December 2021 Investor Update

ProChain in the News

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SPECIAL REPORT

Bitcoin versus Web 3

Toward the end of December, the crypto world lit up with a public spat that involves some of the most well-known and powerful personalities in the digital, tech and crypto worlds- Jack Dorsey (Block/Square, ex-Twitter); Winklevoss twins (Gemini); Marc Andreessen, Chris Dixon (Andreessen Horowitz), Elon Musk (Tesla), Brian Armstrong (Coinbase), Brian Chesky (Airbnb), and Aaron Levie (Box).

The tension has been summed up by some as "Bitcoin v Web 3."

More substantively, the argument can be couched as ***Pure*** decentralization vs ***Modified*** decentralization, with a risk of centralization.

When analyzing the circumstances, ProChain is considering whether it's "VHS vs Betamax" or "Microsoft vs Apple."

In other words, is there going to be one clear winner that is crowned because of factors stretching beyond the "best mousetrap" and into plain popularity?

Or is it likely that there will always be a coexistence of multiple cryptocurrencies, each serving slightly, or entirely, different functions?

First, a short background on the "Web3" moniker and where the Internet is headed.

> **Web 1**, the first version of the Internet, arrived in the late 90s and was comprised of a collection of links and homepages with information being curated by the owner of the homepage for the consumption by the user/consumer; think AOL. Websites were not particularly interactive.
>
> **Web 2** was the read/write version of the Internet. It allowed consumers to independently publish their own content- from personal blogs to selling products (eBay, Craigslist, Amazon) to social media. However, in Web 2, another theme became even larger than the seeming

autonomy of the consumer; specifically, the data harvesting by the tech giants that controlled the platforms and owned the data, and the manipulation and use of the data back on/for/against the consumer.

Web 3, through blockchain technology, enables users/consumers to own and thereby control their data and, by granting permission to use their data, own the platform and become "shareholders". The "shares" in Web 3 are cryptocurrencies or tokens and represent ownership of the networks/the blockchains.

In short, what happens on the current, main Internet (**Web 2**) is decided by a small number of tech giant, like Google, Facebook, Amazon, Twitter, and Apple. In **Web 3**, the content creators are also owners, via cryptoassets, and they are the ones who decide the path forward. Now, if a special set of early funders of a cryptocurrency project (read: VC investors) hold a disproportionate amount of the total cryptocurrency, the power of control in Web 2 to Web 3 has only shifted from one set of behemoths (tech giants) to another (venture capital investors).

Conceptually, Web 3 is supposed to be better than that and is ideally intended to decentralize and democratize the Internet.

Can the idealistic vision become a reality, with a democratization of the power of the Internet, or will it just lead to a transfer of massive power and wealth?

Those familiar with ***ProChain's investment philosophy*** will not be surprised that the hype and the fireworks of the argument are less concerning to us than the substance, of which, however, there is a lot here.

It is important for us at ProChain to explain the circumstances and the arguments because they are important to the future course of the cryptocurrency sector.

Since cryptocurrency began, with the revolutionary possibility of delivering a decentralized platform for recording and transferring value (in the form of an immense spectrum of rights and obligations), countless ambitious personalities have been chasing identification of and investment in the platform(s) that will be the ultimate winner(s) because, unlike the Internet, through a specific cryptocurrency, which is the native "currency" to a particular crypto platform, one can actually invest in the platform itself (which is impossible in the case of the Web 2 Internet) that will enable and support all of the value recording and transfer processing on the specific platform.

Although, according to the vision of "purists", ideally, the winner(s) should be *totally decentralized*: (i) never allowing any single party or small group of parties to control or exert overwhelming influence over the platform ("trustlessness"), (ii) have extreme data security (the Bitcoin network cannot be hacked), (iii) be censorship resistant (anyone can use Bitcoin and nobody can stop any transaction by technical means), and (iv) ensure extreme privacy (although not necessarily secrecy).

Bitcoin is a truly decentralized platform, which is widely held and used. The elements that have contributed to Bitcoin's success include:

- anonymity of Bitcoin's creator,
- fair launch (no "premine" or token allocation for early or any investors),
- finite number of Bitcoin to ever be issued ("scarcity"),
- proof-of-work support, which is a more equitable distribution method than proof-of-stake, which is more widely employed and less energy intensive, and
- relatively dispersed investor base.

However, **Bitcoin's "decentralized-first" nature cuts both ways**. Because technological updates and changes cannot be deployed easily or quickly in connection with totally decentralized platforms, it makes sense that cryptocurrencies under the "control" of an active creator or group of developers <u>can be improved, expanded, aggressively marketed, and widely "sold"</u>.

Therein lies the argument for *"smart-contract" blockchain-based platforms*, like, **Ethereum**, **Solana**, **Cardano**, **Polkadot**, and **Avalanche**, which support many cryptocurrency functions like:

- DeFi (decentralized finance),
- NFTs (non-fungible tokens) for the Metaverse and otherwise, and
- play-to-earn gaming, using blockchain technology.

These platforms allow for transparent, irreversible, and open-access transactions; each of which is an aspect and goal of decentralization.

<u>**However**</u>, each of these platforms has founders, VC funders and owners, P&L, and capitalist motivations for success of a particular platform and its native cryptocurrency. In contrast, Bitcoin is decentralization maximized.

As of now, Bitcoin is the most pure, decentralized cryptocurrency, with the widest holdings and the greatest market cap. However, other cryptocurrencies have been gaining on Bitcoin, in value and in the number of adopters. And it's conceivable that another cryptocurrency could challenge Bitcoin for the top spot at some point.

In conclusion, if that which was supposed to be decentralized becomes centralized (like the Internet) and controlled by rich and powerful entities (Andreessen Horowitz, Coinbase, Visa, Mastercard, etc.), ProChain's investing focus will be different (with a focus on alt-coins and centralizing behemoths) than if we knew for certain that no one will ever centralize cryptocurrency and Web 3 (then, with a focus on Bitcoin, Bitcoin mining, brokers/exchanges).

Based on history (the Internet revolution, particularly) and on financial power of centralizing entities, ProChain's current bet is that, for the foreseeable future, Bitcoin will remain the largest single cryptocurrency, while Web 3 evolves, and centralizing entities engage in a battle for supremacy in their domain.

Meanwhile, there will be alternative projects that will continue/begin and aim high. At a point, the positive aspects of centralized projects will outweigh the negative aspects and the crypto ecosystem will migrate toward a centralized model and subsume Web 2. In fact, the migration and metamorphosis will be so welcome by and irrelevant to the average person, the average person won't even know that Web 3 exists.

The daily revolution and evolution demand constant monitoring, conversations, analysis, and portfolio adjustments. In short, active management is the only proper way to approach cryptocurrency.

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