

Telegram:

Towards a Mass Customer Solution

This is a short version.

For the full version, please contact us: business@palmina-invest.com

The report is intended for professional investors, sophisticated investors and eligible parties.

At the end of January 2019, Telegram Open Network (TON) said that its blockchain project is 90% complete. The TON blockchain platform is expected to be launched in 2Q/3Q2019, which will trigger the release of TON's native token, the GRAM. The deadline for the token to be distributed to investors is 31 October 2019.

The first sale of Grams via subscription was completed in February last year, when c.2,251mn tokens were sold through an Initial Sale at a price of \$0.37756101 each, with total gross proceeds of \$850mn. In March 2018, a Stage A sale saw another 639mn Grams sold at \$1.33003701 per token, with total proceeds of \$850mn. TON's issuer, a wholly owned subsidiary of Telegram Group Inc., raised \$1.7bn in the two fundraising events. Telegram has sold 58% of its initial supply, or 2,890mn Gram tokens, according to our estimates, putting the valuation of the network at \$6,650mn at Stage A prices.

The release of the tokens may take up to 18 months after the TON blockchain launches. Investors who participated in the Initial Sale are subject to a lock-up period, while Stage A investors have no restrictions on selling tokens. The token was not offered to the public, and the c.180 VC-type investors and high net worth

individuals (HNWI) who participated in the sale will be able to sell the tokens on the market once released.

The Gram aims to be the decentralized cryptocurrency for value exchange. The TON blockchain is to be built on the top of the Telegram messenger, which is one of the top-six globally with over c.200mn users as of March 2018. The technologically ambitious integration of the messenger with a blockchain-based payment system will simplify the digital payment experience for users and will be value-accretive for Gram tokens. The main use cases for Gram will include payment for services, P2P/P2B, and governance token.

The key risks include technology implementation and regulatory uncertainty. The project's execution risk is high. The TON team claims innovations such as sharding and hypercube routing, which Ethereum's developers proposed but have not implemented yet. The concept of the multichain is also rather novel, and the risks associated with its realization are unclear. The TON team has remarkable expertise in the technological development of networks. The implementation of the blockchain payment system will likely be subject to regulatory approvals given its use as a money transfer agent. In addition, regulatory risks may result in restrictions on Telegram's business model and reduce its attractiveness for users.

TON plans to launch its blockchain in 2019. A progress report at the end-January 2019 stated that 90% of the crucial elements, including the EVA, are 90-95% ready for the testnet launch. Grams should be released in four tranches in the 18 months following the blockchain's launch, or at the latest on 31 October 2019.

The initial and subsequent TON blockchain sale events raised \$1.7bn from institutional investors and HNWIs in January-March 2018. The Initial sale of c. 2.25bn tokens was at a price of \$0.377 per Gram, with a lock-up period of up to 18 months following the launch of the

Main net. The Subsequent sale event raised \$850mn at a price of \$1.33 per Gram, selling 639mn tokens.

The TON blockchain is unique compared to other blockchains. Telegram's 200mn users will all get access to the payment system, storage and other features that will drive token circulation and value. According to Telegram, the number of users will grow to 1bn by 2023, supporting the expansion of the monetary supply. The TON blockchain has several advantages:

- Technologically advanced solutions, including the TON virtual machine, wallet, exchange, multi-chain interoperability, sharding, payment system and storage.
- A large number of users estimated at 200mn as of March 2018.
- Telegram users are mostly blockchain-savvy.
- An experienced team.

The key risks to token appreciation over the medium and long-term are:

- The regulatory framework is uncertain and may change over time for tokens, infrastructure and companies in the crypto space.
- The legal interpretation of smart contracts for the TON blockchain may cause legal disputes.
- TON needs to be licensed and authorized in all regions with money transfer laws, including in each state in the US, if it operates there.
- The TON blockchain may change business model to comply with regulatory requirements.
- There is a high risk of execution for the TON blockchain as a multichain with all the features described in the Technical paper.
- User engagement with the app and TON blockchain may decrease over time.

- The creation of new technologies and hardware, including quantum computing, may change the applicability and protocols used for the blockchain.
- There are risks of market volatility, delays in token admittance to trading, and other trading issues.
- There are risks of a hack, lost wallet keys and other things related to the storage of tokens during token distribution, trading and post-trade execution.
- There is taxation regime uncertainty, with the possible introduction of VAT on crypto assets in some countries.
- Capital control risks, ALM regulation and other regulations may affect the trading and storage of the tokens.

This analytical report was produced by partner of PALMINA Invest - Hypothesis Research Ltd.

Not to be published without our written permission.