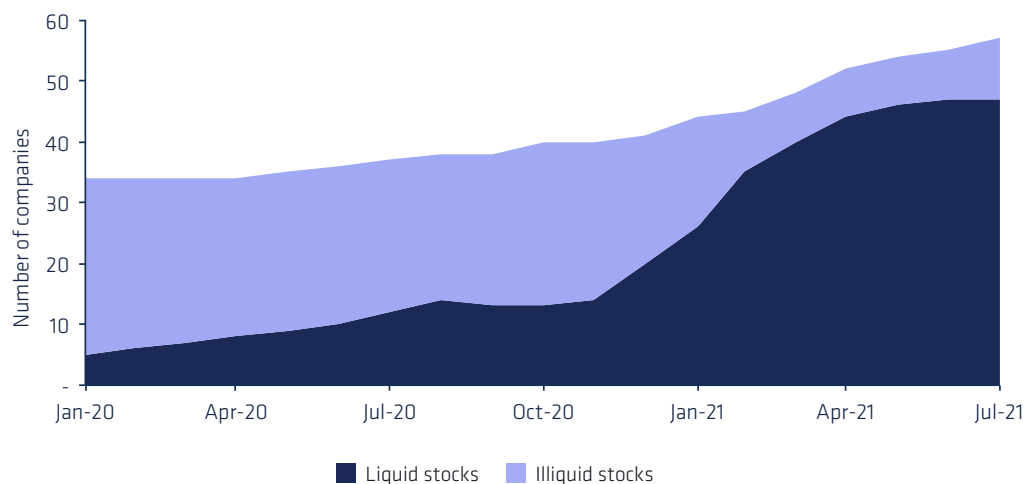


Source: Bloomberg, CoinShares

Curiously, 2020 pure plays are the worst performing, at 19% YTD. One explanation for this could be the fact that most of these companies were already floated at higher valuations, or enjoyed a premium upon switching to cryptocurrency, and lost steam at the turn of the year. An example is Cleanspark, which returned over 400% in 2020, but has declined 50% year-to-date in 2021.

Despite the large number of companies coming to the market, this sector has remained illiquid until the end of 2020. Using a rolling six-month average daily trading volume (ADV) of \$500,000 as a liquidity threshold, as of the end of 2019, only two of the then 23 listed cryptocurrency companies could be considered liquid. This number grew to 20 out of 41 companies as of December 2020, but, in 2021, liquidity has improved significantly and, currently, 48 of the 57 listed pure plays meet the above mentioned threshold.

