



Cryptomania: How the Changing IPO Market May Have Fueled ICOs

April 4, 2018

Last month retail investors jumped at the opportunity to own a piece of the hottest new tech stock, sending shares of Dropbox 35% higher from its IPO price. This kind of one-day price move is rarely seen in the stock market these days but has been fairly commonplace in the wild west of cryptocurrency markets. These two markets may seem unrelated, but in fact, there may be more of a link between IPOs and ICOs than you think.

2017: Year of the ICO

It can hardly escape anyone's attention that 2017 was a bonanza year for cryptocurrencies, with the overall market capitalization of the asset class soaring over 4000%. It has certainly caught the attention of regulators, with the SEC stating that they will be ["devoting a significant portion of its resources to the ICO market."](#)

Regulators are rightly concerned for a number of reasons: that many ICOs are in fact unregistered securities; that they are not being traded on regulated exchanges or ATS; and that the issuers may have committed fraud or other manipulative practices.

Crypto enthusiasts should welcome this oversight from regulators as a well-defined regulatory construct ensuring investor protections and compliance with financial regulations is important to allow the industry to grow.

Notwithstanding the fact that many of these ICO issuers may have been breaking the law, it is still remarkable that everyday investors were prepared to pour billions of dollars into projects on the back of little more than a 'white paper' (a combination of VC pitch deck + business plan + technical scope document - usually around 10 to 15 pages). Certainly, a large part of the allure is the revolutionary nature of the technology. Blockchains, both permissioned and public, enable decentralized transfer of value and are often referred to as the biggest thing since the internet, with the potential to transform old business models and create entirely new ones.

Understandably people want to be a part of that.

But we must also consider the fact that the changing nature of the IPO market has made public equity markets less democratic and less lucrative for the average investor.

Higher Private Funding = Lower Public Returns

In recent years, increased regulatory overhead for public companies (such as Sarbanes Oxley) and a greater

availability of private funding has led more companies to stay private longer. As the average investor is unable to invest in stocks until they are listed in public markets, they are missing out on much of the upside from emerging growth companies.



Look at the example of some of the most successful tech companies of the last 30 years. An investment in Microsoft at the IPO would have yielded a 1284% return after five years. Whereas investing in Facebook at the IPO would have netted 292% returns. Impressive still; but over four times worse than Microsoft.

When they go public today, companies are much bigger as measured by metrics such as revenue and valuation. In 1997 Amazon did its IPO at a valuation of \$438mm and raised \$48mm. Even after accounting for inflation, this is about the size of the average Series C fund raise^[1] today.

Compare that with Dropbox which IPO'd last week at a valuation of over \$10bn by the end of the day. And to take an extreme example, look at Uber: in their latest Series G funding round they raised \$3.5bn, valuing the company at \$59bn. The average Mom and Pop investor, whose usage of the ride-hailing service has driven the success of the company, have had no opportunity to participate in this enormous wealth creation. And it is not just private equity firms who are driving this, traditional asset managers such as Fidelity, Janus, Blackrock, T. Rowe Price, and Wellington are also increasingly participating in late-stage funding rounds.

2018: Year of the Security Token

Blockchain is a technology that allows for the decentralization of business processes. It is perhaps not surprising then that this technology is being used to disrupt a heavily centralized capital formation process. With regulators now forcefully ensuring compliance, the era of scam ICOs is coming to an end. But blockchain technology can still disrupt capital formation, as ICOs evolve into security tokens. I will be addressing this topic in more detail in future Greenwich Associates research.

^[1]Source: PitchBook.com

drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.