CEO Annual Review - January 2019

Twenty-eighteen was a rollercoaster of a year for BlockEx. We've faced all the usual things that start-ups see, including some funding difficulties which we believe will be soon behind us. Along the way we delivered great products, formed new partnerships, moved towards regulation and became award-winning. But it has been far from plain sailing.

Solid Start to 2018

We started 2018 with our first serious funding round to scale the business. As a result we hired a talented team to give us bench-strength and depth. Our largest expansion was our in our development organisation to expand our product offering, and the results showed.

Lots of Products

In terms of the ups, from a product perspective, we've delivered a number of major product releases this year as well as the usual smaller monthly updates. The most significant was our Carbon Blue release in the summer. This was the V2 of our exchange platform and introduced a whole host of new capabilities, including a revised user experience, a new trade-room with 10x improved backend performance, many new crypto-pairs, a significantly upgraded ICO purchase process, and the basis of our white label platform. Over the year we also launched our digital bond platform, maker/taker pricing, and delivered on our commitment to support the Stellar network.

Delivered our DAXT White Paper

In our summer Carbon Blue release we delivered the final components to honour our DAXT white paper commitments. DAXT is our own utility token and purchasers bought it to use it to participate in utility token ICOs on an equitable basis and with discounts on presales. In parallel we launched a series of ICOs on BlockExMarkets.com which featured the DAXT token utility.

The unfortunate truth of the matter is that the crypto market softened and it directly affected the global ICO market. Like other platforms that are used for initial token offerings, we saw our pipeline of new partners dry up as many companies extended, delayed or shelved their fundraising plans. That was clearly outside of our control, but what we could do was to start to enhance the utility of DAXT beyond the white paper commitments, and so we embarked on a feature roadmap for the token.

Building a Network of Partners

In the late summer we publicly launched our white label platform and the first brokerage partners went live. White label brokerages are an important part of the platform as they can quickly generate critical-mass as all brokerages sit on a shared liquidity platform that enables operators to generate revenue right from their first trader.

Technology licensing is an important aspect of our business, as is forming other strong partnerships. In the spring we partnered with GB Capital to facilitate token sales in the regulated US market. Sublime Group joined out Market Maker program in August. Finally in the autumn we forged a partnership with Football Media Group to jointly bring a token based fan engagement platform to sports teams and their fan-bases.

Driving Regulation

We believe that token listing and digital trading markets will soon be regulated. It has always been our intent to be leading from the front. That is why BlockEx is one of the founding members of CryptoUK, the trade group lobbying for regulation.

In July we were excited to release our digital bond MVP and start its path to UK FCA authorisation. Since then we've been working with a number of companies to seek ways to bring our technology to a regulated market through various routes in partnership.

Softening Market

And now the downs. To say that the crypto market has just 'softened' in 2018 would be an understatement. It has affected every company in the space. One of the effects that we and other companies saw was that investors got skittish and those already invested in crypto projects became less liquid to invest in new propositions.

Market Impact to Operational Cash

We weren't immune to the effects of the market conditions on the funding side our business either. Our major fundraising round concluded in February 2018. It consisted of an initial sale of our utility token and equity investments. At the closing of the round we believed we'd raised just in excess of £20m, but after the dust settled there were problems.

The cost of the operational and marketing aspects relating to the initial sale, equity raise, DAXT listing, and paying off pre-funding debts and loans was £2m, leaving us with nearly £19m in committed new funds.

The soft crypto market conditions meant that the majority of those remaining funds weren't actually available to the business. Unfortunately a consortium behind £9m of contracted and committed ICO token purchases did not deliver the money because the poor crypto market meant they were unable to liquidate other assets to pay us as agreed.

As a business on the path to regulation we have strict KYC and AML controls to protect our clients and our company. Of the crypto assets we did receive from other token purchasers, our tough compliance and control procedures meant that were weren't allowed to liquidate to fiat instantly. By the time our controls allowed us to so, the market had softened drastically - thus reducing our available funds. In all, £4.3m of asset value was lost in the fall in BTC and ETH prices and changes in EURO-GBP prices between raise and liquidation of the assets.

So in reality, out of the £20m raise, we were actually left with just £5.5m of available funds for the business on a go forward basis. This lack of access to capital was further compounded because after a seemingly successful fundraising the business had ramped up staff so that we could deliver on our white paper and rapidly capture market advantage.

Many people following us with have seen some of the signs of that lack of capital in our business. Most visibly we delayed starting our user acquisition and liquidity programs, even though we had staff and agreements in place.

Closing Additional Investment

When it became clear that the company would need additional capital, we of course started seeking additional investors. We signed a term-sheet for £5m of additional funding from a private investor. Once again the funding failed to materialise after the investor indicated that they were now too exposed to a further softened crypto market.

We've continued to seek additional funding through the second half of 2018. At the same time we took measures to conserve our cash by significantly reducing operational costs and deferring marketing programmes. These have been difficult to do when we know our proposition, team and technology are all strong.

More Positive 2019

The future now looks brighter. We are pleased to say that over the New Year break we agreed to a new investment proposal with a significant and credible investor who can help us take our technology into quickly regulating markets. There are still things to do to close this investment round, but it is an important step to funding our next growth phase. We expect a deal would take 45 to 60 days to close if all goes well.

We're proud of what we achieved in 2018, and particularly of our dedicated employees who've had to deal with a difficult rollercoaster of a year. The softening of the market has been particularly difficult for us as it has affected our revenue, ICO product line, liquidity on our platform, and our ability to spend money on new user acquisition. However we have a solid platform that we believe works well in a regulated market, excellent brokerage partners, and we remain confident about the future and 2019.

Adam Leonard
CEO | BlockEx

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Contact Information:

General inquiries:	concierge@blockex.com
Press and Media:	marketing@blockex.com
Website:	www.BlockEx.com