LIQUID AND ILLIQUID PURE PLAY NAMES



Source: Bloomberg, CoinShares



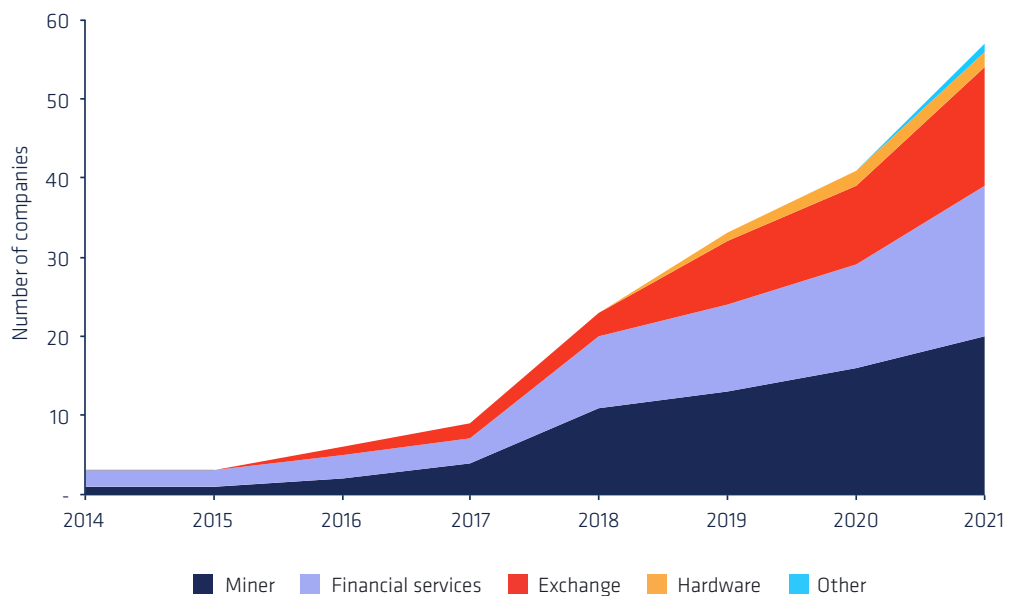
BUSINESS CATEGORY

We have split the listed cryptocurrency pure play companies into five categories:

- **Miners:** companies which operate cryptocurrency mining facilities, but also data centre operators with focus on cryptocurrencies.
- **Financial services:** companies which provide banking, trading, asset management and consulting services, as well as proprietary investment businesses.
- **Exchanges:** businesses offering retail and institutional digital asset trading platforms or offering technologies for third parties implement their own exchanges.
- **Mining Hardware:** mining hardware design and manufacturing companies.
- **Other:** SPAC companies with non-defined investment mandates within the cryptocurrency space.

Our research has shown that the first listed blockchain companies (until 2017) were either miners or financial service firms, with exchanges coming in later in the period.

CUMULATIVE NUMBER OF LISTED COMPANIES BY SUB SECTOR

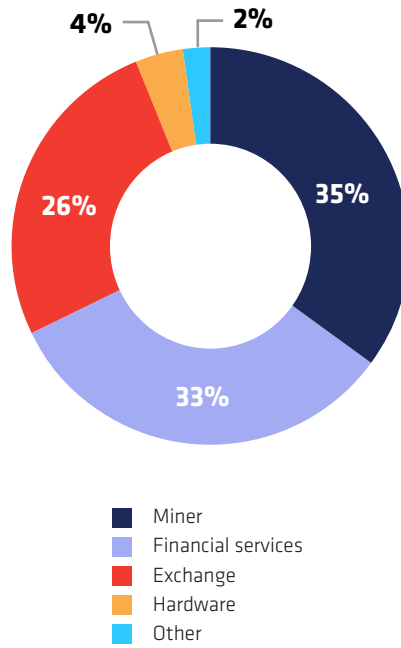


Source: CoinShares, company data

Although the space has become more varied and balanced, miners remain as the most common pure play names, with 20 listed companies according to our assessment, followed by financial services (19) and exchanges (15). However, when using market capitalisation to measure these businesses, exchanges dominate with 62% of total value, or \$59bn, mainly due to Coinbase's weight within the sub sector.

