



Crowd Venture Funding with the Blockchain

Abstract

Despite technological advances across almost every industry, the venture capital industry has remained almost unchanged since its inception. However, with the introduction of Blockchain to the process, the VC industry can go through a huge transformation. Blockchain would provide for a much more liquid fund by issuing tokens that can be traded in cryptocurrencies exchanges. This liquidity has been an element not found in VC up to this point.

Crowdnext is a venture capital firm that is offering investment options that have never been accessible before Blockchain. The firm has identified that there is a gap in the current tech market industry in which startups can find seed money, but are not ready to pursue a series A funding round or an ICO. It is at this point where many startups find that they need additional investment to reach the next funding event and with the necessary capital, they can become hugely successful.

At this stage, it is also easier to identify which startups will reach the next funding stage successfully as they can be fully vetted. Crowdnext has developed an algorithm to identify those startups that have the most potential to transform the tech industry, and increase the valuation by 4-7x in a relatively short period of time. Since the tokens can be exchanged before a full exit, the investor may capitalize on this gain much earlier than VC has typically allowed. These principles will shape VC investing over the coming years.

Executive Summary

Venture capital investment in startups seeks to reinvent the world by developing breakthrough technology, and generating billions of dollars in the process. Yet, the process for raising venture capital itself has been relatively stagnant. This is set to change with the introduction of Blockchain technology to the process.

Using Blockchain will provide the VC sector with a much more liquid fund by issuing digital security tokens that can be traded in major cryptocurrencies exchanges. This process also offers the investor benefits stemming from a more robust investment process with greater diligence, as well as the ability to diversify outside of the cryptocurrencies world into other emerging tech sectors, including Artificial Intelligence (AI), Augmented Reality and Virtual Reality (AR/VR), the Internet of Things (IoT), cyber security, and many more.

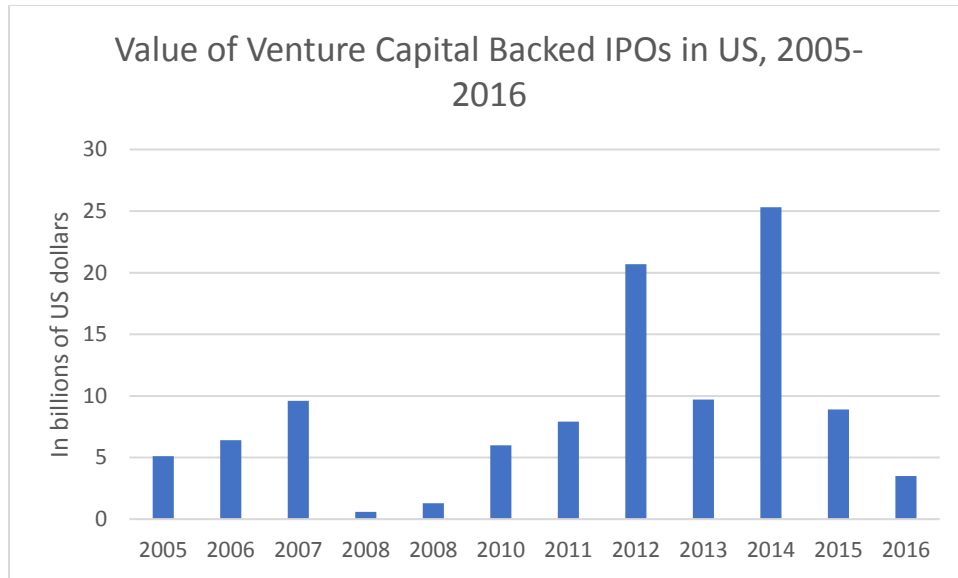
As a venture capital firm, Crowdnex uses Blockchain technology to raise funds to fill the gap in the current tech market industry that exists where many companies find themselves to be too large for seed or angel investors, but not quite ready to pursue a series A funding round or an ICO.

By focusing on startups in this gap, it is much easier to identify the ones that are most likely to reach a successful A Round or ICO within 12-18 months. When these companies are funded at that moment, they become secure in knowing they will be able to reach the next financing event and the investment has the opportunity to increase its valuation 4-7x in a relatively short time – much shorter than with a traditional VC investment.

This white paper will discuss the investment thesis, algorithms and investment processes that target these startups, but also does it by making the investment liquid through Blockchain asset tokenization. This principle will transform the industry while also making VC funds much more inclusive (within a regulatory framework), which will attract billions of additional investment dollars to VC.

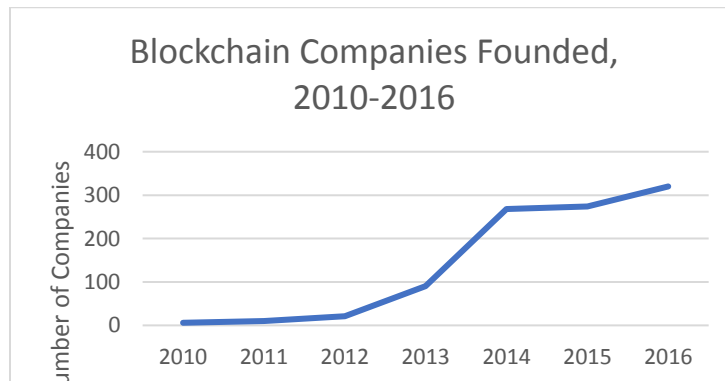
Introduction – Venture Capital and Cryptocurrency

Venture capital (VC) and the development of asset classes is an established facet within the financial industry and is well understood by investors, while Cryptocurrency (or Blockchain) is a relatively new and unknown advancement. As an emerging asset class, Blockchain is in the midst of experiencing exponential growth. Savvy investors with an eye toward the future will realize the potential of early adoption.



