



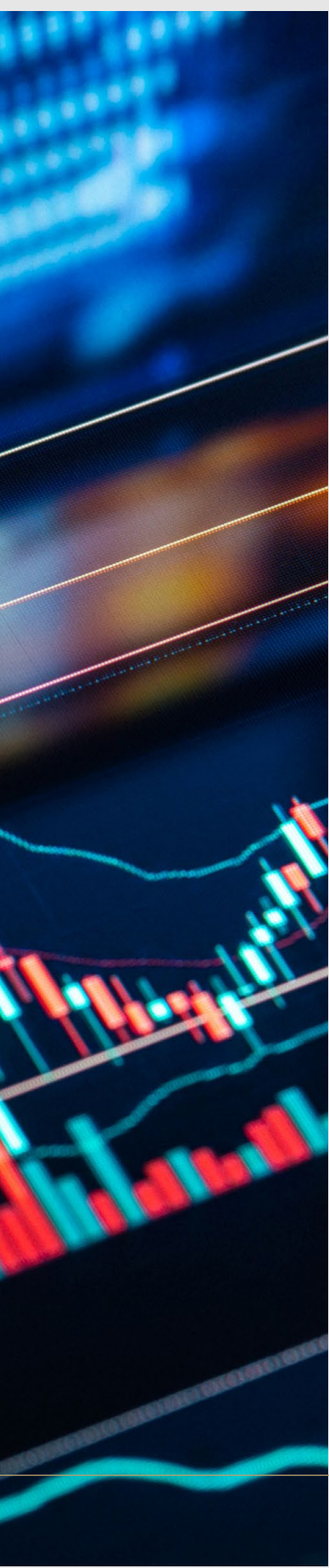
CRYPTO ASSET MANAGEMENT:

EXPANSION ROADMAP FOR MANAGERS AND INVESTORS



VALUATION CHALLENGES

In any M&A transaction, valuing the target business is a primary focus. In transactions involving digital asset managers, there are additional complications unique to this asset class.



VOLATILE ASSET VALUES

Crypto asset prices are inherently volatile. Sharp fluctuations in prices in short periods of time are common and a snapshot of a portfolio valuation at any given time is unlikely to accurately reflect a manager's long-term performance or the trends in the manager's assets under management.

VALUATION OF ILLIQUID ASSETS

Due to lack of depth for certain crypto asset markets, it may not be possible to use a benchmark or market comparable to determine valuations. Unlike traditional securities markets, crypto assets do not have a sufficiently long track record where a model for asset values can be used as a proxy.





CLIENT WITHDRAWALS AND REDEMPTIONS

Many managers of portfolios of liquid crypto assets have faced high rates of withdrawals and responded by imposing gates or suspensions for redemptions.

Large redemption queues that accumulate during periods where redemptions are limited could result in future asset outflows that may damage the long-term value of the business.



TOOLS FOR MANAGING THE VALUATION CHALLENGES IN DEALS

Deal structures can be used to address these challenges and align interests during deal negotiation and after the closing.



EARN-OUTS

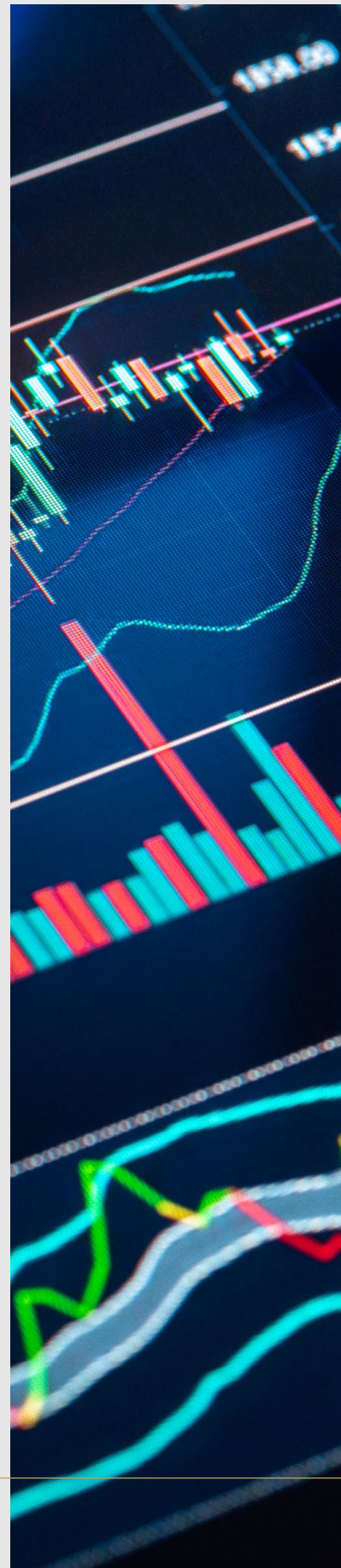
Earn-outs defer some portion of the deal purchase price consideration through an earn-out, which is tied to certain performance metrics for the target business post-closing.

Earn-outs tend to be tied to changes in performance over a certain time period after closing, using metrics such as AUM, run-rate revenues ("RRR"), profitability, or a combination of these factors.

PURCHASE PRICE ADJUSTMENTS

Purchase price adjustments are often tied to similar kinds of metrics that are used to calculate earn-outs, though often focused on retention of existing clients or AUM.

Metrics that can be highly volatile can result in unexpected outcomes for both sides, so buyers and sellers should carefully describe the calculations for these adjustments.





VALUE-BASED CLOSING CONDITIONS

Conditions tied to financial metrics and client retention can give a buyer or seller (usually, the buyer) a right to walk away from the deal if metrics deteriorate significantly after the deal is signed and before closing.

The background of the slide features a collage of financial data. On the left, there are several candlestick and line charts in various colors (red, green, blue, yellow) on a dark blue background. On the right, a list of cryptocurrencies is visible, including ZECUSD, ADAUSD, and BCHUSD, with their corresponding price values like 1854.00, 1850.00, and 1845.97. The text is centered in a white rectangular area.

CONTACT THE TEAM:

JOE CASTELLUCCIO,

TRAM NGUYEN



**FOR A DEEPER DIVE AND
“HOW TO” FOR DEALS
INVOLVING CRYPTO
ASSET MANAGERS:**
CRYPTO ASSET MANAGEMENT



**FOR ALL OUR “DEALS IN
DIGITAL ASSETS”
RESOURCES:**

DEALS IN DIGITAL ASSETS