

Trending Topics from J.P. Morgan Corp Fin Advisory | Week of June 11, 2018

Strong momentum in ICOs indicates digital tokens are here to stay

Key takeaways:

- ICOs (Initial Coin Offerings) have raised \$13bn this year alone, and \$17bn in aggregate since the beginning of 2017 vs. \$19bn raised via the traditional tech IPOs over the same period
- So far, ICOs have been utilized by start-ups to fund the development of new projects, by selling "utility tokens" that are intended to provide users with access to a product or service
- It may not be long before more "established" companies consider issuing tokens that would entitle holders to rights/features similar to those found in equity or debt securities

The use of blockchain technology for the purpose of raising capital continues to evolve. Most ICOs executed to date have been done by pre-product or pre-IPO firms seeking to fund a specific project. In return for capital, these firms have provided buyers "utility tokens" that give the holder the right to access the future product or service being developed. As the market for ICOs matures, deals are getting bigger (Block.one is on track to raise \$4bn through its EOS token in the largest ICO to date) and brand names are starting to explore alternatives (the headphone/audio component maker Monster announced plans for a \$300mm ICO). ICOs have the potential to provide both public and private companies with access to new forms of capital offering the potential benefits of a more diverse investor base while providing the opportunity to monetize existing networks and assets at a reduced cost.

The ICO structure continues to have many challenges: technical hurdles, uncertain regulatory treatment, limited liquidity, regulatory oversight, and a lack of registered exchanges still make the market immature, particularly for larger, established companies. If history is any evidence, however, these issues are likely to be resolved quickly and issuers should be prepared for and understand the state of the digital asset marketplace. The Corporate Finance Advisory team outlined many considerations in its [recent report](#) and continues to help clients better understand the art of the possible

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J.P. Morgan Corporate & Investment Bank Marketing, 4 New York Plaza, Floor 12, NY 10004-2413, New York, NY, 10004-2413, United States.

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