Source: [Value of Venture Capital Backed IPOs in the United States from 2005 to 2016 \(in billion US dollars\)](#), 2017, Statist.

Disruption through innovation is a natural occurrence in any industry, and many times, it will change the entire landscape of one industry irreversibly. VC investments rely on this premise; that investors will want to be a part of something that is both exciting and risky. The element of risk prevents many smaller investors from participating and usually leads to only a small level of participation from larger financial institutions. For this reason, there is only a small segment of investors who engage in venture capital – those who are excited with the promise of technological innovation, are comfortable with high risk, and can afford to leave their investment with a startup long enough for it to make a strong exit, which can be over a decade or more. The potential to make VC funds liquid has the possibility to transform the industry. It would allow investment to be more inclusive, within regulations, and potentially attract much additional interests in this type of investment. While the value and amount of investment in VC is large, there is potential for it to grow exponentially with increased liquidity. Blockchain technology is the answer to this need, and it is clear that there is huge potential for growth, as it has exploded over recent years.



Source: Blockchain, [Tracxn Sector Report](#), August 2017.

A New Approach

Asset Tokenization and Comprehensive Liquidity in Venture Capital

As an item, tokens represent tradable units representing specific rights as defined by the issuer. In current practice, asset tokenization represents the tokenization of a variety of real world assets, such as stocks, real estate, precious metals, and oil. These items are very difficult to trade physically, so paper agreements have been the standard. However, digital tokenization through Blockchain offer a much easier to use and reliable system.ⁱ

Through tokenization, commodities that would generally be thought of as illiquid, become liquid and easily tradable. When the principles of increased liquidity are applied to the venture capital market, it allows investors to more easily opt in and out of investments, providing more opportunities to maximize their potential to increase profits.

In a traditional venture capital investment, the funds provided to a startup company would remain in the same startup, until it becomes successful or fails. The returns, either positive or negative, are only garnered years later. With the use of Cryptocurrency, investors would be able to hold the tokens as a part of their portfolio and trade them more easily at any time.

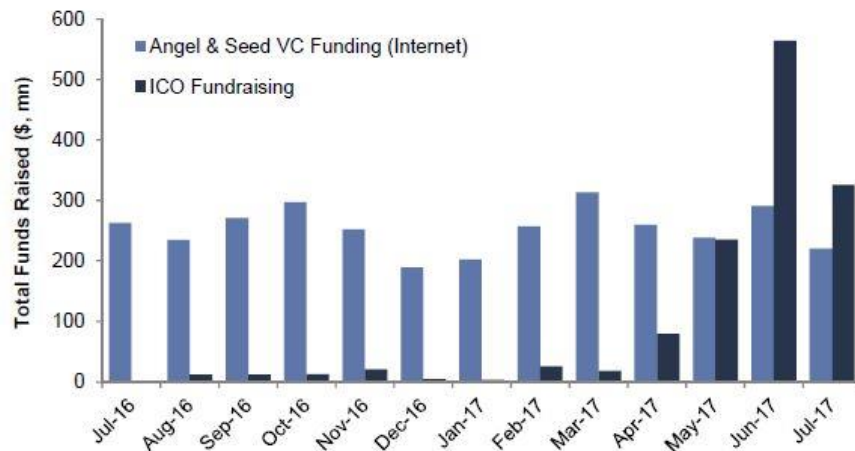
In order to determine value then, it would be advantageous to measure a fund both by its value returns as well as a liquid rate of returns in which the return is calculated based upon cash flows over time to indicate how lucrative the investment may be. The question becomes how to measure returns when capital can be traded before the exits and end of the fund. Crowdnext would propose a formula which looks at the end of each period in the life of the fund, assuming that the informed investor would capture the value from any increase in the Net Asset Value (NAV). This would result in returning a portion of the fund years earlier and could result in a higher effective Internal Rate of Return (IRR), which will be described in more detail throughout this paper.

There is an additional benefit in that the token-based VC model will unlock this type of investment to an entirely new pool of investors. This is not simply because there are many more investors that can take part, but because the asset is liquid, more investors can afford to participate as their initial investment does not demand a minimum 3-5-year commitment.

The Liquid Startup Investment Model – via ICOs

The Blockchain isn't only revolutionizing the VC industry regarding how funds are distributed, but also how funds are raised for startups.ⁱⁱ One of the primary challenges for startups in securing VC is the increase in the number of Initial Coin Offerings (ICOs), in which entrepreneurs secure funding directly from the community without even seeking VC investments. In the current year, funds raised by Blockchain startups through ICOs have already surpassed the amount of VC investments in that sector.ⁱⁱⁱ

Exhibit 8: The pace of ICO fundraising has now surpassed Angel & Seed stage Internet VC funding globally
 Total Funds Raised by month (\$, millions)



Note: ICO fundraising as of July 18th, 2017, per Coin Schedule. Angel & Seed VC funding data as of July 31st, 2017 and does not include "crowdfunding" rounds.

Source: CoinSchedule, CB Insights, Goldman Sachs Global Investment Research.

Source: Image copied from [Initial coin offerings have raised \\$1.2 billion and now surpass early stage VC funding](#). As reported by CNBC, 2017.

Tokens offer a powerful means of investing in a liquid environment with the opportunity for a faster exit. As a simplified example, under a traditional VC structure, an investment of \$5 million for 20% of the startup company with a \$100 million exit, representing a 4x return, or \$20 million. The ICO equivalent would allow the VC to purchase 5 million tokens at \$1 each and if the company is successful, sell them for \$4 each, also for \$20 million. This means that the investor has the same potential to make money, but without having to wait for an actual equity exit, which can take years or in certain instances, never happen at all.