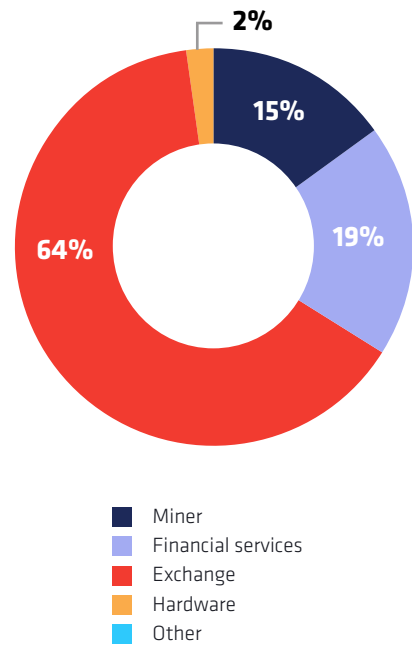


NUMBER OF COMPANIES BY SUB SECTOR



Source: Bloomberg, CoinShares

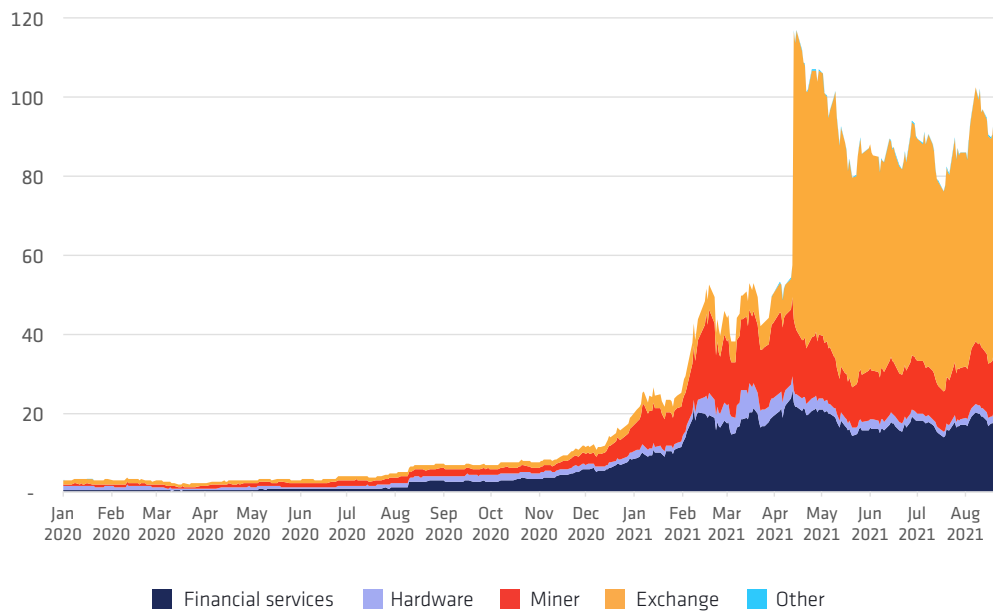
MARKET CAP BY SUB SECTOR



Source: Bloomberg, CoinShares

The cryptocurrency sector has shown some remarkable growth in terms of value. In the beginning of 2020, the combined market capitalisation of all listed cryptocurrency pure plays was just under \$3bn, with Canaan single-handedly accounting for a third of the sector value. One year later, the rally in cryptocurrency prices brought the pure plays' market cap to \$20bn and, in April 2021, this sector reached almost \$120bn in value, mainly due to Coinbase's IPO during that month. Since then, valuations have subsided a little, and the aggregate sector market cap is \$96bn.

AGGREGATE CRYPTOCURRENCY PURE PLAY MARKET BY SUB SECTOR



Source: Bloomberg, CoinShares



Individual sub sector performance analysis also provides interesting insights. Year-to-date, cryptocurrency miners have provided the best performance, at +121%, followed by financial services (+105%) and exchanges (+34%). The only sub sector which has seen a decline in value has been hardware (-9%), which has been driven by Ebang's 62% price decline year-to-date.

The good performance of cryptocurrency mining companies can be explained by a number of factors: first, cryptocurrencies, especially bitcoin, have seen some dramatic price appreciation in the first quarter of 2021, which substantially benefited mining companies. Secondly, supply chain constraints in cryptocurrency mining equipment resulted in lower growth in the bitcoin hashrate, despite the economic incentives. This was further helped by the crackdown in China, which has, in fact, led to a decline in hashrates as we entered summer. Therefore, despite cryptocurrency price declines from May onwards, mining operations remained very profitable, sustaining the miners' share price performance.

The financial services sub sector includes several companies managing and investing funds in cryptocurrencies. Their performance can be closely linked to cryptocurrency prices and the 105% average return is in line with this year's bitcoin 111% price appreciation. Other businesses, which provide infrastructure and other types of services (lending, trading, investment banking) have their earnings also linked to other metrics, such as volume and market activity.

