

Etherbridge Binance Report



ETHERBRIDGE

Primary Function of Network

- The Binance Network can be divided into **two distinct operations**. The first is **Binance CEX**, which is a centralised exchange for cryptoassets. The second is the **Binance Chain**, a decentralised cryptoasset exchange. It must also be noted that Binance on the 17/04/20 announced the creation of the Binance Smart Chain, the first attempt to bring smart contract capabilities to the Binance ecosystem.
- Binance CEX offers **spot, margin, futures and peer-to-peer trading**. Binance have managed to aggregate a large portion of the liquidity in the cryptoasset market which has given them the ability to strengthen their network effects and provide additional services to their clients such as lending and staking.
- The Binance organization derives the bulk of their income through trading fees therefore their profitability is directly related to the trading volume that occurs on Binance.
- The Binance CEX as an additional service also custody their client's funds.

Primary Function of the Token

- BNB token provides users with **discounts** when trading on Binance's network.
- BNB token is also **burnt**. The network makes **profits** and uses these profits to **buy back BNB** token from the founders fund and removes them from supply. Reducing the overall supply and therefore increasing each BNB token holders ownership of the network.
- BNB is also used to **vote for projects** that Binance will list on their exchange.
- BNB can also be used to **fund IEO's** (Initial Exchange Offering) .
- By **holding BNB** you increase your potential affiliate rewards.
- BNB is required to be paid as a "**listing fee**" for those who want to put their token on the Binance exchange.

Supply Schedule

Initial distribution of tokens:

200 Million BNB tokens were pre-mined and distributed as follows:

1. Founders: 80 million (40%)
 2. Angel investors: 20 million (10%)
 3. Public sale: 100 million (50%)
- Every quarter Binance will use 20% of the profits it makes to burn BNB tokens.
 - This will continue until the total token supply is reduced to 100 million.
 - There is no inflation of BNB as it was all pre-mined.



Summary of token burns
Source: Binance.com

Characteristics of BNB and the Binance Network

1. Binance is currently operating predominantly as a centralised exchange, it has the highest trading volume in the world.
2. They have already created a DEX in the form of Binance Chain. There are still problems associated with DEX's and this most notably is the lack of liquidity and functionality. The DEX will have far greater utility once they manage to aggregate liquidity.
3. Binance have also announced the creation of the Smart Binance Chain, this will bring smart contract functionality to the Binance ecosystem, greatly increasing its overall utility. It should be noted that Binance Smart Chain is interoperable with Binance Chain.
4. At the core of all of these initiatives lies the BNB token. It currently provides some utility for the Binance CEX as discussed in the following slide; however it should operate as a better value capture mechanism and have greater utility on the native Binance Chain and Binance Smart Chain resulting in a fairer distribution of profits/value back to the users of the network.

Token Value Accrual

BNB **value** increases as a function of:

1. Binance's **net profits**. (Burn equation: Exchange Volume* Fees%*20%)
2. Utility of BNB as a **discount token**.
3. The number of BNB held by users for utility purposes.
4. The volumes and parameters of the Binance **DEX**.