This is a simplified, theoretical example, with the reality of Blockchain VC investments being much more complicated. Essentially, the risk factor of VC investing is not removed simply by shifting to a different platform. There are many ICOs with a greater than 4x increase and some that don't, and never will.

Another consideration is that the ICO model only works well in the long-term when the company is suitable for tokenization. If current regulation w

ere to change enabling companies to offer equity through tokens, investing can ideally occur under VC rounds or through ICO, whichever option best suits the company and current market conditions.

With this information, it is key to remember that VCs must have a model for investment into ICOs that is distinct from the traditional model. This document can provide information on determining which companies are better suited as ICO candidates as well as timing these types of investments.

Blockchain Industry Overview

Blockchain technology offers a faster, cheaper and more secure way of executing online transactions without requiring third party verification. The adoption of this technology is gaining traction within the financial services industry. Banking is considering it as a way to make transactions more transparent and easy to process. As Blockchain technologies become more common, the result will be more platforms and applications which will greatly reduce the threat of fraud due to errors and identity theft. Blockchain technology offers the opportunity to transform many different industries, from music to healthcare, by utilizing this type of data over the internet.

How Blockchain works

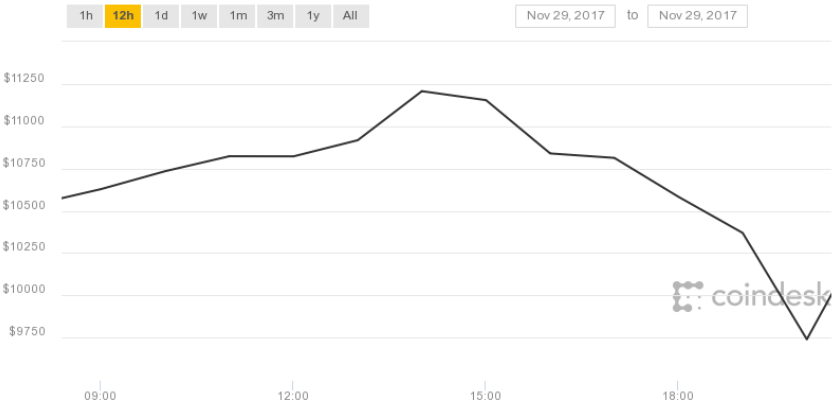
Blockchain is essentially a distributed database, much like a giant, global spreadsheet. It's open source and peer to peer, meaning that anyone can change the underlying code and it doesn't require any intermediaries to monitor transactions. State-of-the-art cryptography records the information derived from many different transactions. Moving forward, with the growth in the Internet of Things, a system built upon Blockchain will be necessary to handle all of the transactions. The implications of this technology are staggering, not only for the financial sector, but for almost all aspects of society.

Most blockchains, with Bitcoin being the largest, are considered to be permission-less in that they do not require permission from a central authority to complete transactions. All blockchains need a digital currency in some form. This is why Blockchain and Bitcoin are often referenced together.

The Impact of Token-Based VC on Investors

Crypto-investors and Diversification

Crypto-investors have had an amazing 3 years in that the growth of crypto coins and tokens has been dramatic and rapid. However, it is still in its infancy, indicating that the market can be volatile and unpredictable, often with massive fluctuations.



Source: [Bitcoin \(USD\) Price](#), from Coindesk. 12 hour range selected from November 28-November 29, 2017.

In fact, a simple search on [Coindesk](#) from the previous 12 hours indicates a fluctuation of over \$2,100 with the low being \$9,290.30 and the high being \$11,377.33. Not many investors have a tolerance level for that type of fluctuation. Asset-backed tokens offer a much greater level of stability since the value relies on assets rather than the current state of the market.

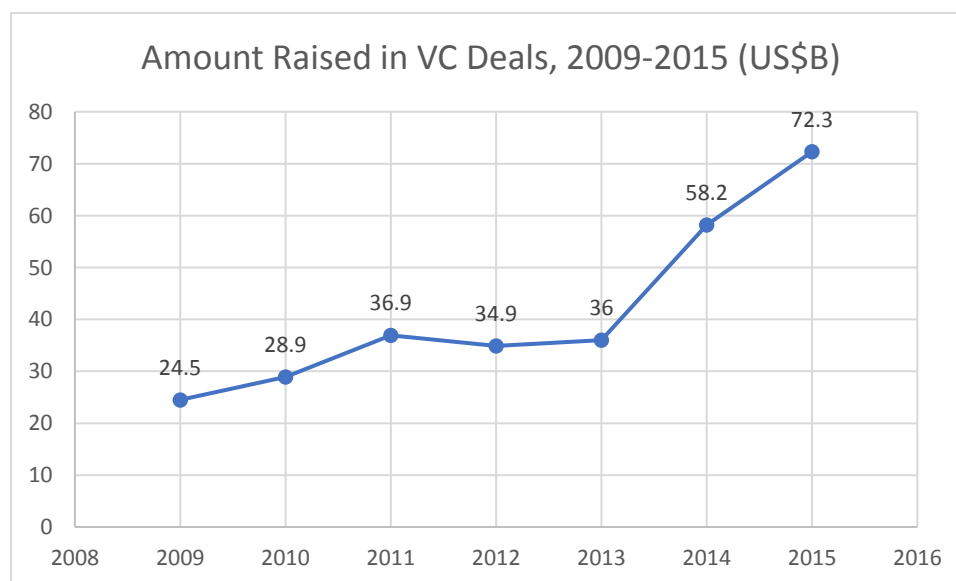
When discussing ICOs, there is typically not enough information available to make anything other than a speculative choice. They usually offer no access to the founders and no finalized product, and instead rely on concepts and stories, which may or may not translate into success.

