



TOKENIZATION

Business Opportunities Overview

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1. Introduction

The goal of financing activities via tokenization projects can be achieved through the creation of a dedicated infrastructure allowing attracting capital from retail and professional investors from the crypto industry. The buyers would receive a “utility” token, allowing them to sell, buy-back, speculate, further invest within dedicated platforms and backed-up by the commitment of the seller of the token.

2. List of acronyms

The following list of acronyms is used throughout the present document:

INV	Investor’s company
MSE	Metal Supply Experts GmbH

3. Background information

A number of industry market participants use bank-issued or investment-funds-issued borrowed funds in order to expand, facilitate or increase their liquidity commitments and needs with relatively high costs related to the standard global or local financial market.

The adoption of a utility token, backed up by the safest Blockchain technology, would allow accessing a wider public of potential investors at a much lower cost than standard money-lending institutions, thus giving the chance to industry participants to finance their projects (i.e., investments, consolidation of debt, market development) at a cost lower than the one offered by conventional financial institutions. In short, the tokenization is the creation of digital analogues (certificates) for real values with the goal of quickly and safely work with them. Important: the token is not a cryptocurrency.

4. Financing markets

The tokenization process gives the opportunity to access a cheaper and wider financing market. Therefore the financing opportunity is linked to the issue of utility crypto-tokens which can be used as a digital instrument of settlement between investors and the company issuing the token. On the basis of pre-set and transparent conditions (i.e., the achievement of the goal of the issuing company) the token can be converted back at a (pre-determined) conversion rate to reward the investors from lending the money.

In order to be able to invest into a specific token, the investor will be required to “freeze” a certain amount of tokens on the marketplace; the issuing company will dictate the rules regarding the initial token price, the minimum freezing volume, the forecast required time of freezing and potentially the final value of the token (the “reward”) once the company’s projects reached their goals. Other methods of evaluating the final value of the token, the “reward”, can be considered and adopted.

It is important to note that, after listing on crypto exchanges, tokens remain in the hands of the owners. This will enhance the push to use the tokens, at their value at that point in time, for the settlement of additional financial exchanges, like i.e. the purchase of services or goods which payment can be performed in crypto-tokens or crypto-currency; the token therefore acquires an own independent value from standard and existing

currencies and crypto-currencies. Under this scenario, the token buyback makes little sense and instead becomes a security as a part of the investor's capital.

In order to pick the opportunity related to the potential financing via crypto tokens it is necessary to operate in a safe and robust environment, regulated by clear and transparent rules. One of the most advanced legislations in terms of guarantee of the end-users and of the investors is the Swiss crypto environment, which is regulated by the FINMA (the Swiss Financial Market Supervisory Authority); moreover, a Swiss legal entity must be created in order to comply with all FINMA-related requirements and to manage the funds that investors will want to put in exchange for utility tokens, along with managing the relationship with the buyers of the tokens and between the crypto-marketplace and the issuing company.

5. The advantages of tokenization in financial deals

The tokenization of data in highly regulated industries offers unbeatable advantages for financing deals:

1. **Internal Protection:** the tokenization prevents anonymous criminal acts against the tokens, along with protecting sensitive information in the whole custody chain of tokens.
2. **Information protection:** not only financial information is protected, but any personally identifiable data.
3. **Wider public accessibility:** currently, a major problem related to financial market participation from non-wealthy institutions and private people is the entry cost for such operations. Leveraging tokenization solutions that transcribe real assets into tokenized values of any denomination converts this practice into more accessible and easy deals, because tokenization solutions minimize the high costs associated with investment. Blockchain technology allows assets to be divided into as many decimal points as desired, so that small investments at small costs become possible.
4. **Easier assets transfer:** when dealing with the property of tokens, regulations for sharing and transferring ownership are clear and transparent, requiring far less documents than standard transactions by maintaining the highest level of security and the minimum amount of intermediaries to keep the costs low and the control of the transactions fully in the hands of the owners.
5. **Fraud prevention:** because of the inherent technology underlying the tokenization process and additional security layers managed by expert teams, frauds on tokens can be strongly reduced or completely avoided, thus building trust in the adoption of tokens as means of investment (for the buyer) converting into means of financing (for the issuing company).
6. **Disruption of standard financial mechanisms:** tokenizing assets, projects and financing is becoming everyday more vital for all marketplace participants and it is wise not remaining excluded, or entering as a 'follower', into the market opportunities offered by the tokenization.
7. **Greater liquidity:** by tokenizing assets - especially private securities or illiquid assets - these tokens can be then be traded on a secondary market of the issuer's choice. This access to a broader base of traders increases the liquidity, benefiting investors who consequently have more freedom and sellers because the tokens benefit from the "liquidity premium," thereby capturing greater value from the underlying asset (Deloitte, "Inside magazine issue 19 | Part 02").

8. Compliance: financial deals must be compliant with the most advanced legislations and statutory regulations, like MFID (Markets in Financial Instruments Directive), AML (Anti Money Laundering), KYC (Know Your Customer); the tokenization of assets or projects / finance allows a solid protection against the misuse of finance.

6. Features of MSE

MSE is in the condition of lead and support tokenization projects for their customers:

- provide a full range of services to create an investment company and token.
- manage relations with investors, authorities, banks and FINMA.
- protect the stakeholders by specialists in the fields of law and crypto-securities in Switzerland, the EU and the USA.
- ensure the sale of tokens and attract investments necessary for the start-up of the business.

6.1. *Investment objectives and preliminary business value*

One project will require the collection of the amount of money required by the customer to carry out a full or partial project. Standard investment projects dimensions lie in the order of magnitude of 5 to 20M\$, although much bigger projects can be launched. After the successful completion of the project, or the financed part of it, the value of the underlying invested token increases significantly and can be placed on the market via selling additional tokens at a higher price than the original investment.

It is important that several projects (tokens) would be placed on the market at regular intervals from each other and investments would be attracted from several source at once. The business organization of such an enterprise has costs variable between 400 to 1000 k\$, while the cost of listing tokens on exchanges remains to be determined after the token release. Operating costs can be determined preliminarily on a budgetary P&L sheet basis, they usually hang around 250 k\$/month including roadshows and presentations to investors (extremely low cost in comparison to planned capitalizations if investments in 3-4 projects are targeted during the first year of operations and this rate of token placement will continue in the future).

7. Conclusions and next steps

From the points highlighted above it is clear that accessing the financial market to raise capital for a project or for financial uses (i.e. the consolidation of credit) is a major opportunity for all industry participants. Several steps are needed in order to proceed further with any tokenization project and particular attention must be devoted to several topics that are relevant for potential investors, partners and for the company issuing tokens, like i.e.

- Strategic opportunity about entering the crypto- and tokenization markets
- Pay-back of the value of the token – parameters and conditions
- Period of token freeze-out before rewards are emitted
- Dealing with the increase or decrease of the value of the token

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- Main token exchange markets to be addressed
- Feasibility of road-shows to attract the interest of potentially interested institutional investors
- Guarantees backing the issue of tokens

Metal Supply Experts GmbH and their partners accompany and lead industry participants towards the successful tokenization of their projects and counsel them about all opportunities and risks involved in the process.