Business category	Companies	Market Cap (\$m)	2021 YTD performance*
Miner	20	15,004	121%
Financial services	19	18,214	105%
Exchange	15	59,281	34%
Hardware	2	1,891	(9%)
Other	1	155	n.a.
Total	57	94,547	88%

Source: Bloomberg, CoinShares, as of 17 Aug 2021

* YTD performances based on average for each name, excludes names listed in 2021

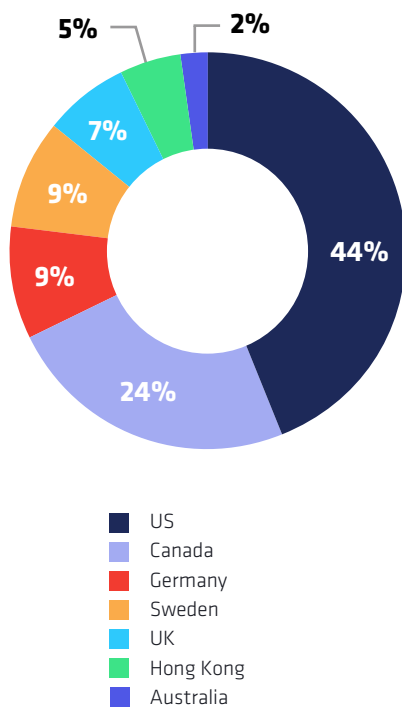
GEOGRAPHIC DISTRIBUTION

Most blockchain companies are listed in North America, with 25 in the United States and 14 in Canada, or 68% of all companies in our list. Outside North America, Sweden and Germany are the geographies with most listed pure plays, with 5 each, followed by the UK with 4, and Hong Kong with 3.

In value terms, North America is even more dominant, with the US accounting for 81% of the sector's aggregate market cap and Canada, 13%, with all remaining countries combined accounting for only 6% of the total. Some of this can be explained by the larger number of companies being listed in North America, but another factor is that the US is a more liquid market, with investors with higher appetite for risk and more open to novel types of companies, leading to higher valuations.

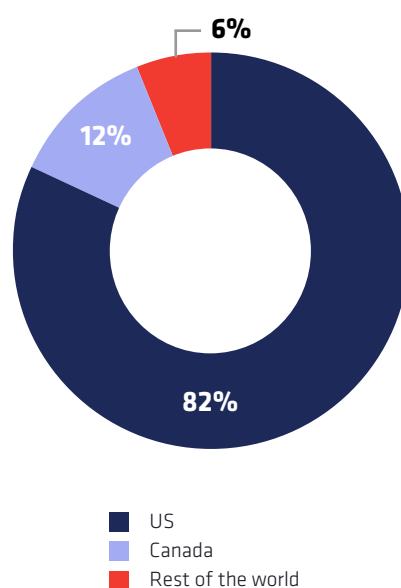


NUMBER OF COMPANIES BY GEOGRAPHY



Source: Bloomberg, CoinShares

MARKET CAP BY GEOGRAPHY



Source: Bloomberg, CoinShares

Canada and the US also come out among the top countries with regards to YTD performance, up 96% and 81% on average, respectively. Only the UK stands ahead, with 256% average YTD performance, driven by Kryptonite1 and Argo Blockchain. The only geography with negative returns is Australia, with -41% YTD, although this performance can be attributed to only one single business (DigitalX).

Country	Companies	Market Cap (\$m)	2021 YTD performance*
US	25	77,407	81%
Canada	14	11,972	96%
Germany	5	1,710	69%
Sweden	5	940	15%
UK	4	1,033	256%
Hong Kong	3	1,455	31%
Australia	1	30	(41%)
Total	57	94,547	88%

Source: Bloomberg, CoinShares, as of 17 Aug 2021

* YTD performances based on average for each name, excludes names listed in 2021



FINAL THOUGHTS

The cryptocurrency sector is certainly a fast-growing one, with new businesses appearing by the day. 2021 has been a record year for new cryptocurrency pure play listings and we are just two-thirds of the way in. This is a cyclical sector, and our analysis has made it clear that there is a high positive correlation between new entrants and cryptocurrency prices. If the new bitcoin rally sustains itself, it is likely that more businesses become more appealing to investors, whose appetite for the sector should continue to grow, leading to more IPOs, RTOs and SPAC deals in the sector. Finally, China's crackdown on cryptocurrencies should see more of this space moving towards the West, especially mining operations and exchanges, potentially providing more opportunities for Western investors.



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