The Crowdfunder model offers the option to diversify crypto currency holdings among asset-based token investments that can include startups across many existing technology sectors, including Blockchain, but also AI, AR/VR, IoT, cyber security and any other sector that may offer the opportunity to generate great exits. Similar to traditional crowdfunding, ICOs collect investment for a project from an identified community, the difference lies in the fact that funding would occur in the form of Bitcoin or another Cryptocurrency, rather than standard currencies. This type of investment also offers the additional benefit of being accessible from anywhere globally, allowing for no minimum or maximum amount, and without relying on a financial institution. As a result, Blockchain crowdfunding makes VC far more accessible to a larger number of individuals than the standard system.

Crowdfunder Investment Thesis – The Gap

The Investments

The last several years have served to be a renaissance of sorts for VC, with investment skyrocketing in recent years. The amount raised in venture capital deals globally has gone from \$24.5 billion in 2009 to over \$72 billion in 2015.^{iv}



Source: Back to Reality: [EY Global Venture Capital Trends, 2015 Report](#).

VCs are funding thousands of startups in the tech sectors, making it a dynamic ecosystem with the opportunity to generate billions from successful exits when startups are acquired or go public. There is also a new group of companies with valuations over \$1 billion, which have been deemed 'unicorns.'

Despite this large growth in general venture capital investment, there is a gap that has developed over the last several years in which many startups find it easy to raise initial money to support a new idea, but often, this money is not adequate to reach the growing milestones that are required for a series A round.

To further explain this phenomena in Blockchain sectors, there was huge growth of pre-seed and seed investments, such as micro VC firms and angel investors, and accelerators and incubators. Investment instruments and the growing popularity of equity crowdfunding also contributed to the ease with which startups can now raise seed capital. So, while seed funding has grown exponentially, more and more startups are finding themselves stuck in a stage where it is too late to attract angel investors or incubators, but they have also not reached Series A round VCs. This transition period has proven to be a difficult time to raise necessary capital.

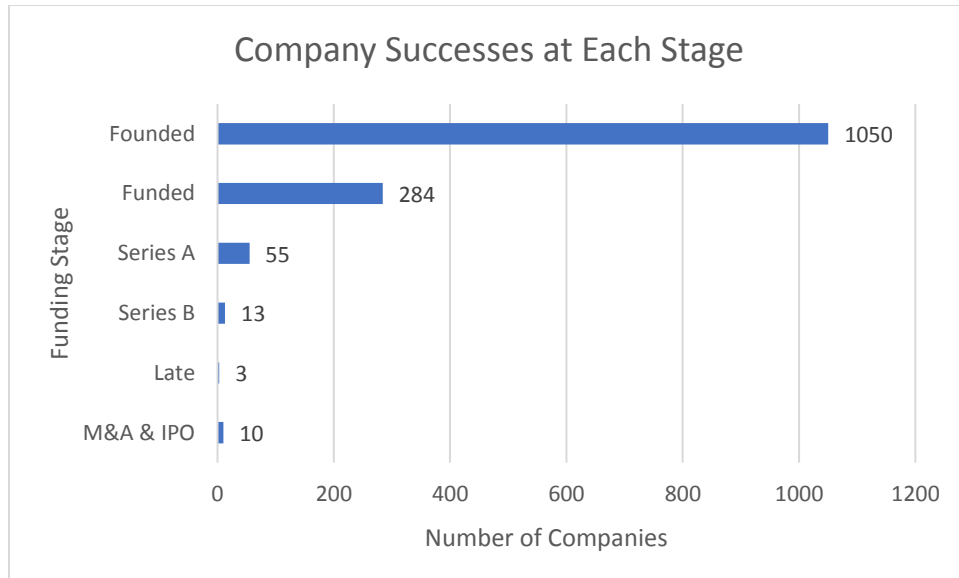
The Crowdnext Approach and Algorithm

Having witnessed this scenario firsthand, Crowdnext aims to reach the companies on the verge of success, but must still raise the \$0.5-2.0 million necessary to display the metrics that are typically required by large funds. The estimate is that there are approximately 500 companies that find themselves in this gap annually, and Crowdnext is dedicated to focusing solely on identifying the top startups out of this crowd that will likely reach the next stage of funding within the next 12-18 months.

In order to be considered for Crowdnext funding, the startup must demonstrate the ability to:

1. Achieve a strong round-A funding or a successful ICO;
2. Within 12 months;
3. While generating a 3-5x increase in company valuation.

These markers and the algorithm in general will be necessary in order to differentiate between those that will be successful and those that will not. Many startups that are funded do not make it to the next stages, and providing a thorough vetting process will allow for a much stronger ability to adequately identify those that will be successful.



Source: Blockchain, [Tracxn Sector Report](#), August 2017.

A strong series A round or a successful ICO (defined as providing the company with at least 2 more years of operations at full growth speed) is indicative of a successful exit in the future. Whether a startup pursues a Round-A model or goes the ICO route will be dependent upon the specific company and market conditions. In order to identify the right companies for Crowdfunder investment, an algorithm with 5 filters has been created.

Filter 1: Overall Series A/ICO Fundability

Series A

In order for a company to be within the desired timeframe from a Round A, there must be certain elements in place. This would include an impressive team with no gaps in the skill, knowledge and expertise necessary to succeed with a strong leader as CEO. The culture should be positive and promote a clear vision with the path to execution clearly outlined. The product itself must be strong and unique, with technology that differentiates it from competitors.

The company's basic 'hygiene' should also be in order, such as the cap table, and there should be strong evidence that it can achieve a product-market fit. While this list is not exhaustive, it provides a basis for determining whether the company may be a series A quality candidate.