Buyback
and Burn

Discounts
for Usage

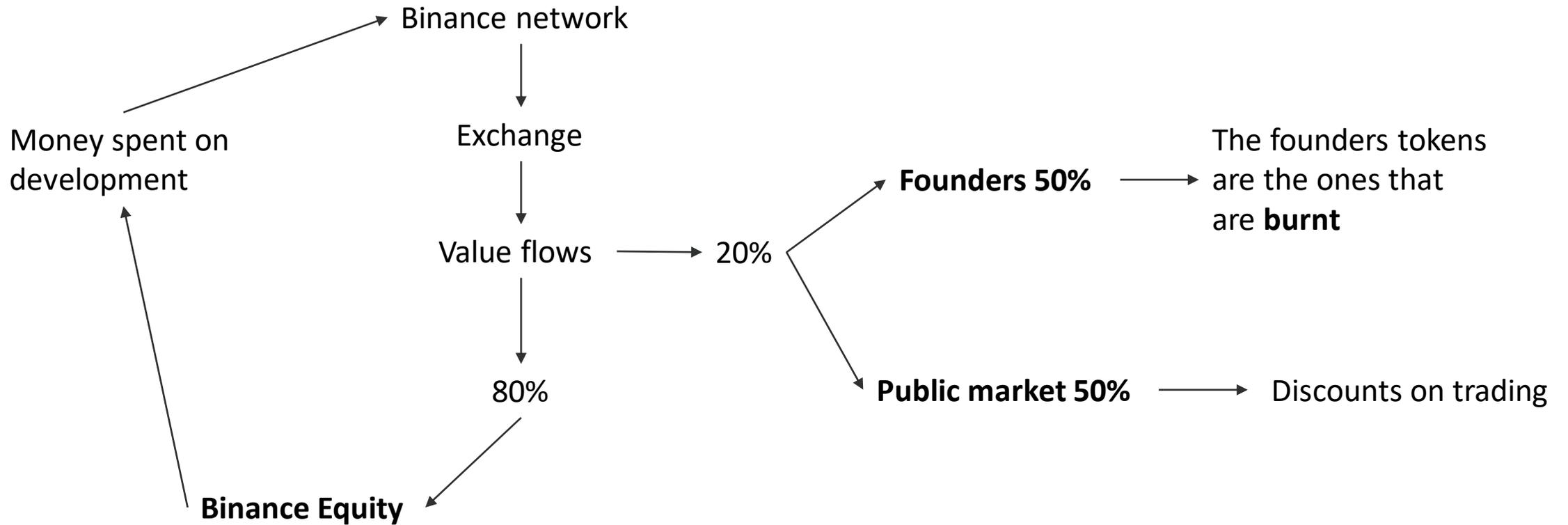


Value

BNB accrues value similar to normal securities :

1. The network provides a service that many people will want to use, they can use this service without needing BNB.
2. By using BNB on the network they can get discounts on their activities on the network.
3. The more exchange volume, the more profits will be made and therefore requiring more tokens to be removed from supply (more dividends paid out). This burn mechanism will continue until there are only **100 million BNB in circulation**.
4. As the number of services the network provides increases the more valuable the token should become.

Binance is a private company and BNB holders are entitled to a share of the companies profits. They receive their profits indirectly through a reduction in the BNB supply.



Potential Valuation Methodologies

BNB is very similar to a capital asset (as it has a claim on value flows) and it may be appropriate to use a **discounted token burn model**.

We can also value the discount that a BNB holder experiences, using a **token discount model**.

We could also **value Binance as a company**, determine what **20% of the company value** is and then divide that by the amount of liquid circulating supply owned by the public market.

We could also use the **discounted expected future utility value**. However, Binance is not money but it is money on the Binance chain with limited ways it can be used. Its transactional market could be the amount of BNB used to pay transaction fees.

Total Addressable Market

- Currently Binance is the biggest exchange in the crypto industry by exchange volume.
- A prudent view would be that the crypto industry will continue to grow and Binance will maintain a level of dominance over time. **Total current exchange volume on crypto exchanges (22/04/20).**

#	Exchange	24h Volume	Wash Trade Status	#Coins	#Pairs	Country	Established
1	 Binance	\$3,415,893,018		223	775	Cayman Islands	2017
2	 Coinbase	\$212,621,131		30	61	United States	2012
3	 Gate.io	\$126,467,295		237	472	Hong Kong	2017
4	 Bitstamp	\$106,938,281		7	15	United Kingdom	2013
5	 Liquid	\$95,911,358		150	380	Japan	2014
6	 Bitfinex	\$91,954,908		210	551	British Virgin Islands	2014
7	 Upbit	\$83,050,547		222	363	South Korea	2017
8	 Kraken	\$71,924,614		40	152	United States	2011

Source: bti.live

Transaction Count



- The following graph relates to the transaction count on the Binance Chain (DEX).
- The transaction count has been fairly rangebound since August 2019.
- This shows that there hasn't been a meaningful increase in the number of trades happening on the DEX for almost a year.