ICO

The ICO model is still quite new and speculative at best, but it does offer the opportunity to learn about some very exciting companies, especially in regard to those that look toward Blockchain to disrupt or create new markets. Because of this specific focus, the factors affecting ICO companies are a bit different. ICOs are a public event in which investors vote with their wallet, often without the research required to make a

truly informed decision. For this reason, the company itself must have components that the public would gravitate to – such as visibility, charisma, a compelling vision, and a strong and loyal community.

The company's offering must also be a natural fit for tokenism, which is truly only suitable for some platforms. The token itself derives its value as relative to the value provided to users. In instances where this model is forced, the token value is unclear. And finally, a company must have no critical legal, regulatory, or security issues that could prevent a successful ICO or series A round from occurring.

Filter 2: Market Sector

The Crowdnext algorithm also considers the startup lifecycle and seeks out those that are under 12 months away from a successful ICO or Series A round. Those industries in which the startup cycle needs a longer period of time to mature or develop, such as hardware, biotech, and medtech, would be avoided.

Crowdnext is not limiting the investment into strictly Blockchain startups, but will consider those that meet the investment criteria and use disruptive, new technologies. This could include Blockchain and cryptocurrencies, but also Artificial Intelligence, Augmented Reality/Virtual Reality, the Internet of Things, Autonomous systems and others that leverage big data to transform established industries or create new ones. As the market and technology continue to evolve, the algorithm will identify emerging sectors and trends in order to identify those that are most likely to achieve success.

Filter 3: Company Stage and Trajectory

Series A

In order to achieve Round A within a year, the company must be over the initial risk and also demonstrate a clear vision, strategy and growth plan. It may be pre-market scaling, but must have enough market indicators that the Round A milestones are achievable. For consumer-facing companies, this means they must be past the initial launch and B2B companies need to display pilots, POC, or partnerships with relevant clients. Candidate companies will not have reached Round A milestones, but they must have a clear path toward achieving those milestones.

Some examples of milestones include:

- E-commerce companies are expected to show \$1 million in consistent monthly revenue.
- Consumer apps are expected to reach 50k active daily users, with 25% month-over-month growth.
- Social networks are expected to reach 10 million monthly users.
- Games are expected to reach top positions on app stores.
- SaaS companies are expected to show \$0.5-1 million monthly recurring revenue with strong net growth.

- Marketplaces are expected to show \$0.5-1 million in monthly gross market volume with high monthly growth and strong liquidity.

The milestones are different between sub-sectors and will change over time, which requires constant updates

ICO

When targeting ICOs, there are rarely companies with a tangible product and many simply have a white paper. For some entrepreneurs, the ICO appears to be the ultimate avenue for fundraising. There isn't the due diligence associated with traditional VC investments, they don't have to give away any equity and they can raise large amounts of funds in a short period of time. While these conditions have resulted in great ICOs that will redefine their markets, there are many that are simply unprepared, and others that will push for a token model even when it is unsuitable just to be able to do an ICO.

Ultimately, Crowdfunder believes these are temporary conditions and as competition intensifies, the cost to provide an ICO that stands above the rest will increase. With this in mind, the companies that will be considered for an ICO will have to be at a stage in which there is a significant product that has real and substantial qualities, enough to attract loyal followers, but may not have been publicly launched yet. At this stage, the added investment would make the product more robust, add features, and prepare it for public launch or with the ICO.

Filter 4: Fit to Crowdfunder Business Model

Having all of the features that mark a company for future success is a great starting point, but the bottom line is that there will be no investment if the deal is not right. While there is always room for negotiation, the core decision-making factors must still be in place. For traditional startups, this means holding 15-25% of the company after initial investment with the expectation that the Round-A will increase the valuation at 3-5x and provide for the expectation of a reasonable exit date.

With ICOs, there is no standard business model and the rules have to be reinvented. Although the thought process generally targets identifying the ICO equivalent of a company delivering the 'unicorn' exit surpassing \$1 billion. This requires comparing it to a traditional investment. For instance, under this scenario, a \$4 million investment would translate into a 20% ownership after the Series A round. Assuming by the time of the \$1 billion exit, the investment would be diluted by an additional investment, the value of the initial investment would be \$100 million – 25x the initial investment.

With an ICO company where tokens are sold at the price of \$1, it would be considered a token-unicorn once their value reached \$25. When considering ICOs through this lens, there are several companies who have reached this level in the past 3 years. In order to fit the Crowdfunder business model, the company's tokens should have the potential to grow 5x or more in the coming years, which is achievable even in a non-bubble market where the token has real utility in a platform that will transform its market.

Filter 5: Vision Alignment Filter

It is clear from the start that in order to be considered as a candidate company for our portfolio, a strong partnership with a top Series A investor or a successful ICO should be achieved within 12-18 months. This expectation should include a plan, milestones, and targets that all parties can agree upon. If the company is not aligned with that model, there will be no investment. This is especially true with ICOs, where disingenuous entrepreneurs may take advantage of the circumstances allowing for less transparency. These companies must demonstrate a genuine approach and the ability to responsibly work in a partially-regulated space.

The Crowdfunder Investment Process

The process followed by Crowdfunder for generating, evaluating, investing and managing its portfolio has 7 stages.

Stage 1: Pipeline Creation

In order to generate strong pipelines, the team must be present and vocal, clearly communicating the values of Crowdfunder as well as the types of candidates we are seeking and what we can offer them. Candidate startups will be sought from 4 primary sources:

- Round A VCs, which will send promising companies that are there too early.
- Startup founders, sought through existing connections and relationships.
- Angel investors, incubators, and accelerators looking to move their graduates onto the next phase.
- The Crowdfunder token holders Blockchain community, as an innovator in this space.

Stage 2: Review of Materials

Capacity: Up to 100 new candidates monthly.

At this stage, the filters will be applied to the companies and only the most desirable will move to the next stage. We will meet with as many founders as possible in order to learn everything we can and provide them the opportunity to discuss their products.

Stage 3: Meeting and Initial Discussions

Capacity: Average of one meeting with a startup per day per partner.

This meeting will serve to gather enough data in order to determine whether it is worthwhile to conduct deeper analysis. This will mean that there will be a closer screening of the startups with all of the filters as well as a determination as to whether the startup is 12-18 months away from a strong Round A or a successful ICO.

Stage 4: Deep Discussions

Capacity: An average of 1-2 "deep dive" discussion per week per partner.

This will be the most critical stage in determining whether a candidate startup is compatible with Crowdnext's investment model. The filters will be considered with strong detail and verification of each element will become necessary. While the expectation is not that any company will achieve perfection across all of the filters, there is the expectation that enough evidence can be collected to reasonably infer that the company will be successful in achieving their next successful funding event within 12-18 months.

At this stage, it will also become important to strengthen the relationship with the founders and their team. Data and metrics may be collected such as reference checks, trajectory analysis, hands-on examination of the product, technology, user experience, marketing, and any additional information that may help learn more about the market and competition. In addition to consultation with our own experts, it may be necessary to also discuss this data with potential future Round A investors partners, and community members. If it still appears that the startup meets the Crowdnext criteria, the startup will move to the next stage.

Stage 5: Term Sheet and Closing

Capacity: An average of 9-12 deals per year.

At this point in time, detailed discussion will begin to take place, at times, with potential co-investors if it is appropriate. This is the point in which the role of Crowdnext official changes to become a true partner in the process with a deep commitment towards ensuring the success of the company.

Stage 6: Working to Secure a Strong Round A or Successful ICO

Capacity: Up to 4 startups per partner, at any given time, though usually less.

During this stage, Crowdnext will assume a Board position with the explicit role of helping the company transition to the next stage. This requires a focused effort and the specific expertise that can be provided by Crowdnext in order to secure the successful Round A or ICO. Towards that end, we will work with the companies to monitor and analyze key metrics in order to develop strategies that focus on optimizing productivity. Using a network of connections, we will work with the founders to contribute our experience, knowledge and expertise.

For ICO-bound companies, the emphasis must be on establishing trust with potential investors, wherein, acceptance by Crowdnext can serve as a signal that they have been diligently vetted and are on the path toward success.

Stage 7: Portfolio Management to Exit

Capacity: Up to 6-7 per partner.

Upon completion of a Series A investment or the ICO, Crowdnext will become to take a much less active role on the Board. At this point, the intention will be to stay with the

company until they exit, or with a token holding, until the equivalent of an exit has been reached and the proceeds would be returned to our investors.

The Crowdnex Approach to Liquidity

The ability to offer liquidity to our investors requires that there be a market in which the tokens can be traded and both supply and demand are present. In generating supply and demand, Crowdnex is going to provide 2 types of reports that will influence the value the market will place on the Crowdnex tokens and also influence individuals in their decisions on buying and selling the tokens.

1. This approach will consist of releasing an externally validated quarterly NAV report, which estimates the current value of all portfolio assets. While it is a reflection of current value, it will also serve as a guideline to predict the future value of the token. For example, if a portfolio company gets a major round of financing, the NAV will record the value at that round's valuation, which is fixed until the next major event. Depending upon market conditions and the company's progress in the interim, it is quite possible to predict that it is worth much more than it was during the last valuation. Please note that we do not expect the NAV to change during the first few quarters simply because it is calculated using strict accounting methods and would be based on portfolio companies' latest external transactions and relevant market comparables meaning that the NAV will likely not change until there is a follow-on round of investment, had an ICO, or was a part of a M&A transaction, etc.
2. The fund will list all companies in which it is vested and share major public events that portfolio companies opt to share. As Crowdnex will hold substantial shares in the portfolio companies (initially 15-25%), the attractiveness of it will grow through the success of the portfolio companies. Conversely, if there are negative news events, it will have a detrimental effect on the public image of Crowdnex, but it is important to realize that the fund will not be sharing any additional information beyond what the portfolio companies share of their own accord, which is public knowledge.

As the process of vetting the candidate startups and leading them to their next funding event will take some time, it is reasonable to expect to take up to a year before news from portfolio companies will influence the value of the tokens.

In terms of liquidity solutions, there are four options designed for different stages of the fund, which will ensure supply and demand in a number of potential scenarios with different types of investors.

Token Exchanges

The natural place to make trades are at the exchanges, which provide the audience and the technology to trade tokens. With the intent to list tokens on at least one exchange 3 months after the original token sale, and then add more exchanges as the market evolves, this will offer easy access to the tokens.

Presently, exchanges are not able to support security tokens, but with the SEC announcement that some Blockchain tokens will be considered securities, it is likely that the market will adapt by supporting the security tokens. Many have already indicated their willingness to do this in the coming months.

While listing on an exchange does not guarantee supply or demand, easy access afforded here will support liquidity. Until exchange markets offer regulated securities, there is another option.

Price Floor Liquidity

The fund will reserve the right to purchase tokens in the market if the price drops below the floor of 30% under the published NAV. The tokens are backed by the entitlement to money derived from the exits of portfolio companies, so in the event that the token becomes traded well below the NAV, the fund managers will best be able to decide if this is an opportunity. They have the authority to act in the long-term interest of the fund.