Key Value Drivers

General Crypto Adoption:

1. As cryptoassets are adopted in general there will be a need for an exchange to facilitate the buying and selling of these assets.
2. Binance has already established itself as a market leader in the cryptoasset exchange sector and therefore needs to focus on retaining their market share.

Product Range:

1. As the number of high quality products that an exchange offers increases, there will be a increase in the number of clients that will come to the exchange to leverage these products.

Liquidity:

1. The ability to aggregate a large amount of liquidity will be a key value driver in this sector. It will allow a greater breadth of product range and therefore attract additional users.

Exchange Volume:

1. The volume that is being traded on an exchange is a good indication of the health of an exchange. It must also be noted that finding reliable volume data is important as there is a large volume of wash trading that goes on. We recommend: <https://www.bti.live/>

Users of the Network:

1. The average number of users that are coming and utilising the exchange gives us a good idea of how popular the network is and how strong its network effects may be.

Risks

There are several risks to the Binance ecosystem, namely:

1) Regulatory Risk

Binance as an organisation has managed to navigate the regulatory landscape very well so far. However, their token BNB might come under greater scrutiny in the future due to its security link properties. They might also face greater regulatory restrictions as an organisation.

2) Binance Chain and the Binance Smart Chain are untested

Both of their blockchains still need to be put to the test in a real world situation at scale. The consensus mechanisms also need to be tested.

3) Competitors

There is the risk that one of the bigger competing exchanges also launches a DEX or starts to aggregate a larger amount of liquidity than Binance. A large number of the bigger competing exchanges have also been a lot slower to list tokens when compared with Binance, if they accelerate this and create a greater breadth of product offering they may start gaining market share.

Conclusions

- Binance is the largest cryptoassets exchange in the world and is still one of the fastest growing exchange platforms.
- They have managed to attract and aggregate a large amount of liquidity thereby creating a network effect and strengthening their market share.
- They have launched several notable initiatives over the last 12 months and are constantly offering a greater breadth of products as they expand. It should be noted that after launching a product they have often taken a large market share from competitors, an example would be their derivative products, the trading volume on their BTC and ETH pairs has quickly risen and now accounts for the majority share of the derivative cryptoasset market trading volume.
- They have also so far managed to navigate regulatory hurdles very efficiently.

References

Multicoin Capital Binance Report -

https://assets.ctfassets.net/qtbqvna1l0yq/4XdZJHThSHWvk1NV2Tt9ZD/21a23e0d8e2937bb6a4a1f1ba057b5ad/Binance_Analysis.pdf

Disclaimer

The Research Team may own the tokens represented in this report, and as such this should be seen as a disclosure of any potential conflict of interest. Anyone can contact Etherbridge for full token disclosures by team member at info@etherbridge.co. This report belongs to Etherbridge and represents the **opinions** of the Research Team.

This report is not investment advice, it is strictly informational. Do not trade or invest in any tokens, companies or entities based solely upon this information. Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on topics discussed in this document and develop a standalone judgment of the relevant markets prior to making any investment decision.

The Research Team has obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented “as is,” without warranty of any kind –whether expressed or implied. All market prices, data and other information are not warranted as to completeness or accuracy, are based upon selected public market data, reflect prevailing conditions, and the Research Team’s views as of this date, all of which are accordingly subject to change without notice. Etherbridge has no obligation to continue offering reports regarding this topic. Reports are prepared as of the date(s) indicated and may become unreliable because of subsequent market or economic circumstances. The graphs, charts and other visual aids are provided for informational purposes only. None of these graphs, charts or visual aids can and of themselves be used to make investment decisions. No representation is made that these will assist any person in making investment decisions and no graph, chart or other visual aid can capture all factors and variables required in making such decisions.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. No representations or warranties are made as to the accuracy of such forward-looking statements. Any projections, forecasts and estimates contained in this document are necessarily speculative in nature and are based upon certain assumptions. These forward-looking statements may turn out to be wrong and can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond control. It can be expected that some or all of such forward-looking assumptions will not materialize or will vary significantly from actual results.

Nothing in this report can be repurposed or shared without the expressed consent of Etherbridge.