Peer to Peer Liquidity

Crowdnext tokens are standard ERC20 tokens allowing for individuals to trade directly. The terms and conditions of the tokens clarify the process for compliance. Using Blockchain tokens like this offers the investors the opportunity to generate substantially higher capital gains, rather than simply providing early access to the money. This is because it can begin to appreciate as much as 6 years earlier than tradition VC funds. For example, if a company makes a major announcement, it becomes an event in which an investor can exit a portion of their holding years before the final exit, which is not guaranteed.

Liquid Internal Rate of Return (IRR)

Research into the process of liquefying assets indicates that it can often come at a very high premium.^v Despite that, a liquid VC will have several advantages over a traditional liquid one. This concept cannot be demonstrated using metrics typically used to compare traditional VC performance, such as IRR, and Cash on Cash (CoC). To quantify the advantage of liquidity, you must measure it by a new metric, called Liquid IRR, which is a modified notion of the IRR that embeds it into a representation that takes into consideration the value of added liquidity. This takes into consideration that the investment into a traditional VC would be locked away for a long period of time, whereas, there is an added monetary value of the liquidity found in the tokens themselves.

One way to consider this is to look at the potential value of liquidity in several scenarios in which IRR is calculated and a graph of the NAV is used that is based on the same set of assumptions and assume that the investor would liquidate tokens at a certain value of the NAV.

Crowdnext as a Different Type of Fundraiser

Crowdnext is also distinct in how they are able to raise their own capital through an ICO. This has an impact on several areas.

- **Investment model:** Funds typically raised through an ICO also tend to invest almost entirely into Blockchain and Future Tech startups. Crowdnext considers these types of investments, but also looks at hot sectors such as IoT, VR/AR, cyber security, AI, and others. This type of diversification provides for a more balanced and less volatile portfolio that extends across the best tech startups.
- **Returning exit money directly:** Most other token based VCs or hedge funds keep funds in what is called an “evergreen fund,” allowing for future investments. And when they do return money, they may buy back a portion of the proceedings in the open market in the hope that the increase will bring value to investors. In contrast to this, Crowdnext explicitly returns the proceeds directly to token holders. This means that when there is an exit of one of the portfolio companies, the fund will buy back the relative portion of tokens from every single token holder, returning the full net revenue to investors. There will also be no removal of any carried interests from investors before all of the money invested is fully returned.
- **Better liquidity:** Because there is incentive for investors to remain registered with Crowdnext and comply with regulations, we can provide liquidity in the secondary market through various mechanism previously discussed.

Distribution of Funds

When there is an exit of one of the investment, Crowdnext Venture Capital will return this money to the token holder, less any fees and costs associated with the trade sale that leads to the exit. This facilitates our mission of high transparency without impacting the market price of the tokens.

When the realization of these events occurs, the net realized gains (the full realized gain minus expenses related to realization) will be distributed until 100% of the original size of the fund is returned; 100% of the net realized money from any exit will be used to buy back tokens from token holders.

Only after the token holders have received 100% of the base size of the funds, will the remaining funds be distributed, with 80% allocated to buy back tokens from token holders, and 20% going to the general partner’s management company as the carried interest to be distributed to general partners as a success fee.

All funds received by Crowdnext will be used to buy back tokens from token holders in a prorated fashion. Once acquired, they will be destroyed in order to increase the economic interest in the fund of the remaining token holders as well as their value. More specifically, the following procedure will be coded into the smart contract of the tokens.

To calculate the distributions fairly, two variables must be considered – the implied new NAV after the exit has happened, and the current token value in the open market.

- **NAV:** Before an exit, the fund publishes the NAV quarterly, recalculating after every exit and write off. Each exit offers the possibility of one of two scenarios. First, the new NAV could grow because the company that exited did so at a valuation that is higher than the last NAV calculation. Or, the NAV gets lower because the valuation is lower than the last NAV calculation. One extreme case could be an exit due to a write off in which the entire value of that company disappears. This would require no distribution and the token price would adjust once the information has been made public.
- **Current token value:** The other variable is the current token value in the market, which may not reflect the value of the current NAV, but may also include perceptions on the future performance of the fund. This could be higher or lower than the current NAV depending upon the expectation of either a higher or lower valuation on the next NAV. In the event the NAV is higher, the percentage of the total NAV that would be equivalent to the total amount of money is calculated and distributed to token holders through buybacks. In the event that the NAV is lower, it is not advisable to buy at the NAV token price as that penalizes investors that just purchased at a higher price, and so, we would use all of the money for the proceedings to acquire tokens from each token holder at market price proportionate to the total token holdings. All of the tokens acquired through this scenario would be destroyed, or burned in the Blockchain, to reduce the number of outstanding tokens and increase the underlying indirect economic interest of each token in Crowdnext.

Note that in each case, all of the money is distributed to token holders proportionate to their holdings, with the only difference being in how many tokens would be bought out and how many would stay in circulation. This ensures the price of the remaining tokens would remain as stable as possible and reflect the value of the remaining portfolio of the fund.

Initial Coin Offering (ICO)

The Crowdnex model provides access to all sorts of business models for people all over the world. The applications built on decentralized platforms like Ethereum are going to enable individuals across the globe to access sophisticated financial tools. Crowdnex will fill the missing space in the Ethereum ecosystem, decentralized crowdfunding.

The Pre- initial coin offering for the Crowdnex starts on the April until June 2018 to close Final ICO, it is an opportunity where we give the public to buy our tokens.

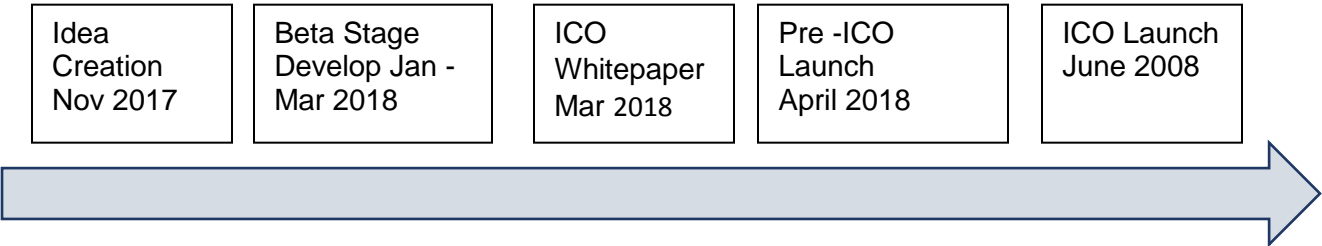
Symbol	CNX
Crowdsale opening date	TBA
Crowdsale closing date	TBA
ICO estimated sales	\$50-100m
Country of origin	USA & Switzerland

The Crowdnex Roadmap

Schedule	Roadmap Details
Before end of Q1 2018	Development of Alpha version of CNX platform Front End Design Project Search and Backing of Project Project Application and Review User Account Management and Verification Transaction logging Initial Design for Ethereum Smart Contract to use for CNX Projects CNX ICO Fundraising Portal & Marketing Campaign for ICO
Q2 2018	Integrate CNX platform with Ethereum smart contracts via creation of web service API Enhancement to User Interface based on initial user group feedback
Q2 2018	Completion of Service Marketplace, where project creators can build a team for their project. Completion of Rating and Review function for CNX platform users Beta Testing with initial group of users & Soft Launch with a few projects. Form Partnership with Cryptocurrency exchanges, e.g.

	Bittrex, liqui.io, EtherDelta and Cryptopia, to provide external listing and liquidity for individual project tokens issued via CNX Platform.
Q1 2018	<p>Launch Crowd Venture Fund</p> <p>Launch Global CNX marketing campaign and user acquisition promotion to reach out to as many potential customers as possible.</p> <p>Partner with leading legal firms to allow us to provide basic legal advice for project creators using CNX. Develop legal agreements templates That project creators can use. [Applies if we raise more than 10m]</p> <p>Completion of Internal Marketplace for Token Trading Completion of Internal Cryptocurrency wallet to store tokens and Ethereum</p>
Q2 2018	Complete Development for Smart Contracts using Hashgraph.
Q3 2018	Complete Mobile App for CNX

Campaign Milestones



The Crowdnext Team

The team at Crowdnext is comprised of a balanced group of individuals that are capable of providing a wealth of investment, entrepreneurial and corporate experience. This collective experience and knowledge make them exceptionally capable to lead this revolutionary VC firm. Throughout their various careers, the founders have been interested in the entire life cycle of technological firms, from the initial ideas to competently securing venture capital for them.

As a team of entrepreneurs with a mission to build a venture fund, they are determined to assist with the development of remarkable and disruptive pre-Series A round and pre-ICO startups by reinventing the venture capital process itself using Blockchain technology.

Srini Chakwal, Founder

Srini has more than 15 years of experience in Private Equity & Venture capital as well as extensive understanding of investing in and supporting businesses with high growth potential. His background includes working with the best opportunities, funding exceptional entrepreneurs and investing at every stage of progress, from startup to IPO. He believes in leveraging widespread networks by creating a new type of venture firm – one that is based on strong teamwork, superior service to entrepreneurs and an intense commitment to build lasting value.

Craig Sultan, CEO

Craig, the Investment Director at Redclays Capital, has over 25 years of experience in investment management, and banking in private equity as well as public market transaction. He also holds institutional sell-side research and engineering experience. He has completed over 45 transactions, and exceeded in funding global companies with over USD \$1 billion. He has worked with many corporate entities and investors throughout the world and frequently works with senior management and advising boards in executing capital formation strategies or positioning for an acquisition take-out of portfolio assets.

Chris Ocansey, Vice President

Chris is an experienced professional with over 15 years in finance, providing insight and leadership on internal audit and compliance reviews. He has lead key initiatives supporting Public Company Senior Executive Certifications of Internal Controls over Financial Reporting (ICFR) as required by the SEC. His experience also includes fund raising (debt and equity) for private- company real estate transactions, business financing, and project funding. His overall experience spans many sectors, including financial services, real estate, retail, utilities, commodities and technology.

Santosh Prasad, CTO

Professional software developer for the last 15 years. a Blockchain Evangelist, who not only his passionate about Blockchain but also endowed with an innovative mind to strategize technology architecture catering to our wide range of solutions. His expertise lies in Blockchain platforms like IBM Hyperledger, Ethereum, Multichain, Stellar, and Ripple, with deep knowledge in architecture and design of Blockchain solutions to Financial Sector. He has been working on various Blockchain platforms to evaluate and propose appropriate Blockchain technologies, and possesses Strong understanding of Bitcoin and other crypto currencies.

He continues to learn and puts his learnings to test on new mashups of technologies like Artificial Intelligence on Blockchain.

Legal Aspects and Disclaimer

Due to the retrospective nature of regulatory action, our team can make no guarantees regarding the legality of or launch of ICO campaign in any given jurisdiction. We must operate our business in accordance with the laws of relevant jurisdictions. As such, Crowdnext token may not be immediately available in certain countries. We will keep Crowdnext buyers informed based on quarterly investment reports. All legal, financial and operational aspects of the Crowdnext, protocols and associated financial eco systems will be coordinated by a central management team.

Please also review our Terms and Conditions before purchasing Crowdnext.

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^v Klein, J., & Jones, B. (2015). *Managing the high cost of liquidity*. On *Treasury & Risk*. Retrieved from <http://www.treasuryandrisk.com/2015/09/15/managing-the-high-cost-of-liquidity-high-cost-of-liquidity>